



**CARMICHAELS AREA SCHOOL DISTRICT
GREENE 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. Thomas M. Ricco, Board President
Carmichaels Area School District
225 North Vine Street
Carmichaels, Pennsylvania 15320

Dear Governor Corbett and Mr. Ricco:

We conducted a performance audit of the Carmichaels Area School District (CASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 28, 2010, through July 24, 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 CASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 12, 2013

cc: **CARMICHAELS 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 Carmichaels 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.

Our audit scope covered the period June 28, 2010, through July 24, 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 CASD encompasses approximately 39 square miles. According to 2010 federal census data, it serves a resident population of 7,106. According to District officials, in school year 2009-10 the CASD provided basic educational services to 1,066 pupils through the employment of 83 teachers, 41 full-time and part-time support personnel, and 6 administrators. Lastly, the CASD received more than \$8.9 million in state funding in school year 2009-10.

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, one matter unrelated to compliance is reported as an observation.

Observation: Amount Paid Pupil Transportation Contractor Greatly Exceeds the Pennsylvania Department of Education's Final Formula Allowance.

Our audit of the CASD's contracted pupil transportation costs found that the contracted costs of the CASD's pupil transportation operations are substantially more than the Pennsylvania Department of Education's final formula allowance (see page 6).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.



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 June 28, 2010, through July 24, 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 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:

- ✓ 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 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?

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.

The CASD's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the CASD 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

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.

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 objective. 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, and financial stability.
- Items such as board meeting minutes and pupil membership records.

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

Findings and Observations

Observation

Amount Paid Pupil Transportation Contractor Greatly Exceeds the Pennsylvania Department of Education's Final Formula Allowance

Our audit of the Carmichaels Area School District's (CASD) contracted pupil transportation costs for the school years ending June 30, 2005, through June 30, 2010, found that the contracted costs of the District's pupil transportation operations had increased substantially more than the rate of inflation over the six year period, based on data submitted to the Pennsylvania Department of Education (PDE) by the District for reimbursement purposes. The amount paid to the District's transportation contractor increased more than PDE's inflation-adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the year of 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 pupils 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 contractor costs compared to PDE's final formula allowance:

<u>School Year</u>	<u>Contractor Costs</u>	<u>Final Formula Allowance</u>	<u>Contractor Costs Over Final Formula Allowance</u>	<u>Percentage Difference</u>
2009-10	\$927,127	\$397,809	\$529,318	133.06
2008-09	874,151	394,155	479,996	121.78
2007-08	851,704	390,596	461,108	118.05
2006-07	921,911	416,297	505,614	121.46
2005-06	913,826	433,271	480,555	110.91
2004-05	889,878	413,038	476,840	115.45

Our review of the services provided by the pupil transportation contractor found that over the last five years the number of vehicles used to transport pupils has decreased, the District's total number of pupils transported has decreased, and the number of approved annual miles vehicles traveled has decreased by more than 33 percent, as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	16	1,115	158,941
2008-09	18	1,152	159,248
2007-08	17	1,143	165,030
2006-07	19	1,189	185,023
2005-06	21	1,174	211,747
2004-05	Unavailable	1,238	237,622

The following chart details the total amount paid the contractor 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 Costs</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$ 927,127	\$ 397,809	\$ 349,572	\$ 577,555
2008-09	874,151	394,155	350,363	523,788
2007-08	851,704	390,596	350,468	501,236
2006-07	921,911	416,297	382,746	539,165
2005-06	913,826	433,271	398,277	515,549
2004-05	<u>889,878</u>	<u>413,038</u>	<u>368,994</u>	<u>520,884</u>
Total	<u>\$5,378,597</u>	<u>\$2,445,166</u>	<u>\$2,200,420</u>	<u>\$3,178,177</u>

A query of PDE's pupil transportation data found that during the 2009-10 school year 486 Pennsylvania school districts, intermediate units, and area vocational-technical schools contracted their pupil transportation service.

Approximately 27 percent of the local education agencies (LEA) paid their contractors the final formula or less. An additional 23 percent paid less than 10 percent over their final formula allowance. By comparison, the CASD paid its contractor 133 percent over the state formula for the 2009-10 school year and 122 percent over for the 2008-09 school year. Of the 486 LEAs using transportation contractors, approximately 97 percent of them paid their contractors closer to or less than the state formula compared to the CASD.

Our audit also noted that the current transportation contract was done as a renegotiation with the local transportation provider in 1998, and there was no competitive bidding or request for proposals done at that time. The contract was originally for a ten-year period commencing July 1, 1998, and terminating on June 30, 2008. In September 1999, at the start of the second school year of the contract, the first amendment was signed, which extended the term of the contract one year to June 30, 2009. Amendments were signed each year for the next seven years, extending the original ten-year contract another school year each time. The last agreement was signed in March 2006 and extended the contract to June 30, 2015.

District administration changed in 2006, and no new transportation contract extensions have been granted since that time. The transportation contractor involved in the original contract and subsequent extensions sold the business to another transportation contractor during the 2007-08 school year. This company was subsequently purchased by yet another transportation contractor, which remains the contractor at the present time. District administration sought legal advice from its solicitor, and was told that they were bound by the terms of the March 2006 contract, and that any legal action with the subsequent contractors would be futile.

Beginning with the 2015-16 school year, after the end of the present contract, the administration expects to secure substantial cost savings for the District by seeking competitive bids for pupil transportation.

Recommendations

The *Carmichaels Area School District* should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local 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.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

“Since 2006, the current administration has been working to reduce costs. The future plan is to complete the contract. Upon commencement of the final year, the current administration plans to do a Request for Proposal (RFP) for transportation services.”

Status of Prior Audit Findings and Observations

Our prior audit of the Carmichaels Area School District resulted in no findings or observations.

Distribution List

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, 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, 231 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.

