

AUSTIN AREA SCHOOL DISTRICT
POTTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

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

Dear Governor Corbett and Ms. Clark:

We conducted a performance audit of the Austin Area School District (AASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 20, 2009 through June 22, 2011, 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, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 11, 2012

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



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Executive Summary

Audit Work

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

Our audit scope covered the period November 20, 2009 through June 22, 2011, 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 AASD encompasses approximately 228 square miles. According to 2000 federal census data, it serves a resident population of 1,214. According to District officials, in school year 2009-10 the AASD provided basic educational services to 225 pupils through the employment of 24 teachers, 11 full-time and part-time support personnel, and 2 administrators. Lastly, the AASD received more than \$1.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings.

Finding No. 1: Certification Deficiency.

Our audit found that one professional employee was employed without possessing proper certification (see page 6).

Finding No. 2: Failure to Bill Tuition in Accordance with Public School Code Requirements Resulted in

Underpayments of \$36,002. The AASD again failed to bill tuition in accordance with the Public School Code (see page 8).

Finding No. 3: School Bus Drivers'

Qualifications Deficiencies. Our audit of bus drivers' qualifications on file at the AASD for the 2010-11 school year found deficiencies (see page 10).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the AASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the AASD had taken appropriate corrective action in implementing our recommendations pertaining to administrative policies regarding bus drivers' qualification (see page 16).

However, we found the AASD had not taken appropriate corrective action in implementing our recommendations pertaining to certification (see page 14) nonresident tuition billing (see page 15) and school bus drivers' qualifications (see page 15).

Audit Scope, Objectives, and Methodology

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 November 20, 2009 through June 22, 2011.

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 Department of Education reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the AASD's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

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

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

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.

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

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 4, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

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 certificated to teach.

Section 2518 mandates any school district that: 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 Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand 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 the Austin Area School District's (AASD) professional employees' certificates and assignments for the period September 10, 2010 through May 13, 2011, found that one professional employee was employed without possessing proper certification for the period beginning September 2010 through the time of our audit. Information pertaining to the assignment in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education, for its review.

BSLTQ subsequently confirmed that the individual had failed to obtain emergency certification for the 2010-11 school year. AASD is therefore subject to a subsidy forfeiture of \$1,475 for the 2010-11 school year.

This individual was also cited in our prior audit (see page 14). District personnel had failed to implement internal control procedures to ensure all professional personnel hold valid, proper certificates.

Recommendations

The *Austin Area School District* should:

Develop procedures to ensure all professional employees are properly certified for their assignments.

The *Department of Education* should:

Adjust the AASD's allocations to recover the subsidy forfeiture of \$1,475.

Management Response

Management stated the following:

The District is aware of the certification irregularity with one teacher. Efforts are being made to correct this issue. The District is advertising for a part-time Certified Professional. In lieu of a qualified candidate, the District will continue the emergency certificate process in August.

Finding No. 2

Failure to Bill Tuition in Accordance with Public School Code Requirements Resulted in Underpayments of \$36,002

Criteria relevant to the finding:

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

Our audit of the AASD's 2009-10 and 2008-09 nonresident tuition billing found that District personnel failed to bill tuition in accordance with the PSC. The District failed to properly bill one neighboring school district \$18,908 and \$17,094 for the 2009-10 and 2008-09 school years, respectively. As a result the District lost \$36,002 in revenue over those two school years.

As noted in our two proceeding audits (see page 15), during the District's April 14, 2005 board meeting the AASD board of directors approved billing one sending district 50 percent of the approved tuition rate. There is no statutory language in the PSC permitting tuition agreements for less than the amount computed under Section 2561. The total amount of revenue lost since the 2005-06 school year as a result of this agreement is \$71,415.

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

Recommendations

The *Austin Area School District* should:

1. Send the home district of the nonresident students amended bills and collect the \$36,002.
2. Bill the tuition rate mandated by the PSC.

The *Department of Education* should:

3. Enforce PSC Section 2561.

Management Response

Management stated the following:

The Austin Area School District agreed to receive one-half tuition for these students from Smethport Area School District. This tuition does not represent any additional instructional cost for the Austin School District. Losing the 50% tuition, if Smethport were to assume these students as their own, would result in a loss of revenue for the Austin District in the amount of \$36,002. The parents of the students opted to have their children attend the Austin Area School District. The school welcomes the tuition money albeit 50 percent. Fifty percent tuition makes accepting these students a financially and ethically responsible decision for both the students and the school districts involved.

Auditor Conclusion

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

Finding No. 3



School Bus Drivers' Qualifications Deficiencies

Criteria relevant to the finding:

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

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

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

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

Chapter 23 of the State Board of Education Regulations provides that the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the AASD's school bus drivers' qualifications on file at the District for the 2010-11 school year found that not all records were on file at the time of audit.

Additionally, documentation was not provided to the District by the contractor as specified in the transportation contract.

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

1. possession of a valid driver's license;
2. possession of a valid school bus endorsement card, commonly referred to as an "S" card, indicating completion of skills and safety training;
3. passing a physical examination;
4. lack of convictions for certain criminal offenses; and
5. official child abuse clearance statement.

We audited the personnel records of all five drivers currently employed by the AASD's pupil transportation contractor. Our review found that the District did not have on file at the time of the audit a valid "S" card and/or current physical examination forms for three drivers, and also did not have criminal histories or child abuse clearances for one driver. Similar deficiencies were found in our prior audit (see page 15).

We noted that one of the drivers for whom the District did not have all of the necessary documentation on file was the transportation contractor. The contractor could not produce an "S" card during the prior audit, nor during the current audit. After we brought this matter to the attention of the District in the prior audit we were informed that this driver would not drive until the proper clearances and licenses were on file. However, the contractor continued to drive during the 2009-10 and 2010-11 school years.

The audit also found the board of directors failed to approve the substitute drivers for the 2010-11 school year. There was no documentation on file at the District for any of the substitute drivers.

Failure to obtain the documentation could have resulted in a driver transporting students who was not properly licensed, or who may not have been suitable to have direct contact with children.

The Pennsylvania School Bus Driver Training Manual states, in part:

School Bus Driver's are required to carry three credentials when operating a school bus in Pennsylvania: a valid commercial driver's license displaying the "S" endorsement, a valid school bus endorsement card, and a valid physician's certificate.

The District's transportation contract states, in part:

Every school bus driver will meet all the regulations of the Bureau of Traffic Safety of the Pennsylvania Department of Transportation and the Austin Area School District.

- A. All drivers must have the following minimum qualifications and carry this documentation with them while transporting students:
 - 1. Valid PA Driver's License.
 - 2. Valid Physician's certificate. . . .
 - 3. School Bus Operator's Certificate. . . .
 - 4. PA DOT/Certificate of Completion. . . .
- B. Evidence of the above documentation will be on file with the Transportation director. . . .
- F. The contractor will ensure that drivers have met all certification requirements. . . .
- 10. . . . Additionally, the contractor must furnish to the Austin Area School District a listing of drivers with the required data *before the start of each school year*. . . . (emphasis added)

13. The District, without prejudice to any other rights or remedies it may have, reserves the right to terminate a contract if the contractor violates the terms of this contract or fails to provide what the District deems “reasonable performance.” Reasonable performance may include among other things, (1) observance of rules and regulations, (2) adherence to Austin Area School District Policy on transportation, (3) minimal equipment breakdowns, (4) compliance with routes and route schedules, (5) properly trained drivers, etc.

On April 29, 2011, we informed management of the missing documentation and instructed them to immediately obtain the necessary documents so that they can ensure the drivers’ are properly qualified to continue to have direct contact with children. As of the end of our fieldwork, June 22, 2011, management had not yet provided us with all of the necessary documentation. Therefore, we were unable to verify that all drivers were properly qualified to have direct contact with children.

Recommendations

The *Austin Area School District* should:

1. Prior to approving drivers to transport students, review each driver’s qualifications. If proper licensing documentation is not available, the District should require the contractor to provide substitute drivers until it can produce evidence of proper licensing.
2. Maintain files, separate from the transportation contractor’s files, for all District drivers, to ensure that each driver’s records are up-to-date and complete.
3. Implement the corrective action plan included in the management response from the prior audit regarding this situation.

Management Response

Management stated the following:

Austin Area School District will require the Bus Contractor to submit to the District by the August School Board Meeting of each school year all bus and van driver credentials. Drivers will not be permitted to drive for the District if the following documents are not available for review:

- All Clearances–new drivers to the District must have current clearances
- Current, up-to-date, Driver License for all drivers, Bus Drivers must have CDL
- Current, up-to-date, S Card on bus drivers

The District will utilize [a] form that was developed to verify all credentials.

Status of Prior Audit Findings and Observations

Our prior audit of the Austin Area School District (AASD) for the school years 2007-08 and 2006-07 resulted in three reported findings and one observation, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior findings and observation. As shown below, we found that the AASD did not implement recommendations related to certification, nonresident tuition billing and bus driver qualifications, but did implement recommendations related to the bus driver qualifications policy.

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

Finding No. 1: Certification Deficiencies

Finding Summary: Our prior audit found that two professional employees were employed without possessing proper certification. As a result the District was subject to subsidy forfeitures of \$3,968 and \$3,840 for the 2008-09 and 2007-08 school years, respectively. The subsidy forfeiture for the 2009-10 school year could not be determined at the time of our prior audit because the market value/personal income aid ratio used in the subsidy forfeiture calculation was not yet available.

Recommendations: Our audit finding recommended that the AASD:

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

Our audit finding also recommended that the Department of Education (DE):

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

Current Status: During our current audit procedures we found that the AASD did not implement the recommendations. We found that one of the individuals cited in our prior audit received proper certification in February 2010. However, the other employee, who had not obtained emergency certification for one of his positions, again taught without proper certification for the 2010-11 school year. (See Finding No. 1 of the current audit report on page 6.)

On June 1, 2011, DE withheld \$10,322 from the District's basic education funding to access the subsidy forfeitures.

Finding No. 2: Failure to Bill Tuition in Accordance with the Public School Code Requirements Resulted in Underpayments of \$39,146

Finding Summary: Our prior audit of the AASD's nonresident tuition billing found that District personnel failed to bill tuition in accordance with the Public School Code (PSC) Section 2561. The District failed to bill one neighboring school district \$11,006 in tuition for a nonresident student attending classes at AASD, and billed another school district only 50 percent of the approved tuition rate, which resulted in additional revenue loss of \$28,140.

Recommendations: Our audit finding recommended that the AASD:

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

Our audit finding also recommended that DE:

3. Enforce PSC Section 2561.

Current Status: During our current audit procedures we found that the AASD did not implement the recommendations. (See Finding No. 2 of the current report on page 8.)

Finding No. 3: School Bus Driver's Qualifications Deficiencies

Finding Summary: Our audit of the AASD's school bus drivers' qualifications on file at the District for the 2009-10 school year found deficiencies. Two drivers did not possess an "S" card, which is the endorsement indicating completion of school bus driver skills and safety training. In addition, the criminal background and child abuse clearances were not on file at the District for one driver, and two bus drivers did not have a valid physical examination certificate on file.

Recommendations: Our audit finding recommended that the AASD:

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

Current Status: During our current audit procedures we found that the AASD did not implement the recommendations. (See Finding No. 3 of the current audit report on page 10.)

Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation Summary:

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

Recommendations: Our audit observation recommended that the AASD:

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

Current Status: During our current audit procedures we found that the AASD implemented the recommendations, adopting board policy in March of 2010 requiring notification of any serious crimes committed by drivers after hiring.

Distribution List

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

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

