

CARBONDALE AREA SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2012

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

Dr. Gary Smedley, Board President
Carbondale Area School District
101 Brooklyn Street
Carbondale, Pennsylvania 18407

Dear Governor Corbett and Dr. Smedley:

We conducted a performance audit of the Carbondale Area School District (CASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 4, 2008 through February 19, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the CASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding 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.

While conducting our audit, we discovered matters outside the scope of our audit, which we referred to our Office of Special Investigations (OSI). OSI is continuing to investigate these matters and will issue separate correspondence to the District at the conclusion of their investigation.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

April 25, 2012

cc: **CARBONDALE 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 Carbondale Area School District (CASD). 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 CASD in response to our prior audit recommendations.

Our audit scope covered the period April 4, 2008 through February 19, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The CASD encompasses approximately 19 square miles. According to 2000 federal census data, it serves a resident population of 12,135. According to District officials, in school year 2007-08 the CASD provided basic educational services to 1,443 pupils through the employment of 109 teachers, 83 full-time and part-time support personnel, and 7 administrators. Lastly, the CASD received more than \$10.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding and one matter unrelated to compliance that is reported as an observation.

Finding: Errors in Reporting Pupil Transportation Data Resulted in a Reimbursement Net Overpayment of \$14,185 and Inadequate Documentation Supporting Contracted Pupil Transportation Subsidies of \$336,459.

Inaccurate pupil transportation data submitted to the Department of Education for the 2006-07 school year resulted in a net overpayment of pupil transportation reimbursement of \$12,645 and a nonpublic pupil transportation reimbursement overpayment of \$1,540.

In addition, CASD personnel did not maintain adequate documentation to support the contracted pupil transportation reports for the 2007-08 school year as required by Chapter 23 of the State Board of Regulations (see page 6).

Observation No. 1: Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses.

We noted that CASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside intermediate unit access to the student accounting applications (see page 9).

Observation No. 2: Conflict of Interest Resulted in Ethics Violations by Former Transportation Coordinator. Our audit found that the CASD's former transportation coordinator engaged in conduct that constitutes a conflict of interest and violates the Commonwealth's Ethics Act (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CASD had taken appropriate corrective action in implementing our recommendations pertaining to a bus driver clearance and administrative policies regarding bus drivers' qualifications (see page 14).

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 April 4, 2008 through February 19, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 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 CASD'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:

- ✓ 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?

- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out 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 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, 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 finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation and conclusions based on our audit objectives.

CASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 22, 2009, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Pupil Transportation Data Resulted in a Reimbursement Net Overpayment of \$14,185 and Inadequate Documentation Supporting Contracted Pupil Transportation Subsidies of \$336,459

Criteria and Public School Code relevant to the finding:

Section 2541 provides for payment for pupil transportation.

Section 2509.3 authorizes an additional reimbursement of \$385 for each nonpublic pupil transported.

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

The board of directors of a school district is 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.

Inaccurate pupil transportation data submitted to the Department of Education (DE) for the 2006-07 school year resulted in a net overpayment of pupil transportation reimbursement of \$12,645 and a nonpublic pupil transportation reimbursement overpayment of \$1,540.

Our audit of contracted services for the 2006-07 school year found the transportation coordinator incorrectly reported pupil transportation data for 10 buses by reporting the total number of pupils assigned to ride each bus rather than the maximum number of pupils assigned to ride the bus at any one time, in accordance with DE instructions.

Additional errors for the 2006-07 school year were as follows:

- the number of days pupils were transported was underreported for 2 buses; and
- the number of nonpublic pupils reported for reimbursement was overstated by 4 pupils.

The numbers of public and nonpublic pupils transported are integral parts of the pupil transportation reimbursement formula. These factors must be accurately reported in accordance with DE guidelines and instructions to ensure the correct reimbursement is received.

DE has been provided a report detailing the errors for use in recalculating the District's reimbursements.

Furthermore, District personnel did not maintain adequate documentation to support the contracted pupil transportation reports for the 2007-08 school year as required by Chapter 23 of the State Board of Regulations. The reports, filed with DE, generated transportation subsidies of \$336,459.

Our audit of contracted services for the 2007-08 school year found documentation to support the total number of pupils assigned to ride the bus at any one time was unavailable for audit. All other route documentation was available for audit.

Absence of the above referenced documentation made it impossible to verify the amount of subsidy entitlement.

Reporting errors made during the 2006-07 school year and inadequate documentation for the 2007-08 school year were caused by a lack of adequate procedures.

Recommendations

The *Carbondale Area School District* should:

1. Implement procedures to ensure that bus information, pupils transported and number of days transported are accurately recorded and reported to DE.
2. Verify accuracy of the number of nonpublic children for which transportation was provided prior to submitting reports to DE.
3. Require the transportation coordinator to maintain all supporting records in compliance with Section 23.4 of the State Board of Education Regulations.
4. Review reports submitted to DE for subsequent years and revise, if necessary.

The *Department of Education* should

5. Adjust the District's allocations to recover the net overpayment of \$14,185.
6. Require the District to maintain sufficient evidence to ensure proper justification of state funds.

Management Response

Management stated the following:

The School District has already corrected the procedure that caused this error and now uses an averaging method to calculate the maximum number of students assigned to each bus.

Observation No. 1

Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

The Carbondale Area School District uses software purchased from the Central Susquehanna Intermediate Unit #16 (IU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the IU’s servers which are physically located at the IU. The District has remote access into the IU’s network servers, with the IU providing system maintenance and support.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that they are adequately monitoring all IU activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored IU system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over vendor access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of the IU, nor does it require the IU to sign the District’s Acceptable Use Policy.

3. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including IU and District employees). There is no evidence that the District is performing procedures in order to determine which data the IU may have altered or which IU employees accessed their system.

Recommendations

The *Carbondale Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of the IU and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.
3. Generate monitoring reports (including firewall logs) of IU and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Management Response

Management stated the following:

The School District will review the observation with the IT Coordinator and address all concerns.

Observation No. 2 →

Conflict of Interest Resulted in Ethics Violations by Former Transportation Coordinator

Criteria relevant to the observation:

Section 1102 of the Public Official and Employees Ethics Act (Ethics Act) defines “conflict” or “conflict of interest” as use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.

Section 1103(a) of the Ethics Act states that no public official shall engage in conduct that constitutes a conflict of interest.

Section 1104 (a) of the Ethics Act provides that each public official/public employee must file a Statement of Financial Interest (SFI) for the preceding calendar year, each year that he holds the position and the year after he leaves it.

During the period March 1, 2008 to June 30, 2009, the Carbondale Area School District (CASD) employed an individual as a part-time transportation coordinator (transportation coordinator). While employed by the District, the individual was also employed at Lakeland School District as their transportation coordinator. District personnel were aware that he was working for both districts. In his role as transportation director for both districts, he steered approximately \$450,000 in van contracts to his girlfriend with whom he shared a residence. His participation in the selection, recommendation and awarding of the van contracts at a time when he had a reasonable expectation that he would receive financial benefit from the contracts violated the Ethics Act.

In addition, on June 25, 2009, the District entered into a five-year \$4.8 million contract with a transportation company owned by the transportation coordinator. On June 30, 2009, five days after the District entered into the contract with his transportation company, he resigned. According to Department of State records, his transportation company was not created until July 7, 2009, 12 days after the contract was awarded.

The District rescinded the contract on August 24, 2009 with the former transportation coordinator’s company when a lawsuit was filed against the District alleging it improperly awarded the contract. After rescinding the contract, the District immediately advertised for transportation services and on September 2, 2009, the District awarded the contract again to the former transportation coordinator’s company. The company submitted the lowest bid. Because the contract did not take effect until September 8, 2009, the District had to secure transportation services to ensure pupil transportation from the beginning of the school year to September 8, 2009. The former transportation coordinator’s company was the only one to submit a timely bid for those services. Therefore, the District awarded it the contract in the amount of \$31,735.

Additionally, the former transportation coordinator failed to file his Statement of Financial Interests (SFI) with the

District for the 2009 calendar year. This potential violation of the Ethics Act was not reviewed by the State Ethics Commission.

During our audit of the CASD conducted in January and February 2010, we determined that within a month of his hiring by the District, the transportation coordinator selected his girlfriend's company for a \$71,913 contract to provide a special education transportation run. The contract was not competitively bid and the board awarded the contract based on the transportation coordinator's recommendation.

The Pennsylvania State Ethics Commission conducted an investigation based on our audit of the Lakeland School District. On March 25, 2010, as a result of the investigation, the individual was fined \$49,529, the minimum amount that the Commission concluded he gained from the contracts with his girlfriend's company at both districts. In addition to the fine, the State Ethics Commission issued an order that prohibits him from seeking or holding any position of public office or public employment in which he would possess actual or implied authority to recommend, discuss, approve or supervise contracts. The Office of Attorney General is reviewing the ethics violations. Its review could lead to criminal charges.

Recommendations

The *Carbondale Area School District* should:

1. Ensure that the provisions of the Ethics Act are followed.
2. Require the former transportation coordinator to file his SFI for 2009 calendar year.
3. Consider routinely seeking competitive bids for the District's transportation services to ensure the lowest reasonable cost to the District and its taxpayers.

The State Ethics Commission should:

4. Review the five-year contract with the former transportation coordinator's company to determine if more ethics violations have occurred.

Management Response

Management stated the following:

Carbondale Area School District will continue to monitor employees with regard to Ethics Violations. In this particular case, services were provided to the School District by properly credentialed individuals at a reasonable cost. The School District had no knowledge of any relationship that would create a conflict of interest and/or ethics violation.

Auditor Conclusion

In August 2011, subsequent to our fieldwork completion, the former transportation coordinator pleaded guilty to conspiracy to obtain by fraud school district funds in connection with transportation contracts he recommended during 2006 through 2009. He was charged with violating the federal statute that prohibits obtaining property by fraud from an organization that receives federal program funds. The charge stemmed from an FBI investigation with the assistance of the Lackawanna County district attorney's office. The former transportation coordinator faces a maximum sentence of 5 years in prison; a \$250,000 fine; three years supervised release; and a \$100 special assessment. The former transportation coordinator's company still holds the five-year bus contract with CASD.

Status of Prior Audit Findings and Observations

Our prior audit of the Carbondale Area School District (CASD) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to bus driver clearances, and the observation pertained to administrative policies regarding bus drivers' qualifications. 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 finding and observation. As shown below, we found that the CASD did implement recommendations related to bus driver clearances and policies regarding bus drivers' qualifications.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: **One Contracted Bus Driver Did Not Have the Act 151/Child Abuse Clearance**

Finding Summary: Our prior audit found one bus driver did not have the proper child abuse clearance. The District continued to allow this driver to transport students while waiting to obtain this clearance.

Recommendations: Our audit finding recommended that the CASD:

1. Continue to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files for all District contracted drivers to ensure that the District's files are up-to-date and complete.

Current Status: We followed up on the CASD bus driver records finding and found that the CASD did take appropriate corrective action to improve controls over bus driver clearances. The cited driver obtained his clearance.

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

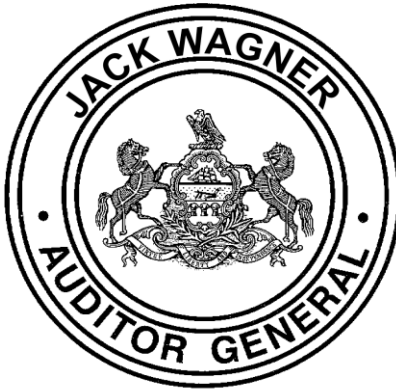
Observation Summary: Our prior audit of bus driver qualifications found that neither the District nor the transportation contractor have written policies or procedures in place to be used in the hiring of bus drivers to ensure that they are aware if prospective employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of

determining an individual's suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the CASD:

1. Develop a process to determine, on a case-by-case basis, whether prospective employees of the District and/or the District's transportation contractor have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified through clearances when drivers are charged with or convicted of crimes that call into question their suitability to have direct contact with children.

Current Status: We followed up on the CASD bus driver qualifications observation and found that the CASD did take appropriate corrective action. As of April 9, 2009, the CASD board adopted policy and procedures to be used in the hiring of bus drivers to ensure that they are aware if prospective employees have been charged with or convicted of serious criminal offenses.



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.

