



LAKEVIEW 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. Scott J. Lewis, Board President
Lakeview School District
2482 Mercer Street
Stoneboro, Pennsylvania 16153

Dear Governor Corbett and Mr. Lewis:

We conducted a performance audit of the Lakeview School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 19, 2010 through December 2, 2011, 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 applicable state laws and administrative procedures, as detailed in the five audit findings within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania State Ethics Commission and the Pennsylvania Department of Education.

Our audit findings 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 5, 2013

cc: **LAKEVIEW 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 Lakeview 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.

Our audit scope covered the period February 19, 2010 through December 2, 2011, 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 146 square miles. According to 2010 federal census data, it serves a resident population of 8,610. According to District officials, the District provided basic educational services to 1,291 pupils through the employment of 98 teachers, 76 full-time and part-time support personnel, and 6 administrators during the 2009-10 school year. Lastly, the District received \$9 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 five audit findings within this report.

Finding No. 1: District Should Strengthen Its Internal Control

Environment. Our audit of the District found a breakdown in internal controls and communication (see page 6).

Finding No. 2: Possible Conflicts of Interest.

Our review of members of the Board of School Directors' Statements of Financial Interests for the calendar years 2009 and 2010 found possible conflicts of interest relating to directors (see page 11).

Finding No. 3: Certification Deficiencies.

Our audit of the professional employees' certificates and assignments for the period July 1, 2010 through November 23, 2011, found that three individuals were assigned to teaching positions without possessing the proper certification (see page 14).

Finding No. 4: Internal Control Weaknesses and Reporting Errors Relating to Documentation Supporting Reimbursement for Pupil Transportation.

Our audit of the District's pupil transportation records and reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found internal control weaknesses, reporting errors, and a lack of documentation to support reimbursements of \$670,245 and \$718,883, respectively (see page 16).

Finding No. 5: Failure to Have All School Bus Drivers' Qualifications on File. Our audit of the District's school bus drivers' qualifications for the 2011-12 school year found that the District did not have all drivers' records on file at the time of audit (see page 22).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.

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 February 19, 2010 through December 2, 2011, except for the verification of professional employee certification, which was performed for the period July 1, 2010 through November 23, 2011.

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 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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?

- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, 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 which warrant further attention during our audit?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, were there internal controls in place related to vendor access?

Methodology

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.

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 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, regulations, 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.

Findings and Observations

Finding No. 1

District Should Strengthen Its Internal Control Environment

Criteria relevant to the finding:

Section 508 of the Public School Code, 24 PS § 5-508, provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects: . . . “Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors.”

Internal Control Management and Evaluation Tool. *Government Accountability Office*. (August 2001), pg 12, 17. “Formal job descriptions or other means of identifying and defining specific tasks required for job positions have been established and are up-to-date. Job descriptions clearly indicate the degree of authority and accountability delegated to each position and the responsibilities assigned.”

Our audit of the Lakeview School District (District) found a breakdown in internal controls and communication within the District.

Salaries

We noted that the annual salaries for the business manager and other office staff were not documented in the board minutes. The District’s Board of School Directors (Board) does approve the salaries when they approve the detailed general fund budget. However, there was no reference to the specific salaries during the Board meetings.

District personnel stated that they were unaware of the Public School Code’s (24 PS 5-508) requirement that the Board approve the salaries and the compensation of officers, teachers, or other appointees of the Board, and record the resolution and vote in the District’s board meeting minutes.

Failing to document the Board’s approval of salaries increases the likelihood that changes could be made to the amount without the Board’s knowledge. Likewise, failing to record the amounts in the board meeting minutes decreases the District’s overall transparency.

Job Descriptions

The District hired a new Superintendent on July 1, 2008. The new Superintendent’s job description approved on January 21, 2008, outlines as part of the superintendent’s responsibilities specific financial-related duties. However, during our audit we noted that those duties were actually being performed by the board secretary.

District administrators informed us that the Board added the title of business manager to the board secretary’s responsibilities. The District provided the auditors with supporting documentation that broke down the District’s general fund budget for the 2009-10 and 2008-09 school

years showing a \$5,000 increase in each year for the additional duties assumed by the board secretary.

Our review of District’s Board meeting minutes did note the change in job title, but not the salary increase. The previously mentioned documentation that reflected the salary increase was detailed in worksheets that were used during Board work sessions, indicating that the Board was aware of the salary increase. However, there should have been a formal approval during a public board meeting.

Additionally, we found no job description had been developed for either the newly created Board secretary/business manager position, or the revised superintendent’s responsibilities.

District administrators could not explain why the superintendent’s job description and contract were not amended or why the District had not developed and adopted appropriate job descriptions for their personnel.

According to the Government Accountability Office (GAO), maintaining updated job descriptions is an important factor to sustaining a strong internal control environment. Without such documentation, it is difficult to hold staff accountable and to evaluate their performance.

Purchase Orders

Our audit found that while board policy requires purchase orders, the policy provides no guidance as to when the purchase orders need to be completed. We noted that the business office’s practice was to print purchase orders and payments simultaneously. In addition, we found that purchase orders could be processed by various members of the business office. Moreover, the District’s purchase orders were printed with the Superintendent’s signature and had no additional managerial or supervisory sign-off.

GAO’s guidelines on maintaining strong internal controls state that forms such as purchase orders should be sequentially pre-numbered, and that no single person should be able to have control over both the authorization and the payment of a transaction. Without these measures, the District is at a greater risk of error, waste, or fraud.

Criteria relevant to the finding:

Standards for Internal Control in the Federal Government, *Government Accountability Office* (November 1999) page 14: “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. . . .” Transactions and other significant events should be authorized and executive only by persons acting within the scope of their authority. This is the principal means of ensuring that only valid transactions to exchange, transfer, use or commit resources and other events are initiated or entered into.

Debit Cards

At the April 19, 2010, Board meeting, the Board authorized the administration to obtain a debit card and set up a separate bank account for its use. According to the Board meeting minutes, “the Superintendent and/or business manager will also authorize the use of the debit card, developing accounting procedures for the use and payment of the debit card.”

While District personnel stated that debit card usage was limited to the Superintendent’s secretary for Amazon book purchases and car seats, the District did not develop a written policy governing the use of this account. By failing to have policies and procedures in place over the use of the debit card, the District opens itself up to potential misuse.

Federal Wages

Our audit of the District’s PDE-2105 forms (Reconciliation of Social Security and Medicare Tax Contributions) for the 2009-10 and 2008-09 school years found that the District relies on two individuals to identify which District employees are paid by federal funds. However, neither individual was given the responsibility to verify that the employees identified by the District as federal employees match the employees who are listed on federal grant applications.

Wages for employees who are paid by federal funds are to be excluded from wages used to calculate reimbursement for Social Security and Medicare contributions. Without appropriate reconciliation procedures in place, the District may not have received the reimbursement to which it was entitled.

Conclusion

While the Board is not responsible for the day-to-day operations of the District, they are responsible for establishing appropriate policies for maintaining a strong internal control environment. Proper oversight also requires the Board to periodically review these policies and update them as necessary. Moreover, the District’s

administration is responsible for the development and implementation of procedures that ensure compliance with the Board's policies and guarantee that managerial oversight is in place.

Such activities lead to a strong internal control environment, which will ensure that the District's resources are used efficiently and effectively, and will decrease the likelihood that the District will have incidents of fraud.

Recommendations

The *Lakeview School District* should:

1. Implement necessary procedures to ensure that District salary information is reported to and approved by the Board on an annual basis and documented in the District's board meeting minutes.
2. In conjunction with the District's solicitor, make the necessary revisions to the Superintendent's job description to remove language regarding the specific financial duties for which the Superintendent is no longer responsible.
3. Develop written procedures for using purchase orders.
4. Develop and implement an appropriate second sign-off procedure relating to the requesting and obtaining of purchase orders.
5. Develop written policies and procedures for the use of debit cards.
6. Require the business manager to develop and implement appropriate procedures relating to the reporting of federal wages.

Management Response

Management stated the following:

“As for board approved salaries, when the Board is building their budget they provide salaries and increases to the Business Manager/Board Secretary who implements in the Budget Work Copy, which is a line item by line item review. This Budget Work Copy includes the names of District employees and their salaries, as decided by the Board of Directors. This information also included the

increase the Board Secretary received when the title of Business Manager was added. Even though this information was not within the Minute Books this draft copy is available along with the minutes and was provided to the State for their review. The State is requesting the salary information be included with the minute books which management agrees will occur. As for the teaching staff their salaries are based on the Professional Contract. Management agrees that a job description has never been provided for the Business Manager/Board Secretary and needs to be put in place by the Board of Directors, as well as revising the Superintendent's Contract.

As for purchase orders, they are processed through the Central Administration Office. At times purchase orders and payments are printed simultaneously. An example would be when the Career Center invoices the District for their share of Debt Service. To process payment a purchase order is required to be created. Purchase orders are processed through the year as needed by the Office of the Superintendent and Business Manager/Board Secretary. Management agrees that another signature will be added to the purchase order and has implemented the procedure that the Business Manager/Board Secretary will also initial the office copy.

When the District decided to authorize obtaining a Debit Card it was for the purpose of, but not limited to, purchases through Amazon, the purchase of car seats, and other purchases that needed payment at once. While management agrees that written procedures need to be put in place we don't believe there has been misuse."

Procedures have been put in place to further review and ensure each quarter that the correct employees are identified as federal wages for the Pennsylvania Department Education 2105 Reconciliation of Social Security and Medicare Tax Contribution." **Auditor Conclusion** We are pleased that the District's management plans to put written procedures in place to govern the use of its debit cards. At no time did the audit suggest the debit cards were misused, only that the lack of written procedures increased the risk of misuse.

Finding No. 2

Possible Conflicts of Interest

Criteria relevant to the finding:

The Pennsylvania Public Official and Employee Ethics Act, 65 Pa C.S. § 1102, provides the following definitions:

“‘Business.’ Any corporation, partnership, sole proprietorship, firm . . . self-employed individual . . . or any legal entity organized for profit.

“‘Business with which he is associated.’ Any business in which the person or a member of the person’s immediate family is a director, officer, owner, employee or has a financial interest . . .

“‘Conflict or Conflict of Interest.’ Use by a public official of any confidential information for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or member of his immediate family is associated. . . .

“‘Contract.’ An agreement or arrangement for the acquisition . . . of consulting or other services. . . .

“‘Financial Interest.’ Any financial interest in a legal entity engaged in business for profit which comprises more than 5 percent of the equity of the business or more than 5 percent of the assets of the economic interest in indebtedness. . . .

“‘Immediate Family.’ A parent, spouse, child, brother or sister.”

Our review of the Statements of Financial Interest for the calendar years 2009 and 2010 and the Lakeview School District’s (District) board meeting minutes found that the members of the School Board of Directors (Board) failed to abstain from voting on issues that involved related parties, creating possible conflicts of interest.

Board Approved Counseling Service Provided By Board Member’s Spouse

At the March 15, 2010, Board meeting, one of the District Board member's spouses presented a proposal to provide a district-wide counseling service, one day a week, for \$5,500 in the 2010-11 school year. The Board had approved the proposal with a revised fee of \$5,000. However, the Board member whose spouse would be providing the services was not required to abstain from voting. It should be noted that the District did not solicit the proposal and that the District did not advertise for a counseling service, as the District already has a school psychologist on staff.

The District did not receive a contract for the counseling services after the Board approved the proposal. Supporting documentation found that the District actually paid \$5,500 for the service instead of the Board approved \$5,000, with no explanation as to why the additional \$500 was paid.

Furthermore, in the 2011-12 school year the District paid an additional fee of \$5,500 to receive the same counseling services, without obtaining Board approval and without the receipt of a contract for the service.

District administration stated that they were not required to solicit additional proposals or advertise the needed service as the contract was under \$10,000. While it is true that the Public School Code does not require districts to solicit bids for contracts under \$10,000, good business practices suggest that if this was a necessary service the District should have taken some action to ensure that it was getting a reasonable price for this service. The administration stated that it was unfamiliar with the provisions of the

The Ethics Act, 65 Pa C.S. §1103, “Restricted Activities,” further provides, in part:

“(f) Contract. – No public official . . . or his spouse or child or any business in which the person or his spouse is associated shall enter into any contract valued at \$500 or more with the governmental body with which the public official . . . is associated . . . unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. . . .

“(j) Voting Conflict: Any public official . . . who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall abstain from voting and, prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible for recording the minutes of the meeting at which the vote was taken”

65 Pa C.S. § 1105(b)(5) includes under the information to be provided on Statements of Financial Interests:

“The name and address of any direct or indirect source of income totaling in the aggregate of \$1,300 or more. . . .”

Ethics Act regarding Board members and their immediate families entering into contracts valued at \$500 or more.

Board Members Working For Board-Approved Depository

Our review of the District Board members’ Statements of Financial Interest found that two board members were management employees at the District’s only board-approved depository institution. In addition, we learned from District personnel that another Board member’s spouse was an employee at the same institution. However, a review of the Board meeting minutes for the June 21, 2010 and June 20, 2011 meetings, at which the Board approved the local depository institution as the sole depository, found that none of the three Board members who had a connections to the institution abstained from voting. Instead all three voted in favor of approving the institution. The board secretary stated that the Board members were not employed at the branch where the District conducted business therefore they saw no conflict of interest in the vote. Nevertheless, the connection was not disclosed and the relationship still demonstrated a potential conflict of interest.

Board Member Conducting Business with the District

During the 2009-10 school year, the Board approved a district-sponsored fundraiser for the senior class. The approved fundraiser involved paying a Board member’s business \$4,232 in the 2009-10 school year. However, the Board member whose business was involved did not abstain from voting on the resolution. Instead, the Board member voted in favor of the action. The District’s administration stated that the fundraiser through this Board member’s business was an annual event throughout this individual’s Board tenure. In addition, the Board member had never abstained from voting to approve the fundraiser because she received no profit from the sales associated with the event and the District administration agreed that no potential conflict of interest existed because it had been going on for years without question. The District’s administration also indicated that it was unaware of the Ethics Act’s limitations regarding Board members doing business with the District, and that the District’s

administration did not consult the District's solicitor on the issue out of concerns over the costs of doing so.

The Board member who runs the business associated with the fundraiser in question left the District's board in December 2010.

Recommendations

The *Lakeview School District* should:

1. Adhere to provisions of the Ethics Act and require Board members to publicly announce or disclose the nature of their interests as a matter of public record, and file a written memorandum with the board secretary attesting to the actual or possible conflict of interest.
2. Ensure steps are taken to establish that requests for proposals from spouses of Board members are properly vetted and evaluated to determine the price is reasonable.
3. In conjunction with its solicitor and the State Ethics Commission's determination, require District administrative personnel to put procedures in place to ensure that Board member actions are in compliance with the Ethics Act.

The *Pennsylvania State Ethics Commission* should:

4. Determine whether a conflict of interest exists in the situations outlined in this finding, and perform additional review and investigation as it deems necessary.

Management Response

Management waived the right to reply to the finding at the time of our audit.

Finding No. 3

Certification Deficiencies

Criteria relevant to the finding:

Section 1202 of the Public School Code provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certified to teach.”

Section 2518 of the Public School Code provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Our audit of the Lakeview School District’s (District) professional employees’ certificates and assignments for the period July 1, 2010 through November 23, 2011, found that three individuals were assigned to teaching positions without the appropriate certifications.

The District failed to have the proper internal controls in place to ensure that teaching staff were assigned to positions of which they possessed the proper certification.

Information pertaining to the assignments in question was submitted to the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality (BSLTQ), for its review.

On February 9, 2012, BSLTQ made its final determination upholding our citations of the assignments of the three individuals. As a result, the District is subject to a subsidy forfeiture of \$5,138 for the 2010-11 school year. The subsidy forfeiture for the 2011-12 school year could not be computed at the time of the audit because the applicable aid ratio was not yet available.

Recommendations

The *Lakeview School District* should:

1. Put procedures in place to compare an individual’s certifications to the certification requirements of the assignments the District intends to assign the individual.
2. Require the individuals to obtain proper certification as required for the position or reassign the individual to an area for which proper certification is held.

The *Pennsylvania Department of Education* should:

3. Adjust the District’s allocations to recover the subsidy forfeitures.

Management Response

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

Finding No. 4

Internal Control Weaknesses and Reporting Errors Relating to Documentation Supporting Reimbursement for Pupil Transportation

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 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 the Pennsylvania Department of Education’s End-of-Year Pupil Transportation Reports provides 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 provide that information and data used by the LEA to support the reports should be retained for audit purposes.

Our audit of the Lakeview School District’s (District) pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found internal control weaknesses, reporting errors, and a lack of documentation to support reimbursements of \$670,245 and \$718,883, respectively.

Background

The District does not have written procedures relating to its pupil transportation program. District personnel verbally explained how the program operates. The school board annually approves the District’s “Stop Listing by Student Pupil Transportation Report,” which includes student names and bus stops. These lists are then sent to the contractors, and are used by drivers to document pupil counts and stop-by-stop odometer readings. The completed drivers’ reports are to be returned to the District no later than two weeks after the start of school. District personnel are then to prepare “route narratives” confirming the information and return the narratives to the contractors to document mileage or pupil count changes throughout the school year.

Mileage and pupil count information is important because PDE uses it when calculating the District’s state transportation reimbursement.

Weaknesses in Documentation

While the above description outlines how the process is supposed to work, District personnel informed us that the contractor does not always return the reports within two weeks after the start of the school year, and District route narratives are consequently not always prepared timely. In addition, the District could not explain the process for revising any of the data throughout the school year, nor could they describe any internal controls to ensure revisions were accurate.

Our audit found specific errors and internal control weaknesses, as noted below.

Monthly Odometer Readings and Student Counts

The District relies on a series of internally prepared spreadsheets to compute the District's weighted averages for mileages and pupil counts. Drivers were required to verify the data on a monthly basis. When changes to the initial data occurred, the driver was expected to perform another odometer reading for submission to the District. However, our audit found changes to the originally reported mileage information. These changes were initialed and dated by District personnel, but there were no supporting odometer readings. We learned that District procedures allowed the contractors to verbally inform the District of changes to mileage, but only the original odometer readings were retained.

Our audit of the seven contractors' buses found:

- Mileage on the District's bus route narrative did not agree with mileage reported by the contractor.
- Odometer readings for two of the seven buses did not agree with previously reported readings, and no reasons for the variations were given.
- One driver reported on the back of the monthly odometer report that a spare bus had been utilized on the route, but there was no follow-up by the District to determine the number of days it was used, or the appropriate mileage and pupil data to be reported to PDE.

We also noted that drivers were not required to accurately report the number of pupils assigned to buses on the monthly reports, as again District personnel would either record the pupil counts themselves or correct the pupil counts provided by the drivers. As with the mileage data, this resulted in a lack of documentation to support the data reported. District personnel could not explain why their counts, the contractor's counts, and the drivers' counts could differ if all were relying on the same information.

Although legitimate reasons for variances could occur, documentation explaining the reasons must be maintained.

District-Owned Vans

Our audit included a review of the routes of 5 of the District's 12 vans. We found that one van was assigned to numerous bus routes on an as-needed basis. To account for the mileage and pupil counts the District used a monthly calendar page documenting the daily runs. However, when we examined the documentation, we found calculation errors, as well as instances of insufficient documentation.

We found that one van had been sold on April 19, 2010, but the District inaccurately reported to PDE that it was used for the entire 2009-10 school year.

We also reviewed the documentation for two other vans that the District identified as possible replacement vehicles. Our review could not confirm the data reported to PDE for the two vehicles.

Conclusion

Pupil transportation data is an integral part of PDE's method of calculating the District's transportation reimbursement. Therefore, it is very important that this information is reported accurately. In addition, it is vital that the District maintain a strong internal control environment related to this data so that if errors do occur, they will not go unnoticed by the District's administration.

Based on the documentation provided by the District, we concluded that internal control weaknesses within the District affected transportation reports to PDE and the related reimbursement. In addition, we express concern over the contractors' ability to verbally change information, and to complete driver reports and not be responsible for documenting the revised information.

The District's lack of a formal reporting process and multiple reporting systems create a weak internal control environment, which increases the likelihood that errors in reporting will occur. Because of these weaknesses, we were unable to determine if the information reported to PDE, and consequently the District's transportation reimbursement were accurate.

Recommendations

The *Lakeview School District* should:

1. Prepare and retain records of odometer readings between all bus stops and schools, as required.
2. Prior to the beginning of each school year, present detailed bus route descriptions for all routes, with mileage and pupil rosters, for board review and approval, and provide the Board with periodic updates as needed.
3. Prepare and retain on file at the District the source documentation used to report pupil transportation data to PDE, including the weighted averaging for pupils that enter, withdraw or relocate within the District, and for bus route mileage changes.
4. Ensure that the District's administrative personnel become more involved in the maintenance of supporting documentation provided by the contractor, and perform an internal review to ensure the accuracy of data submitted to PDE for reimbursement.
5. Enable District personnel to attend seminars sponsored by the Pennsylvania Association of School Business Officials or other such organizations regarding the collection, maintenance, and submission of transportation data.
6. Review transportation reports submitted to PDE for subsequent years and ensure the reported information is accurate, and that supporting documentation is on file to support all data reported for each bus.

The *Pennsylvania Department of Education* should:

7. Require the District to properly prepare and retain all supporting documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, and instructions for completing PDE's End-of-Year Pupil Transportation reports.

Management Response

Management stated the following:

[Bus Route Documentation]

“District personnel have followed the same system that was put into place approximately 15 years ago. . . . Actually, our transportation system was updated to include suggestions we received from the Auditor General’s office at that time and is the system that was used for this latest audit.

Prior to the beginning of the school year, we give the contractors/drivers a CSIU [Central Susquehanna Intermediate Unit #16] listing of students, addresses, grades for the upcoming year. Within the first month, they return a handwritten (yellow packet) to us showing the mileage, pick up times, and drop off times. The District personnel then calculate the miles with, miles without, and the number of students. This is the starting numbers used for the beginning of that school year. Bus narratives are then updated from last year’s narrative.

Monthly Odometer Readings and Student Counts:

Pertaining to the monthly odometer and student count reports and no explanation . . . all drivers turn in a monthly ‘blue sheet’ to their Contractor and then it comes to the District personnel to include in the yearly packet for that vehicle. Unfortunately, the numbers that the driver reports monthly sometimes do not agree with our master list (CSIU listing) for that vehicle, due in part to students who have entered the District and who have been ‘assigned’ to a bus but the driver may never actually see the student. It is not true that ‘drivers were not required to accurately report student counts.’ We always check against their number and feel that it is in the District’s best interest to check the number they give us against the master CSIU listing.

District Owned Vans

Our drivers are responsible for giving us a monthly mileage reading the last week of each month. For our District van drivers we give them a monthly mileage sheet to complete. If the driver knows a student/s will not be riding during the time his readings will be taken, he/she will do the early reading and present that to the District personnel. We then transfer those numbers to the “monthly sheet” and keep their handwritten sheets for back-up. . . .

Pupil Counts

The comments made about the pupil count could not be performed is very unfair to the District personnel who do their best in monitoring the ‘greatest number of students’ each month. This number is provided by the driver/contractor; verified by the District personnel and a yearly sheet is maintained on the computer until the end of the school year and then is placed in the packet for that vehicle.

Correcting the provided counts and the reasons for doing so was explained in length previously in the above **Monthly Odometer Reading and Pupil Counts**.

Auditor Conclusion

District personnel responsible for pupil transportation records during our current audit period had changed from prior audits. As detailed in the finding, unexplained revisions to the contractor’s mileages and pupil counts were noted. In addition, documentation was not on file to support all of the data reported to PDE for district-owned vans.

District personnel should retain copies of odometer readings and monthly student bus lists that support data reported to PDE by the District. If the data provided by the drivers is not the data reported by the District to PDE, supporting documentation for what is reported must be retained.

Finding No. 5

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

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.

Additionally, Section 111 requires administrators to maintain a copy of the required information, further stating:

“Administrators shall require contractors to produce the original document for each prospective employee of such contractor prior to employment.”

Section 111 also provides that administrators shall maintain on file with the application for employment a copy of the Federal criminal history record in a manner prescribed by the Pennsylvania Department of Education.

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.

Our audit of the Lakeview School District's (District) school bus drivers' qualifications for the 2011-12 school year found that the District did not have all drivers' records 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.

Our review of the District's pupil transportation contracts also found that all original background checks are to be provided to the Superintendent or his designated representative for review prior to the driver's first transportation of students. We also noted that the District reserved the right to refuse drivers supplied by the contractor who in the opinion of the District have records which are unsuitable or not satisfactory to the District.

For our audit, we reviewed all drivers hired since January 2009. Our review of these 12 drivers found that at the time of the audit the District did not have on file a child abuse clearance, a Pennsylvania criminal history record, or a federal criminal history records (FBI clearance) for one driver. The District did not have the Pennsylvania criminal history record or FBI clearance for another driver. In addition, the FBI clearances were missing for six other drivers.

Our review of our initial finding with District administration found that they were unaware of the breakdown in established internal controls requiring the creation and maintenance of a complete driver file prior to board approval of the driver lists and the transporting of students. We were informed that the District experienced personnel changes that contributed to the misunderstanding relating to the requirements of the Public School Code and State Board of Education regulations regarding the necessity of maintaining an appropriate copy of required clearances on file.

By not having required bus drivers' qualification documents on file at the District, District personnel were unable to review the documents to ensure all drivers were properly qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

On August 23, 2011, we were informed by District personnel that they were able to obtain three FBI clearances through the Pennsylvania Department of Education website. However, with regard to the other documentation exceptions found, the District indicated that it was unsure how it was going to proceed due to the cost involved. At the time of fieldwork completion a decision had not yet been rendered whether obtaining the missing clearances should be a District, contractor, or driver expense.

Recommendations

The *Lakeview School District* should:

1. Ensure that District maintained files are up-to-date and complete.
2. Ensure that the District's Superintendent and/or his representative review each driver's qualifications prior to Board approval.
3. Develop written procedures to ensure that internal control breakdowns of this type do not occur in the future.

Management Response

Management stated the following:

“Additional follow-up with District Administration . . . found that the District was unsure on how they were going to proceed due to the cost factor:

One of the drivers audited revealed that we were charged with not having the proper clearances; however, the driver is employed by our contractor . . . driving in two or three Districts as a substitute. When she was placed on the Lakeview's substitute driver list we were sent copies of her clearances that had been retained by her employer and those were accepted.”

Auditor Conclusion

As noted in the criteria relevant to this finding, the administration is to maintain a copy of required information, and is to require each applicant to produce the original document prior to employment. It is the responsibility of the District's administration to ensure all drivers transporting the District's students are properly qualified, for the safety of the District's students.

Status of Prior Audit Findings and Observations

Our prior audit of the Lakeview School District resulted in no findings or observations.

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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