

PERFORMANCE AUDIT

Deer Lakes School District Allegheny County, Pennsylvania

November 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. James F. McCaskey, Board President
Deer Lakes School District
19 East Union Road
Cheswick, Pennsylvania 15024

Dear Governor Corbett and Mr. McCaskey:

We conducted a performance audit of the Deer Lakes 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 July 8, 2011 through June 6, 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. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit observation 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

November 6, 2014

cc: **DEER LAKES 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 Deer Lakes School District (District) in Allegheny 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 July 8, 2011 through June 6, 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 41 square miles. According to 2010 federal census data, it serves a resident population of 14,428. According to District officials, the District provided basic educational services to 1,196 pupils through the employment of 140 teachers, 127 full-time and part-time support personnel, and sixteen (16) administrators during the 2011-12 school year. The District received \$11 million 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. However we identified one (1) matter unrelated to compliance that is reported as an observation.

Observation: Amount Paid to Pupil Transportation Contractor Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance. Our audit of the Deer Lakes School District (District) contracted pupil transportation costs for the school years ending June 30, 2011 and June 30, 2012, found that over the two-year period, the contracted costs paid to the District's contractor was substantially more than the Pennsylvania Department of Education's final formula allowance, which is used to determine reimbursement of pupil transportation services (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

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 July 8, 2011 through June 6, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through May 12, 2014.

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 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?
- ✓ 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

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, and financial stability.
- 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

Observation

Amount Paid to Pupil Transportation Contractor Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations states that the District's Board of School Directors is responsible for the negotiation and execution of contracts or agreements with contractors, and approval of the drivers of the vehicles providing transportation.

Our audit of the Deer Lakes School District's (District) contracted pupil transportation costs for the school years ending June 30, 2011 and June 30, 2012, found that over the two-year period, the amount paid to its main transportation contractor was substantially more than the Pennsylvania Department of Education's (PDE) final formula allowance, which is used to determine reimbursement of pupil transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the vehicle chassis' year of manufacture, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The reimbursement received is the lesser of the final formula allowance for the vehicles, or the actual amount paid to the contractor, multiplied by the District's aid ratio.

The following chart details the fluctuation in the District's contracted payments to the District's main transportation contractor as compared to PDE's final formula allowance:

Main Contractor Costs Exceeding Allowance				
<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Total Exceeding Allowance</u>	<u>Percentage Over Allowance</u>
2010-11	\$ 1,123,114	\$ 664,447	\$ 458,667	69.03%
2011-12	1,134,972	722,502	412,470	57.09%

The following chart details the total amount paid to the contractor each school year, the final formula allowance used by PDE to calculate the District’s reimbursement, the total reimbursement received by the District, and the local tax dollars required to operate the District’s pupil transportation program.

Total Transportation Costs				
<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2010-11	\$1,148,188	\$ 729,185	\$ 858,776	\$ 289,412
2011-12	<u>1,168,372</u>	<u>791,611</u>	<u>901,687</u>	<u>266,685</u>
Total	<u>\$2,316,560</u>	<u>\$1,520,796</u>	<u>\$ 1,760,463</u>	<u>\$ 556,097</u>

District personnel provided us with the current pupil transportation contract effective July 1, 2008 through June 30, 2014. The contract did not indicate that there would be any consideration of PDE’s approved final formula allowance. Additionally, the contract was not put out for bid and negotiated by the prior superintendent. The current director of transportation stated the reason for this was he felt that the past pricing from the contractor plus a “Consumer Price Index” based increase would still be favorable to the District over a long-term (six years) period.

If the District had considered PDE’s approved final formula allowance when negotiating the District’s transportation contract, the additional funds required from the taxpayers to operate the transportation program may not have been needed and could have been used to provide educational services to the District’s students.

Recommendations

The *Deer Lakes School District* should:

1. Ensure that, prior to negotiating a new contract, the Board of School Directors and administrative personnel are cognizant of the State’s final formula allowance cost formula.
2. Routinely seek competitive bids for all of the District’s pupil transportation services to ensure the most efficient cost to the District and its taxpayers.

3. Prepare pupil transportation contracts to ensure the local share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

“Management agrees with the Audit observation that the amount paid to the pupil transportation contractor greatly exceeds the Pennsylvania Department of Education's final formula allowance.

Deer Lakes School District provides transportation to all of the students attending Deer Lakes and/or Beattie Career Center with our own buses and drivers, which represents 91% of our total transported students. Transportation for special education students and non-public school students is provided through our contractor, [name removed], representing the remaining 9%.

The special education and non-public contracted busing tend to be most expensive runs due to the specific needs of special education students (bus aides), the number of alternative placement locations we employ for these of these students and the number of private non-public locations within ten miles of our district. For the 2012-13 school year we transported 189 special education & non-public students utilizing 39 separate runs while we transported over 1,900 students attending our schools with a total of 42 runs. These factors escalates our cost of our contracted buses compared to the Department of Education's final formula allowance because that formula includes all districts in Pennsylvania, many of whom use contracted buses for all of their students including those attending District schools.

This past year the District completed a study designed to determine if it would be less expensive to provide special education and non-public busing in-house using our buses

and drivers. The results indicate that it is still more economically to use a contractor for these services.

In addition, the District has extended our contract with [the contractor] for an additional year. During that process we compared the daily cost of contracted bus rentals with many neighboring school districts. The results indicate clearly that [the contractor] was offering a very competitive pricing structure (see attached) [attachment outlined contractor survey of costs].

It is important to state that the District is committed to providing safe and affordable transportation for all of the students we transport.

We do intend to follow the four recommendations put forth in the observation to assure we are using all negotiating leverage available to keep our cost as low as possible in all future transportation contract negotiations.”

Auditor Conclusion

We are encouraged that the District has been proactive in its efforts to ensure transportation costs are “as low as possible.” We will be following up on the status of our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Deer Lakes 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
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The Honorable Carolyn Dumaesq
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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.