



REYNOLDS SCHOOL DISTRICT  
MERCER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 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. John W. Lowry, Board President  
Reynolds School District  
531 Reynolds Road  
Greenville, Pennsylvania 16125

Dear Governor Corbett and Mr. Lowry:

We conducted a performance audit of the Reynolds 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 November 28, 2011 through February 19, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. 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 one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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

March 27, 2014

cc: **REYNOLDS SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Reynolds School District (District) in Mercer 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 November 28, 2011 through February 19, 2014, 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 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately 88 square miles. According to 2010 federal census data, it serves a resident population of 9,612. According to District officials, the District provided basic educational services to 1,218 pupils through the employment of 91 teachers, 60 full-time and part-time support personnel, and thirteen (13) administrators during the 2011-12 school year. The District received \$11,884,619 in state funding in the 2011-12 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 one (1) compliance related matter reported as a finding.

#### **Finding: Internal Control Weaknesses and Lack of Documentation Supporting Pupil Transportation Reimbursement.**

Our audit of the Reynolds School District's pupil transportation records and reports submitted to the Pennsylvania Department of Education for the 2010-11 and 2011-12 school years found internal control weaknesses and a lack of supporting documentation concerning the Board of School Directors' approved bus routes, pupil transportation contract language, detailed bus route mileage rosters, and tax-exempt fuel usage control (see page 5).

**Status of Prior Audit Findings and Observations.** There were no findings or observations in our prior audit report.

## Audit Scope, Objectives, and Methodology

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### 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 November 28, 2011 through February 19, 2014, except for the verification of professional employee certification, which was performed for the period September 1, 2011 through September 4, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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 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?

- ✓ In areas where the District received transportation subsidies, was 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 they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?

## **Methodology**

*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

*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.

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

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### Finding

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### Internal Control Weaknesses and Lack of Documentation Supporting Pupil Transportation Reimbursement

*Criteria relevant to the finding:*

Chapter 23 of the State Board of Education Regulations, Section 23.4 states, 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 . . .

(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.

(7) The negotiation and execution of contracts or agreements with contractors . . .

In addition, Section 518 of the Public School Code, 24 P.S. § 24-5-518, required retention of these records for a period of not less than six (6) years.

Instructions for completing the Pennsylvania Department of Education's (PDE) End-of-Year Pupil Transportation reports provides 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. Additionally, the instructions provide that procedure, information and data used by the LEA should be retained for audit purpose.

Our audit of the Reynolds School District's (District) pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2010-11 and 2011-12 school years found a lack of supporting documentation to ensure that the District's transportation data was appropriately reported. In addition, we found that the District did not maintain appropriate internal controls to ensure that its tax-exempt fuel was used appropriately and did not properly prepare its transportation contract.

#### ***Lack of Supporting Documentation***

The District failed to properly document the following data elements that are used in the calculation of its state transportation subsidy. As a result, the auditors could not determine whether the District had accurately reported its transportation information to PDE for the 2010-11 and 2011-12 school years and could not conclude on whether the District had received the correct state subsidy for that period.

- The Board of School Directors' (Board) approved bus routes did not include stop-by-stop mileage or total mileage with and without students.
- The agreement between the contractor and the District did not clearly establish if the contractor was to be paid a per diem rate, per vehicle rate, or a per mile rate.
- The mileage reports identified odometer readings at the beginning of a run, first pick-up, last drop-off, and the end of the run only and failed to identify the pupil's distance from home (bus stop) to school, as required by Chapter 23 regulations.

*Criteria relevant to the finding (continued):*

PDE 1049-C Pupil Transportation Service Form instructions provides, in part:

Amount Paid Contractor – Enter the total amount paid to this contractor for the service described for the vehicles listed under this Notification Number. This amount should include payment for any activity run service (some schools refer to this as a ‘late run’), but should not include payment for field trips, athletic events or any service provided other than to-and-from school transportation. It should also include payment to the contractor for purchase of fuel or LEA cost incurred to purchase fuel for the contractor. If the amount reported includes an amount representing the cost of fuel, any fuel tax refund anticipated for this service year must be subtracted from that amount.

Pennsylvania Liquid Fuels Tax Act (72 P.S. § 2611a-2611x), provides provisions of Chapter 315 “Exempt Sales” provides in Section 315.3 (b) Requirements, in part: When a school district leases or owns vehicles, whether or not the vehicles are operated by the school district employees, the school district may purchase liquid fuels tax exempt from a registered distributor, provided the fuel is placed in bulk storage facilities, leased or owned by the school district.

### ***Lack of Internal Controls Over Tax-Exempt Fuel***

Through amendments to the Liquid Fuels Tax and Fuel Use Act, the Pennsylvania General Assembly permits various entities, including political subdivisions, to purchase liquid fuels tax-exempt. A school district is considered a political subdivision and is therefore permitted to purchase tax-exempt fuel. The District purchased 44,790 and 60,641 gallons of tax-exempt fuel during the 2010-11 and 2011-12 school years at a cost of \$136,653 and \$191,675, respectively.

In order to ensure that tax-exempt fuel is used only for appropriate purposes, the Pennsylvania Department of Revenue (PDR) requires that entities, including school districts, maintain a lease agreement with the storage facilities they use. This agreement should outline specific requirements for the use and storage of the entity’s tax-exempt fuel. Our audit found that the District’s transportation agreement included a provision that permitted the District to lease fuel storage tanks from its contractor for one dollar (\$1.00). However, the District did not have the required lease agreement.

In addition, the pupil transportation contract did not require the contractor to provide fuel utilization records to the District. The fuel usage documentation the contractor did provide to the District only included the date, the vehicle number, the amount of fuel dispensed, and the initial and name of the vehicle driver. It did not identify the actual purpose for the fuel being dispensed. Without this information, the District could not verify that the contractor was using the tax-exempt fuel appropriately.

As a result of the District’s failure to have proper requirements in place, the contractor mixed the District’s tax-exempt fuel with the fuel it purchased for its charter coach business and for the pupil transportation services it provided to other school districts. Therefore, the District could not be assured that its tax-exempt fuel was only being used for its school-related activities.

For example, the contractor’s personnel contended that they maintained the proper use of fuel by not buying fuel in the District’s name until all the existing fuel had been used. Using fuel reimbursement sheets, they tracked how many

gallons of fuel were being used for the District's transportation services. The contractor contended that this process meant that no fuel purchased by the District is used for any other reason. However, our audit found no fuel records were prepared to separate the amount of fuel used for regular transportation (to and from) school from the amount used for extra-curricular activities. Fuel used for extra-curricular activities is not an allowable expense to be included for reimbursement. Therefore, without the support documentation clearly showing fuel expenses for to-and-from school transportation, the auditors could not determine the actual fuel cost of the to-and-from school fuel utilized for either school year.

Sound business practice dictates that the District should be able to track fuel usage by vehicle and hence be able to discern any unexplained fluctuations that may occur. The utilization of inventory records, usage logs, and documented recordkeeping would assist the District in assuring adequate control of its tax-exempt fuel.

#### ***Failure to Properly Develop the Transportation Contract***

The District renegotiated its transportation contract on March 17, 2010, and established per diem rates for school buses and vans. However, the contract language regarding compensation and fuel was not updated accurately on the contract. Specifically, the new contract still included language regarding per mile reimbursements for the cost of fuel over the base price, which contradicts the establishment of the per diem rate and the District's practice of purchasing its own fuel. As a result of these incongruities, under the new contract, the District's billing method never changed from a mileage based rate to a per diem rate. In addition, without a clear method of payment in the contract, it could be difficult for the District to determine whether it paid its contractor accurately.

The District's failure to maintain documentation to support all of the necessary data elements in the formula for calculating its state subsidy was caused by its transportation personnel's lack of knowledge about these requirements. The same was also true for the District's lack of proper internal controls over its fuel usage. In addition, the contradictory payment methods in the District's transportation contract also seem to be the result of a lack

of knowledge regarding the District's options for billing its contractor.

The District hired a new Supervisor of Pupil Transportation at the beginning of the 2012-13 school year, who developed a new transportation contract (Contract) in conjunction with the District's Business Manager. This Contract was then approved for the 2013-14 through 2019-20 school years. It provides that the contractor will be paid a vehicle per diem rate and no longer includes a reference to a mileage reimbursement. In addition, the Contract continues to include the provision that the District may lease fuel storage tanks from the contractor for one dollar (\$1.00) per year. However, it requires the contractor to provide the District with a Fuel Utilization Record for each vehicle, identifying the type of fuel and number of gallons used by the vehicle.

### **Recommendations**

The *Reynolds School District* should:

1. Send the District's transportation supervisor and the administrative support staff to training sessions relating to pupil transportation reporting and recordkeeping requirements.
2. Conduct an internal review of payments made to the District's transportation contractor to ensure the amount paid was accurately recorded and reported to PDE.
3. Prepare and maintain records on file of odometer readings between all bus stops and the school(s), as required by Chapter 23 regulations.
4. Ensure the contractor is paid in accordance with the terms of the transportation contract.
5. Review the transportation reports submitted to PDE for years subsequent to our audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported for each bus.

6. Obtain a signed/detailed lease agreement with the contractor for the storage of tax-exempt fuel in accordance with the requirements of PDR.
7. Establish procedures to monitor the fuel usage to ensure all tax-exempt fuel purchased is used for transporting students to and from school only, including the separation of fuel used for extracurricular activities and pupil transportation services.

A copy of this finding will be forwarded to PDR for whatever action they may deem necessary to ensure the proper storage, record keeping procedures, and usage of the District tax-exempt fuel purchased.

### **Management Response**

Management provided a written response indicating disagreement with the finding and provided the following comments:

“Management agrees with the findings in the Auditor General’s report that not all records required under the Chapter 23 regulations were properly maintained during the 2010-11 and 2011-12 fiscal years.

Since the period of time being audited, all of the recommendations contained within the report have been put into place with the exception of the lease for the fuel storage tank. The lease is being developed by the school solicitor.”

### **Auditor Conclusion**

We are encouraged that the District agrees and acknowledges that not all records were properly maintained and that no fuel storage tank lease was in place during the years audited. We will follow up on the status of the implementation of our recommendations during the next cyclical audit of the District.

## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the Reynolds School District resulted in no findings or observations.

## **Distribution List**

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

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

The Honorable Carolyn Dumaresq  
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://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](mailto:news@auditorgen.state.pa.us).