

AUSTIN AREA SCHOOL DISTRICT  
POTTER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2010



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mrs. Sherry Clark, Board President  
Austin Area School District  
138 Costello Avenue  
Austin, Pennsylvania 16720

Dear Governor Rendell and Mrs. Clark:

We conducted a performance audit of the Austin Area School District (AASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 1, 2007 through November 20, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 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 AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 4, 2010

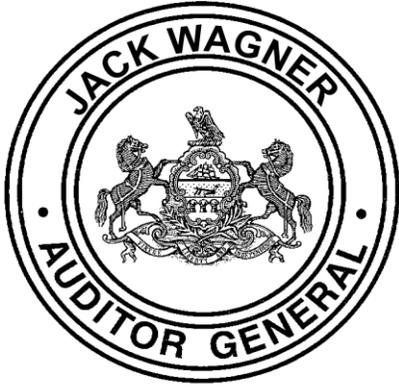
cc: **AUSTIN AREA SCHOOL DISTRICT** Board Members

## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding No. 1 – Certification Deficiencies .....	6
Finding No. 2 – Failure to Bill Tuition in Accordance with Public School Code Requirement Resulted in Underpayments of \$39,146 .....	8
Finding No. 3 – School Bus Drivers' Qualifications Deficiencies .....	10
Observation – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications .....	12
Status of Prior Audit Findings and Observations .....	14
Distribution List .....	17



## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Austin Area School District. Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the AASD in response to our prior audit recommendations.

Our audit scope covered the period June 1, 2007 through November 20, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

### **District Background**

The AASD encompasses approximately 228 square miles. According to 2000 federal census data, it serves a resident population of 1,214. According to District officials, in school year 2007-08 the AASD provided basic educational services to 220 pupils through the employment of 24 teachers, 11 full-time and part-time support personnel, and 2 administrators. Lastly, the AASD received more than \$1.7 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

**Finding 1: Certification Deficiencies.** Our audit found that two professional employees were employed without possessing proper certification (see page 6).

**Finding 2: Failure to Bill Tuition in Accordance with Public School Code Requirement Resulted in Underpayments of \$39,146.** The AASD again failed to bill tuition in accordance with the Public School Code (see page 8).

**Finding 3: School Bus Drivers' Qualifications Deficiencies.** Our audit of bus drivers' qualifications on file at the AASD for the 2009-10 school year found deficiencies (see page 10).

**Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.** Neither the AASD nor the transportation contractor has policies or procedures in place to ensure that they are notified when employees are charged with or convicted of serious criminal offenses (see page 12).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the AASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the AASD had taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation (see page 14) and updating their Memorandum of Understanding with the local police department (see page 15). However, we found the AASD had not taken appropriate corrective action in implementing our recommendation to properly bill for nonresident tuition (see page 14).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 June 1, 2007 through November 20, 2009, except for the verification of professional employee certification which was performed for the period April 18, 2007 through September 9, 2009.

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 Department of Education 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the AASD's compliance with applicable 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 receives state subsidy 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 receives state subsidy and reimbursements based on payroll (e.g. Social Security

and retirement), did it follow applicable laws and procedures?

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

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

*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 applicable laws, regulations, contracts, grant requirements and administrative procedures.

AASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

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

Additionally, we interviewed selected administrators and support personnel associated with AASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on February 19, 2008, we performed audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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*Criteria relevant to the finding:*

Public School Code Section 1202 provides, in part:

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

Public School Code Section 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 Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

### Certification Deficiencies

Our audit of the Austin Area School District's (AASD) professional employees' certificates and assignments for the period April 18, 2007 through September 9, 2009, found that two professional employees were employed without possessing proper certification for the period beginning September 2007 through the time of our audit. Information pertaining to the assignments in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education, for its review.

In a letter dated October 21, 2009, BSLTQ confirmed the deficiencies. As a result, AASD is subject to subsidy forfeitures of \$3,968 and \$3,840 for the 2008-09 and 2007-08 school years, respectively. The subsidy forfeiture for the 2009-10 school year could not be determined because the market value/personal income aid ratio used in the subsidy forfeiture calculation was not yet available.

The deficiencies occurred because the filing of the necessary paperwork was overlooked by District personnel.

### Recommendations

The *Austin Area School District* should:

Assign individuals to professional positions only after required certification is received.

The *Department of Education* should:

Adjust the AASD's allocations to recover the subsidy forfeitures.

### Management Response

Management stated the following:

The District had two staff members who had pursued certification through the Praxis [exams]. The first did not submit the appropriate paperwork which was overlooked by the District. The District has submitted the necessary

paperwork to finalize this process. The second certification error was an untimely filing of an emergency certificate. The staff member in question is pursuing the necessary testing to complete the Praxis exam. It is expected that at the conclusion of the 2009-10 school year that the teacher will be certified for the deficient area.

The District has provided additional oversight to include a certificate review process for staff members who are Instructional I and newly hired.

**Finding No. 2** →

**Failure to Bill Tuition in Accordance with Public School Code Requirement Resulted in Underpayments of \$39,146**

*Public School Code Section relevant to the finding:*

Section 2561 provides the method for computing the tuition rate which a receiving school district charges a for educating pupils who are residents of another district. This section identifies all operating expenditures to be used to determine the amount to charge nonresident pupils attending another district.

Our audit of the AASD's 2007-08 and 2006-07 nonresident tuition billing found that District personnel failed to bill tuition in accordance with the Public School Code (PSC). The District failed to properly bill one neighboring school district \$16,820 for the 2007-08 school year, and two neighboring districts a combined total of \$22,326 for the 2006-07 school year. As a result the District missed \$39,146 in income over those two school years.

During the District's April 14, 2005 board meeting, the AASD board of directors approved billing one sending district 50 percent of the approved tuition rate. There is no statutory language in the PSC permitting tuition agreements for less than the amount computed under Section 2561.

Our prior audit report also included a finding on this issue (see page 14).

The District superintendent stated that the District will continue to accept 50 percent of the approved tuition rate, contrary to what the PSC requires.

In addition, the underpayment for the 2006-07 school year included tuition the District failed to bill to a different school district for a nonresident student attending classes at AASD. This error occurred because there was a lack of communication between the building secretary and business manager. In addition, it should be noted that the AASD does bill this other school district for an amount in accordance with the PSC, and not at a 50 percent discount.

**Recommendations**

The *Austin Area School District* should:

1. Require District personnel to send the home districts of the nonresident students amended bills and collect the \$39,146.
2. Bill the tuition rate mandated by the PSC.

The *Department of Education* should:

3. Enforce PSC Section 2561.

**Management Response**

Management stated the following:

The district currently receives three students from the Smethport School District who reside on the landlocked Gardeau Road.

The Austin Area . . . School District Board agreed to receive one-half tuition for these students. This tuition does not represent any additional cost for the Austin [Area] School District. Losing the 50 percent tuition, if Smethport were to assume these students as their own, would result in loss of revenue for the AASD exceeding \$10,000 for the 2009-10 school year. The parents of the students opted to have their children attend the Austin Area School District and the school welcomes the tuition money albeit 50 percent.

Fifty percent tuition makes accepting these students a financially and ethically responsible decision for both the students and the school districts involved.

The AASD, inadvertently, did not bill another district for the inclusionary time for a nonresident student during the 2006-07 school year. That bill has been submitted to the other district at this time. This represented \$11,006. The district had already made the adjustment to include billing for this student.

**Auditor Conclusion**

While we recognize that the AASD is willing to educate the students, the cost of educating the students is the responsibility of the Smethport Area School District. It is not the AASD's responsibility, nor is it proper for these educational costs to be borne AASD's. By only accepting 50 percent of the cost of educating a student at the District, AASD is requiring its taxpayers to subsidize the education of a neighboring district's students.

**Finding No. 3** →

**School Bus Driver's Qualifications Deficiencies**

*Criteria relevant to the finding:*

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police.

Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Pennsylvania Department of Transportation regulations require the possession of a valid driver's license, completion of school bus driver skills and safety training, and passing a physical examination.

Our audit of the AASD's school bus drivers' qualifications on file at the District for the 2009-10 school year found deficiencies.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following five requirements:

1. possession of a valid driver's license;
2. completion of school bus driver skills and safety training;
3. passing a physical examination;
4. lack of convictions for certain criminal offenses; and
5. official child abuse clearance statement.

We audited the personnel records of all five drivers currently employed by the AASD's transportation contractor. Our review found that one bus driver did not possess an "S" card, which is the endorsement indicating completion of school bus driver skills and safety training. In addition, his criminal background and child abuse clearances were not on file at the District.

The failure to review all bus drivers' qualification documentation before any driver transports school students and to maintain such documentation in District files, could not only adversely affect the welfare of the students, but could also put the District at risk of a potential lawsuit.

In addition, failure to obtain the qualification documentation could have resulted in a driver transporting students when he or she was not properly licensed or may not have been suitable to have direct contact with children.

After we brought this matter to their attention, we were informed by District personnel that the driver would not drive until the proper clearances and license are on file.

**Recommendations**

The *Austin Area School District* should:

1. Prior to approving drivers to transport students, review each driver's qualifications.
2. Maintain files, separate from the transportation contractor's files, for all District drivers, to ensure that each driver's records are up-to-date and complete.

**Management Response**

Management stated the following:

The Austin Area School District implemented a current form to track bus driver information. This form will be reviewed periodically to ensure compliance with all aspects of the driver licensing requirements. The district intends to adopt an incident reporting policy aligned with the certification form to ensure full compliance with the State requirements and the Auditor's finding.

**Observation** →

**Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Our current audit found that neither the AASD nor the District's transportation contractor had written policies or procedures in place to ensure they are notified if current employees are charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

The ultimate purpose of the requirements of the PSC and the CPSL, previously cited in Finding No. 3 of the current report, is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 of the PSC but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider implementing procedures to ensure they learn of incidents that may have occurred after the commencement of employment.

**Recommendations**

The *Austin Area School District* should:

1. In consultation with the District's solicitor, develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District and the District's independent contractor have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to have direct contact with children.

**Management Response**

Management stated the following:

The Austin Area School District intends to adopt a policy requiring that all current school bus drivers notify the District, immediately, if they are charged with any type of crime while employed as a school bus driver for the District or the District's contractor.

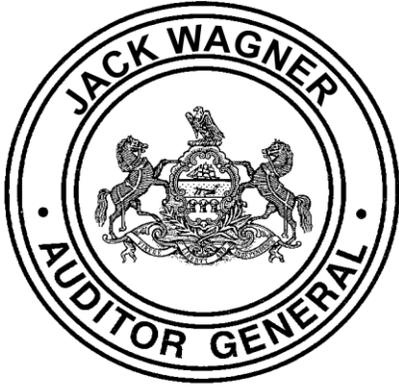
## Status of Prior Audit Findings and Observations

Our prior audit of the Austin Area School District (AASD) for the school years 2005-06 and 2004-05 resulted in two reported findings and one observation. The first finding pertained to nonresident tuition billing, the second pertained to transportation, and the observation pertained to the Memorandum of Understanding (MOU). As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior findings. As shown below, we found that the AASD did implement recommendations related to transportation and the MOU. The AASD did not implement our recommendations concerning tuition billings.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<b>Prior Recommendations</b>	<b>Implementation Status</b>	
<p><u><i>I. Finding No. 1: Failure to Bill Tuition in Accordance with the Public School Code Requirement Resulted in an Underpayment of \$7,273</i></u></p> <ol style="list-style-type: none"> <li>Send the home district of the nonresident students an amended bill and collect the \$7,273.</li> <li>Familiarize themselves with the Public School Code (PSC) regarding nonresident student tuition.</li> </ol>	<p><b>Background:</b></p> <p>District personnel failed to bill tuition in accordance with the PSC. The District underbilled a neighboring district \$7,273 for two nonresident students educated at AASD.</p> <p>During the District’s April 14, 2005 board meeting, the board voted to approve billing the sending district 50 percent of the tuition rate. There is no statutory language in the PSC permitting tuition agreements for less than the amount mandated under Section 2561 of the PSC.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that AASD has yet to implement our recommendations, as noted in Finding No. 2 in the current report (see page 8).</p> <p>Based on the results of our current audit, we concluded the AASD did not take corrective action to address this finding.</p>
<p><u><i>II. Finding No. 2: Error in Reporting Pupil Transportation Data Resulted in a Subsidy Underpayment of \$4,281</i></u></p> <ol style="list-style-type: none"> <li>On future reports, apply for and receive DE approval for layover hours for the area vocational-technical school (AVTS) bus run.</li> <li>DE should adjust the District’s future allocations to resolve the underpayment.</li> </ol>	<p><b>Background:</b></p> <p>For the 2004-05 school year, the District did not apply for or receive DE approval for three layover hours for the AVTS bus run. The error resulted in an underpayment of \$4,281 in transportation subsidy.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that AASD did apply for and receive approval for layover hours for the AVTS bus run for the 2007-08 and 2006-07 school years.</p> <p>Based on the results of our current audit, we concluded that the AASD did take appropriate corrective action to address this finding.</p> <p>As of November 20, 2009, DE had not resolved the</p>

		<p>underpayment. Therefore, we again recommend that DE adjust AASD's future allocations to resolve the underpayment of \$4,281.</p>
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<p><u>III. Observation:</u> <u>Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"> <li>1. Review, update and re-execute the current MOU between the District and the Pennsylvania State Police.</li> <li>2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's records found that the current MOU between the District and the Pennsylvania State Police was signed April 15, 2000, and had never been updated.</p>	<p><b>Current Status:</b></p> <p>Our current audit found the MOU was updated and signed July 1, 2009.</p> <p>Based on the results of our current audit, we concluded the AASD did take appropriate corrective action to address this observation.</p>
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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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