

HERMITAGE SCHOOL DISTRICT  
MERCER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2012



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

Ms. Laurie Biblis, Board President  
Hermitage School District  
411 North Hermitage Road  
Hermitage, Pennsylvania 16148

Dear Governor Corbett and Ms. Biblis:

We conducted a performance audit of the Hermitage School District (HSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 5, 2010 through November 2, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the HSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings 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 findings, observation and recommendations have been discussed with HSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve HSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the HSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 23, 2012

cc: **HERMITAGE 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 Hermitage School District (HSD). 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 HSD in response to our prior audit recommendations.

Our audit scope covered the period February 5, 2010 through November 2, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

### **District Background**

The HSD encompasses approximately 29 square miles. According to 2010 federal census data, it serves a resident population of 16,220. According to District officials, in school year 2009-10 the HSD provided basic educational services to 2,103 pupils through the employment of 154 teachers, 129 full-time and part-time support personnel, and 10 administrators. Lastly, the HSD received more than \$8.9 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

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

**Finding No. 1: Reporting Errors, Internal Control Weaknesses and Lack of Documentation Supporting Reimbursement for Pupil Transportation, and Lack of Documentation Supporting Usage of Tax Exempt Fuel.** Our audit of the HSD's pupil transportation records and the reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting reimbursements of \$494,538 and \$516,285. We also found a lack of documentation supporting the usage of tax exempt fuel (see page 6).

**Finding No. 2: School Bus Drivers' Qualification Deficiencies.** Our audit of the HSD's school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit (see page 13).

**Observation: Amount Paid to the Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance.** Our audit of the HSD's contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the HSD's pupil transportation operation had increased substantially more than the rate of inflation over the four-year period, based on data submitted to DE by the HSD for reimbursement purposes. The amount paid to the HSD's transportation contractor increased more than DE's inflation adjusted final formula allowance, used to determine the HSD's reimbursement of transportation services (see page 16).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the HSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the HSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 22).



## 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 February 5, 2010 through November 2, 2011, except for the verification of professional employee certification, which was performed for the period July 1, 2010 through September 6, 2011.

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

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

- ✓ 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?
- ✓ 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, observations and conclusions based on our audit objectives.

HSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit

*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.

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, and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 3, 2010, we reviewed the HSD's response to DE dated December 13, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### **Finding No. 1** →

### **Reporting Errors, Internal Control Weaknesses and Lack of Documentation Supporting Reimbursement for Pupil Transportation, and Lack of Documentation Supporting Usage of Tax Exempt Fuel**

*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 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 required 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 reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting reimbursements of \$494,538 and \$516,285, respectively, as well as lack of documentation supporting the usage of tax exempt fuel.

#### Background

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 odometer readings on a stop-by-stop basis, to a tenth of a mile. This reading is to be done once a month for eight months. In addition to mileage, the drivers record the number of pupils assigned to the vehicle.

The weighted average method is based on the drivers recording daily odometer readings, again on a stop-by-stop, tenth of a mile basis. Mileage is then totaled and divided by the total number of days transportation was provided.

The District used the sample average method to report mileage for reimbursement.

## Reporting Errors and Internal Control Weaknesses

### Mileage and Pupil Counts

We reviewed 14 of the 30 vehicles used to transport pupils to and from school during the 2009-10 school year. Of the 14 reviewed, 10 vehicles had errors in reporting mileage and pupils to DE for reimbursement. These errors resulted in a net insignificant underpayment but were an indication of internal control weaknesses.

The errors noted were:

- Mileage for two vehicles, which were used for multiple runs, was incorrectly reported;
- The greatest number of pupils was incorrectly reported for nine buses. For each bus the District reported the pupil count for the route that had the highest mileage instead of the greatest number of pupils for that specific bus route; and
- No records were available showing students who were late entries and early withdrawals, documentation that is needed to verify the greatest number of pupils transported.

For both the 2009-10 and 2008-09 school years, District personnel stated that the District did not maintain afternoon rosters, only morning rosters. Changes were made when pupil counts or routes changed between morning and afternoon. The greatest number of pupils was not reported on any one run for each bus, instead the pupil counts on the longest mileage run were used.

In addition, audit of the District's contractor costs for the 2008-09 school year found that the District did not include \$113,917 in fuel cost for three of the four contractors. It should be noted the reporting error had no effect on the District's reimbursement, as the amount paid to the contractors exceeded DE's reimbursable final formula allowance.

### Nonreimbursable and Hazardous Route Pupils

Nonreimbursable pupils are elementary pupils living within one and a half miles of their school or secondary pupils living within two miles of their school who are transported by the District. Such pupils are not to be included in the calculation of the District's transportation reimbursement unless they are classified as exceptional children, are being transported to area vocational-technical schools, or are transported over Pennsylvania Department of Transportation (PennDOT) certified hazardous walking routes.

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

The District failed to maintain records of pupils transported to and from school that included the pupils' distances from home to pertinent school bus loading zones. This information is required to determine the number of District pupil counts that are reported for hazardous and nonreimbursable pupils to DE.

The number of pupils transported, daily mileage, the number of non-reimbursable pupils transported, the number of hazardous route pupils transported, and the amount paid contractors are all integral parts of the public transportation reimbursement formula and must be maintained in accordance with the State Board of Education regulations and DE guidelines and instructions.

As a result of District personnel's failure to prepare and/or retain support documentation, the auditor was unable to verify that the District received the accurate reimbursement entitled for pupil transportation and services.

### Certificates of Insurance

Our audit found that the District did not have all insurance certificates for pupil transportation coverage on file at the District for one contractor. The business and transportation offices each believed the other had it on file.

At our request, business office personnel obtained adequate current copies from the contractor during the course of our audit.

#### 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.

The District purchased 54,757 gallons of fuel during the 2009-10 school year, at a total tax-exempt cost of \$114,747. We found the District does not keep adequate controls on the tax-exempt fuel.

The audit found 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. No records were on file at the District to verify that the tax exempt fuel purchased was used for the exclusive purpose of transporting students.

District personnel stated they do not monitor the contractors' tax exempt fuel usage. A comment was made to the auditors that the Department of Revenue (DR) had reviewed the fuel dispensing and records some time ago and no concerns were noted. However, we concluded that the 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.

At the time of the audit, District personnel contacted the three District contractors for fuel usage records. One contractor provided monthly summaries of total fuel dispensed and fuel dispensed by vehicle for the 2008-09 school year only. The other two contractors provided receipts, from which District personnel prepared a yearly summary report of the gallons purchased by date, price per gallon, and the date fuel was dispensed in each vehicle. Also included were total gallons used, miles per day, number of days, yearly total miles driven and total average miles per gallon.

A copy of this report will be forwarded to DR for its review.

## **Recommendations**

The *Hermitage 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. Prepare and retain on file District source documentation used to report pupil transportation data to DE, including the sample average for pupils that enter, withdraw or relocate within the District, and when bus route mileage changes occur.
3. Prepare and maintain morning and afternoon bus rosters.
4. Conduct an internal review to ensure the greatest number of pupils and mileage were accurately reported to DE for reimbursement.
5. Ensure all contractor cost for transportation to and from school is properly reported.
6. Ensure adequate current liability insurance coverage is provided by each contractor at the beginning of each school year. Documentation verifying the coverage should be retained in District files.
7. Establish procedures to monitor the fuel usage to ensure all tax-exempt fuel purchased is used for school-related purposes only, including separation of fuel usage for



transportation to and from school and other transportation services.

8. Require the pupil transportation contractors to provide evidence of the actual usage of all tax-exempt fuel purchased for DR review. DR is responsible for determining the actual fuel tax liability.
9. Enable the transportation coordinator to attend any seminars regarding the proper collection, maintenance, and submission of transportation data.
10. Review transportation reports submitted to DE for years subsequent to those we audited and ensure the reported information is accurate, and that supporting documentation is on file to support all data reported for each bus.

The *Department of Revenue* should:

11. 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. The district will begin to prepare and maintain records of odometer readings between all bus stops and pertinent loading zones during the current school year, 2011-12.

The reason these more detailed documents were not previously kept, is because the district was under the impression that as long as we had a list of students within 1½ miles for elementary and 2 miles for secondary, documenting actual mileage was not necessary, as all of these students are considered hazardous and there were no non-reimbursable students. We have never kept these records, nor have never been asked through prior state audits to do so.

2. The district will prepare and retain on file source documentation used to report pupil transportation data, including the sample average for pupils that enter, withdraw or relocate within the District, and when bus

route mileage changes occur. All errors were clerical in nature and will be properly addressed in the future.

3. The district currently maintains AM rosters and will begin to maintain PM rosters. These rosters were not previously maintained as they are generally the same as the AM rosters, with the exception of two buses that transport day care students.
4. The district will conduct an internal review of the 2010-11 transportation reports to ensure that the greatest number of pupils and mileage were accurately reported.
5. Not including fuel in the total contractor cost for fiscal year 2008-09 was a clerical error that was not continued in the 2009-10 or 2010-11 fiscal year.
6. There was a certificate of insurance on file for all the transportation contractors; however, one contractor inadvertently forwarded a certificate listing another local district as the certificate holder. Although this certificate did not include the district's name as certificate holder it still provided verification that appropriate levels of insurance were maintained by the contractor. This contractor was able to immediately fax the correct certificate listing the district as the certificate holder.
7. In the past, the district has requested that the transportation contractors maintain all fuel usage records and provide them to the district upon request. Beginning with the 2011-12 school year, the district will establish more thorough procedures with regard to contractor fuel usage that will include separate usage for other transportation services. These records will be requested monthly from each contractor for which the district purchases fuel and will be maintained within the district.
8. See #7 above.

**Finding No. 2** →

**School Bus Drivers' Qualification Deficiencies**

*Criteria relevant to the finding:*

PennDOT bus driver regulations require the possession of a valid driver's licenses 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 states 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 drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of 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 25 of the 42 bus drivers currently employed by the Hermitage School District's pupil transportation contractor. The drivers were selected at random.

Our audit found that of the 25 drivers reviewed, one driver had an expired commercial driver's license and "S" endorsement card on file, one driver had an expired physical examination certificate on file, and two drivers did not have the proper federal criminal history (FBI) record on file.

The failure to have the FBI record on file was due to clerical error.

The District also failed to have the bus driver list up-to-date.

By not having required bus drivers' qualification documents on file at the District, the District was not able to review the documents 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 September 13, 2011, we informed the District management of the missing documentation and instructed them to immediately obtain the necessary documents, so they can ensure all drivers are properly qualified to have direct contact with children. The District's transportation contractors provided the documentation on September 13, 2011, prior to the completion of the audit.

The failure to have the records on file at the District was result of the District's system administrator's failure to ensure the transportation contractor complied with provisions of the Public School Code.

### **Recommendations**

The *Hermitage School District* should:

1. Ensure that the District's transportation coordinator reviews each drivers' qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractor to ensure that the District's files are up-to-date and complete.

### **Management Response**

Management stated the following:

1. The expired copies of the CDL driver's license and physical examination certificate within the districts files had very recently expired. These drivers had properly and timely updated these requirements; however the updated copies had not yet been forwarded to the district by the contractor. Updated forms were available from the contractor, immediately, within hours of the request. The reason these updated forms were not currently at the district was merely a timing issue due to the commotion of the start of a new school year. The transportation coordinator will continue to work closely with each contractor to ensure that proper and current documentation is maintained.

The district did have "unofficial" copies of the Act 114 federal criminal history records on file, but had inadvertently missed the deadline to download official copies. The district will be more adamant with regard to timely downloading these official forms.

2. The bus driver list not being completely "up-to-date" was merely a timing issue due to the unknowns that occur at the beginning of each school year, especially with regard to driver substitutes. Many changes occur at this time, substitutes from previous years often decide at the last minute not to continue to sub. The

transportation coordinator makes every attempt to reflect these changes as timely as possible.

Overall, the district believes Finding #2 to reflect timing issues. All proper documentation was provided within the same day, licenses and certificates were not actually expired; however, updated copies had not yet reached the district. In conclusion, the district fully intends to continue to address these issues to ensure proper records are maintained on site at all times.

**Observation** →

**Amount Paid to the Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance**

Our audit of the Hermitage School District's (HSD) contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the District's pupil transportation operation had increased substantially more than the rate of inflation over the four-year period, based on data submitted to DE by the District for reimbursement purposes. The amount paid to the District's transportation contractor increased more than DE's inflation adjusted final formula allowance which DE uses to determine the District's reimbursement of 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, 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 DE’s final formula allowance:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2009-10	\$1,278,667	\$906,719	\$371,948	41.02
2008-09	1,242,364*	895,495	346,869	38.73
2007-08	1,081,055*	845,718	235,337	27.83
2006-07	1,061,614*	767,432	294,182	38.33

\*District personnel failed to include the cost of fuel provided to three of the four contractors, which resulted in misstatements of contractor actual cost. The auditor added \$113,917 in fuel cost to the 2008-09 school amounts paid the contractors. The District properly reported the fuel cost for the 2009-10 school year.

Our audit of services provided by the pupil transportation contractor found that over the last four years the number of vehicles used to transport pupils had no significant changes, the District’s total number of pupils transported had decreased, and the number of approved annual miles vehicles traveled had increased, detailed as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	30	2,295	427,569
2008-09	31	2,302	401,149
2007-08	30	2,354	389,942
2006-07	30	2,376	367,824

The following chart details the percent each contractor was paid over the state's final formula allowance for the 2009-10 and 2008-09 school years' pupil transportation services.

<u>School Year</u>	<u>Contractor</u>	<u>Amount Paid Contractor</u>	<u>Final Formula Allowance</u>	<u>Difference</u>	<u>(Over) /Under Percent</u>
2009-10	A	\$876,670	\$567,200	\$(309,470)	(54.56)
	B	120,408	74,578	(45,830)	(61.45)
	C	106,859	73,825	(33,034)	(44.75)
	D	174,729	191,115	16,386	9.38
2008-09	A	\$866,688	\$581,378	\$(285,310)	(49.07)
	B	114,405	87,368	(27,037)	(30.95)
	C	100,298	72,770	(27,528)	(37.83)
	D	160,973	153,980	(6,993)	(4.54)

The following chart details the total amount paid all contractors each school year, the maximum cost allowable, 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 Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$1,278,667	\$ 890,333	\$ 494,538	\$ 784,129
2008-09	1,242,364	895,495	516,285	726,079
2007-08	1,081,055	838,107	494,370	586,685
2006-07	<u>1,061,614</u>	<u>742,019</u>	<u>406,858</u>	<u>654,756</u>
Total	<u>\$4,663,700</u>	<u>\$3,365,954</u>	<u>\$1,912,051</u>	<u>\$2,751,649</u>

A query summary of DE's pupil transportation data found that for the 2009-10 school year 486 school districts, and area vocational-technical schools in Pennsylvania contracted out their pupil transportation service. Approximately 26.3 percent of the local education agencies (LEA) paid their contractors the final formula or less. An additional 23.8 percent paid less than 10 percent over their final formula allowance. For the 2009-10 school year the



HSD paid its contractors 41.02 percent over the state formula, compared to 38.73 percent during the 2008-09 school year. Of the 486 LEAs, approximately 75.7 percent of them paid their contractors closer to or less than the state formula than HSD did for the 2009-10 school year.

District personnel provided the auditor with copies of current transportation contracts for contractors A, B and C. Contractor A's contract for the 2008-09 through 2013-14 school years was reopened for the 2011-12 school year, and a new seven-year agreement was signed on September 19, 2011. The contracts with contractors B and C commenced with the 2007-08 school year and continue through the 2011-12 school year. Our review found the following:

- Contractor A's 2008-09 contract called for a two-year freeze at the previous contract's 2007-08 rates, with an 8 percent increase over the 2010-11 through 2013-14 school years. The newly signed agreement effective with the 2011-12 school year calls for an average annual increase of 1.28 percent over the 7 years of its term. Additionally the District provides all fuel for the contractor.
- Contractor B and C's contracts provided for 11 percent increases over the five-year terms of the contracts.
- No contract was provided for Contractor D.

Our review noted contractor A's new seven-year agreement provides a \$24.03 reduction in the daily rates for regular bus runs the first year and at the end of the seven years the District will be paying \$4.03 per day less than the 2010-11 school year daily rate.

District personnel stated the daily rates provided in the agreements per vehicle were not compared to DE's reimbursable formula allowance.

According to District personnel, it was agreed the District would not seek competitive bids and would instead negotiate with the same contractors that had been providing excellent service to the District.

While the bidding of pupil transportation services is not required under state law, competitive bidding can result in a lower cost to District taxpayers.

**Recommendations**

The *Hermitage School District* should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all of the District's pupil transportation services to ensure the most efficient costs to the District and its taxpayers.
3. 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 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 and has already fully recognized that previous transportation contractor rates exceeded those of neighboring districts and the state's cost formula. This is the primary reason for renegotiating the contract with [contractor A] beginning with fiscal year 2011-12. Through this renegotiation process the district was able to experience immediate savings in excess of ten percent beginning in fiscal year 2011-12 and limit the next seven year increases to an average of 1.28% annually. Total savings over the three year period to the end of the prior contract will exceed \$275,000. In fact, the renegotiated rate per bus per day is \$4.03 less after seven years than it was for the 2010-11 school year.

Although the district fully recognizes that a formal bidding process is not required and that contracting for transportation services is at the board and management's discretion, in the future, the district will consider utilizing a request for proposal process to renegotiate contracts for pupil transportation services to ensure competitive pricing is achieved.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Hermitage School District (HSD) for the school years 2007-08 and 2006-07 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 HSD 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 HSD did implement recommendations related to unmonitored vendor system access and logical access control weaknesses.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Observation:**            **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation

Summary:            The District uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications. During our prior audit the auditors found three weaknesses regarding vendor access to the District's system.

Recommendations:    Our audit observation recommended that the HSD:

1. Ensure the District's Acceptable Use Policy includes provisions for authentication (syntax requirements).
2. Establish separate information technology policies and procedures for controlling the activities of the CSIU and have the CSIU sign this policy, or require the CSIU to sign the District's Acceptable Use Policy.
3. Allow access to the system only when the CSIU needs to access to make pre-approved changes/updates or requested assistance. This access should be removed when the CSIU has completed its work. This procedure would also enable the monitoring of CSIU changes.

Current Status:        During our current audit procedures we found that the HSD implemented the recommendations in February of 2011.

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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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