

FARRELL AREA SCHOOL DISTRICT  
MERCER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2011



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

Mr. Terry Harrison, Board President  
Farrell Area School District  
1600 Roemer Boulevard  
Farrell, Pennsylvania 16121

Dear Governor Corbett and Mr. Harrison:

We conducted a performance audit of the Farrell Area School District (FASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 29, 2008 through April 20, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the FASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

April 13, 2011

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



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Farrell Area School District (FASD). 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 FASD in response to our prior audit recommendations.

Our audit scope covered the period August 29, 2008 through April 20, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

### **District Background**

The FASD encompasses approximately 3 square miles. According to 2000 federal census data, it serves a resident population of 6,798. According to District officials, in school year 2007-08 the FASD provided basic educational services to 953 pupils through the employment of 97 teachers, 8 full-time and part-time support personnel, and 4 administrators. Lastly, the FASD received more than \$9.9 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the FASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

**Finding: Failure to Have All School Bus Drivers' Qualifications on File.** Our audit of the FASD's school bus drivers' qualifications for the 2009-10 school year found that not all records were on file at the FASD at the time of our audit and the FASD's contractor failed to notify the FASD of a change in bus drivers (see page 6).

**Observation: Amount Paid Pupil Transportation Contractors Greatly Exceeds Department of Education Final Formula Allowance.** Our audit of the FASD's contracted pupil transportation costs found that the contracted cost of pupil transportation operations increased substantially more than the rate of inflation over a four-year period (see page 8).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the FASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the FASD did implement our recommendations pertaining to unmonitored system access and logical access control weaknesses (see page 11).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period August 29, 2008 through April 20, 2010.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (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

*What is the difference between a finding and an observation?*

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

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

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

and retirement), did it follow applicable laws and procedures?

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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.

FASD 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

*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.

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 FASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 23, 2009 we reviewed the FASD's response to DE dated November 2, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Failure to Have All School Bus Drivers' Qualifications on File

*Criteria relevant to the finding:*

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's license and passing a physical examination.

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

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

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

Chapter 23 of the State Board of Education Regulations indicates 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 Farrell Area School District's (FASD) school bus drivers' qualifications for the 2009-10 school year found that not all records were on file at the District at the time of our audit. Additionally, the current bus driver list provided by the contractor failed to include a new driver.

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

Although these documents were not on file at the District at the time of the audit, the District's transportation contractor provided them prior to our completion of the audit.

We audited the personnel records of all 13 drivers currently employed by the FASD's pupil transportation contractor. Our audit found that the District did not have on file, at the time of the audit, a federal criminal history record for one driver and a child abuse clearance statement for another driver.

Additionally, we found one driver listed on the 2009-10 school year bus drivers list had been replaced by another driver at the beginning of the 2009-10 school year. The District had not been notified of the change.

Our review of the pupil transportation contract found that the contract does not require the contractor to provide a list of drivers and current qualifications. Administrative personnel at the District stated it was an understanding with the contractor that a list of drivers and qualifications, including changes, are to be provided to the District at the beginning of and throughout each school year for board approval.

**Recommendations**

The *Farrell Area School District* should:

1. Implement written policy that requires the pupil transportation contractor to provide a list of drivers and documentation of their qualifications to the District, including any changes, each school year.
2. Ensure that the District's pupil transportation director reviews each driver's current qualifications prior to that person transporting students.
3. Work with the contractor to ensure that the District's bus driver files are kept up-to-date and complete.
4. Require the transportation contractor to report any changes in drivers throughout the school year to the District for board approval, prior to the driver having any contact with District's students.

**Management Response**

Management stated the following:

The District agrees with the [finding]. Our contractor is required to send copies of all Bus Driver's and Aide's Qualifications to the District.

**Observation**



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

Our audit of the FASD’s contracted pupil transportation costs for the school years beginning July 1, 2004 through June 30, 2008, found that the contracted cost of the District’s pupil transportation operations had increased substantially more than the rate of inflation over the four-year period. The amount paid the District transportation contractors increased greater than the Department of Education’s (DE) inflation adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

DE’s final formula allowance provides for a per vehicle 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, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District’s aid ratio.

The following chart details the fluctuation in contracted cost compared to DE’s final formula allowance:

<u>School Year</u>	<u>Contractor Costs</u>	<u>Final Formula Allowance</u>	<u>Contracted Costs Over Formula</u>	<u>Percentage Increase</u>
2007-08	\$202,288	\$97,681	\$104,607	107.09
2006-07	194,950	99,257	95,693	96.41
2005-06	156,078	77,320	78,758	101.86
2004-05	165,416	67,651	97,765	144.51

Our audit of the services provided by the pupil transportation contractors for the four-year period found that over the last three years the number of vehicles used to transport pupils has increased, the number of approved annual miles vehicles traveled has increased, and the District's pupils transported has decreased, detailed as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2007-08	8	270	41,567
2006-07	8	279	44,521
2005-06	6	293	31,788
2004-05	6	290	26,364

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

<u>School Year</u>	<u>Contractor Costs</u>	<u>Reimbursement</u>	
		<u>Received</u>	<u>Local Share</u>
2007-08	\$202,288	\$121,534	\$ 80,754
2006-07	194,950	120,159	74,791
2005-06	156,078	107,349	48,729
2004-05	<u>165,416</u>	<u>96,193</u>	<u>69,223</u>
Totals	<u>\$718,732</u>	<u>\$445,235</u>	<u>\$273,497</u>

A query of DE's pupil transportation data noted that 497 Pennsylvania school districts, intermediate units and area vocational-technical schools for the 2006-07 school year contracted their pupil transportation service. Approximately 25 percent of the local education agencies (LEA) paid their contractors the final formula or less. An additional 22 percent paid less than 10 percent over their final formula allowance. By comparison, FASD paid its contractors 96.41 percent over the state formula for the 2006-07 school year, and 107.09 percent over for the 2007-08 school year. Of the 497 LEAs using transportation contractors, approximately 99.92 percent of them pay their contractors closer to or less than the state formula than FASD.

District personnel provided the auditor with the new pupil transportation contract effective August 2007 through August 2010. The contract provides for a 3 percent increase each year of the contract. The contract did not indicate that there would be any consideration of DE's approved final formula allowance. District administrative personnel stated the District's board of directors did not seek competitive bids for the pupil transportation services for the contract period. At the time, the District chose to instead negotiate with the same local contractor that had been providing excellent service for several prior school years.

## **Recommendations**

The *Farrell Area School District* should:

1. Prior to negotiating a new contract, ensure the board and District administrators are cognizant of the state's final formula allowance.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is minimized by establishing the base rate and increases in line with DE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

## **Management Response**

Management stated the following:

The District agrees with the observation. The District will review the contract with the contractor along with the observation. We believe that the size of our District plays a role into our above average cost. The District will work towards the Department of Education final formula allowance.



## Status of Prior Audit Findings and Observations

Our prior audit of the Farrell Area School District (FASD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to unmonitored vendor system access and logical access control weaknesses. 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 FASD Board’s written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the FASD did implement recommendations related to unmonitored vendor system access and logical access control weaknesses.

<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. Observation:</i></u>  <u><i>Unmonitored System Access and Logical Access Control Weakness</i></u></p> <ol style="list-style-type: none"> <li>1. Ensure that its contract with the Midwestern Intermediate Unit #4 (MIU) is kept current.</li> <li>2. Develop and maintain a written information technology security policy and ensure that all employees are aware of this policy.</li> <li>3. Implement a security policy and system parameter settings to require all users, including the MIU, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).</li> <li>4. Allow access to the</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the District uses software purchased from the MIU for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all of its data and the above software are maintained on the MIU’s servers which are physically located at the MIU. The District has remote access into the MIU’s network servers, with the MIU providing system maintenance and support.</p> <p>We determined that a risk existed that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all MIU activity in its system.</p>	<p><b>Current Status:</b></p> <p>Our current audit followed up on the observation recommendations and found the FASD did implement all five of our recommendations.</p>

<p>system only when the MIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the MIU has completed its work. This procedure would also enable the monitoring of MIU changes.</p> <p>5. Generate monitoring reports (including firewall logs) of MIU employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). These reports should be reviewed to determine that the access was appropriate and that the data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.</p>		
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## **Distribution List**

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

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