

SUMMARY REPORT

**SCHOOL BUS TRANSPORTATION
FUEL CHARGES BY R. J. RHODES TRANSIT, INC.,
TO AMBRIDGE AREA SCHOOL DISTRICT
AND OTHER SCHOOL DISTRICTS**

March 2002

INTRODUCTION AND BACKGROUND

The Department of the Auditor General (the Department) conducts audits of Pennsylvania school districts pursuant to its authority and responsibilities under the Fiscal Code, 72 P.S. § 403.

In October 2000, the Department's Office of Special Investigations (OSI) received allegations concerning R. J. Rhodes Transit, Inc. (Rhodes Transit), Ambridge, PA, the school bus contractor for Ambridge Area School District (AASD) and other school districts. The allegations involved (1) questionable use of fuel purchased by four school districts and (2) contract violations concerning the number of buses assigned and provided to the school districts. In addition to AASD, the school districts were Center Area School District (CASD), Freedom Area School District (FASD) and Rochester Area School District (RASD). School districts are reimbursed by the Pennsylvania Department of Education (PDE) for transportation costs in accordance with state regulations.

OSI conducted an investigation which included interviews of school district officials and representatives of Rhodes Transit and reviews of bus transportation records of school districts and Rhodes Transit. The inquiry also included a detailed review of school district fuel purchases and usage by AASD and other school districts during the 1999-2000 and 2000-2001 school years. The staffs of AASD and the other school districts were cooperative and helpful during the inquiry. The investigation was hampered and delayed by Rhodes Transit's lack of complete and reliable records of fuel usage.

A summary of the draft results of the inquiry, with conclusions and recommendations, was sent to AASD on January 2, 2002. The school district's response has been included as a section of the final report.

FINDING

The bus contractor used fuel purchased by AASD for other purposes. While the amount involved (\$4,936) is relatively small, there are inadequate records to determine if AASD was reimbursed and there is no evidence that AASD or the other three school districts have appropriate controls or procedures to protect against waste or misuse of fuel by the contractor.

AASD

A written agreement between AASD and Rhodes Transit specified that AASD would supply the fuel to transport its students.¹ Rhodes Transit maintained diesel and gasoline fuel tanks (referred to as the AASD diesel and the AASD gasoline storage tanks) on its property to furnish fuel used in Rhodes Transit buses that served AASD.

¹ The agreement provided to OSI by AASD was dated June 18, 1992. There is an addendum dated October 15, 1997, which runs until the 2003-04 school year.

According to the agreement between Rhodes Transit and AASD, Rhodes Transit agreed to purchase or supply a key guard system for fuel distribution. As part of that system, Rhodes Transit drivers assigned to buses serving AASD had keys to access the fuel tanks. AASD ordered fuel for the tanks from a supplier when notified by Rhodes Transit that the tanks needed to be refilled. AASD paid the supplier directly. According to the agreement, only buses that served AASD were to receive fuel from those fuel tanks. According to Rhodes Transit, the fuel used in vehicles serving AASD was recorded by Rhodes Transit in a computerized fuel transaction listing record.

The investigation disclosed that, in reality, the process operated differently:

A review of Rhodes Transit records showed that Rhodes Transit used diesel fuel and gasoline from the storage tanks that contained fuel purchased by AASD. The fuel was used in Rhodes Transit's fleet vehicles and motor coaches engaged in non-AASD activities during the 1999-2000 and 2000-2001 school years. The activities included private business services and services for other school districts. Rhodes Transit withdrew approximately 3,849 gallons of diesel fuel and 1,187 gallons of gasoline from the AASD tanks for use by Rhodes Transit vehicles other than those assigned to service AASD. The approximate cost of the fuel to AASD, based on the supplier's charges, was \$4,936.

There are no invoices or records of fuel purchase to document that Rhodes Transit reimbursed AASD for the value of the fuel or replaced the fuel it used from the AASD storage tanks. As discussed below, Rhodes Transit provided handwritten notes that purport to show that Rhodes Transit purchased gasoline for the AASD gasoline storage tank on one occasion.

According to information provided to OSI in interviews, it appears that, in part, the misuse of the fuel purchased by AASD took place when Rhodes Transit buses and drivers assigned to serve AASD were used for non-AASD activities, such as extracurricular field trips for other school district organizations that obtain bus services from Rhodes Transit and for private charters. Some of the usage was for a private chartering service operated by Rhodes Transit. According to Rhodes Transit, its private chartering service went out of business in March 2001.

According to the owner of Rhodes Transit, buses were used interchangeably on extracurricular field trips sponsored by school districts because the trips were assigned to drivers on the basis of rotation and seniority. The use of buses assigned to AASD and fuel purchased by AASD was not limited to AASD-related trips because drivers preferred to drive their regular assigned buses. The owner of Rhodes Transit stated that field trips for all school districts "evened out" to within a few gallons; the practice was standard throughout the industry; and the fueling of Rhodes Transit's private charters and fleet vehicles at the AASD fuel tank pumps was caused by employees' mistakes. He acknowledged that Rhodes Transit should replace AASD fuel used by Rhodes Transit. He also stated that the computerized fuel transaction system had not worked up to its full potential and that Rhodes Transit had purchased enough fuel in the summer months to make up any deficiencies.

Rhodes Transit did not provide OSI with documentation to verify the claim that the fuel usage evened out at the end of the school year or that Rhodes Transit purchased enough fuel to make up deficiencies. Rhodes Transit did provide copies of a Rhodes Transit employee's handwritten notes. According to the notes, Rhodes Transit placed 800 gallons of gasoline in the AASD gasoline storage tank on May 25, 2001. The handwritten notes contained no reference to purchases of diesel fuel by Rhodes Transit for the AASD diesel fuel storage tank.

Other school districts

CASD, FASD and RASD have contracts with Rhodes Transit for bus services. Fuel for the vehicles that serve those school districts is stored in two tanks, one for "other diesel" fuel and one for "other gasoline," separate from the tanks used for AASD's fuel. Rhodes Transit also draws fuel from those tanks for Rhodes Transit vehicles engaged in other activities.

According to the owner of Rhodes Transit, the ordering of fuel for these tanks was done by Rhodes Transit on a rotating basis; fuel suppliers billed the three school districts directly and were paid by them directly.

According to Rhodes Transit's owner, Rhodes Transit paid for the portion of the fuel it used for purposes not related to the three school districts by making purchases from a supplier in its own name as part of the rotation system. Two of the three school districts (CASD and RASD) then would deduct all or a substantial portion of their fuel payments from their monthly payments to Rhodes Transit pursuant to their agreements with the contractor. In effect, this created a situation whereby Rhodes Transit had access to fuel that was purchased as tax exempt fuel.

The results of the investigation suggest that the system used by Rhodes Transit was questionable: A review of Rhodes Transit's records concerning the "other diesel" and "other gasoline" fuel storage tank disclosed that Rhodes Transit withdrew approximately 13,910 gallons of diesel fuel and 5,796 gallons of gasoline from the tanks for Rhodes Transit's fleet vehicles and motor coaches during the 1999-2000 and 2000-2001 school years.

Despite Rhodes Transit's claims that fuel in the tanks used by buses assigned to the above school districts and Rhodes Transit was purchased on a rotating basis, Rhodes failed to provide OSI with documentation to verify that Rhodes Transit itself paid for such fuel as part of the rotation.

Rhodes Transit provided an employee's handwritten notes to support the claim that it paid for its fair share of fuel by making purchases during the summer months when the school district buses used less fuel. According to the handwritten notes, Rhodes Transit placed fuel in the storage tanks at various times during the period 1999-2001. Based on the handwritten notes, the total was 34,000 gallons of diesel fuel and 6,650

gallons of gasoline. As was the case with the AASD tanks, Rhodes Transit did not provide actual records of fuel purchases, i.e., bills, orders, invoices and cancelled checks.

The review also disclosed that Rhodes Transit withdrew fuel from these tanks to fuel buses used to service other school districts and educational facilities with which Rhodes Transit has bus transportation contracts. These included Midland Borough School District, Monaca Area School District, Beaver County Head Start and the Beaver Valley Intermediate Unit. Their agreements with Rhodes Transit did not require them to purchase the fuel stored in the tanks. It therefore appears that fuel purchased by CASD, FASD and RASD was used by Rhodes Transit vehicles servicing those other school districts and activities.

Based on an analysis of the fuel cost charges paid by the three school districts during that time, the costs to the three districts for fuel used by Rhodes Transit for bus services not related to the three school districts was approximately \$20,000.

OSI found no evidence that AASD or the other three school districts engaged in regular monitoring or checking of Rhodes Transit's procedures for ordering fuel and usage of fuel paid for by the school districts. The school districts' procedures appear to have no controls for protection against theft, diversion of fuel, or unintentional overcharging.

OSI also investigated a complaint that Rhodes Transit engaged in the practice of "doubling up," i.e., using the same bus to complete more than one bus route in a given school district. The inquiry determined that the practice occurred as the result of shortages of bus drivers. The school districts appeared to be unaware of it; there was no evidence of undue delays, bus overcrowding or complaints from parents or students.

CONCLUSIONS AND RECOMMENDATIONS

Fuel purchased by AASD and the other school districts for use on buses assigned to those school districts was used by the contractor for its own private business activities and for other school districts or organizations. Based on information provided by AASD, it does not appear that Rhodes Transit's use of fuel purchased by AASD had any direct effect on AASD's state reimbursement for transportation services. We have no information on the possible impact, if any, of Rhodes Transit's fuel usage practices on the state transportation services reimbursement to CASD, FASD or RASD.

According to representations made by CASD, FASD and RASD to OSI, the three school districts do not believe that they suffer any actual financial loss from the fuel usage practices of Rhodes Transit. CASD and RASD representatives pointed out that, since their fuel payments are deducted from their monthly payments to Rhodes Transit, any loss is passed on to Rhodes Transit itself. FASD based its views on its claim that the rates in its agreement with Rhodes are low in comparison with other school districts. There does not appear to be any basis to warrant similar conclusions on the part of AASD.

To avoid misuse of fuel and any future impact on the state reimbursement, it is recommended that AASD should:

- establish and implement reasonable procedures to monitor and document the school district's fuel usage and costs. This should include determining average annual fuel usage based on bus routes and requiring the contractor to keep accurate records, particularly records of substitutions of buses assigned to other school districts in place of regularly assigned buses, and to document unusual increases in fuel usage.
- require reimbursement from Rhodes Transit for the cost of the school district's fuel used in Rhodes Transit's fleet vehicles and motor coaches.
- require that the contractor document use of all fuel purchased by a school district that is taken for any purpose unrelated to that school district and reimburse the school district for such use, in kind or otherwise.

The investigation also disclosed that Rhodes Transit had ready access to and used fuel purchased by AASD and other school districts for its private transportation business activities unrelated to the purposes for which the fuel was intended to be used. Under the Liquid Fuels Tax Act, fuel purchased by school districts for their use is exempt from Pennsylvania state fuel taxes.² Because it appears that some fuel was used for purposes not included within the exemption, we will provide the results of the inquiry to the Pennsylvania Department of Revenue for appropriate review. The final report, including the finding, conclusions and recommendations is being provided to AASD, the Comptroller's Office for PDE and to our Department's auditors for reference in regular audits of AASD and to the other school districts, the Intermediate Unit and local Head Start organization referred to in the report.

AASD's RESPONSE

The school district's response was contained in the following January 29, 2002, letter from the superintendent:

In response to your preliminary audit report dated January 2, 2002, concerning findings and conclusions relating to allegations of improprieties by R.J. Rhodes Transit, Inc., Ambridge, PA, we offer the following response:

1. At a meeting with Rhodes Transit on January 16, 2002, we instituted the following immediate changes in procedures in regard to our transportation contract with Rhodes:

²² 75 Pa. C.S.A. § 9004(e).

- a. Rhodes Transit will provide monthly fuel reports documenting all fuel usage by vehicles in the service of the Ambridge Area School District;
- b. All busses designated for use for the Ambridge Area School District will be identified by the words “Ambridge Area School District” on the side of each vehicle;
- c. Rhodes Transit will carefully monitor all vehicles assigned to the Ambridge Area School District to ensure that bus and van runs are for the benefit of Ambridge Area School District staff and students only;
- d. Rhodes Transit will provide mileage documentation for Ambridge field trips, sport charters, and all other extra-curricular runs;
- e. Rhodes Transit will immediately forward a check payable to the Ambridge Area School District for \$4,936 as reimbursement for fuel used in vehicles other than those assigned to service the district.

We appreciate the efforts of your office in this investigation, and the district will continue to exercise its oversight authority in its effort to strengthen internal controls and procedures in our transportation department.

DEPARTMENT OF THE AUDITOR GENERAL’S COMMENTS

The actions and changes outlined in the response address the report’s finding and are consistent with its recommendations.

REPORT DISTRIBUTION LIST

This report has been initially distributed to members of the Ambridge Area School District Board of Directors, the Superintendent and the Business Manager and the following:

Department of Education

The Honorable Charles B. Zogby, Esquire
Secretary of Education
Harristown 2, 10th floor
333 Market Street
Harrisburg, PA 17126

Governor's Office of the Budget

William A. Hardenstine, Jr., Comptroller
Labor, Education and Community Services
1012 Labor & Industry Building
Harrisburg PA 17120

Department of Revenue

Thomas W. Scott, Director
Bureau of Motor Fuel Taxes
Strawberry Square, 5th Floor
Harrisburg, PA 17128

Copies of the final report are also being sent to the Superintendents of Center Area School District, Freedom Area School District, Rochester Area School District, Midland Borough School District and Monaca Area School District, the Executive Director of the Beaver Valley Intermediate Unit, Beaver County Head Start and R. J. Rhodes Transit, Inc.

This report is a matter of public record. Copies may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. The report is also available on the Auditor General Web Site: www.auditorgen.state.pa.us