



UNITED SCHOOL DISTRICT
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Donald Davis, Board President
United School District
10780 Route 56 Highway East
Armagh, Pennsylvania 15920

Dear Governor Corbett and Mr. Davis:

We conducted a performance audit of the United 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 August 16, 2011 through October 2, 2013, 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. It is important to note that this finding has been a recurring finding at the District in our last three (3) audits. 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

April 24, 2014

cc: **UNITED 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 United School District (District) in Indiana 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 and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period August 16, 2011 through October 2, 2013, 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 131 square miles. According to 2010 federal census data, it serves a resident population of 7,988. According to District officials, the District provided basic educational services to 1,281 pupils through the employment of 94 teachers, 46 full-time and part-time support personnel, and eight (8) administrators during the 2011-12 school year. The District received \$12 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, except for one (1) compliance related matter reported as a finding.

Finding: Continued Errors in Pupil Transportation Reports and Internal Control Weaknesses Resulted in a Net Underpayment of \$43,552.

Pupil transportation records and reports submitted to the Pennsylvania Department of Education for the 2010-11 and 2011-12 school years contained reporting errors and lacked sufficient supporting documentation. These errors resulted in an underpayment of \$48,537 and an overpayment of \$4,985 for the 2010-11 and 2011-12 school years, respectively (see page 5).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the United School District (District) from an audit released on December 22, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to the transportation finding (see page 9). However, we did find that the District had taken appropriate corrective action in implementing our recommendations pertaining to the membership and bus driver qualification findings (see page 10).

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 August 16, 2011 through October 2, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through September 24, 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?
- ✓ 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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.

To determine the status of our audit recommendations made in a prior audit report released on December 22, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Continued Errors in Pupil Transportation Reports and Internal Control Weaknesses Resulted in a Net Underpayment of \$43,552

Criteria relevant to the finding:

Section 518 of the Public School Code (PSC) requires retention of these records for a period of not less than six (6) years.

Section 2541 of the PSC states school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.

Section 2509.3 of the PSC provides for payments for nonpublic pupil transportation.

The Pennsylvania Department of Education's (PDE) reporting guidelines state that if a local education agency (LEA) has a situation in which it is more cost effective to have a vehicle layover rather than make two round trips, layover allowance is available. A written request for layover hour's allowance that identifies the vehicle (LEA-owned/contractor name and Vehicle ID Code) and number of hours and minutes of layover must be submitted to PDE. In addition, the request must contain cost calculations that demonstrate that it is more economical for the driver to layover than it is to drive the vehicle without pupils. Upon approval, PDE will enter the "Layover Time."

Our audit of the United 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 reporting errors and a lack of supporting documentation. These errors resulted in an underpayment of \$48,537 and an overpayment of \$4,985 for the 2010-11 and 2011-12 school years, respectively.

It is important to note that this marks the fourth consecutive audit of the District that includes this finding (see page 9).

Our audit also found the following reporting errors for the 2010-11 school year:

- Daily mileage was reported incorrectly for eleven (11) of 40 buses.
- The greatest number of pupils transported was reported incorrectly for 26 of 40 buses.
- The number of days pupils were transported was reported incorrectly for seven (7) of 40 buses.
- The number of nonpublic pupils transported was overstated by one (1) student.

Our audit found the following reporting errors for the 2011-12 school year:

- Daily mileage was reported incorrectly for 20 of 36 buses.
- The greatest number of pupils transported was reported incorrectly for fifteen (15) of 36 buses.
- The number of days pupils were transported was reported incorrectly for eight (8) of 36 buses.
- One (1) bus had the incorrect manufacturer's serial number reported resulting in the wrong year of manufacture being reported.

*Criteria relevant to the finding
(continued):*

Instructions for completing PDE's End-of-Year Pupil Transportation reports provides that the LEA must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.

- The number of nonpublic pupils transported was overstated by 35 students.

The District did not have proper documentation to support reported pupil count totals, using the sample average method, for all bus runs for the 2010-11 and 2011-12 school years.

In addition, the District incorrectly calculated the sample averages for pupil and mileage readings, by using the incorrect number of months. Sample averages should be obtained for eight (8) months during the school year. However, the District failed to obtain pupil counts and mileage readings for eight (8) months, but still calculated the sample averages as though it had the data for all eight (8) months, resulting in an incorrect average for both the pupil counts and mileage.

The errors discussed above are the result of the District failing to implement the recommendations we have made in the last three (3) audit reports released by our department for the District. Specifically, the following causes have been identified:

- The District has failed to verify reports received from the contractor for completeness and accuracy.
- Students who were not transported to nonpublic schools have been included in the nonpublic pupil counts.
- The District has not required its transportation contractor to provide documentation supporting the pupil counts reported by the contractor on the sample average worksheet.
- The District has failed to apply for layover reimbursement for buses that transported students to the area vocational-technical school and the Blind/Deaf School in Pittsburgh.
- The District has failed to obtain and retain from the contractor the documentation to support the data submitted to PDE.

The transportation data *daily miles with and without pupils*, the *greatest number of pupils transported*, the *number of days of service*, and *nonpublic students transported* are all integral parts of the transportation reimbursement formula

and must be maintained accurately in accordance with the State Board of Education regulations and guidelines.

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that transportation data is accurate and reported correctly to PDE. Without such internal controls, the District cannot be assured that its transportation data is accurate or that it is receiving the appropriate state transportation subsidy payment.

We have provided PDE with reports to assist in correcting the District's transportation subsidy.

Recommendations

The *United School District* should:

1. Instruct the District's Transportation Coordinator to develop appropriate written procedures incorporating independent verification and defining appropriate supporting documentation to ensure the accuracy of the District's records.
2. Conduct an annual internal review to ensure the number of days of service, daily mileage, pupil counts, and nonpublic students transported are accurately recorded and reported to PDE.
3. Perform a review of subsequent years' data to ensure supporting documentation was prepared and retained, and ensure accurate data was reported and resubmit, if necessary, to PDE.
4. Annually submit for PDE approval the necessary cost calculation for layover time reimbursement.
5. Ensure that all documentation to support transportation data reported to PDE is retained for audit.

The *Pennsylvania Department of Education* should:

6. Adjust the District's future allocations to correct the net underpayment of \$43,552.
7. Consider withholding future reimbursement to the District until such time as adequate documentation is

prepared and retained to support the data reported by the District.

Management Response

Management stated the following:

“District will check for accuracy of vendor provided / prepared subsidy report.”

Auditor Conclusion

We are highly skeptical of the District’s stated effort to address this issue. As mentioned previously, this is the fourth consecutive audit—covering eight (8) subsidy years—that included a transportation finding.

School Year	Overpayment/ (Underpayment)
2011-12	\$ 4,985
2010-11	(48,537)
2009-10	17,692
2008-09	31,136
2007-08	(41,284)
2006-07	3,921
2005-06	(12,424)
2004-05	2,101

Status of Prior Audit Findings and Observations

Our prior audit of the United School District (District) released on December 22, 2011, resulted in three (3) findings. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings. As shown below, we found that the District did not implement our recommendations related to the transportation finding and did implement our recommendations related to the bus driver qualification and membership findings.

Auditor General Performance Audit Report Released on December 22, 2011

Finding No. 1: Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in Overpayments of \$48,828

Finding Summary: Our prior audit of the District found that pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2008-09 and 2009-10 school years found errors, which resulted in an overpayment of \$31,136 for the 2008-09 school year and an overpayment in transportation subsidy of \$17,692 for the 2009-10 school year.

Recommendations: Our audit finding recommended that the District should:

1. Conduct an internal review to ensure the daily mileage, pupil count, days of service, contractor costs, hazardous [route] pupils, and nonpublic pupils are accurately recorded and reported to PDE.
2. Prepare and retain on file the source data used to report pupil transportation data to PDE.
3. Perform a review of subsequent years' data for accuracy and resubmit reports if necessary.

We also recommended that PDE should:

4. Adjust the District's future allocations to correct the overpayment of \$48,828.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. A follow-up finding will be noted in the current report (see page 5). As of October 2, 2013, PDE has not adjusted the District's allocation to correct the \$48,828 overpayment.

Finding No. 2: Failure to Have All School Bus Drivers' Qualifications of File

Finding Summary: Our prior audit found that the District did not have on file the qualifications of all bus drivers needed for our audit. Additionally, the documentation was not provided to the District by the contractor as specified in the transportation contract.

Recommendations: Our audit finding recommended that the District should:

1. Ensure that the District's transportation coordinator reviews each driver's current qualifications prior to that driver transporting students.
2. Maintain files at the District, separate from the transportation contractor, for all District drivers, and work with the contractor to ensure that the District's files are up-to-date and complete.
3. Require the transportation contractor to adhere to provisions of the contract and provide the District with documents identified in the contract prior to the commencement of the school year and prior to the drivers having any contact with District students.

Current Status: During our current audit, we found that the District did implement our prior recommendations; all records were on file for our review of the 2013-14 school year.

Finding No. 3: Errors in Reporting Pupil Membership Resulted in an Overpayment of \$12,092

Finding Summary: Our prior audit of the District found that the District's pupil membership reports submitted to PDE for the 2008-09 school year were inaccurate. Clerical errors resulted in an overpayment of \$12,092 in Commonwealth-paid tuition for children placed in private homes (foster children).

Recommendations: Our audit finding recommended that the District should:

1. Perform an internal review of all pupil membership reports and supporting documentation before submission to PDE.
2. Review subsequent school year's membership reports for accuracy and resubmit if necessary.

We also recommended that PDE should:

3. Adjust the District's future allocations to correct the overpayment of \$12,092.

Current Status:

During our current audit, we found that the District did implement our prior recommendations. No significant errors were noted in our review of the 2011-12 pupil membership reports. As of October 2, 2013, PDE has not adjusted the District's allocations to correct the \$12,092.

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
Harrisburg, PA 17120

Ms. Lori Graham
Acting Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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.