



**FOREST AREA SCHOOL DISTRICT
FOREST COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JANUARY 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Michael G. Oliver, Board President
Forest Area School District
22318 Route 62, Box 16
Tionesta, Pennsylvania 16353

Dear Governor Corbett and Mr. Oliver:

We conducted a performance audit of the Forest Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period March 9, 2010 through September 7, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009 and June 30, 2010. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in two (2) findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

January 31, 2014

cc: **FOREST AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Forest Area School District (District) in Forest County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period March 9, 2010 through September 7, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 428 square miles. According to the 2010 federal census data, it serves a resident population of 4,946. According to District officials, the District provided basic educational services to 540 pupils through the employment of 53 teachers, 32 full-time and part-time support personnel, and five (5) administrators during the 2009-10 school year. Lastly, the District received \$4.2 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two (2) compliance related matters reported as findings.

Finding No. 1: Certification Deficiencies Resulting in Subsidy Forfeitures Totaling \$18,131.

Our review of the Forest Area School District's professional employees' certification for the period July 1, 2009 through February 13, 2012, found six (6) professional employees without proper certification (see page 5).

Finding No. 2: The District's Poor Oversight of Its Pupil Transportation Contractor Resulted in Inefficient Operations and Contractor Overpayments of at Least \$634,111.

Our audit of the Forest Area School District's pupil transportation operations found internal control weaknesses resulting in numerous violations and deficiencies, including an overpayment of \$562,030 to the transportation contractor (see page 11).

Status of Prior Audit Findings and Observations.

There were no findings or observations included in our prior audit report.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period March 9, 2010 through September 7, 2012, except for employee certification which was performed for the period July 1, 2009 through February 13, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with the Pennsylvania Department of Education (PDE) reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Findings and Observations

Finding No. 1

Certification Deficiencies Resulting in Subsidy Forfeitures Totaling \$18,131

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC), 24 P.S. § 1202, provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the PSC, 24 P.S. § 2518, provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value /income aid ratio.”

Our audit of the Forest Area School District’s (District) professional employees’ certification for the period July 1, 2009 through February 13, 2012, found the following deficiencies:

- Two (2) professional employees who were employed as K-12 Principals in the 2010-11 school year did not hold proper certification.
- One (1) professional employee who was employed as a Special Education Coordinator at the end of the 2010-11 school year, and during the 2011-12 school year, did not hold proper certification.
- One (1) professional employee who was employed as the Special Education Coordinator for the 2009-10 school year did not hold proper certification.
- One (1) professional employee who was employed as a Safety/Driver Education teacher in the 2011-12 school year did not have proper certification.
- The certified School Nurse was replaced by an individual in a new locally-titled position that does not require certification.

The information pertaining to the assignments was submitted to the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. In a letter dated, April 5, 2012, the BSLTQ determined that the individuals did not possess proper certification for their assignments. The District is

accordingly subject to subsidy forfeitures totaling \$18,131 (see table below).

School Year	Subsidy Forfeiture
2011-12	\$ 7,397
2010-11	7,112
2009-10	3,622
Total:	\$18,131

These deficiencies were due to the District's erroneous belief that the individuals were certified properly for their positions and, in the case of the School Nurse, that an uncertified position could replace a certified one.

In addition to the loss of funds and non-compliance with the Public School Code for not ensuring staff certification is current, failing to employ properly certified teachers can reduce the quality of the District's educational services.

Recommendations

The *Forest Area School District* should:

1. Put procedures in place to compare employee's certification to the certification requirements of the position to which the employee is assigned by the District.
2. Require the employees to obtain proper certification as required for the positions or reassign the individuals to an area in which proper certification is held.
3. Seek the review and approval of PDE when the District creates a new locally-titled position to ensure that the proper certification criteria are met.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to recover the subsidy forfeitures.

Management Response

Management stated the following defending five (5) of the six (6) assignments cited:

“1. [First principal]

Upon review of [the individual]’s personnel file and school board minutes, [he] was hired at the April, 2010 Board meeting to begin employment July 1, 2010. I [the Superintendent] have included a letter [to him] dated June 28, 2010 from the Acting Superintendent . . . stating, “. . . the Forest Area School District Board of Education approved your employment as Acting K-12 Principal at West Forest Elementary/Secondary School.

I have included a letter dated September 8, 2010 from . . . California University of Pennsylvania confirming [his] completion of the coursework required for a Master of Education, K-12 Principal Online program. I have also included a copy of [his] Praxis test results for “Ed Leadership Admin and Supervision” showing he successfully earned a passing score as of July 2, 2010.

According to [the acting Superintendent]’s recommendation to the Board and the supportive documents listed above, the Management feels [he] was appropriately approved as and qualified to be Acting Principal. He had completed all of his coursework and the Praxis test necessary to be certified as a principal. The certification was a matter of awaiting the paperwork process.

I understand [the auditor] is questioning the position of ‘Acting’ Principal, in general. In working with our Solicitor on this issue, we understand the School Code speaks to Acting Superintendents. It is our understanding there is nothing in School Code that prohibits the position of ‘Acting’ Principal.

There is no corrective action at this time as he has attained his certification.

2. [Second Principal]

Upon review of [the individual]’s personnel file, she was approved as District Assistant Principal at the May 2010 school board meeting to be effective July 1, 2010. The

same title is stated in a letter from the Acting Superintendent . . . I assume not listing her as “Acting” was an oversight. I have included a copy of her Praxis test results for Ed Leadership Admin and Supervision that show her passing score as of May 14, 2010. It appears she was simply awaiting the paperwork process for her official certificate.

I do not agree with [the auditor]’s time frame listed through January 6, 2011. This is the date [she] resigned from Forest Area School District. I have included a copy of her Commonwealth of Pennsylvania Professional Certificate from the Teacher Information Management System (TIMS) which shows her effective date for her Administrative I credentials as November 1, 2010. I understand other documentation lists this credential ‘out of state.’ Regardless, the professional certificate states she holds the appropriate credentials for a District Assistant Principal position for the Commonwealth of Pennsylvania as of November 1, 2010.

I ask you to please consider that [she] was qualified for the position listed above and the District made an oversight awaiting the paperwork. If that is not appropriate, please consider amending the time frame from January 6, 2011 to October 31, 2010.

There is no corrective action as [she] has resigned from the District.

3. [First Special Education Coordinator]

It is my understanding that [the auditor] is questioning two issues with [the] position of School Psychologist/Special Education Coordinator.

The first is that [she] is not qualified according to the District’s job description for Special Education Coordinator. The Management disagrees as a new position of School Psychologist/Special Education Coordinator was created which does not have an approved job description. I have included postings for the Special Education Coordinator/State & Federal Programs Grant Coordinator, the Special Education Supervisor (position not filled) and the School Psychologist/Special Education Coordinator Position. These postings clearly show the differences between the positions and list the requirements for the

positions. [She] is qualified per the requirement of PA School Psychologist Certification listed on the posting for the School Psychologist/Special Education Coordinator position.

With the exception of Technology Coordinator, Forest Area School District does not have approved job descriptions for the administrative staff.

It is my understanding the second issue is that [the auditor] feels all school districts must have a Supervisor of Special Education. From conversation with [the auditor], it is my understanding her opinion for this is to provide supervision and evaluation for the special education staff. The Management disagrees with this opinion as our principals are responsible for supervising and evaluating the special education staff. I have included CSPG No. 91 “Supervision of Special Education Area” which states, “A certified principal may be permitted to supervise and direct special education staff within a particular building.”

The District Superintendent reviews and signs the appropriate special education documents.

Please consider the information above as you determine if the District has issues in the area of certification for [this position]. At this point in time, there has been no corrective action as we feel we have not been deficient.

4. [Second Special Education Coordinator]

It is my understanding that [the auditor] feels the job description for the above position is too closely related to the CSPG for a Special Education Supervisor. The Management understands there may be some similarity between the District’s job description and the CSPG. However, the District employed a Special Education Supervisor during the time period in question. . . The Supervisor performed the appropriate duties for the District in his position. At no point in time did [she] evaluate or supervise staff.

There is no need for corrective action as this position no longer exists.

5. [Supplemental Nurse]

It is my understanding that [the auditor] is questioning the position of Supplemental Nurse due to the distance between the buildings in our District.

The District employs one Certified School Nurse [CSN] and one Supplemental Nurse who is a Registered Nurse. The CSN's office is in the East Forest School and the Supplemental Nurse's office is in the West Forest School.

The Management disagrees with [the auditor]'s opinion as the District certainly is within the parameters of the School Code for the number of CSN's per school district, as we only have approximately 540 students.

The CSN is permitted to travel amongst buildings as appropriate and can communicate with the Supplemental Nurse via telephone, text, Skype, etc.

There has been no corrective action as we do not believe there is an issue with this position. . . .”

Auditor Conclusion

We submitted detailed documentation for all of our citations to the BSLTQ for its review. The BSLTQ agreed with all six (6) of the citations in question and provided a letter validating our conclusions. Any further disagreement on the part of the District must be addressed to PDE.

Finding No. 2

The District's Poor Oversight of Its Pupil Transportation Contractor Resulted in Inefficient Operations and Contractor Overpayments of at Least \$634,111

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, 22 Pa Code § 23.4, provides, in part:

“The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following:
...

(3) The establishment of routes, schedules and loading zones which comply with laws and regulations, together with a provision of planned instruction for school bus drivers serving in the district. . . .

(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones. . . .

(8) Assuring that vehicles used in transporting pupils have adequate public liability insurance coverage.”

In addition, Section 518 of the Public School Code requires retention of records for a period of not less than six years.

The Forest Area School District (District) operated its own in-house pupil transportation program until June 15, 2005, when it contracted with an outside vendor to provide those services. The initial contract was for five (5) years and covered the period July 1, 2005 through June 30, 2010. The District subsequently entered into a second contract with the same vendor for seven (7) years on July 1, 2010, covering the period July 1, 2010 through June 30, 2017.

Our audit found that from 2005 through 2012, the District's administration, including its former Superintendents and its former Business Manager, allowed the transportation contractor to provide services with little or no oversight. The District's staff failed to verify the information that it received from the contractor and failed to monitor the contractor to ensure it was providing the services it agreed to provide in the contract. As a result of the administration's ongoing lack of internal controls, the District made at least \$634,111 in overpayments to the contractor between 2005 and 2012, reported incorrect transportation data to the Pennsylvania Department of Education (PDE) which potentially impacted its state transportation subsidy, and it wasted taxpayer money.

District's Transportation Operations Lacked Oversight

The audit found that the District personnel failed to establish internal mechanisms for ensuring that the District's transportation billings were correct, and in one (1) instance, failed to make changes to billings even when the contractor told District personnel they were incorrect. For example:

Payments Made on Proposed, Not Actual Mileage: Even though in September 2005 the contractor informed the District's management that they were being overcharged, the District continued to pay the contractor on the proposed mileage rather than the actual mileage for the duration of the contract. The contractor stated in the letter to the District's former Superintendent “. . . that school bus miles

Criteria relevant to the finding (continued):

Instructions for completing the Pennsylvania Department of Education's End-of-Year Pupil Transportation reports state that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.

Board policy No. 818 states, "in its effort to provide cost effective programs, the Board may utilize contracted services. The district shall monitor and evaluate such services to assure their effectiveness."

Chapter 47 of the Pennsylvania Motor Vehicle Code, Section 4705, provides for the annual inspection of school buses, and states:

"(a) State Police inspection – The owner of every school bus shall, in addition to any other inspection required by this chapter, submit the vehicle to the Pennsylvania State Police annually prior to operating the vehicle for the transportation of school children during the school year, to determine whether the vehicle conforms to the provisions of this chapter including regulations promulgated by the [Pennsylvania Department of Transportation]. If the vehicle is in conformance, a certificate of inspection and approval shall be issued by the Pennsylvania State Police."

total 1,079, not 1,193, a difference of 114 miles per day. Van routes total 2,180, not 2,490 miles, a difference of 310 miles per day. Mini-bus miles were found to be fairly close to original miles reported." The District's failure to adjust the payments cost a total of \$562,030 in contractor overpayments.

Payments Made on Incorrect Vo-Tech Mileage: The District's former Business Manager did not provide the local vocational-technical school (Vo-Tech) with accurate mileage data when negotiating its cost of transportation services. As a result, the District paid the bus contractor more than it received from the Vo-Tech, leading to contractor overpayments of \$33,966 in the 2011-12 school year and \$38,115 in the 2010-11 school year. In addition, the agreement itself was unusual because Vo-Tech transportation costs are typically included in the participating districts' fees, so districts do not pay for those costs directly. Finally, the District's Board of School Director's failed to approve this agreement, which was necessary since it was essentially a transportation contract.

Failure to Monitor Fuel Usage: Similarly, when the District began to purchase fuel for the transportation of its students on July 1, 2010, District personnel did not establish a process for monitoring the amount of fuel the contractor used. Specifically, they did not monitor the fuel tanks, compare the miles billed by the bus contractor to the odometer reading sheets, or compare the odometer readings in the bus contractor's fuel logs. These controls would have caught any billing errors and ensured that the contractor used the District's fuel appropriately. Instead, the District's former Business Manager stated she trusted the bus contractor and saw no reason to question his fuel bills. However, when the auditors compared the District's 2011-12 and the 2010-11 school years' odometer readings to the contractor fuel logs, they found inconsistencies that suggest there could have been inaccuracies in the contractor's billing. The auditors did not have sufficient information to calculate the impact on the District's payments to the contractor.

Thus, between the Vo-Tech mileage errors and the general mileage errors, the auditors identified at least \$634,111 in overpayments to the contractor between 2005 and 2012. Furthermore, the auditors did not find any evidence that the

Criteria relevant to the finding (continued):

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

District was reimbursed for these transportation overpayments.

The only time the District appears to have addressed billing issues with its contractor was in October 2009. At that time, the District and the contractor entered into the Mutual Release and Settlement Agreement (Agreement) to address two (2) additional billing issues. Specifically, when District personnel verified the lists of absent students, they found that the contractor was charging the District for transporting special education students to intermediate unit (IU) classes even when they were absent. In addition, District personnel found that the contractor had been charging the District twice for transporting its Vo-Tech students, once in the payments for the regular transportation and again in a separate billing as an "additional run." To resolve this issue, the bus contractor transported the District's Vo-Tech students at no charge from October 2009 to June 30, 2010. The Agreement did not correct the overpayments made by the District to the bus contractor since the start of the contract in 2005, and in fact, made no mention of this issue.

The audit also found that District personnel failed to verify the accuracy of the District contractor's data and to retain documentation to support the information they reported to PDE. In addition, they failed to maintain information about the age and safety of the contractor's buses. These issues are significant because the District reported the contractor's information to PDE for inclusion in the calculation of its state transportation subsidy. According to PDE's State Board of Education Regulations, maintaining this information is the responsibility of the District's personnel, not the transportation contractor. Therefore, the District should not have relied exclusively on the data from the contractor, and should have validated it, prior to reporting it to PDE. These errors could also have impacted the accuracy of the contractor's billings. For example:

Failure to Verify Contractor Reported Information: Our audit found that because District personnel did not verify that the contractor had reported the correct mileage, the information the District reported to PDE on the Summary of Individual Vehicle Data form for the 2011-12 school year did not match the contractor-generated odometer readings. Likewise, there was no evidence that District

personnel verified the pupil rosters provided by the contractor for that year, or for the 2009-10 and 2008-09 school years. These documents should have been reviewed for accuracy because they were used to complete the District's end-of-year reimbursement reports submitted to PDE. Consequently, they did not realize that the contractor's data did not include revised odometer readings and revision dates or that the totals the District reported to PDE did not agree with the bus contractor's odometer reading data. All of these data elements are reported to PDE so that they can be incorporated into the calculation of the District's state transportation subsidy. It is District management's responsibility to ensure the data is correct.

Failure to Maintain Supporting Documentation: District personnel did not retain backup documentation necessary to support the data they reported to PDE. Therefore, they could not explain the inconsistencies the auditors identified between the mileage, odometer readings, and pupil rosters provided by the contractor and what the District reported to PDE. For example, while the District's former Superintendent indicated that the mileage for all bus/van routes had been driven and verified by District personnel, no documentation was provided to support this claim. If District personnel had independently verified this information, they should have been able to catch discrepancies between the data the District reported to PDE and what was supplied by the contractor.

Failure to Maintain Registration Cards: Our audit also found that the District failed to maintain registration cards and Pennsylvania State Police (PSP) inspections for the buses and vans that transported its students. The registration information is necessary because the year of manufacture is a component of the formula PDE uses to determine the District's state transportation subsidy. The District did not have any registration information on file, and the bus contractor stated that it did not retain any prior year registration cards and that it could only provide those for the current school year. PSP inspections are required under the Pennsylvania Motor Vehicle Code. However, our audit found that at least of two (2) of the buses on the contractor's list of vehicles did not have these inspections.

Without documentation to verify the District's actual mileage, its pupil rosters, and the age of its buses, the

auditors could not determine whether it had received the appropriate state transportation reimbursement. Furthermore, without information demonstrating the contractor's buses had been through the proper inspections, District personnel could not ensure that students would be transported safely.

Poor Administrative Leadership Caused Breakdown in Transportation Operations

Our audit found that the District's administration, including its former superintendents and its former Business Manager, failed to establish proper internal controls to ensure that the District's transportation operations were efficient and effective. Moreover, in some cases, it appears that the District's top administrators, which included five (5) superintendents between July 1, 2005 and June 30, 2010, ignored information that led to the inefficient use of taxpayer dollars.

For example, in August 2008, the superintendent at the time indicated that she had numerous concerns regarding the District's overpayments to the bus contractor, which were outlined in the contractor's correspondence with the District (see pages 11-12). At the time, she informed the Board of the overpayments, and she requested that the former Business Manager provide the Board with an explanation for the errors. However, the auditors found no evidence that this information was ever provided, and the District continued to pay the contractor at the incorrect mileage rate, even after it addressed other billing errors. It is also concerning that the District's Board does not appear to have followed-up on this issue to determine why the errors occurred, and if the District was ever reimbursed. In addition, the District's Business Manager at the time of our audit, who subsequently resigned during our fieldwork, failed to establish any mechanisms for overseeing the contractor, or ensuring that it was performing its activities appropriately. In fact, she frequently told the auditors that she "relied on the bus contractor to have all of the information." Furthermore, the former Business Manager did not use the transportation software the District purchased in July 2008 for \$3,885, with an annual support cost of \$2,250. Even in October 2010, after the District purchased \$3,000 in software updates to improve the efficiency of the District's bus routes, the former Business

Manager still relied on the information she received from the contractor. The Assistant Business Manager, who was supposed to eventually act as the District's transportation coordinator, was also never trained on the software, and it was never actually used until June 2012. Not only did the former Business Manager's actions waste \$15,885 in taxpayer money, but if the software had been used, District personnel might have identified the contractor's many billing and reporting errors.

Furthermore, even though the District was aware of its transportation contractor's numerous billing issues, the District's administration, and its Board, entered into a new seven-year transportation contract with the same contractor on July 1, 2010. In fact, the auditors found no evidence that another transportation contractor was even considered. In addition, there was no evidence that the District's administration implemented any new internal controls to address the contractor's past problems, given that the errors continued at least through 2012.

By failing to properly oversee its transportation contractor, the District's Board and its administration abdicated their inherent fiduciary responsibility to use the District's public money efficiently. As a result of this failure, the District overpaid its contractor by at least \$634,111 from 2005 to 2012, and neglected to ensure that the District's transportation resources, such as fuel, were appropriately used. In addition, the administration disregarded its responsibility to establish appropriate internal controls to ensure that the District's transportation operations functioned suitably and that vital information was correctly reported to PDE. As result of this lax management, there is no way to determine whether the District received the appropriate state reimbursement. Furthermore, the District wasted taxpayer money and violated the Board policies that provide direction over the District's transportation program. In the instance of its failure to monitor bus inspections, it might have even endangered the safety of its students.

Recommendations

The *Forest Area School District* should:

1. Seek reimbursement from its transportation contractor for the \$634,111 in overpayments that resulted from errors in reporting mileage.
2. Establish a process for verifying all of the data the District receives from its contractor to ensure that it is accurate, complete, and valid. For example, maintain a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones, and reconcile that information with what is reported by the contractor.
3. Maintain the documentation necessary to support that the information the District reports to PDE is accurate, complete, and valid.
4. Reconcile the contractor's mileage information with the information the District maintains before it is reported to PDE in order to identify any inconsistencies or errors.
5. Establish proper internal controls to ensure that all fuel usage for the transportation of District students is efficient and appropriate.
6. Review all vehicles used to transport District students at the beginning of the school year to ensure that all vehicles have the proper Pennsylvania State Police inspections and registration cards.
7. Ensure that all staff involved in the management of the District's transportation operations are properly trained on its transportation software.

Management Response

Management stated the following:

"I [the current Superintendent] have been employed by the District since November 5, 2012, but am significantly concerned about what has been reported. It is my intention to address the needs identified as quickly as possible. I appreciate the diligence shown by the Auditor General's

office and the support in helping us to understand the necessary improvements.”

Auditor Conclusion

We are encouraged that the District appears willing to address these deficiencies. We will follow up on our recommendations during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Forest Area School District resulted in no findings or observations.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Carolyn Dumaesq
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.