



**FARRELL AREA SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

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

Mr. 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 (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 20, 2010 through August 14, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with state laws and administrative procedures, as detailed in the four audit findings and two observations within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings and observations include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education.

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

Sincerely,

/s/

EUGENE A. DePASQUALE
Auditor General

June 19, 2013

cc: **FARRELL AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

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

Our audit scope covered the period April 20, 2010 through August 14, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 3 square miles. According to 2010 federal census data, it serves a resident population of 5,743. According to District officials, the District provided basic educational services to 860 pupils through the employment of 94 teachers, 63 full-time and part-time support personnel, and 5 administrators during the 2009-10 school year. Lastly, the District received \$9.2 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the four audit findings and two observations within this report.

Finding No. 1: District Improperly Utilized Monies From a Special Capital Reserve Fund to Pay Back Wages. Our audit of the District's financial records and minutes of the meetings of the board of directors found the administration deposited monies totaling \$218,997 from a Special Capital Reserve Fund into the general fund, and then used these funds to pay back wages (see page 6).

Finding No. 2: Deficiencies Found in Reporting Charter School Tuition Resulted in a Net Reimbursement Overpayment of \$57,474. Our audit of the District's records pertaining to payment of tuition to charter schools found the District personnel incorrectly reported the tuition paid to charter schools for the 2009-10 and 2008-09 school years to the Pennsylvania Department of Education (PDE), resulting in a net overpayment of \$57,474 (see page 9).

Finding No. 3: Lack of Supporting Documentation and Errors in Reporting Pupil Membership for Children Placed in Private Homes and Wards of the State Resulted in Lost Reimbursement Revenue. Our audit of the District's pupil membership reports submitted to PDE for the 2009-10 and 2008-09 school years found a lack of documentation to support pupil membership days for nonresident children

placed in private homes and nonresident wards of the state. We also noted additional errors in the reporting of pupil membership (see page 11).

Finding No. 4: School Bus Drivers' Qualification Deficiencies. Our audit of the District's school bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the District at the time of our audit (see page 14).

Observation No. 1: Amount Paid Pupil Transportation Contractors Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance. Our audit of the District'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 17).

Observation No. 2: The Farrell Area School District Lacks Sufficient Internal Controls Over its Student Record Data. Our review of the local education agency's controls over data integrity found that internal controls need to be improved. Specifically, our review found the District does not have adequate procedures in place to ensure accurate reporting of nonresident membership days. We noted a lack of verification of nonresident pupils' resident home districts, a failure to maintain adequate evidence of manual compensating controls, and a violation of a contractual agreement. We further noted the failure to have adequate written procedures in place to ensure continuity over its Pennsylvania Information Management System data submission in the event of a sudden change in personnel or child accounting vendors (see page 20).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District released on April 13, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to the failure to have all school bus drivers' qualifications on file (see page 23) and the observation dealing with excessive contracted transportation costs (see page 24).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

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

Our audit covered the period April 20, 2010 through August 14, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

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

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

- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did 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?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that

What are internal controls?

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

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

the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

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

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 13, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

District Improperly Utilized Monies From a Special Capital Reserve Fund to Pay Back Wages

Criteria relevant to the finding:

Pennsylvania Statute 53 P.S. § 1432 grants school districts the authority to establish a Capital Reserve Fund from surplus funds of the district.

Pennsylvania Statute 53 P. S. § 1434 limits expenditures of these funds to “capital improvements and 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 purpose.”

Our review of the Farrell Area School District’s (District) financial records and Board of School Directors (Board) meeting minutes found that the administration violated Pennsylvania Statute 53 P. S. § 1434 by depositing \$284,496 from a special capital reserve fund into the general fund during the 2010-11 school year. These monies were used to cover \$208,997 in back wages owed to a former District employee as part of a settlement agreement, and the remaining balance of \$65,499 was retained in the general fund.

We found that on October 12, 1998, the District’s Board approved refinancing existing 1992 series and 1994-B series bonds, extending the current debt to August 2009, to generate upfront cash of \$250,000 to be used for capital improvements.

On November 8, 1998, the Board approved a resolution establishing a special capital reserve fund (municipal) in the amount of \$250,000 for the purpose of funding the District’s future capital projects.

Pennsylvania Statute 53 P.S. § 1432 grants school districts the authority to establish a capital reserve fund from surplus District funds. Section 1434 of the Statute 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 purpose.”

During the audit, we contacted the Pennsylvania Department of Education and were informed that there are restrictions on the use of capital reserve funds and that school districts frequently confuse them with the capital projects fund. The capital reserve funds originally were classified as special revenue funds prior to the implementation of Government Auditing Standards Board Statement No. 54. When the new accounting standard took

effect on July 1, 2010, the capital reserve funds no longer fit the criteria to be classified as special revenue funds. The schools were notified that these two funds had to be reclassified into a capital projects type fund but there were still legislative restrictions placed on capital reserve funds. Transferring monies out of a capital reserve fund is disallowed for any purpose other than those allowed by Pennsylvania statutes. Thus, once the District transferred its surplus bond funds into a capital reserve fund, it was prohibited from putting back into the general fund for any purpose, including for the paying of back employee wages.

District administrative personnel stated the funds were not requested or transferred by the Board, but were received as a result of the bank ending the trust portion of their operations and closing the account, at the same time that the District encountered the indebtedness for the back wages. Additionally, District personnel stated the District's solicitor was not consulted to determine whether the designated funds could be used to cover the back wages, or if the funds instead had to be deposited in a separate account and utilized for the purposes permitted by Section 1434 of the Pennsylvania Statutes.

Therefore, even though the District received the funds back from the bank as a result of the closing of a trust, the funds had already been designated in a capital reserve fund by a previous board resolution. The bank's return of the funds did not reverse this designation. In the future, the District should be sure to meet with its solicitor when dealing with expenditures from assigned funds.

Recommendations

The *Farrell Area School District* should:

1. Adhere to the provisions of Section 1434 of the Pennsylvania Statutes pertaining to the use of capital reserve funds.
2. Transfer the \$284,496 from the general fund into a reclassified capital projects type fund that is subject to the legislative restrictions placed on capital reserve funds by 53 P. S. § 1434.
3. Review the Board's actions with the District's solicitor to ensure compliance with the Pennsylvania Statutes.

The *Pennsylvania Department of Education* should:

4. As the state's educational regulatory agency, review this finding and determine what further actions, if any, should be taken because of the improper utilization of the designated funds.

Management Response

Management stated the following:

“It is my [i.e., the business manager’s] understanding that in 1999 an Escrow account was established for bond issuing. This escrow account continued until September 2010. It was at this time that [the bank] notified me that they were essentially ending the trust portion of their operations and transferring all of those accounts to [another financial institution]. On September 24, 2010, [the bank], the holder of the escrow account, called me to let me know that they would be sending me a check for the unused portion of the funds in the escrow account in the amount of \$284,496.01. I then contacted the former Business Manager, [name removed], and the district’s solicitor, [name removed], to inquire about the origin and use of these funds. I was told by the solicitor to hold these funds due to the pending settlement in the [name removed] case. These funds were held in our local depository until the board approved the use of these funds to pay for the back wages owed to [name removed], totaling \$218,997.41 at the March 2011 board meeting.”

Auditor Conclusion

District administrative personnel improperly utilized funds from a special capital reserve fund, which a prior Board approved for the District’s future capital projects only, and for no other purpose.

The use of these funds to cover back wages owed was not in compliance with the prior Board resolution or the applicable Pennsylvania statutes at the time of the transaction.

Therefore, the finding will stand.

Finding No. 2

Deficiencies Found in Reporting Charter School Tuition Resulted in a Net Reimbursement Overpayment of \$57,474

Criteria relevant to the finding:

Section 2591.1 of the Public School Code (24 P.S. § 25-2591.1) provided for the reimbursement of thirty percent of the total funding provided by school districts to charter schools and cyber charter schools. If insufficient funds were appropriated, the reimbursement was made on a prorated basis.

Please note: This reimbursement However, the enacted state budget for the 2011-12 fiscal year eliminated funding of the Charter School reimbursement previously paid to sending school districts. However, that the general funding provision referenced above (24 P.S. § 25-2591.1) has not been repealed from the Public School Code. Therefore, it appears that the funding could be restored.

Our audit of Farrell Area School District (District) records pertaining to the payment of tuition to charter schools found District personnel incorrectly reported the tuition paid to charter schools for the 2009-10 and 2008-09 school years to the Pennsylvania Department of Education (PDE), resulting in a net reimbursement overpayment to the District of \$57,474.

For the 2009-10 school year, the District over reported charter school tuition paid by \$253,036 and for the 2008-09 school year the District underreported tuition paid by \$519. The reporting errors resulted in the District receiving a reimbursement overpayment of \$57,611 for the 2009-10 school year and a reimbursement underpayment of \$137 for the 2008-09 school year.

In the 2009-10 school year, the District's personnel improperly included tuition that was paid during the 2008-09 school year and had been submitted for reimbursement previously. The errors noted in the 2008-09 school year were clerical in nature, but would have been noticed if the District had performed an internal review of the charter school reimbursement applications prior to the submission of these reports to PDE.

Recommendations

The *Farrell Area School District* should:

Require District personnel to establish internal review procedures to ensure the accuracy of applications submitted to PDE for Commonwealth reimbursement.

The *Pennsylvania Department of Education* should:

Recover the net reimbursement overpayment of \$57,474.

Management Response

Management stated the following:

“During April of 2010, the Farrell Area School District went through a major transition, as the Business Manager and Acting Superintendent resigned. With this transition, I stepped into the Business Manager position and had to close out a year that was operated by the previous Business Manager. In this closing, I did not realize that the previous Business Manager had accrued the expenditure for Charter Schools back to the 2008-09 school year. I subsequently included those accrued expenditures as part of the current 2009-10 expenditures which, in turn, overstated our Charter School Tuition and resulted in a reimbursement overpayment. Since then, this problem has been corrected; as now, there are checks and balances in place to account for accrued expenditures in their proper fiscal year.”

Finding No. 3

Lack of Supporting Documentation and Errors in Reporting Pupil Membership for Children Placed in Private Homes and Wards of the State Resulted in Lost Reimbursement Revenue

Criteria relevant to the finding:

Section 2503(c) of the Public School Code (24P.S. § 25-2503(c)) provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes, and for institutionalized students designated as wards of the state.

The Pennsylvania Information Management Systems manual of reporting provides guidelines for the reporting of all residency and nonresident classifications. The guidelines provide a sample of information required to enter in each District Field on the end-of-year membership reports to be filed with the Pennsylvania Department of Education. The sample provides the Code, Residency Status, District Code, District Code of Residence and the Funding District Code.

Instructions for the Determination of Residence for Students in Facilities or Institutions (form PDE-4605) state that the form is to be sent to the alleged school district of residence as soon as possible after enrollment of the nonresident student in a facility or institution. Upon completion and return from the alleged school district of residence, this form is to be retained along with documentation from the placing agency in the district's files for possible review by auditors.

Our audit of the Farrell Area School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found a lack of documentation to support pupil membership days for nonresident children placed in private homes (foster children) and nonresident children labeled as wards of the state.

For the 2009-10 school year the District failed to obtain the necessary acknowledgement forms from the districts of residence for one elementary student and three secondary students who were court-placed into a residential institution within the District's boundaries.

This information is important because tuition for wards of the state (students whose parental/guardian district of residence is unknown) is paid by the Commonwealth.

Children placed in private homes are children placed in foster care. If the natural parents of such children live in another district, these children are considered nonresidents for child accounting purposes, and their tuition is paid by the Commonwealth.

District personnel stated that the students were placed in a children's institution within the District's boundaries by court order, and were considered wards of the state.

Therefore, they did not send forms to the students' alleged districts of residence for them to be acknowledged or disclaimed.

The Public School Code and PDE procedures require that for a student to be classified as a ward of the state, the following must exist:

- The student's parental/guardian residency, as identified by the facility's placement documents, must have been disclaimed by other possible districts of residence.

- The residency disclaimer form must be properly completed, timely signed, and any and all provided leads must be exhausted.
- The disclaimed forms must be maintained on file to support the ward of state status for state subsidy purposes.

As a result of the District not obtaining the appropriate acknowledgement forms, we adjusted the membership days for the one elementary student by 11 days and for three secondary wards of the state students by 425 days. Had the District obtained the acknowledgement forms, the auditors would have been able to verify the appropriateness of the inclusion of these students as wards of the state. The errors resulted in the loss of funding totaling \$28,375 for the 2009-10 school year.

We further noted that data for these students were uploaded to PDE through the Pennsylvania Information Management System (PIMS) incorrectly using the coding that identified these students as nonresident district-paid tuition students. Internal control weaknesses in reporting membership data using the PIMS are also addressed in Observation No. 2 of this report (see page 19).

Our audit of pupil membership for the 2008-09 school year found that District personnel overstated nonresident membership days for one kindergarten child placed in a private home by seven days, and for four secondary wards of the state by 118 days, which resulted in an overpayment of \$7,572.

The auditors were unable to determine what caused the reporting errors for the 2008-09 school year. District personnel who were responsible for preparing and submitting those reports are no longer employed at the District. It appeared the errors were clerical in nature. However, if the District had appropriate measures in place to review pupil membership reports prior to submission to PDE, the overstatement might have been noticed and the overpayment might not have occurred.

Resident and nonresident membership data must be maintained in accordance with PDE guidelines and instructions, since they are major factors in determining the District's subsidies and reimbursements.

Recommendations

The *Farrell Area School District* should:

1. Ensure that the determination of residence forms for students in facilities or institutions are sent to the alleged school districts of residence as soon as possible after the enrollment of nonresident students in a facility or institution.
2. Perform an internal audit prior to submission of pupil membership reports to PDE to ensure all students are classified correctly.
3. Reference the PIMS manual of reporting for instructions on the proper coding of nonresident membership days.
4. Review membership reports submitted to PDE for school years subsequent to the audit, and if reporting errors are found, contact the PIMS help desk for guidance in changing coding, and submit revised reports to PDE.

Management Response

Management stated the following:

“During April of 2010, the Farrell Area School District went through a major transition, as the Business Manager and Acting Superintendent resigned. With this transition, I stepped into the Business manager position and had to close out a year that was operated by the previous Business Manager. In this closing, I did not realize that the district had not mailed out the PDE-4605 Forms for students listed as Wards of the State. I am in the process of contacting [PDE] to see if the district can recoup these lost funds and how to accurately account for these students for the year after.”

Finding No. 4

School Bus Drivers' Qualification Deficiencies

Criteria relevant to the finding:

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

Section 111 of the Public School Code, 24 P.S. § 1-111, 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 would prohibit the individual from being hired.

Section 111(b) provides, in part:

“Administrators shall maintain a copy of the required information. Administrators shall require contractors to produce a report of criminal history record information for each prospective employee of such contractor prior to employment.”

Additionally, Section 111(c.1) provides, in part

“Beginning April 1, 2007, administrators shall maintain on file with the application for employment a copy of the Federal criminal history record in a manner prescribed by the Department of Education.”

Our audit of the Farrell Area School District's (District) school bus drivers' qualifications for the 2011-12 school year found that the District did not have all the required records on file at the time of the audit.

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

We reviewed the personnel records of all 13 bus and van drivers employed by the contracted carrier and the District. Our review found that one driver had no clearances, no valid driver's license, and no valid physical examination certificate on file. Two other drivers also had incomplete files. One of them did not have a valid physical examination certificate, and one did not have a Federal Bureau of Investigation (FBI) clearance on file.

By not having the required bus driver qualification documents on file, the District was not able to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

On May 22, 2012, we informed District management of the missing documentation and instructed them to immediately obtain the necessary documents so that they could ensure the drivers were properly qualified to have direct contact with children. On May 30, 2012, District personnel provided us with the necessary documentation, and we verified that all but one of the drivers had the proper qualifications to continue to have direct contact with children. We were not provided with one driver's FBI criminal record check.

Criteria relevant to the finding:

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.

The failure to have the records on file at the District was a result of District administrators' failure to ensure the transportation contractor complied with provisions of Board Policy No. 810, which requires the clearances to be presented to the District when an individual is initially hired.

Recommendation

The Farrell Area School District should:

1. Ensure the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Require the contractor to provide complete records for each driver and retain the information on file at the District.
3. Ensure that the one driver who does not have a FBI criminal record check be prohibited from driving and having direct contact with children until the FBI record check is obtained and examined.

Management Response

Management stated the following:

“Due to major transitions during the 2009-10 and 2010-11 school year[s], the district saw a considerable amount of turnover in its administrative team, including its transportation director. These deficiencies were due to this individual being new to this position. To rectify these issues, the district will send its transportation director to more professional development training and provide more checks and balances in order to prevent these deficiencies in the future.”

Auditor Conclusion

The District must immediately remove the bus driver who does not have a FBI criminal record check and ensure that they are prohibited from driving and having direct contact with children until the FBI record check is obtained and examined. This action must not wait.

Observation No. 1

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

Our audit of the Farrell Area School District's (District) contracted pupil transportation costs for the school years beginning July 1, 2006, through June 30, 2010, 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. Specifically, the amount paid to the District transportation contractors increased greater than the Pennsylvania Department of Education's (PDE) inflation adjusted final formula allowance, used to determine reimbursement of pupil transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District's aid ratio.

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

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Costs Over Formula</u>	<u>Percentage Over Formula</u>
2009-10	\$246,891	\$115,279	\$131,612	114
2008-09	203,929	93,423	110,506	118
2007-08	202,288	97,681	104,607	107
2006-07	194,950	99,257	95,693	96

Thus, the District has consistently been paying an average of 108 percent more than its final formula allowance during the last four years.

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

<u>School Year</u>	<u>Contractor Costs</u>	<u>Reimbursement</u>	
		<u>Received</u>	<u>Local Share</u>
2009-10	\$246,891	\$123,463	\$123,428
2008-09	203,929	89,095	114,834
2007-08	202,288	121,534	80,754
2006-07	<u>194,950</u>	<u>120,159</u>	<u>74,791</u>
Totals	<u>\$846,058</u>	<u>\$454,251</u>	<u>\$393,807</u>

A query summary of PDE's pupil transportation data noted that 486 Pennsylvania school districts, intermediate units, and area vocational-technical schools for the 2009-10 school year contracted out their pupil transportation service. Approximately 26 percent of the local education agencies (LEA) paid their contractors the final formula or less. An additional 23 percent paid less than 10 percent over their final formula allowance. By comparison, the District paid its contractors 118 percent over the state formula for the 2008-09 school year, and 114 percent over for the 2009-10 school year. Of the 486 LEAs using transportation contractors, approximately 84 percent pay their contractors closer to or less than the state formula than does the District.

District personnel provided the auditor with a new pupil transportation contract effective April 2010 through August 2013. The contract provides for a 3 percent increase each year of the contract. District administrative personnel stated the District's Board of School Directors did not seek competitive bids for the pupil transportation services for the contract period. It was agreed they would negotiate with the same local contractor that had been providing service for several prior school years. Additionally, the contract did not identify any consideration of PDE's approved final formula allowance in the daily rates approved.

Recommendations

The *Farrell Area School District Board* should:

1. Prior to negotiating a new contract, be 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 as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

“Due to lack of contracted providers in this area the district has historically had higher cost for pupil transportation services. The current contract expires at the end of the 2012-13 school year. At that point we will send the specification of our transportation needs out for public bid to see if the district can obtain services that are more in line with other districts throughout the state.”

Observation No. 2

The Farrell Area School District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

According to the Pennsylvania Department of Education's (PDE) 2009-10 PIMS User Manual, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. Pennsylvania Information Management System data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Farrell Area School District's (District) controls found that internal controls over data integrity needed to be improved. Specifically, our testing found that:

1. The District incorrectly reported one student (out of 20 tested) as a resident when he was actually a nonresident. However, we noted that the District did correctly bill the student's home district for the tuition expense.
2. One student (out of the 20 tested) was incorrectly coded and did not appear as a ward of the state on the District's Summary of Child Accounting Membership report.

3. The District does not maintain adequate manual compensating controls (i.e. supporting documentation) to support many of its student registrations. We tested 10 students who were clients of Crossroads Group Homes and Services, Inc. (Crossroads) and were educated at the District. Crossroads is a group home that provides alternative education and behavior modification for adolescents and teens. Some of the students at Crossroads are residents of the District, while others are nonresidents. Backup documentation for the nonresident Crossroads students (complete registration forms, entry/withdrawal forms, discipline records, academic records, etc.) was incomplete or nonexistent at the District. This made it impossible to accurately determine the residency of students.
4. The lack of student documentation noted in bullet 3 above is a violation of the contract between the District and Crossroads in effect for the 2009-10 school year.

Section 5 of the contract, Student and Program Records, states: “The Farrell School District will maintain accurate and detailed records of each individual student attending Crossroads, Inc., including 1) Hours of instruction in each curricular area, 2) Scholastic achievement, 3) Test scores, 4) Discipline/Behavior records, 5) Health records, 6) Co-curricular activities records, and 7) IEP’s.”

Section 4 of the contract, Student Attendance, states: “The Farrell Area School District will maintain records of its students’ attendance,” and “The Farrell Area School District assures compliance with pupil attendance provisions under Chapter 11 of the State Board of Education Regulations.”

5. The District does not have adequate written procedures in place to ensure continuity over its PIMS data in the event of a sudden change in personnel or child accounting vendors.

Recommendations

The *Farrell Area School District* should:

1. Perform an internal audit prior to submission of pupil membership reports to PDE to ensure all students are classified correctly.
2. Maintain, in compliance with the contract that the District has with Crossroads, attendance and membership records, ensuring Crossroads provides all necessary information to the District so that the residency of all students can be verified and reported correctly by District personnel.
3. Prepare written procedures to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
4. Review subsequent school years' pupil membership reports submitted to PDE for accuracy and proper supporting documentation, and revise reports if necessary.
5. Ensure the contract requires Crossroads to provide the District with documentation supporting the placement of each student, school district or state of residency and the parents or guardian names of each student attending the facility.

Management Response

Management provided a response indicating agreement with the observation and providing no further comment at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Farrell Area School District (District) released on April 13, 2011, resulted in one finding and one observation. The finding pertained to the failure to have bus drivers' qualifications on file, and the observation to excessive contracted transportation costs. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding and observation. As shown below, we found that the District did not implement recommendations related to the finding or the observation.

Auditor General Performance Audit Report Released on April 13, 2011

Finding: **Failure to Have All School Bus Drivers' Qualifications on File**

Finding Summary: Our prior audit of 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.

Recommendations: Our prior audit finding recommended that the District:

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 the District's students.

Current Status: During our current audit we found that the District did not implement our prior recommendations (see Finding No. 4 in this report).

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

Observation

Summary:

Our prior audit found that the cost of the District’s pupil transportation operations had increased substantially more than the rate of inflation over a four-year period. The amount paid to the District transportation contractors increased more than the Pennsylvania Department of Education (PDE) inflation-adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

Recommendations:

Our prior audit observation recommended that the District:

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 PDE’s final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District’s pupil transportation costs.

Current Status:

During our current audit we found that the District did not implement our prior recommendations (see Observation No. 1 in this report).

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

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