

INDIANA AREA SCHOOL DISTRICT
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Tom Harley, Board President
Indiana Area School District
501 East Pike
Indiana, Pennsylvania 15701

Dear Governor Corbett and Mr. Harley:

We conducted a performance audit of the Indiana Area School District (IASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 12, 2009 through September 30, 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 IASD 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 a 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 IASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve IASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the IASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 12, 2012

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



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Executive Summary

Audit Work

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

Our audit scope covered the period March 12, 2009 through September 30, 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 IASD encompasses approximately 82 square miles. According to 2000 federal census data, it serves a resident population of 32,146. According to District officials, in school year 2007-08 the IASD provided basic educational services to 2,967 pupils through the employment of 256 teachers, 146 full-time and part-time support personnel, and 17 administrators. Lastly, the IASD received more than \$13.6 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the IASD 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: Misreporting of Data, Internal Control Weaknesses and Lack of Documentation Supporting Reimbursement for Pupil Transportation, and Lack of Documentation Supporting Use of Tax Exempt Fuel. Our audit of the IASD's pupil transportation records and reports submitted to the Department of Education for the 2007-08 school year found misreporting of data, internal control weaknesses and lack of documentation supporting reimbursements of \$858,705, as well as a lack of documentation supporting the usage of tax exempt fuel (see page 6).

Observation: Memorandum of Understanding Not Updated Timely. The IASD had on file a properly signed Memorandum of Understanding (MOU) between itself and its local law enforcement agencies; however, the MOU with one agency has not been updated since May 14, 2007 (see page 13).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the IASD, we found the IASD had taken appropriate corrective action in implementing our recommendations pertaining to reporting federal wages in the Social Security and Medicare reports (see page 15) and certification deficiencies (see page 16).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period March 12, 2009 through September 30, 2010, except for the verification of professional employee certification which was performed for the period January 31, 2009 through June 30, 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 IASD'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.

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.

IASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 13, 2010, we reviewed the IASD's response to DE dated February 8, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Misreporting of Data, Internal Control Weaknesses and Lack of Documentation Supporting Reimbursement for Pupil Transportation, and Lack of Documentation Supporting Use of Tax Exempt Fuel

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.4 states, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

(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.

In addition, Section 518 of the Public School Code requires retention of records for a period of not less than six years.

Also, instructions for completing DE's End-of-Year Pupil Transportation reports provide that the local agency (LEA) must maintain records of miles with pupils, miles without pupils, and the greatest number of pupils assigned to each vehicle. Additionally, the instructions provide procedures, information, and data used by the LEA should be retained for audit purposes. The instructions note that the miles with and without students are to be reported to the nearest tenth.

Our audit of the District's pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 school year found that it had misreported its data, resulting in a transportation subsidy overpayment of \$89,546. In addition, we found internal control weaknesses and a lack of documentation supporting reimbursements of \$858,705, as well as a lack of documentation supporting the use of tax exempt fuel.

The incorrect reporting of data, internal control weaknesses and lack of documentation supporting pupil transportation data reported to DE for the 2007-08 school year were as follows:

Incorrect Reporting of Data

According to District's personnel, beginning in school year 2007-08 the District's buses were switched in morning and afternoon runs to maximize the District's pupil transportation reimbursement by using the greatest number of pupils assigned to the bus on any one run. However, the mileage rosters completed by the bus drivers for each bus did not support the premise that the buses actually changed routes during the day. The audit found that the District's transportation director reported to DE that the buses switched morning and afternoon runs, but in actuality they did not. Consequently, due to the incorrect reporting, DE overpaid the District for its pupil transportation reimbursement by \$87,546.

Our discussions with District bus drivers employed during the 2007-08 school year found that their school buses did not change runs during the school day as reported by the District transportation director. The drivers interviewed stated some buses changed routes during the school year, but changes were not made daily. Rather, buses with short mileage routes were at times switched with buses with

longer routes so that the total miles traveled during the school year by each bus would be relatively equal.

The incorrect reporting of data was the result of District personnel's apparent attempt to increase the District's Commonwealth pupil transportation reimbursement.

Internal Control/Lack of Documentation

The District's bus route descriptions failed to include detailed street/road directions, and no bus route maps were provided.

District personnel failed to retain pupil roster documentation to support the greatest number of pupils assigned to buses as reported to DE for reimbursement.

District personnel failed to retain backup documentation to support when students entered, withdrew, or relocated within the District. The only pupil rosters available were the rosters prepared at the end of the year.

The number of days of service for which one contractor billed did not agree with the number of days of service the District reported to DE for six of the contractor's buses. District personnel provided the auditor with three sets of monthly summary invoices documenting the number of days billed, none of which supported the number of days service reported.

For the 2007-08 school year, odometer readings were retained for only four months February, March, April and May. Eight months are required.

The mileage reports provided for audit identified odometer readings at the beginning of a run, first pick-up, last drop-offs and the end of the run only, and failed to identify all pupils' distances from school.

No documentation was provided to support the total number of miles the buses traveled for all purposes during the school year as reported to DE.

Mileage odometer readings provided to support the daily miles with and without pupils were not recorded and reported to tenths of a mile for 18 of the 37 buses.

Amount Paid Contractors

Our audit of the amount paid the District's contractors found the District reported the cost of all fuel purchased and used by the contractors as to-and-from-school pupil transportation cost. Fuel costs for transportation to and from school are a legitimate reimbursable expenditure. However, no documentation was provided to show the amount of fuel that was used for transporting students to athletic events, field trips, activity trips, class trips, or other purposes, costs for which are not eligible for reimbursement.

The fact that the entire cost of fuel was reported for reimbursement and that some of the fuel was likely used for nonreimbursable purposes means that the District was overreimbursed for fuel cost. The exact amount of the overpayment could not be determined due to the lack of documentation.

Hazardous and Non-Reimbursable Pupils

- No documentation was available to support the number of nonreimbursable pupils reported. Nonreimbursable pupils are elementary pupils living within 1.5 miles of their school or secondary pupils living within two miles of their school who are transported by the District. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over certified hazardous walking routes.
- No documentation was available to support the number of pupils transported on approved hazardous routes. District personnel provided a list of the students reported as hazardous route riders but failed to identify the bus and route to which they were assigned. Hazardous pupils are any pupils living in an area where the highway, road or traffic conditions are such that walking constitutes a hazard to the safety of the child, as certified by the Pennsylvania Department of

Transportation. Hazardous route pupils are reimbursable.

Nonpublic Pupils

Our audit found that a listing of nonpublic pupils transported was prepared by the District. However, the listing failed to identify the buses to which the pupils were assigned. In addition, the District did not provide any documentation of a request for pupil transportation services from the nonpublic schools.

The internal control weaknesses and lack of supporting documentation were the result of the director of pupil transportation failing to prepare and retain necessary documentation in support the data reported to DE as required by DE's guidelines and instructions. The failure to prepare and retain detailed documentation also resulted in the auditor being unable to verify that the District received the correct pupil transportation reimbursement entitlement

Daily miles with and without pupils, the greatest number of pupils transported, the days of service and the number of hazardous, nonreimbursable and nonpublic pupils are all integral parts of the transportation reimbursement formula and must be maintained accurately in accordance with State Board of Education regulations and DE guidelines.

Recommendations

The *Indiana Area School District* should:

1. Strengthen internal audit controls to ensure that only actual and accurate pupil transportation is submitted to DE for reimbursement.
2. Prepare and retain detailed bus route descriptions for each bus run.
3. Prepare and retain supporting documentation, including correspondence from the District's child accounting personnel for all students that entered, withdrew or relocated within the District to support the District's average pupil count calculation in accordance with DE guidelines and instructions.

4. Prepare and retain mileage information identifying miles with and without pupils for all buses and pupil distances to school, recorded to the tenth of a mile.
5. Retain annual odometer readings from the end of the prior reporting year and the end of the reporting year to support the total annual miles traveled for all purposes for each bus.
6. Ensure the amount paid contractors submitted for reimbursement is for to and from school pupil transportation related services only.
7. Report for reimbursement fuel costs for transportation to and from school only.
8. Prepare and retain on file at the District source documentation used to support the number of hazardous, nonreimbursable and nonpublic pupils transported.
9. Review transportation reports submitted to DE for subsequent years of audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported to DE; resubmit reports, if necessary.
10. Allow the District's transportation director and the administrative support staff to attend conferences and training sessions relating to pupil transportation reporting and recordkeeping requirements.

The *Department of Education* should:

11. Adjust the District's future allocations to resolve the \$87,546 overpayments to the District as a result of the improper reporting of the greatest number of pupils assigned.
12. Consider withholding future pupil transportation reimbursement payments until the District prepares and retains supporting documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, and DE instructions for completing the End-of Year Pupil Transportation Reports.

Management Response

Management stated the following:

Misrepresentation of Data

The school district intended to switch AM and PM runs but acknowledges it did not actually occur and therefore does not dispute that the greatest number of pupils reported was overstated.

Internal Control/Lack of Documentation

- No street/road directions or route maps provided. Route maps and street directions were not provided because the bus stops are based on street locations. The transportation software has the capability to provide driving directions so they will be created in the future.
- Failure to retain pupil rosters as backup for weighted average calculation. Weighted average calculations were based on actual data but paper copies were not kept. A snap shot of each date used for the weighted calculation is not available from the software since it only provides the current information. Paper copies will be maintained in the future.
- Failure to retain backup documentation of students entered, withdrew, or relocated. Changes will be reflected on the paper copies maintained for the weighted average calculations.
- Only four months of mileage rosters retained as backup for weighted average calculation. Monthly mileage reports have been retained for the years prior to and after 2007-2008. The 2007-2008 months missing are due to relocation of the transportation office and have not been found.
- Mileage reports failed to identify pupil distance from home (bus stop) to school. Data is maintained for students not eligible for transportation reimbursement to ensure they are not reported, so the information on eligible students was not provided on the mileage reports. This information will be provided in the future.
- No documentation to support the total number of miles the buses traveled for all purposes during the school

year as reported to DE. The contractor provided annual odometer readings but backup documentation was not retained. The backup documentation will be retained in the future. 18 of 37 monthly odometer readings not reported to a tenth of a mile. Some buses do not have the capability of reporting tenths of a mile.

Amount Paid Contractors

- The school district acknowledges that the amount paid the contractors reported to DE was overstated because no adjustment was made for fuel use for athletic events, field trips, activity trips, or class trips; however, the contractor was paid \$34,111 more than the maximum allowable cost so this overstatement did not result in overstatement of state reimbursement. The estimated gallons for these events in 2007-08 are 6,000 at a cost of \$11,945.

Hazardous and Non-Reimbursable Pupils

- No documentation to support the number of pupils transported on approved hazardous routes. This data is maintained on a separate list and a column will be added to include bus number for each student.
- No documentation to support the number of non-reimbursable pupils reported. This data is maintained on a separate list and a column will be added to include bus number for each student.

Nonpublic Pupils

- Listing of nonpublic pupils did not indicate which bus the pupils were actually transported on or assigned to. This data is maintained on a separate list and a column will be added to include bus number for each student.
- No documentation from the nonpublic schools to support their request for transportation services. Copies of non-public school calendars and their list of students to be transported is retained.
- The school district will review and revise the 2008-09 and 2009-10 pupil transportation reports submitted to the Department of Education.

Observation

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.¹

The Department of Education, Office for Safe Schools, provided a sample of a MOU in 1996 and updated it in 2002 for the school entity administrators to develop with local law enforcement agencies. The 2002 sample in Section VI part B states the following:

This memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memorandum of Understanding Not Updated Timely

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and one local law enforcement agency was signed in May 2007 and was not updated.

The failure to update the MOU with the local law enforcement agency could result in a lack of cooperation, direction, and guidance between District employees and the law enforcement agency if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

During our current audit District personnel started the update process. As of September 30, 2010, the District did not yet have the updated MOU completed and signed by the law enforcement agency.

Recommendations

The *Indiana Area School District* should:

1. In consultation with the solicitor, review, update and re-execute the current MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Response of Management

Management stated the following:

The two Memorandums of Understanding covered different time frames and one had expired. Both have been renewed for the same time frame and will be updated biannually.

Status of Prior Audit Findings and Observations

Our prior audit of the Indiana Area School District (IASD) for the school years 2005-06 and 2004-05 resulted in two findings. The first finding pertained to the reporting of Social Security and Medicare wages, and the second pertained to certification deficiencies. 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 IASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the IASD did implement recommendations related to the findings.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments Totaling \$23,625

Finding Summary: Our prior audit found that Social Security and Medicare wages for the 2005-06 and 2004-05 school years were incorrectly reported to DE, resulting in reimbursement overpayments totaling \$23,625.

Recommendations: Our audit finding recommended that the IASD:

1. Comply with DE instructions when reporting wages paid by federal funds.
2. Review reports submitted after the audit period for inclusion of federal wages and resubmit to DE, if necessary.

We also recommended that DE:

3. Adjust the District's allocations to correct the reimbursement overpayments of \$23,625.

Current Status: Our current audit of Social Security and Medicare wages found the IASD did take appropriate corrective action.

Additionally, the current audit found IASD corrected and submitted revised reports to DE for the two subsequent school years.

On September 2, 2010, DE adjusted the District's allocations to correct the reimbursement overpayments of \$23,625.

Additionally, DE adjusted the District's allocations on October 6, 2010, to recover overpayments totaling \$27,028 for revised forms for the subsequent two years.

Finding No. 2: Certification Deficiencies

Finding Summary: Our prior audit of the District's professional employees' certification and assignments for the period March 1, 2006 through January 30, 2009, found two professional employees who did not have the appropriate certificates to cover their assignments.

Recommendations: Our audit finding recommended that the IASD:

Put procedures in place to ensure all professional employees are properly certified for their assignment.

We also recommended that DE:

Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: Our current audit of the IASD professional employees found the District did take appropriate corrective action.

The current audit found all professional employees' were properly certified for their assignments.

On June 1, 2010, DE adjusted the Districts' allocations and recovered \$6,560 in subsidy forfeitures for the certification deficiencies.

Distribution List

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

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

