

CRAWFORD CENTRAL SCHOOL DISTRICT
CRAWFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Ms. Jan VanTuil, Board President
Crawford Central School District
11280 Mercer Pike
Meadville, Pennsylvania 16335

Dear Governor Corbett and Ms. VanTuil:

We conducted a performance audit of the Crawford Central School District (CCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 1, 2007 through September 23, 2009, 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 CCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in five 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 CCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

April 6, 2011

cc: **CRAWFORD CENTRAL 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 Crawford Central School District (CCSD). 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 CCSD in response to our prior audit recommendations.

Our audit scope covered the period June 1, 2007 through September 23, 2009, 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 CCSD encompasses approximately 156 square miles. According to 2000 federal census data, it serves a resident population of 30,882. According to District officials, in school year 2007-08 the CCSD provided basic educational services to 4,079 pupils through the employment of 334 teachers, 208 full-time and part-time support personnel, and 26 administrators. Lastly, the CCSD received more than \$22.3 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding 1: Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Reimbursement for Pupil Transportation and Tax Exempt Fuel Usage. Our audit of the CCSD's pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting reimbursements of \$1,583,710 and \$1,565,832, respectively, as well as a lack of documentation supporting the usage of tax exempt fuel (see page 6).

Finding 2: Failure to Have All School Bus Drivers' Qualifications on File and Transportation Contractors' Failure to Comply with Transportation Contracts. Our audit of 25 of the CCSD's 125 approved bus drivers for the 2008-09 school year found deficiencies in CCSD's records. Additionally, CCSD's transportation contracts required the contractors to provide a listing of certified drivers and documentation of qualifications at the beginning of each new school year for board approval; CCSD personnel could not confirm if the information was provided as required (see page 22).

Finding 3: Internal Control Weaknesses and Lack of Documentation Regarding Verification of Social Security and Medicare Reimbursements.

Our audit of the 2007-08 and 2006-07 school years' Social Security and Medicare data submitted to DE for reimbursements of \$916,268 and \$931,221, respectively, found a lack of internal control procedures relating to the identification, reporting, balancing of, and verification of federally funded program wages and benefits (see page 26).

Finding 4: Noncompliance with the Public School Code and Sunshine Act.

Our review of the CCSD's Board of Directors' meeting minutes, CCSD operations and administrative actions found instances of noncompliance with the Public School Code and the Sunshine Act (see page 30).

Finding 5: Improper Use of Capital Reserve Funds and Lack of Administrative Oversight.

Our review of the CCSD's school board meeting minutes, associated attachments, and the CCSD's financial records found that during the 2007-08 school year, CCSD improperly expended funds from its Capital Reserve Fund (Capital Improvement Fund) for general fund purchases (see page 37).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the CCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found CCSD had taken appropriate corrective action on a certification deficiency (see page 43), questionable official actions by school board directors and school administrators and CCSD administrators (see page 43), and failure to adhere to provisions of the Public School Code relating to the acquisition of a Memorandum of Understanding with a local law enforcement agency (see page 44). CCSD had not taken appropriate corrective action in implementing our recommendations pertaining to the amount paid pupil transportation contractors (see page 44).

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 1, 2007 through September 23, 2009, except for the verification of professional employee certification which was performed for the period March 1, 2007 through June 30, 2009.

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 (DE) 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

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 CCSD'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?

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.

- ✓ 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?
- ✓ 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 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

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 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, regulations, contracts, grant requirements and administrative procedures.

CCSD 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, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 19, 2008, we reviewed the CCSD's response to DE dated May 18, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Reimbursement for Pupil Transportation, Payments to Contractors, and Tax Exempt Fuel Usage

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:

...

(3) The establishment of the routes, schedules and loading zones which comply with laws and regulations. . . .

(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 (PSC) requires retention of these records for a period of not less than six years.

Instructions for completing DE's End-of-Year Pupil Transportation Reports provide that the local education 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 require that information and data used by the LEA to support the reports should be retained for audit purposes.

Our audit of the District's pupil transportation records and the transportation reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found reporting errors, internal control weaknesses and a lack of documentation supporting reimbursements of \$1,583,710 and \$1,565,832, respectively, as well as a lack of documentation supporting payments to the transportation contractors and the usage of tax exempt fuel.

Background

The school board is required to approve the District's transportation runs, inclusive of miles with and without pupils, total annual approved miles, and associated pupil rosters. The approved mileage and pupil rosters should be independently verified by the District for internal control purposes.

DE instructions state that districts can use either the sample average method or the weighted average method to report the miles with and without pupils and the greatest number of pupils assigned to a vehicle at any one time.

The sample average method is based on the drivers recording monthly odometer readings on a stop-by-stop basis to tenths of mile for eight months.

In addition to mileage, the drivers record the number of pupils assigned to the vehicle. The eight monthly pupil roster verifications are used to determine the weighted average of the maximum number of pupils assigned to the vehicle at any one time. The rosters also provide information on the District's pupil counts for hazardous and non-reimbursable pupils.

Criteria relevant to the finding continued:

The District's job description for the Director of Buildings, Grounds and Transportation position states that the director is to ensure that proper financial controls are implemented and used, and update bus routes, stops, and walking routes in coordination with the transportation contractors.

Hazardous pupils are defined as those pupils who reside in a walking area that the Pennsylvania Department of Transportation (PennDOT) has deemed unsafe and for whom the District is therefore required to provide transportation to and from school, regardless of the distance.

DE defines non-reimbursable pupils as elementary pupils living within 1.5 miles of their school or secondary pupils living within two 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 the area vocational-technical schools, or are transported over PennDOT certified hazardous walking routes.

Reporting Errors, Internal Control Weaknesses, and Lack of Documentation

Our audit found that for the 2007-08 school year, one contractor's routes were not by approved by the board, and the other two contractors' approved routes were not established by the District as stipulated by the contracts. Mileage information generated by the contractors and provided to the board did not include pupil rosters or specific route mileages detailing miles with and without pupils, as required by DE.

Discrepancies were noted when actual monthly bus route mileage rosters provided by the contractors were compared to the board-approved bus route descriptions, which in addition provided information for morning runs only.

Mileage

The District did not independently verify the contractors' route mileage. District personnel stated that they did not require the contractors to submit route changes, with explanations, for review and approval prior to implementation. In addition, the District allowed the contractors to complete the eight month sample average method collection spreadsheets; this information was submitted to the state without verification and confirmation by District personnel.

Using a random sampling process, mileage documentation for the 2007-08 school year was selected for audit.

For one primary contractor (contractor A), documentation for 9 of 34 vehicles was selected. We found all 9 vehicles' monthly odometer reports did not include tenth of mile, stop-by-stop information. In addition, no pupil rosters or other documents were available to support the reported monthly mileage differences.

For the other primary contractor (contractor B), documentation for 10 of 40 vehicles' was selected for audit. We found that 7 of the vehicles had only morning run mileage documented. The remaining three vehicles started the year with both morning and afternoon run mileage information, but later in the year the contractor changed to verifying the morning run only. Mileages for the morning runs were then doubled for reporting purposes. However, the District had no documentation to support the accuracy of the doubling process and could not substantiate the validity of the information.

Four of the ten vehicles had stop by stop mileage documentation, but mileage shown for two of those vehicles did not agree with reported totals.

In addition, the contractor did not report the data to a tenth of a mile but instead rounded the mileage up or down, contrary to DE reporting instructions.

The third contractor (Contractor C) reported both morning and afternoon run mileages. However, the total mileage with and without pupils reported by the District for reimbursement was based on a doubling of the contractor's afternoon run mileage, without consideration of the actual miles for the morning run.

Pupil Counts

Pupil rosters for the 2007-08 school year were not provided for 57 of the 74 buses/vans reported to DE for reimbursement by the two primary contractors.

The District relied on contractors A and B to complete the yearly pupil count weighted average computations for both school years. Contractor C transported only non-public pupils.

No evidence was provided by District personnel confirming their review of the accuracy of the pupil roster data provided by contractors A and B for either school year. This unconfirmed data was used to complete the District's end-of-year reimbursement reports submitted to DE.

Furthermore, documentation was not provided to support pupil roster changes when pupils entered, withdrew or relocated within the District for either school year.

Using a random sampling process, nine of contractor A's 34 vehicles' pupil rosters for the 2007-08 school year were selected for audit. Pupil rosters for eight of the nine selected vehicles were available for the beginning of the school year, but changes to the roster when pupils entered, withdrew or relocated within the District during the school year were not documented to support the weighted average of pupils reported.

We found that District personnel were unaware that the contractor had different morning and afternoon pupil rosters, and how that could affect the bus pupil counts.

Using a random sampling process, 10 of contractor B's 40 vehicles' pupil rosters for the 2007-08 school year were selected for audit and we found the following:

- six of the ten vehicles did not have bus rosters on file;
- one vehicle's roster did not agree with the reported pupil count;
- five pre-school pupils were improperly included in the pupil count. (Transportation provided for pre-school pupils is not eligible for reimbursement.);
- eighteen pupils did not have grade levels listed; we were therefore unable to determine if they were pre-school pupils or not;
- afternoon daycare pupils were added to the morning pupil counts to determine the greatest number of pupils in one case; however, District personnel were unsure whether or not other vehicles' rosters and mileages were similarly adjusted; and

- District personnel did not know if the contractor had the same pupil rosters for both the morning and afternoon runs.

Hazardous and Non-Reimbursable Pupils

Documentation was not available at the District to determine if the District received additional hazardous walking route approvals from PennDOT during the two school years of audit.

Furthermore, as a result of the District's failure to provide supporting mileage documentation to verify the distance from home to school for the pupils, we could not verify if the number of non-reimbursable pupils or the number of pupils transported on approved hazardous walking routes were accurately reported.

For contractor A, the District relied on a list of pupils transported over hazardous routes prepared by the contractor, and had no substantiating route documentation or maps to verify the information. No nonreimbursable pupils were reported, but the District had no records to verify that this was accurate.

Contractor B's supporting documentation had 37 more hazardous pupils listed than reported by the District. District personnel stated that the error was the result of a contractor clerical error. Non-reimbursable pupil counts could not be verified as the contractor's report identified only a "walking area" and not which pupils were transported.

Nonpublic Pupils

The number of nonpublic pupils transported by the District as reported to DE was unverifiable for both school years. District personnel provided multiple listings of the number of nonpublic pupils transported. One contractor listing provided at the beginning of the audit had less than the number of nonpublic pupils reported for the contractor to DE. When District personnel were questioned about the apparent discrepancy, another list was provided with more nonpublic pupils than were reported. Comparison of the contractors' nonpublic listings found nonpublic pupils'

names that were not on the individual pupil bus rosters. In addition, no nonpublic schools' requests for transportation services were available for verification.

For contractor A, two pupils transported to the intermediate unit Special Needs School, a public school, were reported as nonpublic pupils. In addition, the contractor's nonpublic school transportation summary worksheet omitted one nonpublic school and the 14 pupils transported to it, and three pupils identified on rosters provided by the nonpublic school were not listed on the contractor's documentation.

Contractor B's "Cumulative Total Student Count Report" had no supporting documentation. District contact with the contractor during the audit found that counts were based on the odometer/roster reports prepared monthly. District contact with the contractor during our audit failed to uncover any reliable documentation for the reporting of nonpublic pupils.

The District reported that three nonpublic pupils were transported by contractor C, but the contractor reports identified 4 pupils.

Days of Service

Our audit found that District personnel reported to DE that in the 2007-08 school year all vehicles were in service for 179 days. However, the school calendars provided for our review found that there were nonpublic schools operating from 158 days to 181 days. The contractors' mileage and pupil weighted averaging calculations did not indicate that variances in days of operation, and corresponding variations in mileage and pupil counts, were taken into consideration.

Additionally, no school calendars were provided for two of the nonpublic schools' for 2007-08, and no nonpublic school calendars were provided for the 2006-07 school year to confirm the actual days of operations.

Contractor Costs Reported

DE's final formula allowance provides for a per vehicle cost allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, 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.

For state reimbursement, 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.

Our audit of the contractor costs found that costs for both school years were understated due to lack of administrative oversight, inadequate personnel training, and misunderstanding of what costs are includable.

For contractors A and B, reported costs for both school years were understated by not including all costs for diesel fuel, gasoline and driver drug testing. A clerical error for Contractor B was also found by our audit.

For contractor C, reported costs were understated due to a clerical error.

Although it appeared that contractor cost errors in these cases would have had no effect on the District's reimbursement calculation, continuation of such errors could affect reimbursement in the future.

Calculation of Payments to the Contractors

Our review of the District's copies of the pupil transportation contracts found that the District has the primary responsibility to determine contractual payments. The annual payments due to the two primary contractors for basic pupil transportation are based on the state formula for allowable costs described previously, plus five percent.

The contracts stipulate specific rates for activity and athletic runs, nonpublic, and special needs pupil runs. Payments for these runs are calculated using the number of miles traveled multiplied by a contract-defined mileage rate, plus payments for drivers and pupil aides.

The contractor's payment is based on the state formula calculations; it is therefore imperative that accurate and

verifiable documentation be utilized. Inflation of any of the required information would be of benefit to the contractors, and a detriment to District taxpayers and the state.

As noted previously, our audit found that the 2007-08 daily bus mileages used for the District-prepared calculations were based on contractor A and B's route mileages, and not mileages for Board-approved routes. In addition, payment calculations were based on 180 days of service instead of the 179 days the pupils were actually transported, resulting in a benefit to the two contractors of \$5,547.

The District was also unable to provide any documentation or administrative authorization to support why one contractor's computed annual payment was increased by \$18,824 as a result of changes to mileage, pupil counts and the annual cost index shortly before the end of the 2007-08 school year. The District retained the initial computation spreadsheet but failed to retain documentation supporting its revised computations.

District personnel did not reconcile the preliminary state formula estimate worksheet or the adjusted worksheet with information provided by DE to determine the accuracy of the contractual payment. Due to the lack of supporting documentation, we were also unable to determine if the contractual payments were accurate.

Review of Invoices for Other Contractor Payments

Contractor A received supplemental payments for the transporting of special education and/or nonpublic school pupils. Our audit of the 2007-08 invoices provided by the District found that the District did not require supporting documentation for the incurred costs. At our request the District contacted the contractor for supporting documentation; the contractor stated that the supporting documentation had been previously provided to the District. The District and the auditor were ultimately unable to locate all supporting documentation for all of the invoices. Furthermore, the documentation that was found failed to substantiate the contractor's charges.

We noted that the District did not review or question the contractor's invoices prior to payment.

Fuel Usage Control

Through amendments to Act 105, Liquid Fuels Tax Act, and Act 550, Fuel Use Tax Act, the Legislature of the Commonwealth of Pennsylvania made available to various entities, including political subdivisions, the right to purchase liquid fuels tax exempt. A school district is considered a political subdivision and is therefore entitled to the purchase of tax-exempt fuel.

Contractors A and B's contracts for pupil transportation stipulate, in part, that "the school district will monitor the utilization of fuel, including required monthly reports to ensure that it is used for the School District's purposes as specified in the contract." We found that no records were available at the District to verify that the tax-exempt fuel purchased was used for the exclusive purpose of transporting pupils. Contractor C was not reimbursed for fuel costs.

The District purchased 128,363 gallons of fuel during the 2007-08 school year, at a total tax-exempt cost of \$354,840.

Contractor A – Fuel Usage

We found the following weaknesses for contractor A:

- our review of the fuel invoices for both school years found that in some cases the contractor noted corrections for fuel being dispensed that was not for District tax-exempt use. District personnel stated they did not know or attempt to verify if other billing corrections should have been made, nor did they ask the contractor for an explanation of the billing corrections;
- the fuel usage tickets supporting the vendor's monthly "Activity Detail Report By Account for Driver" were destroyed by the District prior to our audit;
- twenty-three of the 57 vehicles listed as receiving fuel on the District's Fuel Report Summary were not reported to the state;

- ten vehicles reported to the state for this contractor were not listed on the oil company report as having received fuel; and
- the District did not differentiate fuel usage for transportation to and from school from transportation for athletic events, field trips, class trips or other purposes. Only fuel used for transportation to and from school is tax exempt.

Contractor B – Fuel Usage

The District directly negotiates and supplies fuel to this contractor for storage in above ground tanks. We found the following weaknesses:

- the District could not locate the 2007-08 school year fuel contract; therefore, we could not verify that the fuel costs were billed at the contracted per gallon rate;
- District personnel permitted this contractor to order fuel as the contractor deemed necessary; the District did not require storage tank readings showing volume usage or justification for the ordering of fuel;
- District-maintained fuel usage logs identified 12 diesel and 6 gasoline vehicles which were not shown on the Summary of Individual Vehicle Data reported to DE;
- the vehicle data report submitted identified one vehicle which was not shown on the District’s fuel usage logs;
- contractor-provided diesel fuel reports did not reconcile with District maintained “Gallons used” reports;
- seven vehicles reported on the contractor’s May 2008 diesel report, and three vehicles reported on the November 2007 report, were not listed on the report submitted to DE;
- District personnel stated that invoice/receipts supporting documentation for fuel usage logs were destroyed by District personnel prior to our audit. However, during the audit the gasoline receipts for October were located, as they had been incorrectly filed; and

- the District did not differentiate fuel usage for transportation to and from school from transportation for athletic events, field trips, class trips or other purposes.

This lack of documentation to support the proper use of the tax-exempt fuel could allow for the misuse of the fuel. Proper fuel usage logs should include the following: dates, vehicle number, amount of fuel dispensed, initials of the vehicle driver and the actual purpose of the fuel dispensed.

Good business practices and strong internal controls require a private key or card-controlled dispensing metering system that would document into which vehicle the fuel was dispensed and also provide verification of the dispenser.

Additional Internal Control Weaknesses

Lack of Separation of Duties

Our audit found deficiencies for both school years in the transportation operations, including a lack of separation of duties to ensure adequate internal controls over payments made to contractors, and over submission of information to DE for transportation reimbursement. The secretary to the Director of Buildings, Grounds and Transportation had full authority and control over computation of contractor payments and the processing of invoice payments.

The transportation secretary prepared the payment worksheets based on contractor-provided information, and not on board-approved or internally audited documents. The total estimated state formula allowable costs (which were not recomputed at the end of the school year using actual data) was then divided over 18 bi-weekly invoice payments. In addition, special and nonpublic route runs were billed separately based on total time involved, number of miles, and fees for the driver and aide. The secretary did not verify the reported information or require any supporting documentation from the contractors.

Upon receipt of the invoices, the transportation secretary was permitted to process contractor payments without supervisory review or approval. Our discussions with business office personnel confirmed that they did not

review or verify any of the transportation payments or supporting documentation. The secretary enters the invoices in the District's accounts payable system, authorizes the generation of the checks, and mails the payments. All paid invoices are then to be filed in the transportation office. Based on our audit and the lack of documentation we found, it is apparent that the secretary did not consult with anyone regarding record retention requirements.

We also found clerical errors on the summary worksheets generated by the contractors to calculate a weighted average of the greatest number of pupils transported and miles with and without pupils. Additional errors were made by District personnel when transferring the weighted average calculations from the contractor's worksheets to the end-of-year reports submitted by the District to DE for reimbursement.

Chapter 23 of the State Board of Education regulations makes it clear that the responsibility for accurate submission of data to DE lies solely with the District, not the contractor.

Certificates of Insurance

Our audit found that no insurance certificates for pupil transportation coverage were on file at the District. The business and transportation offices each believed that the other was responsible for the records.

Certificates received from the contractors during our audit were expired, and one contractor did not have the District named as "additional insured" as required in the contractual agreement between the District and the contractor. At our request business office personnel obtained adequate current copies during the course of our audit.

Recommendations

The *Crawford Central School District* should:

1. Prepare and maintain records of odometer readings between all bus stops and pertinent loading zones, as required by Chapter 23 regulations.
2. Present detailed actual bus route descriptions for all routes with mileage and pupil rosters annually (prior to

the beginning of the school year) for board review and approval, with periodical updates as needed.

3. Request copies of current PennDOT hazardous walking route approvals.
4. Prepare and retain on file District source documentation used to report pupil transportation data to DE, including the number of nonpublic pupils transported, the weighted averaging for pupils that enter, withdraw or relocate within the District, and when bus route mileages change.
5. Conduct an internal review to ensure the daily mileage, number of hazardous walking route pupils, the amount paid the contractors, the greatest number of pupils, days of service, and the number of non-reimbursable pupils were accurately reported.
6. Ensure the amount paid the contractors is in accordance with the approved contract rates and miles established by the board.
7. Ensure the accuracy of the invoices submitted to the District for payment by the contractors and require adequate supporting documentation.
8. Ensure adequate current liability insurance coverage is provided by each contractor at the beginning of each school year, and that the District is listed as the additional insured, in accordance with the contracts. Documentation verifying the coverage should be retained in District files.
9. Ensure that District personnel become more involved in keeping pupil transportation supporting documentation provided by the contractor, and perform an internal review to ensure the accuracy of data submitted to DE for reimbursement.
10. Establish internal control procedures for payments made to the contractors and vendors, including District business office review for appropriateness and accuracy, ensuring separation of duties exists in the payment process.

11. Establish procedures to monitor the fuel usage to ensure all tax exempt fuel purchased is used for school-related purposes only.
12. Require the pupil transportation contractors to provide evidence of the actual usage of all tax exempt fuel purchased, for Department of Revenue (DR) review. (DR is responsible for determining the actual fuel tax liability).
13. Enable the transportation director to attend any seminars regarding the proper collection, maintenance, and submission of transportation data.
14. Review transportation reports submitted to DE for years subsequent to those we audited, and ensure the reported information is accurate and supporting documentation is on file to support all data reported for each bus.

The *Department of Education* should:

15. Consider withholding future pupil transportation reimbursement payments until the District prepares and retains supporting documentation as required by Chapter 23 regulations, Section 518 of the PSC, and instructions for completing DE's End-of Year Pupil Transportation Reports.

The *Department of Revenue* should:

16. Review the District's internal controls and actual usage of tax exempt liquid fuel purchased by the District and utilized by the pupil transportation contractors.

Management Response

Management stated the following:

1. Transportation Director will work with the Contractors to maintain records and keep on file odometer readings between all bus stops and schools as required by Chapter 23 regulations.
2. The District will present detailed actual bus routes with mileage and pupil rosters annually for Board review and approval with periodical updates. The first report will be prepared by August 11, 2010.

3. Copies of Pennsylvania Department of Transportation current hazardous walking routes will be provided for approval as requested.
4. Crawford Central will prepare and retain on file the District source documentation used to report pupil transportation data to DE, including the number of non-public pupils transported, the weighted averaging for pupils that enter, withdraw or relocate within the District and when bus route mileages change.
5. The District will comply with the request to conduct an internal review to ensure that the daily mileage, number of hazardous walking routes, the amount paid to contractors, the greatest number of pupils, days of service and the number of non-reimbursable pupils are accurately reported.
6. The Transportation Director will ensure that the amount paid to contractors is in accordance with the approved contract rates and miles established by the Board by reviewing all accounts with the Business Manager.
7. Same as No. 6 recommendation.
8. The Business Office along with the Transportation Director will ensure that adequate liability insurance coverage is provided and retained on file at the District by each contractor at the beginning of each school year and that the District is listed as an additional insured, as per the contracts.
9. District personnel will become more involved in the recordkeeping of pupil transportation supporting documentation provided by the contractor and perform an internal review to ensure the accuracy of data submitted to DE for reimbursement.
10. The District will establish internal control procedures for payments made to the contractors and vendors and the Business Office will review all invoices for appropriateness and accuracy to ensure a separation of duties exist in the payment process.
11. The District will establish procedures to monitor the fuel usage to ensure all tax exempt fuel purchases are used

for school related purposes only by developing a documentation file.

12. [The District] will require the pupil transportation contractors to provide evidence of the actual usage of all tax exempt fuel purchased for the DR personnel review.
13. The Superintendent of Schools will provide opportunities for the Transportation Director and his staff to attend seminars put on by PASBO [Pennsylvania Association of School Business Officials] or other such organizations regarding the collection, maintenance and submission of transportation data.
14. The District will review transportation reports submitted to DE for subsequent years of audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported for each bus.
15. The District disagrees with the auditor's recommendation to withhold future pupil transportation payments until the District prepares and retains supporting documentation. The Transportation Director and the Business Manager will be working in the immediate future to rectify the above stated discrepancies.

Auditor Conclusion

The District did not disagree with the audit findings, except for our recommendation to DE to consider withholding future pupil transportation subsidy payments to the District. Based on the performed audit, the lack of adequate internal controls, omission of administrative involvement, lack of policies and procedures to ensure that DE requirements are properly followed, the destruction of and/or missing supporting documentation, and that this is the ninth consecutive audit report that included a pupil transportation finding or observation for the District, the recommendation for consideration of the withholding of future DE payments will stand.

Finding No. 2 →

Failure to Have All School Bus Drivers' Qualifications on File and Transportation Contractors' Failure to Comply with Transportation Contracts

Criteria relevant to the finding:

PennDOT regulations require that school bus drivers possess a valid driver's license and pass a physical examination.

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.

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

PSC Section 111 (c.1) requires an FBI fingerprint record check for all employees hired on or after April 1, 2007.

Chapter 23 of the State Board of Education Regulations indicates 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 District's school bus/van drivers' qualifications for the 2008-09 school year found that the District did not have on file the required licenses and clearances for each driver, and the board did not receive for review or approval the list of hired drivers. Additionally, two of the three contractors did not comply with the contract provision requiring them to submit required bus/van driver documentation for approval to the district prior to the start of the school year.

Several different state statutes and regulations establish the minimum required qualifications for school bus/van drivers. The ultimate purpose of these requirements, (training, licensing and clearances), is to ensure the protection, safety and welfare of the students transported in school buses.

Furthermore, all three pupil transportation contracts required that "no later than one week prior to the beginning of the school year . . . the *contractor*, agrees to submit a roster of certified drivers to the School District for approval. The roster shall include copies of both the Act 34 [criminal history record] and Act 151 [child abuse] Clearances."

At the time of our audit, personnel had to request the required bus/van driver documentation from two of the District's contractors, as requested records could not be located nor could the District remember if the information had been received prior to the start of the school year. This lack of contractor submission may have been a contributing factor in the school boards' failure to approve the 2008-09 school year bus/van drivers list, as required by the PSC.

The documentation obtained for audit contained expired licenses and physical examination forms, and/or was missing required clearances. A second request was then made to the two contractors for documentation, again resulting in audit documentation deficiencies.

(Criteria continued)

Additionally, Section 111 7(b) of the PSC provides, in part:

Administrations shall maintain a copy of the required information and shall require each applicant to produce the original document prior to employment. Administrators shall require contractors to produce the original document for each prospective employee of such contractor prior to employment.

Qualifications for 25 of the 125 bus/van drivers employed by the District's pupil transportation contractors were audited. The initial audit found that the District did not receive copies of valid driver's licenses for six drivers, current physical examination forms for 12 drivers, and child abuse, Pennsylvania criminal history and Federal criminal history clearances for 23 drivers. There was also no documentation to show whether specific drivers might have been exempt from the requirements. [Note: As the state adopted new clearance requirements, existing drivers were "grandfathered" from the clearance requirements.]

Additional documentation subsequently received from the contractors was compared to our original audit exception list. The documentation cleared the following missing documentation: two of the six driver's licenses, four of the 12 current physical forms, nine of the 23 criminal history records, and 10 of the 23 Federal criminal history records. It also contained documentation of one driver being exempt from new clearance requirements involving the child abuse clearance requirement. However, the additional documentation did not clear any of the listed remaining child abuse clearance exceptions. Consequently, 22 of the 25 bus drivers originally tested still did not have adequate qualifications on file for 2008-09.

By not having required bus drivers' qualification documents on file, the District was not able to review the documents to determine whether all drivers were qualified to transport students. The District was made aware of the missing documents in June, 2009. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

The failure to have the records on file at the District was the result of the District board's and the pupil transportation director's failure to ensure that the transportation contractors complied with the provisions of their contracts and pertinent provisions of PennDOT regulating the PSC and the CPSL.

Recommendations

The *Crawford Central School District* should:

1. Ensure that the District's transportation director reviews each driver's qualifications prior to that person transporting students.
2. Maintain files at the District, separate from the transportation contractors' files, for all District drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.
3. Require the transportation contractors to adhere to provisions of the contracts and provide the District with the documents identified in the contract prior to the beginning of the school year.
4. Require District administrative personnel to ensure all bus drivers' qualifications are on file, and if not, mandate that the contractors not utilize the bus drivers until adequate documents are provided to District administrative personnel.
5. Ensure board approval of the bus drivers utilized by the contractors prior to the start of each school year and any drivers added throughout the school year.
6. Check with the District's solicitor regarding District liability for failure to obtain, verify and retain bus drivers' qualifications, especially drivers currently driving without the required documentation.
7. Require the pupil transportation contractors to immediately cease permitting the bus drivers identified during our audit as not having complete qualifications to transport students to and from school.

Management Response

Management stated the following:

1. The District Transportation Director will henceforth review each driver's qualifications prior to that person transporting students.
2. The District will maintain separate files from the transportation contractors for all District drivers and work with the contractors to ensure that the District's files are up to date and complete.

3. The District will require the transportation contractors to adhere to provisions of the contract and request that they provide the District with documents identified in the contracts one (1) week prior to the beginning of the school year.
4. The District administration will ensure all bus drivers' qualifications are on file and will mandate the contractors not to utilize the bus drivers until adequate documents are provided to the District administrative personnel.
5. The District will ensure Board approval of the bus drivers utilized by the contractors prior to the start of each school year along with any changes during the school year.
6. The District has discussed liability concerns with the Solicitor regarding failure to obtain and retain bus drivers required qualifications.

Finding No. 3 →

Internal Control Weaknesses and Lack of Documentation Regarding Verification of Social Security and Medicare Reimbursements

Criteria relevant to the finding:

Local education agencies (LEAs) are required to pay the full amount of the employer's Social Security and Medicare tax due, including the Commonwealth's matching share. LEAs are subsequently reimbursed the Commonwealth's matching share based on wages reported to DE, excluding wages paid with federal funds. For employees employed by an LEA prior to July 1, 1994, (existing employees), the Commonwealth's matching share is 50 percent of the employer's share of tax due. For employees who have never been employed by an LEA prior to July 1, 1994 (new employees), the Commonwealth's matching share is based on the LEAs aid ratio or 50 percent of the employer's share of tax due, whichever is greater.

Our audit of the District's Social Security and Medicare wages reported to DE for reimbursement in the 2007-08 and 2006-07 school years found a lack of internal control procedures in the District's business office. District personnel were unable to provide supporting documentation relating to the identification, reporting, reconciliation and verification of actual federally funded program wages and benefits. Therefore, we were unable to verify the District's state reimbursements of \$916,268 and \$931,221, respectively.

Control Weaknesses and Lack of Documentation

Our attempt to verify the accuracy of the federal wages and benefits reported by the District found the following:

- Federal grant wage reporting for the Title and Drug Safety federal programs are not verified in the Business Office.
- No reconciliations are performed of the wages identified in the Business Office as federally paid.
- Wages paid for with Federal Individuals with Disabilities Education Act (IDEA) funds are based on a budget that the District prepares annually in anticipation of expected revenue. District personnel do not reconcile the actual revenue received to the budgeted wages and benefits nor do they adjust the federally reported wages on the state reimbursement form. The District believes that all wages are paid from the general fund and shortages would probably be insignificant and any overages can be attributable to health care costs; neither supposition has been verified by the District.
- The District's federal grant reporting is handled by a separate office, the Federal Program's Office, which is not responsible to provide reconciliation reports to the Business office to allow verification of actual federal wages and benefit costs.

- No verification is performed to ensure employees listed as being paid with federal program funds qualify for reimbursement or have been properly coded on the payroll system.
- District personnel stated that problems have been encountered when the same employee is identified in two or more federal programs.

The failure of the District's business office personnel to provide documentation to support which District employees were paid through a particular federal program, and the failure to recognize all federally funded wages, resulted in the auditor being unable to verify the accuracy of the federal wages reported to DE; therefore, we could not ascertain that the District received the proper amount of reimbursement.

Recommendations

The *Crawford Central School District* should:

1. Require the Business Office and Federal Programs Office personnel to perform an internal review to ensure the accuracy of the federal wages reported, and retain supporting documentation of the actual reportable wages paid to each employee with eligible federal funds.
2. Perform an internal review of reports submitted in school years subsequent to our current audit period for the accuracy of federal wages reported, and resubmit if necessary.

The *Department of Education* should:

3. Review the propriety of the reimbursement received for the audit years.

Management Response

Management stated the following:

Management disagrees with this finding.

The Crawford Central School District's Business Office has many internal controls, has thorough documentation and can completely verify all state reimbursements to the dollar regarding Social Security and Medicare wages for both fiscal school years 2007-2008 and 2006-2007.

All grant wage reporting for the Title Programs and Drug Safety Federal Programs are verified in the Business Office on a biweekly basis coinciding with payroll.

All actual wages identified as Federal employees are balanced and reconciled in the Business Office, using contractual schedules as well as financial accounting software for recording purposes.

Form PDE-2105 "Reconciliation of Social Security and Medicare Tax Contributions" is kept on file in the Business Office with complete documentation and support of all wages reported including the names and dollar amounts of all employees charged to Federal Programs.

Federal IDEA funded program wages are based on monies received from the Northwest Intermediate Unit #5. Actual salaries that the District prepares biweekly are coded through the Pennsylvania Department of Education's accounting system using Fund Source 520 as requested by the Department and Comptroller's Office. All employees coded to the Fund Source 520 are reviewed by the Payroll Clerk, the Assistant Business Manager and the Business Manager on a yearly basis. Crawford Central invoices the Northwest Intermediate Unit #5 for IDEA revenue allocation by providing employees' names, accounts charged, wages and fringe benefits. If the actual revenue received is less than the expensed dollar amount to Fund Source 520 the District pays the difference. Usually the Business Manager attributes the overage to health care cost. The expensed amount and revenue amount match to the penny.

Federal grant reporting is handled by the Federal Programs Consortium Office which is responsible to verify all expenditures as well as federal wages and benefit costs to the Business Office. The Federal Programs Director verifies through visitation of all federal employees for adherence and compliance to all federal laws and grant requirements. Reports of all federal individuals are completed yearly and submitted to each Superintendent of Schools participating within the Federal Consortium. Crawford Central as the recipient LEA records all revenue and expenditures for the Consortium in a Special Revenue Fund approved by [DE's] Comptroller's Office.

The Business Manager stated that the District avoids problems where the same employee is identified in two or more programs through biweekly reviews of all accounts expended. Also, beginning with the school year 2009-2010 all IDEA employees are professionals who teach within the learning support function and cannot bill for Federal Access hours. All Medical Access hours are billed by employees not coded to any other federal grant. This is reviewed with the Special Services Director at the beginning of each school year. Through the Financial Software employees cannot be coded to two accounts or to two Federal Programs.

The District's Business Office personnel can provide documentation to support which District employee was paid with a particular Federal Program and can verify the accuracy of the actual federal employees' wages to report to the Department of Education. PDE 339 Reconciliation of Social Security and Medicare Tax Contributions [forms] are completed quarterly by District personnel. A copy of the submitted form is attached to an "Act 29 Reimbursement Report" which includes all existing and new employees, their Gross Wages, Retirement Wages, FICA Wages, Federal FICA Wages and Federal Medical Wages. These reports are all on file in the Business Office.

Auditor Conclusion

The identified internal control weaknesses and/or the lack of substantiating documentation identified in this finding were based on direct comments made to the auditor by the business manager and/or assistant business manager at the time of the audit, as explanations of why records were unavailable to support the federally funded Social Security and Medicare Wages reported to DE for reimbursement.

Upon receipt of the management response, we analyzed the additional documentation in conjunction with the original audit work performed. The cited exceptions could not be cleared, as the provided information did not reconcile to the reported federal wages on the District's PDE-2105 (Reconciliation of Social Security and Medicare Tax Contributions) for the 2007-08 school year.

Therefore, the finding will stand.

Finding No. 4 →

Noncompliance with the Public School Code and Sunshine Act

Criteria relevant to the finding:

Section 434 of the PSC provides:

Every board of school directors may, by resolution, appoint an assistant secretary who shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary. The assistant secretary may be appointed from the membership of the board of school directors but shall not be any other officers thereof, shall not receive compensation for such services and shall be bonded. (Emphasis added.)

Section 508 of PSC provides in part:

The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following: . . .

Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100).

The Sunshine Act, Section 703, provides the following definitions:

“Meeting.” Any prearranged gathering of an agency which is attended or participated in by a quorum of the members of an agency held for the purpose of deliberating agency business or taking official action.”

Our review of the minutes of the District board of directors’ meetings, and of related District administrative actions, found deficiencies in the following areas:

- Board Committee of the Whole meetings;
- administrative action;
- paying of bills; and
- lack of board approval of contracts.

Board Committee of the Whole Meetings

We found that the board’s Committee of the Whole meetings, held the week prior to the regular monthly board meetings, were advertised as committee meetings and included the following agenda items:

Curricular/Extracurricular and Personnel Policy, Building and Grounds, Transportation and Food Service, and Finance. The advertisements did not indicate that legal/official action could occur.

The committee of the whole meetings were originally set-up to reduce the time of the regular monthly board meetings, as the monthly meetings are televised. The intent of the committee meetings was for committee chairpersons to meet and discuss committee actions that would require board approval at the regularly scheduled board meetings for the given month.

According to District personnel, the District changed the meeting format to include all board members, with open discussion of upcoming resolutions to be presented as part of the regular board meeting business. The board members listen to presented information, discuss the subject, and then vote to “endorse” for approval, reject or table the presented issue or resolutions, prior to any official vote at the following week’s televised regular board meeting.

If at the regular board meeting the board members change their minds on a resolution, they must vote to rescind the “endorsed” resolution, vote to change the language, and then vote to accept the revised resolution. This indicates official action was taken by the board and the Committee of

Criteria continued:

“Official Action.”

- (1) Recommendations made by an agency pursuant to statute, ordinance or executive order.
- (2) The establishment of policy by an agency.
- (3) The decisions on agency business made by an agency.
- (4) The vote taken by any agency on any motion, proposal, resolution, rule, regulation, ordinance, report or order.

Section 704 of the Sunshine Act provides:

Official action and deliberations by a quorum of the members of an agency shall take place at a meeting open to the public. . . .

the Whole meetings. A majority of the board members attend the Committee of the Whole meetings. Official action under the Sunshine Act occurs when the board votes on a motion, proposal, resolution, policy or procedure. The boards’ vote to endorse, reject or table the presented issue or resolution is an official action by the board, regardless if the vote does or does not result in final action at a regular scheduled board meeting.

The public advertisements for the board’s Committee of the Whole meetings advertisement do not properly inform the general public that the board may take official action at these meetings.

Administrative Action

Our review of the board minutes found that on May 18, 2009, the board of directors approved the appointment of a new assistant board secretary, effective July 1, 2009. The board action did not provide compensation for the appointment.

Documentation obtained from District personnel showed that the new assistant board secretary was an existing District employee and the Superintendent notified the business office that the employee was to be paid at time and a half for attending board and committee meetings. The payment authorization and receipt of compensation is in violation of the PSC, which states that the assistant board secretary is to perform the duties of the board secretary in the absence or disability of the secretary, and is not to be compensated.

Paying of Bills and Lack of Board Approved Contracts

Our audit found that the school board, at the regularly scheduled monthly meeting, received a listing of bills for payment approval, along with supporting invoices.

However, our review of the Board minutes found that payments for goods and services were made from the District's general fund during the 2006-07, 2007-08 and 2008-09 school years for which there were no board-approved contracts on file at the District. These payments were as follows:

- \$72,451 to the City of Meadville for a school safety officer for three school years.
- \$180,000 to the City of Meadville for the services of crossing-guards, for the three school years.
- \$15,000 to the City of Meadville for the purchase of a new vehicle for the safety officer.

The District was unable to provide or locate current contracts or agreements to support the Board's approval of payment for the services provided and/or purchases made. Additionally, our review of the official board minutes failed to identify any board approval of the services/expenses noted.

The audit also found that the District paid the City of Meadville for tax collection. Payment to the City Treasurer was based on 1/3 of the cost for the tax collection fees and related expenses. No detailed documentation was provided by the City, nor requested by the District, to verify the District's actual share, which totaled \$115,911 for the three reviewed years. A signed contract between the city, county and District for the service, dated February 26, 1985, was provided to us. District personnel could not verify, nor could board minutes confirm, that the board was updated annually on the continuation of this agreement.

As a result, the board was out of compliance with the PSC requirement that the board approve all contracts in excess of \$100. The current board members may not have been aware of the 1985 contract or the current amounts being paid to the City of Meadville for the services and/or purchases. The District's business office personnel also stated that they did not verify the accuracy of the bills received or the amounts paid.

Recommendations

The *Crawford Central School District* should:

1. Have the District's solicitor review the advertisement of the boards' Committee of the Whole meetings, and board actions taken at the meetings, to ensure compliance with the Sunshine Act.
2. Implement corrective actions to ensure the District's superintendent adheres to the provisions of Section 434 of the PSC.
3. Seek the advice of the solicitor in regard to the board's responsibility when an administrator fails to adhere to provisions of the PSC and official board action.
4. Establish internal controls to ensure the District administration does not make payments for purchases of items/services for which no official board action has been taken.
5. Ensure the District is in compliance with Section 508 of the PSC by requiring District administrators to obtain and retain written contracts for board approval, and require District personnel to obtain supporting documentation to verify the accuracy of invoices received.

Management Response

Management stated the following:

1. Committee of the Whole Meetings .
The District disagrees with this finding. Endorsement of items in Committee of the Whole Meetings before submission to the Board for a vote has been done by Crawford Central for the past twenty (20) years. No official action has been taken at Committee Meetings. The purpose of Committee Meetings is to bring issues to the Board for discussion and a determination as to whether the Board wished to vote on a particular issue at its Regular Monthly Meeting which is held the following week. Committee endorsements do not constitute official Board action as evidenced by the Minutes of both the Committee Meetings and the Board Meetings. The Board and the public understand that Committee endorsements are not official action. The District's position is that there is no violation of the Sunshine Act since all deliberations (except those

discussions allowed by Executive Sessions) are conducted in public at Committee Meetings. Please advise as to how the state expects the Board to develop consensus building on issues that are eventually brought to the Board for official vote.

2. Administrative Action.

The District disagrees with the finding. The auditor never spoke to the Superintendent regarding Section 434 of the Public School Code. The Superintendent was aware of the significance of this code and understands that the Assistant Board Secretary cannot be a paid position. The employee was paid as the Confidential Secretary to the Superintendent of Schools and not as the Assistant Board Secretary as evidenced by an increase in her salary prior to her assuming the duties of Assistant Board Secretary on July 1, 2009. As noted by the auditor, there is nothing in the Minutes that provides compensation for this Assistant Board Secretary. Federal wage laws stipulate payment for overtime.

3. Paying of Bills and Lack of Board Approved Contracts.

Section 508 of the School Code does not require written contracts with its vendors. Section 508 of the Public School Code Sets forth the number of votes by members of the Board in order to take action on various subjects such as hiring of teachers, adoption of a budget and entering into contracts where the amount exceeds \$100.

Auditor Conclusion

Committee of the Whole Meetings

As noted in management's response, the board discusses and determines if a particular issue will be voted on at its regular monthly meeting. We noted that the decision was based on a vote taken at the Committee of the Whole meetings by the board members present.

Again, definition of "official action" in the Sunshine Law is as follows:

- (1) Recommendation made by an agency pursuant to statute, ordinance or executive order.
- (2) The establishment of policy by an agency.
- (3) The decisions on agency business made by an agency.

- (4) The vote taken by any agency on any motion, proposal, resolution, rule, regulation, ordinance, report or order.
(Emphases added.)

The Sunshine Act defines deliberation as the discussion of agency business held for the purpose of making a decision. Official action occurs when the board votes on a motion, proposal, resolution, policy or procedures. Anything more than discussion suggests a predisposition to making a decision on some item.

Therefore, this part of the finding will stand, and the board of directors should consult with the District's solicitor to review the procedures and actions taken at the Committee of the Whole meetings for legal advice on how to develop consensus building on issues that are eventually brought to the board for official vote.

Administrative Action

The Superintendent stated to the auditor and the audit supervisor on October 21, 2009, prior to the audit exit conference held with the District's administrators, that he was unaware that the assistant board secretary could not receive compensation.

The superintendent further stated the involved employee was his confidential secretary and was in attendance to take notes on his behalf. State and federal authorities should be consulted to determine whether or not the confidential secretary is due overtime pay.

In addition, the auditor was provided two documents from the District's business office that identified compensation to be paid to an employee, identified as the assistant board secretary, for attending the regular board meetings and Committee of the Whole meetings.

The appointment of the confidential secretary to the position of assistant secretary to the board required acceptance of the position and the board's vote of approval. The superintendent and confidential secretary cannot decide which capacity the individual will be in when the board roster identifies the individual as assistant board secretary.

Based on the documents provided, the employee was present at the meetings in the capacity of the assistant board secretary and not as a confidential secretary to the superintendent, and this section of the finding will stand.

Paying of Bills and Lack of Board Approved Contracts

We agree that Section 508 of the PSC does not require written contracts. However, it does require a duly recorded record showing how each member voted, including contracts of any kind where the amount involved exceeds one hundred dollars (\$100).

The board of directors failed to be comply with the PSC by not duly recording the board's intent to enter into a written or verbal contact for the services or purchases paid for in excess of \$100 that are outside of the normal monthly payment expectations. By the board members approving the presented payment list in total, the board did not allow for complete public disclosure of how the District's funds were being expended or that the District was exercising diligence by presenting and discussing contracts, agreements and extraordinary expenditures.

The important issue here is a lack public discussion and disclosure that details and supports unusual or contractual payments along with the accuracy of the amount paid by the District in support of the board's authorization of the services and/or arrangements, either in writing or by a verbal contact. The board should follow Section 508 of the PSC to establish the propriety of contracts entered into and payments made by the District in conformance with the recognized contracts.

Therefore this section of the finding will also stand.

Finding No. 5

Improper Use of Capital Reserve Funds and Lack of Administrative Oversight

Criteria relevant to this finding:

Section 1432 of the PSC grants school districts the authority to establish a Capital Reserve Fund from surplus funds of the district.

Section 1434 of the PSC limits expenditures of these funds to “capital improvements for replacement of or additions to public works and improvements, and for the deferred maintenance thereof, and for the purchase or replacement of school buses, and for no other purposes.”

Board policy #620 provides that the Capital Reserve Fund shall be used for the purchase of capital improvements, replacement of an addition to public works and improvements, and for deferred maintenance thereof. The policy further provides “The Business Manager or his/her designee shall be responsible for the enforcement of the policy.”

Our review of the board of school directors’ approved meeting minutes and the District’s financial records found that during the 2007-08 school year, the District’s Capital Reserve Fund (also called Capital Improvement Fund) was used improperly for general fund purchases. The account was under the control of the District’s director of building, maintenance, grounds and transportation (Director) with no additional administrative oversight.

The maintenance supervisor and/or others were allowed to purchase supplies and materials for the District’s construction projects and other District building needs and charge them to the Capital Improvement Fund, without question.

The expenditures were directly processed by the Director’s secretary and were included in the monthly bills to be approved for payment presented at the monthly board meetings. District business office personnel stated that the Director is responsible for the account and requires no pre-approval from the board to charge expenditures to the account. Our audit noted questionable purchases, including but not limited to: lamps for the football field lights, carpet, carpentry supplies, electrical supplies, saw blade, paint and supplies, window FlexShades, fabrication for TV mounts, grease trap, water pump, Freon reclaim, a portable air conditioner, and additional repairs and maintenance service work not identified on the ledger. The District’s business office personnel could not identify or explain which capital project or which school building benefitted from the purchases. The questionable expenditures totaled \$18,004.

In addition, we noted on the general ledger of this fund a \$7,500 equipment purchase, identified by the business manager as a new tractor. The District was unable to provide an invoice or any other documentation supporting this purchase.

We found that the breakdown of adequate internal control procedures was the result of a lack of separation of duties relating to the usage of this fund. The secretary to the

director of buildings, grounds and transportation was allowed to process the received invoices without the director's approval; had direct access to the District's accounts payable software system from her work station; received the printed checks from business office personnel without the business manager's review or approval; and mailed the checks accordingly.

Our audit of the Capital Reserve Fund also found \$12,323 was transferred from this Fund to the Invest in the Future Fund for reimbursement of expenses, with no District documentation available to confirm that the expenditures were in accordance with the PSC provisions.

We also found that the District's Capital Reserve Fund was used to provide matching funds for revenue raised and deposited in the Invest in the Future Fund. District personnel stated that the match was limited to \$50,000 but could not provide adequate documentation or explanations as to the matching process or the status of the match itself.

Invest in the Future Fund is a nonprofit corporation established in 1995 that is controlled by District administrators. The corporation was established to provide the District with finances for worthwhile projects that may not normally be funded through the District's general operating budget, supporting, improving, and enhancing current educational, extracurricular and athletic programs. The corporation is allowed to solicit funds from individuals, corporations, and other organizations for financing the services to be provided.

Capital Improvements versus Operation Expenses

The District's Capital Reserve Fund (or Capital Improvement Fund) was established by board policy on January 22, 1990.

District business office personnel provided a definition of the Capital Improvement Fund as being used for "The addition of a permanent structural improvement or the restoration of some aspect of a property that will either enhance the property's overall value or increase its useful life."

The General Fund is the principal fund of a school district and includes all operations not required to be recorded in other funds, such as school lunch, capital reserves, activity funds, etc.

For construction of new building or major improvements or alterations to buildings, the amounts to be capitalized include (1) the cost of the original contract price of construction; (2) architectural fees and services; and (3) expenditures incurred in remodeling, reconditioning, and making the building suitable for the purpose for which it was acquired.

Capital improvements should be distinguished from ordinary repairs that are expenses that maintain the existing asset in normal operating condition and should be expensed immediately. Ordinary repairs are recurring in nature and are normally small relative to the value of the asset; they do not materially add to the use value of the asset, and do not substantially extend its operational life. Examples of ordinary repairs include replacing minor parts; janitorial and utility services; and care of grounds.

Additions are extensions, enlargements, or expansions made to an existing asset. Additions are capitalized because they are considered to be extraordinary or major alterations. If these additions do not reach the \$100,000 threshold, they should be expensed. Also, work done on the existing asset to accommodate the addition should be regarded as part of the cost of the addition and capitalized. Examples of additions are an extra floor added to a building, the addition of an air conditioning system to an office (not portable), and the addition of pollution control devices to comply with some laws.

Improvements and replacements are substitutions of a part of an asset for another. While replacement is the substitution of an asset of basically the same type and performance capabilities, improvement is the substitution of a better asset with superior performance capabilities. Replacements are considered as ordinary repairs and maintenance and are expensed as opposed to capitalized. An example of an improvement or replacement expense is replacing an old carpet with a new one. The replacement will not increase the service life of the building to which the original cost of the old carpet was added. If the

improvement is a major substitution and it does increase the value of the asset (e.g., replacement of an old shingle roof with a modern fireproof tile roof), the difference between the replacement cost of the old asset and the new asset should be capitalized.

The noncompliance was a result of District administrative personnel's failure to adhere to PSC Section 1434 and board policy.

Recommendations

The *Crawford Central School District* should:

1. Ensure the Capital Reserve Fund is being utilized for the board approved purposes and is being operated in compliance with the PSC, board policy and sound business practices.
2. Transfer funds back to the Capital Reserve Fund for all general operating expenses noted in the finding, or provide documentation that expenditures were in accordance with rules and regulations for Capital Reserve Funds.

The *Department of Education* should:

3. As the state's educational regulatory agency, review the finding and determine what further action, if any, should be taken.

Management Response

Management stated the following:

Management disagrees with the finding but will take corrective action as outlined in the following comments.

The Crawford Central School District's Capital Reserve Fund was not used to improperly expend funds from the account for general fund purposes.

Within the Elementary Construction Fund are contingency accounts used for necessary building purchases for completion of the project. The maintenance supervisor working with the Elementary Project Manager approved these necessary purchases. Upon receipt the invoices were entered into the financial accounting system. A report listing all the invoices to be paid was prepared and presented to the Board of Directors for approval. Upon

approval the vouchers and checks were presented to the Business Manager for review, once reviewed the checks are mailed to the vendors for payment. The Business Manager keeps a spreadsheet of all expenditures of each project by building for PlanCon purposes. Further reviews are made on each building project and all individual accounts on a monthly basis. The Business Manager reviews the totals with the Building and Grounds Director so as not to go over budget.

Transfers into the Capital Fund from the General Fund are approved by the Board of Education during one of its Regular Meetings. Crawford Central School District prepares a capital improvement budget for the Board of Directors. Monthly the Board receives a report regarding all expenditures to be paid for capital improvements, including parking lot repairs, blinds that last for twenty years and televisions mounts that are permanently attached to the buildings. Additionally there was not a tractor purchased through the Capital Improvement Fund. All expenditures in the capital improvement fund are identified by accounting code as to which building the purchases and improvements were made.

The Invest in the Future Foundation was reimbursed for capital expenditures from the Capital Reserve Account. The Business Office also maintains a file with check vouchers and purchase orders of all items purchased. Additionally, the President of the Board of Education is a member of the Board of Trustees for the Invest in the Future Foundation which approves all expenditures. Minutes of all meetings of the trustees are kept in the Business Office.

The Crawford Central School District maintains that the Capital Reserve Fund is being utilized for Board approved purposes and is being operated in compliance with the Public School Code and sound business practices. However, the District agrees with the Auditor General's Office to review all expenditures for adherence to the definition of "capital improvement" as provided by the auditor.

The District will also enforce the Policy regarding Maintenance of the Capital Reserve Fund and transfer monies from the General Fund to maintain a cash balance

at no less than one-half percent and no more than ten percent of the current year's budgeted expenditures. The District will budget all minor repairs and improvements within the General Fund and will only use the capital Improvement Fund for major improvements to the buildings.

Auditor Conclusion

As evidenced by the expenditures detailed in our finding, noncapital items were purchased and identified as general fund maintenance and repair items.

District business office personnel stated at the time of the audit that they do not review or verify the purchases; rather, the Secretary to the Director of Buildings, Grounds and Transportation (Elementary Project Manager) processes and mails the payments.

The tractor purchase was based on the business manager's verbal identification of the ledger expenditure posting, "Equipment Purchase."

The documentation provided by the business office did not clearly define the construction project or building and the business manager also stated that he could not identify the project or building where the capital expenditures were used.

Again, at the time of the audit, we requested supporting documentation, but no documentation was provided by the business office to support the expenditures and demonstrate compliance with the PSC. The Invest in the Future board of trustees' meeting minutes also failed to provide evidence that the \$12,323 transferred by the business office was in compliance with the PSC.

As no additional supporting documentation to support their comments accompanied management's response, the finding will stand.

Status of Prior Audit Findings and Observations

Our prior audit of the Crawford Central School District (CCSD) for the school years 2005-06 and 2004-05 resulted in three reported findings and an observation, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the CCSD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the CCSD did implement recommendations related to the two of the findings, but did not implement recommendations related to one finding and the observation.

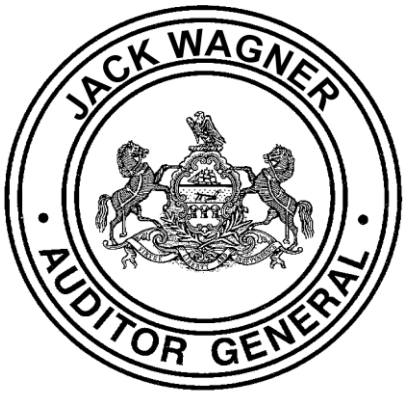
<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Certification Deficiency</i></u></p> <ol style="list-style-type: none"> Require administrative personnel to ensure proper certification is on file at the District for the professional employees’ assignments prior to employment. DE should adjust the District’s allocations to recover the subsidy forfeiture of \$1,038. 	<p>Background:</p> <p>Our prior audit of the District’s professional employees’ certificates and assignments for the period June 9, 2005 through February 28, 2007, found one professional employee was assigned to an elementary teaching position without holding proper certification, resulting in a subsidy forfeiture of \$1,038.</p>	<p>Current Status:</p> <p>We followed up on the certification deficiency and found that the CCSD did take appropriate corrective action. Our current audit found current certificates were on file at the District.</p> <p>DE assessed the \$1,038 subsidy forfeiture from the District’s basic education funding payment on June 12, 2009.</p>
<p><u><i>II. Finding No. 2: Questionable Official Actions by School Board Directors and School Administration</i></u></p> <ol style="list-style-type: none"> Require administrative personnel to ensure proper certification is on file at the District for all professional employees’ assignments prior to employment. The Bureau of Teacher Certification and Preparation (BTCPC) should review the District’s actions, as 	<p>Background:</p> <p>Our audit of the District’s professional employees’ certification and our review of pertinent school board meeting minutes for the 2005-06 school year found that the board of school directors’ hiring of an uncertified teacher was in violation of state law.</p> <p>The uncertified teacher received an emergency elementary school teacher permit. The audit found that the position in question was never advertised and that eight of the nine candidates interviewed for the position were properly certified.</p>	<p>Current Status:</p> <p>We followed up on the finding and found that CCSD did take appropriate corrective action.</p> <p>Our current audit did not find any District teachers who were hired without proper qualifications.</p> <p>This prior finding addressed another aspect of the deficiency discussed in Finding No. 1 of the prior report. As noted above, DE assessed a subsidy forfeiture for the deficiency on</p>

<p>well as, BTCP's own guidelines, and take the appropriate action deemed necessary</p>		<p>June 12, 2009.</p>
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<p><u>III. Finding No. 3: District Administrators Failed to Adhere to Provisions of the Public School Code</u></p> <p>1. Develop a Memorandum of Understanding (MOU) with all local law enforcement agencies.</p>	<p>Background:</p> <p>Our prior audit of the District's MOU with local law enforcement agencies located within the District found that the District's administrators failed to develop a MOU with the one of the agencies.</p>	<p>Current Status:</p> <p>Our current audit found the CCSD did take appropriate corrective action.</p> <p>The current MOU's on file at the District with five local police departments, including the one cited in the prior audit, were signed and dated from October 30, 2007 through October 17, 2008.</p>
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<p><u>IV. Observation: Amount Paid Pupil Transportation Contractor's Greatly Exceeds Department of Education Final Formula Allowance</u></p> <p>1. Prior to negotiating a new contract, the board and district administrators should be cognizant of the state's final formula allowance cost formula.</p> <p>2. The board should also routinely seek competitive bids for the District's pupil transportation services to ensure the most efficient costs to the District and its taxpayers.</p> <p>3. The board should prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing the base rate and increases in line with DE's final</p>	<p>Background:</p> <p>Our prior audit of the District's contracted pupil transportation costs for the school years ending June 30, 2000 through June 30, 2006, found that the contracted cost of the District's pupil transportation operations had increased substantially more than the rate of inflation over a six-year period. The amount paid to the District's transportation contractors increased greater than DE's inflation adjusted final formula allowance, used to determine reimbursement of pupil transportation services.</p>	<p>Current Status:</p> <p>Our current audit found the District is still operating under the same five year contracts, which commenced on July 1, 2005 and terminate on June 30, 2010. The District anticipates that the director of transportation and the business manager will ensure that new contracts will have better cost controls.</p> <p>We concluded that the CCSD could not have implemented corrective action for the current audit school years due to prior contracts still in force. However, the administration appears to recognize the problem. We will further conclude on this observation during our next audit, after the new contracts are negotiated.</p> <p>As noted in Finding No. 1 of the current audit report, District administrative personnel and the board of directors must ensure the pupil transportation contracts are adhered to, and ensure</p>
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<p>formula allowance for all pupil transportation costs.</p> <p>4. District personnel should continuously monitor and justify any increase in the District's pupil transportation costs.</p>		<p>accurate data are reported to DE and utilized when comparing the District's actual contracted pupil transportation cost to DE's final formula allowance.</p> <p>The amount paid the pupil transportation contractors, as compared to DE's final formula allowance, will be reviewed again during the next audit to determine if the board implemented appropriate corrective action.</p>
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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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