



ARMSTRONG SCHOOL DISTRICT  
ARMSTRONG COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2013

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. Joseph Close, Board President  
Armstrong School District  
410 Main Street  
Ford City, Pennsylvania 16226

Dear Governor Corbett and Mr. Close:

We conducted a performance audit of the Armstrong School District (ASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 6, 2010, through May 17, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, and June 30, 2009. 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 ASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in five findings noted in this report. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

April 3, 2013

cc: **ARMSTRONG 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 Deficiency .....	6
Finding No. 2 – Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Overpayment of \$40,566 .....	8
Finding No. 3 – Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$84,586 .....	12
Finding No. 4 – Pupil Transportation Reporting Errors and Lack of Supporting Documentation .....	15
Finding No. 5 – Internal Control Weaknesses and Lack of Support Documentation for Retirement Contribution Reimbursement Data .....	21
Observation No. 1 – Amount Paid the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Final Formula Allowance .....	23
Observation No. 2 – The Armstrong School District Lacks Sufficient Internal Controls Over Its Student Record Data .....	27
Status of Prior Audit Findings and Observations .....	29
Distribution List .....	31



## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period August 6, 2010, through May 17, 2012, 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 2009-10 and 2008-09.

### **District Background**

The ASD encompasses approximately 437 square miles. According to 2010 federal census data, it serves a resident population of 43,364. According to District officials, in school year 2009-10 the ASD provided basic educational services to 5,551 pupils through the employment of 463 teachers, 232 full-time and part-time support personnel, and 28 administrators. Lastly, the ASD received more than \$43.3 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the ASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for five compliance-related matters reported as findings. In addition, two matters unrelated to compliance are reported as observations.

#### **Finding No. 1: Certification Deficiency.**

One teacher was not properly certified during the 2009-10 through 2011-12 school years (see page 6).

#### **Finding No. 2: Errors in Reporting Pupil Membership Resulted in a Net**

**Reimbursement Overpayment of \$40,566.** Our audit of the pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors. The errors in membership were due to ASD not properly reporting resident and nonresident membership days. This resulted in a net overpayment of \$40,566 (see page 8).

#### **Finding No. 3: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement**

**Overpayments Totaling \$84,586.** Our audit of the ASD records found that the Social Security and Medicare wages for the 2009-10 and 2008-09 school years were incorrectly reported to PDE. The errors were due to ASD reporting existing employees as new. As a result the ASD received overpayments of \$84,586 (see page 12).

**Finding No. 4: Pupil Transportation Reporting Errors and Lack of Supporting Documentation.** Our audit of the ASD's transportation records and reports submitted to PDE for the 2009-10 and 2008-09 school years found reporting errors. The errors in transportation were due to incorrectly reporting activity runs. We also noted a lack of supporting documentation (see page 15).

**Finding No. 5: Internal Control Weaknesses and Lack of Support Documentation for Retirement Contribution Reimbursement Data.** Our audit of the payroll department records found that the ASD was unable to provide a listing of salaries identifying existing and new employees (see page 21).

**Observation No. 1: Amount Paid the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Final Formula Allowance.** Our audit found that for the school years ending June 30, 2007 through June 30, 2010, the contracted costs incurred for the operation of the ASD's transportation program had increased a rate substantially more than the rate of inflation over the four-year period (see page 23).

**Observation No. 2: The Armstrong School District Lacks Sufficient Internal Controls Over Its Student Record Data.** Our audit found that the internal controls over student record data integrity need to be improved (see page 27).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the ASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the ASD had not taken appropriate corrective action in implementing our recommendations pertaining to lack of supporting documentation for retirement reimbursement data (see page 29).



## 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 August 6, 2010, through May 17, 2012, except for the verification of professional employee certification, which was performed for the period January 10, 2010, through April 27, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 ASD's compliance with applicable state laws, 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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ 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?
- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?
- ✓ 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, observations 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, contracts, grant requirements and administrative procedures.

ASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the AHSD is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant agreements and administrative procedures 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 control 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 25, 2011, we performed additional 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:*

Section 1202 of the Public School Code (PSC) provides, in part:

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

Section 1212 of the PSC provides, in part:

“Every district superintendent shall keep an accurate record of valid certificates held by teachers of the school within his jurisdiction.”

Section 2518 of the PSC provides in part:

“[Any] 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 Pennsylvania Department of Education but who has not been certified for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio . . .”

## Certification Deficiency

Our audit of professional employees’ certification for the period January 10, 2010, through April 27, 2012, found one professional employee was improperly assigned to a position without holding proper certification.

The individual was employed with a lapsed certificate as a kindergarten teacher.

Information pertaining to the assignment in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Pennsylvania Department of Education, for its review.

On April 4, 2012, BSLTQ made a final determination regarding the individual’s assignment, stating in part, that the employee “has been employed by the District on a lapsed certificate from the 2<sup>nd</sup> semester of the 2009-10 school [year] to the current date of review.”

As a result, the District is subject to subsidy forfeitures of \$1,009 for the 2009-10 school year, and \$1,984 for the 2010-11 school year. The subsidy forfeiture for the 2011-12 school year could not be calculated due to the applicable aid ratio not being available at the time of our audit.

The deficiency was a result of a change of personnel within the District’s human resource department whose responsibility it was to track the prior work experience and years of service within the District for the professional employees employed with an Instructional Level I temporary certification.

As a result of our finding the District’s human resource personnel took immediate action to prevent future lapsed certificates by developing a checklist to track tenured and non-tenured instructional teachers.

**Recommendations**

The *Armstrong School District* should:

Implement internal controls to ensure appropriate tracking of all professional employees who are employed on an Instructional Level I temporary certificate.

The *Pennsylvania Department of Education* should:

Adjust the District's allocations to recover the appropriate subsidy forfeitures.

**Management Response**

Management stated the following:

“The one individual of over 500 professionals not found to have updated their certification has since made the required application. The District is encouraged that a new statewide Teacher Information Management System (TIMS) may assist teachers with their personal responsibility, as reinforced by the structure of the system, and allow school districts the ability to better identify any individual who has not made the necessary applications. Additionally, the District will look for a method to identify certification due for expiration through a spreadsheet or other means should the TIMS system prove to be deficient.”

**Finding No. 2**

**Errors in Reporting Pupil Membership Resulted in a Net Reimbursement Overpayment of \$40,566**

*Criteria relevant to the finding:*

Section 2503 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

The Pennsylvania Information Management Systems (PIMS) manual of reporting provides guidelines for the reporting of all residency and nonresident classifications. The guidelines provide a sample of information required to enter in each District Field on the end-of -year membership reports to be filed with the Pennsylvania Department of Education. The sample provides the Code, Residency Status, District Code, District Code of Residence and the Funding District Code.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors. Armstrong School District (ASD), personnel failed to report and/or inaccurately reported resident and nonresident pupil membership days. The reporting errors resulted in under and over payments in tuition for children placed in private homes of \$11,364 and \$51,930, respectively, a net overpayment of \$40,566.

Pupil membership reporting errors were as follows:

<u>2009-10 School Year</u>	
<u>Classification</u>	<u>Days(Over)/ Understated</u>
<u>Resident</u>	
Kindergarten Full-Time	(843)
Kindergarten Half-Time	(2,821)
Elementary	(22)
Secondary	11,185
Technical School	172
<u>Nonresident</u>	
Children Placed in Private Homes:	
Kindergarten Half-Time	180
Elementary	22
Secondary	278
Technical School	(172)

<u>2008-09 School Year</u>	
<u>Classification</u>	<u>Days (Over)/ Understated</u>
<u>Resident</u>	
Secondary	213
Technical School	352
<u>Nonresident</u>	
Children Placed in Private Homes:	
Elementary	(178)
Secondary	143
Technical School	(352)
Institutionalized Wards of the State:	
Secondary	(534)

Children placed in private homes are children in foster care. If the natural parents of such children live another district, they are considered nonresidents for child accounting purposes, and are eligible for Commonwealth-paid tuition.

A student is defined as a ward of the state when the student's parental/guardian district of residence is unknown; tuition is then subsidized by the state.

2009-10

In the 2009-10 school year, the kindergarten reporting errors and the failure to report membership days for all of the secondary resident students were the result of lack of internal controls. Specifically, District personnel failed to compare the data entered into the PIMS system to the District's child accounting pupil membership reports (see also Observation No. 2, page 27).

2008-09

In the 2008-09 school year, District personnel reported three nonresident foster students as wards of the state and two residents as nonresident foster students. Also, one secondary nonresident foster student who withdrew from the District on November 2, 2006, and never returned to the District, was maintained on the District's membership rolls for the full year.

Nonresident reporting errors in both years were caused by personnel at individual school buildings who were responsible for identifying the residency status of the District's students failing to properly identify the nonresident status on the District's child accounting reports, which were used by the District's pupil membership coordinator to enter the District's end-of year child accounting data into the Pennsylvania Information Management System (PIMS) system for the 2009-10 school year, and also used in the preparation of membership reports submitted to PDE for the 2008-09 school year.

Furthermore, in both the 2009-10 and 2008-09 school years the local technical school child accounting personnel failed to properly identify District students that were enrolled in classes at the technical school. One student in 2009-10 and two students in 2008-09 were reported as nonresident foster but should have been reported as residents.

Resident and nonresident membership data must be maintained in accordance with PDE guidelines and instructions, since they are major factors in determining the District's subsidies and reimbursements.

We have provided PDE with reports detailing the errors for use in recalculating the District's allocations.

## **Recommendations**

The *Armstrong School District* should:

1. Reference the PIMS manual of reporting for proper instructions in reporting nonresident students' membership days.
2. Strengthen internal controls to ensure adherence to PDE regulations when reporting nonresident students.
3. Review membership reports submitted to PDE for school years subsequent to the audit, and if reporting errors are found, contact the PIMS help desk for guidance in changing coding. If necessary, submit revised reports to PDE.
4. Contact the local technical school to ensure they properly identify the ASD's nonresident pupils' membership when completing their PIMS child accounting membership reports to PDE.
5. Implement procedures to ensure proper reporting of kindergarten students, and to ensure all secondary resident students are reported in the PIMS system.

The *Pennsylvania Department of Education* should:

6. Adjust the District's allocations to resolve the net overpayment of \$40,566.



**Management Response**

Management stated the following:

“New personnel responsible for the department will review recommendations in this area to establish a manner to cross-check information from multiple sources so that errors are minimized. Additionally, the District is looking to replace outdated software with a new student information system with possibilities of interface with the statewide PIMS (Pupil Information Management System).”

### Finding No. 3

### Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$84,586

*Criteria relevant to the finding:*

The 1986 Budget Reconciliation Act requires Local Education Agencies (LEA) to deposit Social Security and Medicare tax contributions for wages earned on or after January 1, 1987, directly to authorized depositories or Federal Reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's share, which is 50 percent of the employer's share of tax due for employees employed by an LEA prior to July 1, 1994, (existing employees).

Act 29 of 1994 further changed the way in which LEAs are reimbursed for Social Security and Medicare contributions by providing that employees who had never been employed by an LEA prior to July 1, 1994, (new employees) would have Social Security and Medicare employer shares reimbursed based on the LEA's aid ratio or 50 percent, whichever is greater.

LEAs are subsequently reimbursed for the Commonwealth's matching share based on wages reported to PDE, excluding wages paid with federal funds.

Our audit of District payroll records found that the Social Security and Medicare wages for the 2009-10 and 2008-09 school years were incorrectly reported to the Pennsylvania Department of Education (PDE), resulting in overpayments of \$44,261 and \$40,325, respectively, totaling \$84,586.

The errors were a result of District personnel failing to accurately report wages for new and existing employees in the appropriate classification. Additionally, District personnel failed to prepare and retain supporting documentation to support federally-funded wages reported to PDE.

New employees are identified as employees hired on or after July 1, 1994, and existing employees are employees hired prior to July 1, 2004.

Reimbursement is not paid for taxes on wages paid with federal funds. Reported federal wages are deducted from total wages when reimbursement is calculated. Therefore, it is very important to report total wages and federal wages accurately.

District personnel provided us with a memo, dated March 7, 2012, stating "per the former business manager, . . . the date was entered as the date of hire in our school district, not the date the employee began employment with any school district, intermediate unit, etc." Additionally, the memo noted the District will be keeping a list of the federal employees with the quarterly reports.

Total wages eligible for Social Security and Medicare reimbursement were incorrectly submitted to PDE, as follows:

<u>Total Wages Subject to State Reimbursement</u>						
<u>Reporting Period</u>		<u>Audited</u>	<u>Reported</u>	<u>Wages (Over)/Understated</u>	<u>Rate</u>	<u>Reimbursement (Over)/Under Payments</u>
Existing Employees						
7/09 - 6/10	*	\$23,532,809	\$20,179,417	\$3,353,392	0.031	\$103,955
7/09 - 6/10	**	23,586,829	20,233,438	3,353,391	0.00725	24,312
7/08 - 6/09	*	23,940,907	20,729,453	3,211,454	0.031	99,555
7/08 - 6/09	**	23,990,599	20,779,146	3,211,453	0.00725	23,283
New Employees						
7/09 - 6/10	*	16,168,901	19,522,292	(3,353,391)	0.0420484	(141,005)
7/09 - 6/10	**	16,168,901	19,522,292	(3,353,391)	0.0098339	(32,977)
7/08 - 6/09	*	15,519,427	18,730,881	(3,211,454)	0.0414532	(133,125)
7/08 - 6/09	**	15,519,427	18,730,881	(3,211,454)	0.0096947	<u>(31,134)</u>
		*Social Security Wages		** Medicare Wages		<u>\$ (87,136)</u>

Federal wages were incorrectly reported to PDE, as follows:

<u>Reporting Period</u>		<u>Federal Wages Audited</u>	<u>Federal Wages Reported</u>	<u>Wages (Over)/Under Stated</u>	<u>Rate</u>	<u>Reimbursement (Over)/Under Payments</u>
Existing Employees						
7/09 - 6/10	*	\$1,002,661	\$895,994	\$106,667	0.031	\$(3,307)
7/09 - 6/10	**	1,002,661	895,994	106,667	0.00725	(773)
7/08 - 6/09	*	950,146	865,189	84,957	0.031	(2,634)
7/08 - 6/09	**	950,146	865,189	84,957	0.00725	(616)
New Employees						
7/09 - 6/10	*	1,551,575	\$1,658,243	\$(106,668)	0.0420484	4,485
7/09 - 6/10	**	1,551,575	1,658,243	(106,668)	0.0098339	1,049
7/08 - 6/09	*	1,353,459	1,438,416	(84,957)	0.0414532	3,522
7/08 - 6/09	**	1,353,459	1,438,416	(84,957)	0.0096947	<u>824</u>
		*Social Security Wages		** Medicare Wages		<u>\$2,550</u>

## **Recommendations**

The *Armstrong School District* administration should:

1. Ensure that District personnel comply with PDE instructions when completing the Reconciliation of Social Security and Medicare Tax Contributions, and retain supporting documentation.
2. Ensure that District personnel accurately identify and report new and existing employees.
3. Perform an internal review of reports submitted in school years subsequent to the current audit period, and resubmit to PDE, if similar errors occurred.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to resolve the reimbursement overpayments totaling \$84,586.

## **Management Response**

Management stated the following:

“A process will be established to note that employees with work experience prior to July, 1 1994 will be coded as “existing” to rectify this matter. The new Director of Business Affairs will review internal control processes and provide required procedures as necessary for the recommendation.”

## Finding No. 4

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### Pupil Transportation Reporting Errors and Lack of Supporting Documentation

*Criteria relevant to the finding:*

Chapter 23 of the State Board of Education Regulations, Section 23.4 provides, in part:

“The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

“(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

“(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.”

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

Instructions for completing PDE’s End-of-Year Pupil Transportation reports provide that the local 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 procedures, information, and data used by the LEA must be retained for audit purposes.

Our audit of the District’s pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors and a lack of supporting documentation supporting reimbursements of \$4,498,525 and \$4,569,460 for the 2009-10 and 2008-09 school years, respectively.

#### Reporting Errors

##### 2009-10 School Year

Of the documentation that was available for audit, our audit found the following reporting errors for the 2009-10 school year:

- The number of days transported was incorrectly reported for one vehicle.
- Miles with pupils was incorrectly reported for four vehicles, resulting in a net overstatement of 34.7 miles.
- Miles without pupils was incorrectly reported for four vehicles, resulting in a net overstatement of 32.4 miles.
- The number of trips (per day) was incorrectly reported for one vehicle.
- One vehicle was incorrectly reported as transporting students to and from school, in addition to activity transportation.
- The District did not have proper backup information to verify reported contracted costs for six of eight contractors.

The 2009-10 school year reporting errors noted resulted in a \$13,408 pupil transportation reimbursement overpayment.

### Lack of Documentation

Documentation required to support pupil transportation reimbursement was lacking as follows:

- No detailed bus routes descriptions or pupil rosters were available for audit review for all the contractors' 192 vehicles reported for the 2009-10 school year and 177 vehicles reported for the 2008-09 school year;
- No board approval for bus routes and bus drivers was noted in the board minutes for either school year;
- No mileage documentation was retained to support the daily miles with and without pupils reported to PDE for seven of the District's eight contractors for the 2009-10 school year, and all eight contractors reported for the 2008-09 school year;
- No mileage documentation was provided to support the miles with and without pupils on the district-generated weighted averaging work sheet for seven of the eight 2009-10 school year contractors. In addition, no documentation was provided to support all eight contractor district-generated weighted average worksheets to support the greatest number of pupils assigned to ride each vehicle for the 2009-10 school year;
- For the 2008-09 school year, only three months of the weighted averaging worksheets were available for six of the eight contractors, to support the miles with and without and greatest number of pupils assigned to each bus as reported to PDE. Additionally, mileage documentation was provided for only one of the eight contractors reported for reimbursement;
- When a bus route was changed (i.e. additional runs added) no documentation was on file for either school year of the date the change was made to support the District's weighted average worksheets;

- For both school years, District personnel failed to retain support documentation for students entering and/or withdrawing from the vehicles;
- In 2008-09 we noted that for 107 of the 177 vehicles, the District's computer-generated bus metrics reports, which were provided to support the miles with and without pupils worksheets, were not in agreement. Additionally, we compared the sample average worksheets for all eight contractors to the end-of-year PDE reports and noted that six of the eight contractors had differences in the miles with and without pupils for 24 vehicles and 25 vehicles had differences in the number of pupils assigned and reported to PDE. The audit found that no sample average worksheets were provided for two of the eight contractors;
- In 2009-10 we noted that for 143 of the 169 vehicles the District's computer-generated bus metric reports provided to support the District's sample average miles with and without pupils worksheets, were not in agreement. The audit also found 15 vehicles reported to PDE which were not on the District's reports, and four vehicles were on the bus metric report but were not reported to PDE. In addition, the review of the sample average worksheets noted 30 of the vehicles miles with and miles without pupils and the greatest number of pupils assigned were not in agreement with the data reported to PDE. The audit found seven vehicles were on the sample average worksheet and that were not reported to PDE;
- Documentation was inadequate to support the number of pupils transported on approved hazardous routes. Hazardous pupils are any pupils living in an area where the highway, road or traffic conditions are such that walking constitutes a hazard to the safety of the child, as certified by the Pennsylvania Department of Transportation for both school years;

- The District failed to maintain mileage between bus stops to determine the distance between pupils' homes and schools. Therefore, the auditors were unable to determine which pupils live within 1½ miles of the elementary and 2 miles of the school buildings;
- Documentation was not available to support the number of nonreimbursable pupils reported. Nonreimbursable pupils are elementary pupils living within 1.5 miles of their school or secondary pupils living within 2 miles of their school, who are transported by the District. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to area vocational-technical schools, or are transported over certified hazardous walking routes. Without mileage readings from bus stops to school, the status of these pupils could not be verified for both school years;
- Our audit of the 2008-09 school year documentation provided to support the amount paid to the eight contractors found that the data was provided for only five of the eight contractors. Audits of the five contractors' documents did not agree with the total cost reported to PDE. It should be noted these reporting errors had no monetary effect on the District's reimbursement, as the amount paid to the contractors exceeded PDE's reimbursement final formula allowances.

The reporting errors and lack of supporting documentation were the result of the District's pupil transportation coordinator's failure to implement internal controls to ensure documentation was prepared and retained to support data submitted to PDE for pupil transportation reimbursement, as required by PDE's guidelines and instructions.



Daily miles with and without pupils, the greatest number of pupils transported, the number of days of service, the number of trips per day, the amount paid the contractors, and the number of hazardous and nonreimbursable pupils 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.

The failure to prepare and retain detailed pupil transportation documentation to support data submitted to PDE for reimbursement resulted in the audit not being able to verify that the District received the correct pupil transportation reimbursement entitlement for the school years.

Of our five most current audits, this marks our fourth audit with a finding regarding pupil transportation.

## **Recommendations**

The *Armstrong School District* should:

1. Conduct an annual internal review to ensure the number of days service, daily mileage, pupil counts, the number of trips per day, and the amount paid to each contractor 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. Prepare detailed bus route descriptions for each bus, with board approval, and perform yearly verifications of all bus routes and mileages to ensure all buses are following the board-approved bus routes.
4. Prepare and maintain records of odometer readings between all bus stops and pertinent loading zones, as required by Chapter 23 regulations.
5. Prepare and retain complete daily mileage rosters identifying miles with and without pupils for each bus run.
6. Provide training for District pupil transportation personnel.

7. 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.
8. Prepare and retain verifiable supporting documentation to support the number of nonreimbursable pupils and hazardous walking route pupils reported to PDE.
9. Perform a review of subsequent years' data to ensure supporting documentation was prepared and retained, and to ensure accurate data was reported, and resubmit reports to PDE, if necessary.

The *Pennsylvania Department of Education* should:

10. Recover \$13,408 overpayment for the 2009-10 school year.

### **Management Response**

Management stated the following:

“New personnel responsible for this department will review recommendations in this area to establish a manner to cross-check information from multiple sources so that errors are minimized in a district that transports over 5,500 students.”

## Finding No. 5

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### Internal Control Weaknesses and Lack of Support Documentation for Retirement Contribution Reimbursement Data

*Criteria relevant to the finding:*

Act 29 of 1994 created two categories of employees to be tracked by school entities. These two categories of employees to be tracked were “existing” and “new” employees. An “existing” employee is an individual who has an effective date of employment with a public school entity prior to July 1, 1994, or has an effective date of employment after June 30, 1994, but was employed by any other public school entity in Pennsylvania prior to July 1, 1994. A “new” employee is an individual with an effective date of employment after June 30, 1994, who has never been employed by another entity in Pennsylvania prior to July 1, 1994.

Our audit of the Armstrong School District’s payroll records for the 2009-10 and 2008-09 school years found a lack of supporting documentation to verify the accuracy of wages reported for existing and new employees relating to retirement contribution reimbursements of \$1,083,766 and \$1,086,441, respectively.

The passage of Act 29 of 1994 legislation created two categories of employees to be tracked by school entities. The two categories of employees to be tracked were “existing” and “new” employees. Reimbursement rates differ for the two categories of employees.

Our review of the payroll department records found that the District was unable to provide a listing of salaries identifying existing and new employees because the District’s payroll software did not identify new and existing employees. As a result, we could not verify the propriety of state reimbursement for retirement.

## Recommendations

The *Armstrong School District* should:

1. Prepare source documentation to separate existing and new employees.
2. Reconcile the retirement reimbursement to source documents to ensure that the reimbursement received is correct.
3. Update payroll software to identify new and existing employees.

The *Pennsylvania Department of Education* should:

4. Consider the appropriateness of the District’s retirement reimbursement due to the facts stated above.

**Management Response**

Management stated the following:

“A new Director of Business Affairs will review internal control processes and provide required procedures as necessary for this recommendation. In addition, the existing financial accounting software does not break out new and existing employees to verify state reports. A new business software package will be examined to resolve this matter.”

**Observation No. 1**

**Amount Paid the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Final Formula Allowance**

Our audit of the Armstrong School District's (ASD) contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the District's pupil transportation operation had increased substantially more than rate of inflation over the four year period, based on District data reported for reimbursement purposes. The amount paid to the District's transportation contractor increased more than the Pennsylvania Department of Education's (PDE) inflation adjusted final formula allowances, which is used to determine the District's reimbursement transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the year or manufacture of the vehicle chassis, 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 pupil transported. The final formula allowance is adjusted annually by an inflationary cost index. The District receives 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 contracted costs compared to PDE's final formula allowances:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2009-10	\$6,402,926	\$4,159,613	\$2,243,313	53.93
2008-09	6,081,592	4,100,928	1,980,664	48.30
2007-08	6,082,156	4,434,369	1,647,787	37.16
2006-07	6,447,151	4,561,082	1,886,069	41.35

Our audit of services provided by the pupil transportation contractor found that over the last four years the number of vehicles used to transport pupils had decreased, the District's total number of pupils transported had decreased, and the number of approved annual miles vehicles traveled had decreased, as shown in the following chart:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	192	5,499	2,006,847
2008-09	177	5,757	1,933,923
2007-08	203	5,864	2,169,525
2006-07	225	5,983	2,274,093

The following chart details the percent each contractor (seven of the eight contractors serving the District) was paid over the state's final formula allowance for the 2009-10 and 2008-09 school years' pupil transportation services.

<u>School Year</u>	<u>Contractor</u>	<u>Amount Paid Contractor</u>	<u>Final Formula Allowance</u>	<u>Contractor Cost Over Formula</u>	<u>Percent Over</u>
2009-10	A	\$ 662,740	\$ 502,323	\$160,417	31.94
	B	1,623,933	989,177	634,756	64.17
	C	1,117,123	714,330	402,793	56.39
	D	782,643	514,610	268,033	52.08
	E	1,577,578	911,706	665,872	73.04
	F	477,904	389,246	88,658	22.78
	H	156,402	129,785	26,617	20.51
2008-09	A	\$ 515,290	\$ 337,414	\$177,876	52.71
	B	1,739,817	1,139,451	600,366	52.69
	C	1,092,229	711,477	380,752	53.52
	D	737,925	496,138	241,787	48.73
	E	1,143,375	915,664	227,711	24.87
	F	438,635	399,588	39,047	9.77
	H	109,742	92,738	17,004	18.34

The following chart details the total amount paid all contractors each school year, the maximum cost allowable, the total reimbursement received by the District from PDE, and the actual local tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$ 6,402,926	\$ 4,155,783	\$ 4,498,525	\$1,904,401
2008-09	6,081,592	4,097,046	4,569,460	1,512,132
2007-08	6,082,156	4,434,670	4,832,882	1,249,274
2006-07	<u>6,447,151</u>	<u>4,555,039</u>	<u>4,919,729</u>	<u>1,527,422</u>
Total	<u>\$25,013,825</u>	<u>\$17,242,538</u>	<u>\$18,820,596</u>	<u>\$6,193,229</u>

A query summary of PDE's pupil transportation data found that 486 Pennsylvania school districts and area vocational-technical schools contracted out their pupil transportation service for the 2009-10 school year. Approximately 26.34 percent of the local education agencies (LEA) paid their contractors less than 10 percent over the final formula allowance. Armstrong School District for the 2009-10 school year paid its contractors 53.90 percent over the state formula, compared to 48.43 percent during the 2008-09 school year. Of the 486 LEAs, approximately 82.92 percent of them pay their contractors closer to or less than the state formula than ASD for the 2009-10 school year.

The District's pupil transportation coordinator provided a summary of the pupil transportation pay rates from 2006-07 through 2009-10 school years as per the contractors' agreements. For the school years identified the District provided the contractors a 9.7 percent increase. The summary also noted that for the 2010-11 and 2011-12 school years the agreements provide a total 4.2 percent in daily rate increases.

The summary noted the District pays the contractors on a daily rate depending on the bus size, and not based on the number of pupils transported nor miles driven per vehicle.

## **Recommendations**

The *Armstrong School District* should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Prepare pupil transportation contracts to ensure the local effort 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.
3. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

## **Management Response**

Management stated the following:

“In 2010-11, the District made substantive reviews and changes within the transportation area which included analysis of all transportation routes and buses supplied by the various contractors. Over 400 square miles of the District was reviewed for more efficient routes. Subsequently, all carriers were reorganized within new zones of the District and new routes were established for students for the 2011-12 school year. This two-year review process was completed in only one year and as a result a high percentage of District runs were converted from single to double runs. We note a substantive reduction in transportation costs as a result of this action, and accordingly believe that this finding is resolved and moot.”



## Observation No. 2

### The Armstrong School District Lacks Sufficient Internal Controls Over Its Student Record Data

*Criteria relevant to the observation:*

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the Federal Information Systems Control Manual (FISCAM), a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse", designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the LEA's controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. The District does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
2. District personnel do not verify what is reported in PIMS with membership totals from their own student information system.
3. Our testing of student registration also found that the District does not maintain entry/withdrawal forms.

**Recommendations**

The *Armstrong School District* should:

1. Verify PIMS student totals with District membership software totals and make sure they are in agreement.
2. Ensure that an entry/withdrawal form is filled out for each student.
3. Ensure documented procedures are in place, (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over its PIMS data submission in the event of a sudden change in personnel.

**Management Response**

Management stated the following:

“The District intends to upgrade the present student information system so that student record information is not duplicated, incorrect or in conflict with the data of the statewide PIMS system. Additionally, a cross-referencing system will be developed so that at calendar points or at the end of the year [we] ensure that entered data is correct.”

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

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Our prior audit of the Armstrong School District (ASD) for the school years 2007-08 and 2006-07 resulted in one reported finding. The finding pertained to lack of supporting documentation for retirement reimbursement data. As part of our current audit, we determined the status of corrective action taken by the ASD to implement our prior recommendations. We performed audit procedures and questioned ASD personnel regarding the prior finding. As shown below, we found that the ASD did not implement recommendations related to lack of supporting documentation for retirement reimbursement data.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Finding:** **Internal Control Weaknesses and Lack of Support Documentation for Retirement Reimbursement Data**

Finding Summary: Our prior audit of ASD's payroll records for the 2007-08 and 2006-07 school years found a lack of supporting documentation to verify the accuracy of wages reported for existing and new employees for retirement contribution reimbursements of \$1,493,866 and \$1,342,472, respectively.

Recommendations: Our audit finding recommended that the ASD:

1. Prepare source documents to separate existing and new employees.
2. Reconcile the retirement reimbursement to source documents to ensure that the reimbursement received is correct.
3. Update payroll software to identify new and existing employees.

We also recommended that the Pennsylvania Department of Education:

4. Consider the appropriateness of the District's retirement contribution reimbursement due to the facts stated above.

Current Status: During our current audit procedures we found that the ASD did not implement the recommendations. Our audit of the 2009-10 and 2008-09 school years found the same reporting errors, which resulted in a finding in the current report (see finding No. 5, page 21).



## **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.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following:

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