

MONTOUR SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. Ronald Smith, Board President
Montour School District
223 Clever Road
McKees Rocks, Pennsylvania 15136

Dear Governor Corbett and Mr. Smith:

We conducted a performance audit of the Montour School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 23, 2006 through November 6, 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, 2009, 2008, 2007, 2006 and 2005. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with state laws and administrative procedures, as detailed in the seven audit findings within this report. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

In the interest of transparency, the Department of the Auditor General (Department) wishes to disclose that the spouse of the former Director of Fiscal Management/Board Secretary (Director), discussed in Findings No. 1, No. 2, No. 4 and No. 6 of this report is an employee of the Department. The Department took several measures to ensure that the independence of the audit was not impacted by this relationship. Specifically, the audit bureau where the Director's spouse works was not involved in any aspect of the audit. In addition, because the Director's spouse is headquartered in the Department's southwest region, the audit was reassigned to staff from the northwest region.

Our audit findings, observations 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.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 14, 2012

cc: **MONTOUR 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 Montour School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period February 23, 2006 through November 6, 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 2004-05 through 2009-10.

District Background

The District encompasses approximately 15 square miles. According to 2000 federal census data, it serves a resident population of 24,711. According to District officials, in school year 2009-10 the District provided basic educational services to 2,973 pupils through the employment of 246 teachers, 509 full-time and part-time support personnel, and 16 administrators. Lastly, the District received more than \$8.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the District did not comply, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. Specifically, we identified seven compliance-related matters reported as findings. In addition, two matters unrelated to compliance are reported as observations.

Finding No. 1: Internal Control Lapses Within the District's Business Office Resulted in a Loss of \$400,483 in Taxpayer Funds. Our audit of the District found that for the past several years the District's operations, recordkeeping, and managerial activities lacked the appropriate level of oversight and resulted in a loss of taxpayer funds (see page 6).

Finding No. 2: District Delayed Its Application for Commonwealth Reimbursement Resulting in Lost Investment Revenue. Our audit of the District's rental and sinking fund payments and of its applications for reimbursement for school construction projects found that beginning in August 2003, the District ceased submitting applications for reimbursement for three construction projects (see page 18).

Finding No. 3: Certification Deficiencies. Our audit of professional employees' certification and assignments for the period September 1, 2006 through June 30, 2011, found four teachers and one administrator were assigned duties outside their areas of certification. Additionally, one teacher was teaching for two-and-a-half years with a

certification that was no longer valid (see page 21).

Finding No. 4: Violations of the Public School Code and Board Policy and Internal Control Weaknesses Noted in Hiring Practices. Our audit of the District's operations found several weaknesses in the hiring procedures of the District. District personnel failed to follow the Public School Code and the District's board policy when making payroll adjustments to professional personnel wages. In addition, the District does not have a uniform process for the hiring of professional employees (see page 22).

Finding No. 5: The District Lacked Proper Internal Controls Over Its Student Activity Funds, Which Resulted in Violations of Board Policy and the Public School Code. Our audit of the 2010-11 school years' student activity fund records found weaknesses in the management and control of the student activity funds (see page 24).

Finding No. 6: Internal Control Weaknesses Noted in Transportation Operations. Our audit of the District's pupil transportation operations for the 2007-08 school year found numerous concerns with the documentation provided to support the data reported to the Pennsylvania Department of Education and internal control weaknesses in the overall operation of transportation services (see page 27).

Finding No. 7: Failure to Have All School Bus Drivers' Qualifications on File. 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 (see page 31).

Observation No. 1: Unmonitored Vendor System Access and Logical Control Weaknesses. We determined that a risk exists that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it is adequately monitoring vendor activity in its system (see page 34).

Observation No. 2: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications. The District still does not have written policy or procedures in place to ensure that it is notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children (see page 37).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District from an audit we conducted of the 2003-04 and 2002-03 school years, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to violations of the Public Official and Employee Ethics Act (see page 39). However, the District did not implement our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 39).

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 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 23, 2006 through November 6, 2011, except for the verification of professional employee certification, which was performed for the period September 1, 2006 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2004-05 through 2009-10.

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

Objectives

What is the difference between a finding and an observation?

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

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

- ✓ 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 buy-out 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?
- ✓ 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, 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.

District 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 District operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 5, 2007, we reviewed the District's response to PDE dated October 26, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Internal Control Lapses Within the District's Business Office Resulted in a Loss of \$400,483 in Taxpayer Funds

Criteria relevant to the finding:

Public School Code 10-1089(a) provides:

“A governing board of a school entity may employ or continue to employ a person serving in the function of business administrator of the school entity who shall perform such duties as the governing board may determine, including, but not limited to, the business responsibilities specified in section 433 of this act.”

As Board Secretary, the former Director was also subject to Public School Code §4-433, which provides, in pertinent part:

The Secretary of the board of school directors shall perform the following duties: . . .

(2) He shall after the board has acted on and approved any bill or account for payment of money authorize by this act, prepare and sign and order on the treasurer for the payment of the same. He may prepare and sign orders on the treasurer for the payment of amounts owing under any contracts which shall previously been approved by the board, and by the prompt payment of which the district will receive a discount or other advantage, without the approval of the board first having been secured . . .

(5) He shall have general supervision of all the business affairs of the school district, subject to the instructions and direction of the board of school directors. . . .

Our audit of the Montour School District (District) found that for the past several years the District's overall operations have lacked an appropriate level of oversight, resulting in a loss of \$400,483 in taxpayer funds. Specifically, from November 2003 to September 2009, the District had five superintendents and numerous school board directors. This lack of continuity in the District's governance allowed the former Director of Fiscal Management/Board Secretary (Director) to act without direct and consistent oversight. As a result of his ability to act with impunity, he made inappropriate decisions that caused the District to waste taxpayer funds.

Background

On July 21, 2010, our auditors met with the current Superintendent, who was then serving as Acting Superintendent to discuss concerns that had been brought to his attention by several employees of the District's business office. Specifically, he indicated that on April 29, 2010, the Board of Directors (Board) approved a review of the Business Office by an independent accounting firm. According to the current Superintendent, this review revealed problems related to the questionable conduct of the District's former Director of Fiscal Management/Board Secretary (Director). Furthermore, the Superintendent informed our auditors that the District had terminated the Director, effective May 5, 2010.

Additionally, on January 27, 2011, the Board approved the expenditure of \$185,000 for the hiring of an independent auditing firm to perform a forensic audit¹ of the District's business department for the seven-year period covering 2003 through 2010.

¹ According to the American Institute for Certified Public Accountants (CPA), the national professional organization for CPAs, forensic accounting may involve the application of special skills in accounting, auditing, finance, quantitative methods, certain areas of the law, research and investigative skills to collect, analyze and evaluate evidential matter.

Unusual Transactions

During our current audit, which began on May 17, 2011, members of the District's administrative staff provided our auditors with supporting information about issues that were being identified as part of the forensic audit, which coincided with our audit fieldwork. As a result of this information we verified that the former Director had engaged in the following inappropriate activities:

- * Entered into a lease agreement for school transportation vehicles and computers that the District already owned;
- * Lost \$25,000 in grant money, which the District had to remit back to the Commonwealth because the necessary paperwork was not submitted in a timely manner;
- * Entered into a new copier lease to reduce the District's monthly payments, then failed to stop payments on a prior copier lease;
- * Failed to follow through on Board resolutions aimed at securing fund balances for future expenditures;
- * Failed to present financial statement audit reports to the Board;
- * Inappropriately continued to pay the health benefits for a retired administrator's spouse; and
- * Approved the hiring of prior administrators as "consultants."

Our auditors examined each of these inappropriate activities and found that they were the result of a breakdown in internal controls over the operations of the District's business department. From November 2003 to our completion of fieldwork, the District had five superintendents and 19 board members. This lack of continuity in the governance of the District permitted the former Director to make decisions without checks on his authority. Although they were responsible for the District's governance, the District's Board and its five previous superintendents were not aware that the former Director had engaged in these inappropriate activities, and as a result could not stop them from occurring. This situation was

compounded by the fact that the former Director also functioned as the District’s Board Secretary.

The following is a detailed description of the internal control breakdowns noted during our audit.

Inexplicable Ownership Transfers

Our audit found that, during the 2007-08 and 2008-09 school years, the District made four inexplicable ownership transfers involving computers and school transportation vehicles. In each of the transactions the District’s former Director used money from the District’s construction fund to purchase buses and computers. He subsequently transferred the ownership of the assets to a finance company. The former Director then wrote checks to that same finance company from the same construction fund for the cost of the equipment, plus a finance charge. Not only do such transactions defy logic and good business practice, but they also ended up costing the District an additional \$113,755 in finance charges for equipment it already owned. Thus, the District essentially paid for the equipment twice.

The following chart details the purchases/leases:

<u>Description</u>	<u>Date of Purchase</u>	<u>Date of Board Approved Lease</u>	<u>Original Purchase Amount</u>	<u>*Total Lease Repayment</u>	<u>Total Finance Charges</u>
School Buses	August 6, 2007	January 24, 2008	\$ 493,870	\$ 544,973	\$ 51,103
School Buses	August 4, 2008	September 18, 2008	335,960	363,312	27,352
Computers	August 6, 2007	January 24, 2008	254,659	274,805	20,146
Computers	September 3, 2008	September 18, 2008	<u>223,936</u>	<u>239,090</u>	<u>15,154</u>
Total Finance Charges			<u>\$1,308,425</u>	<u>\$1,422,180</u>	<u>\$113,755</u>

* Total lease payments include added finance charges.

Although the checks drawn from the construction account were signed by the former Director and the Board’s treasurer, the District’s board meeting minutes failed to document the Board’s approval of the original checks from the construction account used to buy the equipment.

All such purchases must be approved by the majority of the Board. As stated earlier, the former Director also functioned as the District’s Board Secretary. According to

the Public School Code, the Director's failure to obtain the consent of the majority of the Board for these expenditures was a violation of his duties of the Board Secretary.

Loss of Grant Funds

In August 2007, the Pennsylvania Department of Community and Economic Development (DCED) notified the District that it had approved its grant application to the Community and Municipal Facilities Program for \$25,000. The purpose of the grant was to help fund the musical program at the Montour High School. The Superintendent at the time, along with the former Director, signed the grant contract with DCED in February 2008. Included with that contract was a blank close-out form that the District was to complete when the funds were expended.

On April 7, 2009, DCED again notified the District of the grant's close-out requirements. On April 16, 2009, the Superintendent at the time sent an email to the former Director requesting assurance that he would complete the close-out form. However, the former Director did not respond. On May 26, 2010, the District's Acting Superintendent received formal notice that the District had not complied with the grant's close-out requirements. As a result, the District forfeited its right to the money it had already received and became ineligible for any future funding. On May 26, 2010, the District submitted a check to DCED for \$25,000, the amount it had received in the original grant.

Copier Lease

During our initial meeting with the Acting Superintendent in July 2010, we were informed that the District had received an \$83,928 check dated May 5, 2010, from a local business machine vendor. At the time, the District administrators had no idea why they were given the check. The check had a description which read "6-monthly payments payoff of Existing Lease."

Our auditors learned through the forensic audit that on July 10, 2006, the District entered into a lease agreement for 26 copiers, with a monthly payment amount of \$13,988. Subsequently, at the June 25, 2009, board meeting, the board awarded a new lease for copiers to another leasing

company for a reduced monthly payment of \$13,075. The original lease for the 26 copiers was subsequently cancelled.

The check the District received was from the original leasing company and was a refund for six of the \$13,988 payments that the former Director continued to make even after the Board had approved the new lease. Our review of the District records showed that the District made 11 payments of \$13,988, or a total of \$153,868, to the first company that no longer held a lease. As of October 31, 2011, the company still owed the District \$69,940.

Criteria relevant to the finding:

Pennsylvania Statute 53 PS §1432, provides, in part:

“Any municipality shall have the power to create a special fund and to accumulate therein moneys for expenditure in accordance with the provisions of this act during the post war period. Such special fund may consist (a) of moneys transferred during any fiscal year from appropriations made for particular purpose which may not be needed; (b) of surplus moneys in the general fund of the treasury of the municipality at the end of any fiscal year.”

Board Resolution Issues

On June 19, 2007, the Board approved resolutions instructing the former Director to establish several reserve funds. These funds included a Capital Reserve Fund for repairs and renovations to the District’s elementary schools, a reserve fund to cover the benefits of retired and/or separated employees, and a reserve fund to cover the leave payouts made to employees departing from the District. The District wanted to create the latter two funds using part of the District’s proceeds from a 2001 bond issuance, which totaled \$15.4 million. The Board also instructed the former Director to transfer a segment of the same 2001 bond issuance from the Capital Reserve Fund to the Capital Projects Fund.

Specifically, these resolutions instructed the former Director to do the following:

1. Create a Capital Reserve Fund for repairs and renovations to elementary schools, using the \$5,836,415 reserve listed on the District’s 2005-06 Annual Financial Report.
2. Create two additional reserve accounts using \$1,966,743 of the proceeds from the 2001 bond issuance: (1) a termination of benefits account containing \$1,134,861, and (2) a compensated absences account containing \$826,982.

3. Transfer \$6,968,618 of the 2001 bond issuance proceeds from the Capital Reserve Fund proceeds to a Capital Projects Fund.

Based on our review of the District's independent audited financial statements for the years ending June 30, 2007 and June 30, 2008, the former Director did transfer the \$6,968,618 into the Capital Projects Fund. However, he failed to establish the other reserve funds called for in the Board's resolutions. Thus, he violated the requirements of his position as laid out in Public School Code § 4-433(8).

If the Board had properly overseen the former Director they would likely have been aware that their intentions to keep secure these bond funds were ignored. By failing to secure the bond funds, the District could have spent the funds on expenditures that went against the intentions of the Board.

When asked how this lack of oversight could have occurred, the current Superintendent mentioned that the former Director never provided the full Annual Financial Report (AFR) to the current Superintendent in order to get his signature. Instead, he provided the front page only. The former Director had to be told to bring the full report to the Superintendent before any signature would be given.

In addition, the Board never requested any treasurer reports or financial statement audit reports from the District's treasurer, again demonstrating a lack of oversight.

Treasurer Reports and Financial Statement Audit Reports

Our review of the District's board minutes from November 2005 through May 2011 found no evidence that the former Director presented the District's independent auditor's reports for the years ending June 30, 2003 through June 30, 2008, to the Board for its approval.

Additionally, although the minutes noted that the Board did approve financial reports from its treasurer, these reports did not include the required statements of monthly financial activity.

By failing to appropriately present the independent accountant's financial reports and the monthly financial activity to the Board of Directors the former Director not

Criteria relevant to the finding:

Public School Code § 4-440 provides, in pertinent part:

“The treasurer of each school district shall deposit the funds belonging to the school district in the school depository, if any, as directed by the board of school directors, and shall at the end of each month make a report to the school controller, if any, and to the secretary of the board of school directors, of the amount of funds received and disbursed by him during the month.”

only violated the Public School Code, he also prevented the Board from knowing the District's true financial position. By the same token, the District's board members do not seem to have taken any steps to ensure that they received this important information. Along with of the District's AFR, which the Board also did not obtain, these reports are the Board's primary method for obtaining information on the District's financial position. Without these documents, the Board cannot make well informed operating decisions. This lack of knowledge could result in the District being poorly managed.

The District's Compensation Plan for School Administrators (Act 93 agreement) in place at the end of the 2005-06 school year read:

"Under this plan, each retiring employee will receive the same level of health care coverage received prior to retirement (i.e. family, spouse, individual, etc.) until the employee is eligible for federal assisted health care. Then, for five (5) years, the district will provide the employee with Security Blue Supplemental benefits at the district's expense."

Spousal Health Care Benefits

District administrative staff also brought to our attention the fact that the District had been paying the health insurance premiums for the spouse of one retired administrator.

In a letter dated May 19, 2006, the former Director notified this administrator that the Board had accepted his proposal to retire at the end of the second semester of the 2005-06 school year under the terms of the Act 93 agreement.

After this administrator retired he was removed from the District's health care plan in April 2010, when he turned 65, as required under the District's Act 93 agreement. However, the same former administrator's wife, who had not reached Medicare age, was at that time put on the District's health care plan as an "inactive" employee, even though she had never worked for the District. As a result, the District has been paying for her premium since April 2010. When District personnel were asked why the former administrator's wife had been added to the policy, the auditors were told simply that the former Director had instructed the accounts payable clerk to add her.

As of June 30, 2011, the District's taxpayers had paid a total of \$6,788 in health insurance premiums for an individual who is not, and has never been, an employee of the District. This not only violates the Act 93 agreement that was in effect at the time of the former administrator's retirement, but it could be considered fraud. We will be turning these concerns over to the Pennsylvania Insurance Commissioner for additional review.

Criteria relevant to the finding:

Instructions provided in the Pennsylvania School Employees Retirement System Retired Members Handbook effective July 4, 2004, state, in part:

“If you return to service under the emergency, shortage, or extracurricular provisions, you must have had a bona fide termination and retirement. Your retirement may come into question if you “retire” and immediately begin working under an “emergency” shortage”, or “extracurricular” exception. It may be considered that you truly did not retire and your employment may be treated as continuing part-time or full-time employment.”

Prior to 2004, retirees could return to work for 95 days per school year, without the loss of annuity if one of the above conditions applied.

Former Employees as Consultants

The auditors obtained documentation demonstrating that the District’s Board had approved the hiring of three retired District employees as consultants. When the auditors asked for the personnel records of the three employees in question, they were told that the files were missing.

The auditors then contacted the Public School Employees Retirement System (PSERS) regarding one of the three individuals in question, and found that there had been no communication from this individual regarding his desire to return to work after his retirement. Therefore, this individual was still drawing his pension from the Commonwealth while simultaneously being paid by the District.

PSERS has procedures in place for both individuals and school districts regarding bringing retirees who would like to return to service back to employment as annuitants. Having retirees return to work without placing their retirement “on hold” results in increased expenses to the taxpayers because the annuitant is “double dipping” by collecting a retirement wage and a wage from the District.

It should be noted that in some of these instances, the annuitants/consultants went on to become board members.

Former Director of Fiscal Management/Board Secretary (Director) Failed to Provide Important Information to the Board and Pennsylvania Department of Education (PDE)

Our audit also found several instances in which the former Director failed to accurately and completely report important financial information to the District’s Board, and in one instance to PDE.

Failure to Address Independent Audit Findings

The former Director failed to make the Board aware that the District’s independent auditor’s report included a series of management advisory comments for the years ending June 30, 2005 through 2007. One comment that was made in all three years concerned *Accounting for Post Employment Benefits Other Than Pensions*. In the reading

Criteria relevant to the finding:

Section 6-688 of the Public School Code places limitations on certain unreserved fund balances and provides, in pertinent part:

(a) For the 2005-2006 school year and each school year thereafter, no school district shall approve an increase in real property taxes unless it has adopted a budget that includes an estimated ending unreserved, undesignated fund balance less than the percentages set forth . . . [Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budget Expenditures 12% . . . 8%.]

(b) By August 15, 2005, and August 15 of each year thereafter, each school district that approves an increase in real property taxes shall provide the Department of Education with information certifying compliance with this section. Such information shall be provided in a form and manner prescribed by the Department of Education and shall include information on the school district's estimated ending unreserved, undesignated fund balance expressed as a dollar amount and as a percentage of the school district's total budgeted expenditures for that school year.

“(c) As used in this section, ‘estimated ending unreserved, undesignated fund balance’ shall mean that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for specific or tentative future use, projected for the close of the school year for which a school district's budget was adopted and held in the General Fund accounts for the school district.

of the minutes, we found no indication that these comments were presented to the Board. If the former Director had provided the management advisory comments to the Board, its members would have known that the former Director had failed to establish a reserve fund to cover the benefits of retired and/or separated District employees, as directed by the Board in June 2007 (see page 10).

In addition, the former Director also failed to submit the District's single audit report to the Commonwealth of Pennsylvania Bureau of Audits (PABA)² on time. Specifically, on May 24, 2010, the District received a letter from PABA stating that “The Bureau of Audits has not yet received a copy of your single audit report for the school year ended June 30, 2008.” The letter goes on to state that audit reports for the year ended June 30, 2008 were due March 31, 2009. Such oversights with regard to the timely filing of forms demonstrates once again that the former Director did not adequately serve the taxpayers, and failed to live up to his contract.

Certification of Estimated Fund Balance

Our audit also found that the former Director reported the District's unreserved, undesignated fund balance incorrectly to PDE. Beginning in the 2005-06 school year, districts were not permitted to raise property taxes without certifying that their unreserved, undesignated fund balances, when compared to total budgeted expenditures, fell between 8 and 12 percent.

However, our audit of the District's general fund budgets found that in 2006-07 the millage was 18.3, and in 2007-08 the District increased taxes to the reported millage of 18.9, where it has remained each year thereafter.

The District reported to PDE that the estimated ending unreserved, undesignated fund balance for the 2007-08 school year was 7.3 percent of its total budgeted expenditures. However, this percentage differed dramatically when compared to the percentage of the actual unreserved, undesignated fund balance reported on the District's independent financial statements. For the

² Pennsylvania's Office of Management and Budget requires all state, local and non-profit organizations to submit annual single audit reports to its Bureau of Audits.

2007-08 school year the total budgeted expenditures were \$48,336,724 and the actual undesignated fund balance was \$16,296,606 (see the chart below). When calculated, this percentage actually equals 33.7.

Moreover, in 2007-08, the District increased taxes from a reported millage rate of 18.3 to a rate of 18.9. If the former Director had reported to PDE the correct certification percentage of 33.7, rather than 7.3, the District would not have been permitted to raise the real-estate taxes in the 2007-08 school year.

Unreserved Undesignated/Designated Fund Balances

Furthermore, our auditors confirmed that the former Director made errors on the AFR regarding the District’s unreserved/designated and unreserved/undesignated fund balances. This issue was also raised in the forensic audit called for by the Board. Specifically, when the auditors made comparisons between the District’s AFRs and the independent audited financial statements for the school years ending June 30 2007, June 30, 2008 and June 30, 2009, differences were found in the amounts reported for the unreserved/designated and unreserved/undesignated general fund balances.

For the three years we noted the following:

<u>* Unreserved Fund Balances for the Years Ended June 30:</u>									
	<u>AFR</u>	<u>2007 Audit</u>	<u>Difference</u>	<u>AFR</u>	<u>2008 Audit</u>	<u>Difference</u>	<u>AFR</u>	<u>2009 Audit</u>	<u>Difference</u>
Designated	\$11,923,659	\$7,798,258	\$4,125,401	\$20,294,864	\$ 7,798,258	\$12,496,606	\$24,289,070	\$ 7,798,258	\$ 16,490,812
Undesignated	<u>3,545,000</u>	<u>7,670,401</u>	<u>(4,125,401)</u>	<u>3,800,000</u>	<u>16,296,606</u>	<u>(12,496,606)</u>	<u>4,000,000</u>	<u>20,490,812</u>	<u>(16,490,812)</u>
	<u>\$15,468,659</u>	<u>\$15,468,659</u>	<u>\$ ---</u>	<u>\$24,094,864</u>	<u>\$24,094,864</u>	<u>\$ ---</u>	<u>\$28,289,070</u>	<u>\$28,289,070</u>	<u>\$ ---</u>

* Unreserved Fund = Unreserved/Undesignated + Unreserved/Designated

The unreserved/undesignated fund balance was higher in the audited financial statements than what the former Director reported on the AFR for all three years by \$4.1 million, \$12.5 million and \$16.5 million, respectively.

Based on our review of the Board minutes, the Board did not approve any transfers from the general fund since the June 19, 2007 resolutions.

Again, had the independent auditor's report been provided to the Board for their approval, they would have been more aware of not only the District's financial position, but also, the fact that the former Director was not doing his job.

Summation

The current administration has taken strides to correct many of the internal control weaknesses that were noted during the audit. Whether any of the actions taken by the former Director are illegal remains to be determined.

Nevertheless, the former Director's management failures clearly had a negative impact on the District's taxpayers. His errors forced them to pay for services they did not receive, and equipment they did not need. Moreover, the District's taxpayers also had to foot the bill for a detailed forensic audit, which was the first step in identifying and correcting the many problems in the District's business office. In addition, the various board members who served the District during the former Director's tenure failed to be effective stewards of the taxpayers' money by not ensuring that they had the necessary financial information to successfully run the District. These unnecessary costs are as follows:

<u>Description</u>	<u>Amount</u>
Lost Commonwealth Grant Funds	\$ 25,000
Interest for Bus/Computer purchase	113,755
Forensic Audit Expense	185,000
Outstanding Duplicate Copier Payments	69,940
Premiums paid for spouse of retired administrator	<u>6,788</u>
Total	<u>\$400,483</u>

Recommendations

The *Montour School District* should:

1. Review policies and procedures to ensure that the concepts of fiscal responsibility and accountability to the taxpayers are addressed by the board and the District.
2. Establish procedures to ensure that any application requirements for grant funds are properly completed and remitted in a timely manner.

3. Establish procedures for the completion of the AFR and the maintenance of supporting documentation on file.
4. Establish procedures to ensure that any certifications of fund balances that are made to PDE present an accurate financial picture of the District and are in accordance with Public School Code.
5. Require the business office to work in conjunction with the treasurer on the financial information and require that statements are presented to the Board.
6. Establish procedures to ensure that expenditures from all funds are board approved and are in accordance to the Public School Code.
7. Ensure all payments made for health insurance premiums are made in accordance with professional employee contracts and the Act 93 agreement.
8. Review the practice of having the Director of Fiscal Management and the Board Secretary being the same individual.
9. Stop the practice of re-hiring annuitants; if such hirings are necessary ensure that all requirements of PSERS are followed prior to the board's approval.
10. Require new Board members to undergo training prior to taking the oath of office to ensure that they understand the responsibilities they are undertaking.

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Finding No. 2 →

District Delayed Its Application for Commonwealth Reimbursement Resulting in Lost Investment Revenue

Criteria relevant to the finding:

Section 2575(a) of the Public School Code provides, in part:

“The Commonwealth shall pay annually to each school district erecting or sharing in the erection of a building or buildings. . . on account of buildings for which the lease is approved. . . an amount to be determined by multiplying the District’s capital account reimbursement fraction computed for the year 1967 or aid ratio whichever is larger by the approved reimbursable rental or approved reimbursable sinking fund charge.”

Section 2576 of the Public School Code provides for the payment of rental and sinking fund reimbursement to districts only after the related building project and payment schedule have been approved.

The Government Accountability Office’s *Standards for Internal Control in the Federal Government* (Washington, D.C.: November 1999, pps.4-5) state that “Internal control . . . serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. . . . Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories: . . .

- Reliability of financial reporting, including: reports on budget execution, financial statements, and other reports for internal and external use.”

Our audit of the Montour School District’s (District) rental and sinking fund payments and applications for reimbursement for school construction projects found that beginning in August 2003 the District ceased submitting reimbursement applications for three ongoing construction projects (Lease # 931991, Lease #981991, and Lease # 990991) totaling \$1,076,836.

Background

The Public School Code states that the Commonwealth will reimburse a school district “erecting or sharing in the erection of a building or buildings.” In order to obtain this reimbursement districts must follow a Pennsylvania Department of Education (PDE) process involving specific forms and procedures known as the Planning and Constructions Workbook, or PlanCon. The PlanCon forms are designed to: (1) document a local school district’s planning process; (2) justify the project to the public; (3) ascertain compliance with state laws and regulations; and (4) establish a level of state participation in the cost of the project. The PlanCon Part K, Project Refinancing form is used if a District’s reimbursable bond issue is refunded, refinanced or restructured. This form must be on file and approved after the bond issue settlement date.

PDE refers to each district construction project as a *Lease*. Each Lease is given an individual identification number, which the district must use on all reimbursement applications.

Outstanding Lease Applications

In June 2009, PDE’s Division of School Finances provided us with initial documentation showing that the District had been eligible for several lease reimbursements for three ongoing construction projects. We found that one project, Lease #981991, was eligible for 12 reimbursements for the period August 2003 to February 2009. Another project, Lease #99091, was eligible for 13 reimbursements for the period January 2004 to January 2009. However, these payments were outstanding. Finally, we found that on

Criteria relevant to the finding:

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (Washington, D.C.: November 1999, pps. 11-12) state that "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, [and] performance reviews. . . ."

The standards list examples of control activities that include top level reviews of actual performance, reviews by management at the functional or activity level, accurate and timely recording of transactions and events, access restrictions to and accountability for resources and records, and appropriate documentation of transactions and internal control.

November 18, 2004, the District paid off one of the three leases, Lease #981991, by issuing \$9,120,000 in new bonds. Yet PDE administrators informed us that they were unaware that this payment had taken place. When districts receive such a refund it impacts the amount they are eligible to receive in reimbursement.

In an interview conducted in June 2009, the District's former Director of Fiscal Management (Director) stated that the former superintendent had requested that he cease submitting reimbursement applications for all three leases in 2003. According to the former Director, the former superintendent made that request because the District was in the middle of teacher contract negotiations and he did not want the extra revenue to appear in the District's general fund balance. However, when we contacted the former superintendent by phone for an interview, he denied having any such conversation with the former Director. There was no written documentation to support the former Director's claim.

Furthermore, long after the teacher contract negotiations were closed, the former Director continued to fail to submit reimbursement applications. The auditor contacted the former Director numerous times to determine whether these requests had started again. The former Director stated that he had been too busy to submit the applications for reimbursement.

The District's failure to establish proper internal controls over the lease reimbursement process meant that no one else at the District, including the Board, knew that the former Director was forgoing the lease reimbursement revenue. As the District's Board Secretary, the former Director had full autonomy over all matters relevant to the District's financial operations, and no one was verifying his work. Consequently, the District would likely have continued to miss out on this additional funding if our audit had not identified the problem.

In April 2010, a month before the former Director was put on paid administrative leave, the District's Superintendent made application for the outstanding three lease reimbursement payments for Lease # 981991 up to the time it was paid off, and for the 13 outstanding payments associated with Lease # 990991, reimbursements that

totaled \$1,073,482. The District received these payments from PDE on July 29, 2010. The District also applied for 11 payments for a new lease, Lease #041991, which was associated with the new bond issue in November 2004. The District had also failed to apply for reimbursements totaling \$266,014 for those payments. The reimbursement was not received until June 30, 2011. As of August 2, 2011, one outstanding January 1994 lease reimbursement payment of \$3,354 on Lease #931991 was still pending final approval and processing by PDE.

While the District ultimately obtained the majority of the lease reimbursement it was eligible for, its untimely application for this funding denied the District and its taxpayers the opportunity to earn potential investment interest on that income. In addition, the untimely application for reimbursement prevented the Board from having an accurate picture of the District's finances and, in the absence of this information, from making well-informed business decisions related to the District's overall operations.

Recommendations

The *Montour School District* should:

1. Implement adequate internal controls over its operations, so that no single administrator has complete autonomy. In doing so, it should establish a clear chain of command and a transparent review process for all administrators.
2. Establish a formal written process for filing all reimbursement and grant applications. This procedure should include deadlines for taking action, and directions on what happens if the District or PDE misses that deadline.
3. Apply to PDE Division of School Facilities for any lease reimbursements associated with future school construction projects in a timely manner.

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Finding No. 3 →

Criteria relevant to the finding:

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

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

Section 2518 of the PSC 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.

Recommendations

Management Response

Certification Deficiencies

Our audit of professional employees' certification and assignments for the period September 1, 2006 through June 30, 2011, found four teachers and two administrators who were assigned outside their areas of certification.

In addition, one teacher had been teaching for two-and-a-half years with a lapsed provisional certificate. The teacher's permanent certificate was received on July 1, 2011.

Information pertaining to the possible deficiencies was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Pennsylvania Department of Education (PDE), for its review. BSLTQ determined the teachers and administrators were assigned to positions outside their areas of certification. The Montour School District (District) is therefore subject to subsidy forfeitures of \$77,387 for the period covering school years 2010-11, 2009-10, 2008-09 and 2007-08.

The certification deficiencies occurred because the administration failed to accurately monitor assignments for its professional personnel.

The *Montour School District* should:

1. Assign positions only to professional personnel who hold appropriate certification to qualify for the assignments.
2. Ensure that personnel with provisional certificates obtain permanent certification before they lapse.

The *Pennsylvania Department of Education* should:

3. Make necessary adjustments to the District's allocations to recover the subsidy forfeitures accessed.

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Finding No. 4 →

Violations of the Public School Code and Board Policy and Internal Control Weaknesses Noted in Hiring Practices

Criteria relevant to the finding:

Board Policy Number 404 states, in relevant part:

The Board, by a majority vote of all members, shall approve the employment; set the compensation; and establish the term of employment for each professional staff member employed by the district.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (Washington, D.C.: November 1999, pps. 11-12) states that "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, [and] performance reviews. . . ."

The standards list examples of Control Activities that include top level reviews of actual performance, reviews by management at the functional or activity level, accurate and timely recording of transactions and events, access restrictions to and accountability for resources and records, and appropriate documentation of transactions and internal control.

Our audit of the Montour School District's (District) operations found several weaknesses in the District's hiring procedures. Specifically, District personnel failed to follow the Public School Code and District policy when making payroll adjustments to professional personnel wages. In addition, the District did not maintain a uniform process for the hiring of its professional employees. This lack of clearly defined hiring procedures resulted in an inappropriate increase in the salary of one individual hired in 2007, which the District had to later adjust.

On July 20, 2007, the District's Board of School Directors (Board) approved the hiring of a part-time entry-level Social Studies teacher at a prorated Bachelor's 1 salary and an effective date of August 22, 2007. The approved step was in accordance with the Collective Bargaining Agreement between the Montour Education Association and the District for the contract period covering the years 2007-13.

According to documentation at the District, after this employee was approved for hire a member of the administration informally told the human resources staff to change the approved entry level salary for a Bachelor's 1 to a salary for the more senior Master's 3. This adjustment was never officially approved by the Board and resulted in the new hire being overpaid by \$2,034. The individual later returned these funds to the District through payroll adjustments.

Making an adjustment to an employee's salary without the appropriate approval of the majority of the Board violates the District's own policy and good government practices. In addition, by increasing this employee's salary immediately, rather than waiting until the next school term, the District violated the Public School Code. Furthermore, the District's failure to follow these approval procedures represents an internal control weakness because it prevents the District from safeguarding its assets and from detecting errors and fraud, as evidenced by the new teacher's salary overpayment.

The impact of the District's internal control weaknesses over its hiring practices was further illustrated in its own payroll analysis performed in the 2008-09 school year. This internal review found that of the District's 247 professional employees, 50 needed to have adjustments made to their wages because of inappropriate salary assignments. Of these corrections, seven employees required reductions in their salary and 43 employees required increases to their wages. The District began making these salary adjustments in the 2008-09 school year.

Recommendations

The Montour School District should:

1. Establish improved internal controls over its hiring processes and procedures that require written approvals and authorizations when salary assignments are made to new employees. In addition, the District should make adherence to these requirements part of the human resources staff's performance evaluations.
2. Ensure that management conducts annual salary reviews of all employees to identify and prevent inappropriate adjustments, as well as to ensure that any errors are identified.

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Finding No. 5 →

The District Lacked Proper Internal Controls Over Its Student Activity Funds, Which Resulted in Violations of Board Policy and the Public School Code

Criteria relevant to the finding:

Section 511 of the Public School Code provides, in relevant part:

“The board of school directors in every school district shall prescribe, adopt and enforce such reasonable rules and regulations as it may deem proper, regarding. . . the organization, management, supervision, control, financing or prohibition of organizations, clubs, societies and groups of the members of any class or school. . . .”

Board Policy No. 618 states, in part:

“Student activity funds are not part of district funds but must be approved by the Board. The Board adopts this policy to ensure proper supervision of student activity funds under the district’s responsibility.”

The policy also states, “All student activities shall be on a self-sustaining basis, except for situations approved by the Board,” and that “All funds shall be of an exchange nature, and large balance should not be permitted to accumulate.”

Our audit of the Montour School District’s (District) student activity fund records for the 2010-11 school year found internal weaknesses in the management and control of student activity funds.

Deficit Cash Balances

As of June 30, 2011, the following clubs within the activity fund had deficit balances:

<u>Account</u>	<u>Deficit Balance</u>
High School Yearbook	\$17,324
High School Student Council	\$430

Allowing clubs to operate with deficit balances violates the Board’s requirement to have all clubs be “self-sustaining.”

Good business practices prohibit operating accounts with deficit cash balances. Moreover, student activity operations should be a learning process for students. Instead, maintaining accounts with deficits teaches them poor financial management.

Excessive Balances

Nine of the 24 activity fund clubs had balances in excess of \$1,000.

Board policy states “All funds shall be of an exchange nature, and large balances should not be permitted to accumulate.” Therefore, these balances are out of compliance, and should be reduced.

Inactive Accounts

We identified the following accounts as inactive:

- David E. Williams Middle School Band
- David E. Williams Middle School Cheerleaders
- High School Marching Band
- Burkett Little Spartan Store

The Public School Code does not make provisions for the maintenance of inactive accounts. Inactive accounts increase bookkeeping costs and are susceptible to misuse.

Board Did Not Obtain Quarterly Financial Reports on Student Activity Funds

The Board of School Directors (Board) did not require the administration to provide it with quarterly financial reports, as required by Section 511(d) of the Public School Code, and by board policy, which requires monthly reporting.

The Board is ultimately responsible for activity fund operations and must obtain sufficiently detailed financial data to make business decisions and confirm that the District is in compliance with the Public School Code and its own policies.

Board Violated Its Own Oversight Policy

Board Policy #618 establishes “financial supervision and controls for the administration of the various activities that involve student funds.” However, the Board violated this policy by failing to supervise the management of student activity funds and by failing to establish internal controls over those funds.

Recommendations

The *Montour School District* should:

1. Require clubs with deficit cash balances to take immediate action to create a positive balance and prohibit the fund custodian from disbursing funds for a club if such expenditures will cause a deficit balance.

2. Comply with Board policy by requiring clubs to utilize the large balances remaining in their accounts before accumulating more funds.
3. Close all inactive accounts.
4. Present monthly financial reports to the Board.
5. Ensure that the Board establishes its supervisory role over student activity funds.

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Finding No. 6

Internal Control Weaknesses Noted in Transportation Operations

Criteria relevant to the finding:

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

The board of school 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 the determination of pupils' distances from home to pertinent school bus loading zones.

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

Instructions for completing PDE's End-of-Year Pupil Transportation reports provides that the local education agency (LEA) must maintain records of miles with pupils (to the nearest tenth), miles without pupils (to the nearest tenth) and the largest number of pupils assigned to ride each vehicle. Additionally, the instructions provide that procedures, information and data used by the LEA should be retained for audit purposes.

Our audit of the Montour School District's (District) transportation records for the 2007-08 school year found internal control weaknesses in transportation operations.

Using a random number selection, our audit tested the mileages and number of pupils transported for 16 of the District's 65 buses used in the 2007-08 school year.

Districts can use either the sample average method or the weighted average method to report to the Pennsylvania Department of Education (PDE) 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 drivers recording odometer readings on a tenth of a mile basis, 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 their odometer readings on a tenth of a mile basis to determine daily mileage. Mileage is then multiplied by the number of days in the period and divided by the total number of days in the school year.

District personnel stated that they use the weighted average method. However, weaknesses were noted in the supporting documentation provided. The internal control weaknesses were in the following areas:

- miles with and without pupils;
- greatest number of pupils transported;
- questionable year of manufacture; and
- purchase of transportation vehicles.

Miles With and Without Pupils

Mileage logs provided for the 2007-08 school year showed mileage with and without pupils for the morning routes only. When asked, District personnel stated that the morning routes are multiplied by two to determine the total mileage with and without pupils for the route.

Without any documentation showing that the afternoon routes were identical to the morning routes, the auditors were unable to verify the accuracy of the mileage reported.

Additionally, the logs were for one day only, and any changes to the routes throughout the school year were not documented, as required by PDE guidelines when using the weighted average method.

It should be noted that the auditors were told that the operations of the District's transportation program were the same for the 2008-09 and 2009-10 school years.

Greatest Number of Pupils Transported

The source documentation provided included rosters showing the pupils who were assigned to ride the bus on the morning routes only. No documentation was provided to show who was transported in the afternoon.

In addition, the audit noted that the routes did not load the buses to capacity. Failing to maximize the use of the vehicles capacity could result in the District using more buses and therefore adding an additional expense for the District taxpayers.

Questionable Year of Manufacture

Our audit found that the District reported the incorrect year of manufacture for 44 of the 65 buses used to transport pupils. The year of manufacture for each bus was off by one year.

The ages of the buses were within the ten year range used by PDE to calculate the District's transportation reimbursement and therefore did not affect the transportation funding received for the 2007-08 school year. However, the year of manufacture is one of the components used to calculate the District's transportation reimbursement and should be reported in accordance with the vehicles' registration cards.

Purchase of Transportation Vehicles

As noted in Finding No. 1 (page 6), our audit found that in August 2007 and in August 2008 the District's former Director of Fiscal Management (Director) purchased new buses with money from the District's construction fund for a total of \$493,870, and \$335,960, respectively, without formal board approval. The check from the construction fund was signed not only by the former Director, but also by one of the former board members.

When a District purchases school transportation vehicles out of the construction fund, the District must report those expenses on the Annual Financial Report (AFR) - Transportation Schedule No. IV. PDE then uses these expenditures when calculating the District's transportation reimbursement.

Our auditor's analysis of PDE's Summary of Allowances and Expenditure Comparisons for the respective school years showed that the District did not account for the buses that were purchased out of the construction fund.

Therefore, the former Director did not report the buses on the District's AFR. Moreover, at some point after the purchase of these buses, the former Director transferred the ownership of the vehicles to a finance company. Then, again using money from the District's construction fund, the former Director wrote checks to the same finance company in order to lease these very same buses. The Board approved the leasing of these buses, the same ones that the former Director had purchased in August 2007 and in August 2008, in January 2008, and September 2008, respectively. (See also page 6 of Finding No. 1).

Summation

The auditor noted that at the beginning of the 2010-11 school year the District's new administrators began implementing changes that should improve the operation of the transportation department. Final determination of the effectiveness of those changes will be made during the next audit cycle.

Recommendations

The *Montour School District* should:

1. Review PDE guidelines to ensure that District personnel understand what documentation is required for the reporting method used.
2. Maintain on file mileage documentation and documentation supporting the greatest number of pupils transported for all routes, both morning and afternoon, in accordance with PDE guidelines.
3. Perform an internal review of all transportation routes to ensure that all transportation vehicles are utilized to their fullest capacity.
4. Perform an internal review of all transportation vehicles to verify that all the years of manufacture match the years documented on the registration cards.
5. Ensure that all bus purchases are properly accounted for in reports to PDE.
6. Ensure that all bus purchases are approved by the Board and noted in official board minutes.

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Finding No. 7 →

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Section 111 of the Public School Code (24 P.S. § 1-111) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Additionally, Section 111(7)(b) provides, in part:

“Administrators shall maintain a copy of the required information and shall require each applicant to produce the original document prior to employment.”

Similarly, 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 committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Montour School District's (District) 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 following six requirements:

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses;
5. Federal criminal history record; and
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained in the box at the left, the fourth and fifth requirements were set by the Public School Code and the sixth requirement was set by the CPSL.

We reviewed the personnel records of 25 of the 84 bus drivers currently employed by the District. Our audit found that the District did not have on file, at the time of the audit, current valid driver's licenses and/or valid 'S' endorsement cards for three drivers, current physical examination forms for four drivers, and criminal histories and child abuse clearances for five drivers.

By not having required bus drivers' qualification documents on file at the District, District personnel were 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.

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

On June 28, 2011, we informed District management of the missing documentation and instructed them to immediately obtain the necessary documents so that they could ensure the drivers were properly qualified to continue to have direct contact with children. On July 19, 2011, District personnel provided us with the necessary documentation, and we were able to verify that all drivers were properly qualified.

Recommendations

The *Montour School District* should:

1. Ensure that the District's transportation coordinator reviews each drivers' qualifications prior to that person transporting students.
2. Maintain up-to-date and complete files.

Management Response

Management stated the following:

In regards to the transportation citation the following procedures have been implemented during the 2010-11 school year:

- 1) All applicants must submit a complete application which includes: application, physical, CDL license and [all] clearances before being recommended to the board for approval. 2) Any classification change (i.e. sub-driver to part time or full time driver) must be submitted for board approval. Employee will transition to new classification after board approval date.

Auditor Conclusion

It should be noted that, although the District stated in its response that it had procedures in place to have the necessary driver qualifications on file for the 2010-11 school year, our audit still found weaknesses for that year.

Observation No. 1

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Control Weaknesses

The Montour School District (District) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it is adequately monitoring vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated.

Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into a paperless future with decentralized direct entry of data into its systems. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District to have the following weaknesses over remote vendor access:

1. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
2. The vendor has unlimited access (24 hours a day/7 days a week) into the District’s system.

3. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
4. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District's Acceptable Use Policy.
5. The District does not include provisions for authentication (password security and syntax requirements) in the District's Acceptable Use Policy. Further, the employees are not required to sign the policy.
6. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change passwords every 30 days and to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters. In addition, the system does not lock out users after three unsuccessful attempts and does not log users off the system after a period of inactivity (i.e., 60 minutes maximum).

Recommendations

The *Montour School District* should:

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

3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
5. Include in its Acceptable Use Policy provisions for authentication (password security and syntax requirements). Further, the employees should be required to sign this policy.
6. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the system should lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Observation No. 2 →

Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Criteria relevant to the observation:

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 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide 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 committed child abuse.

The ultimate purpose of the requirements of the Public School Code and CPSL is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Our review of the documentation available found that there were no serious crimes, as referred to in the previous paragraph, that called into question the applicant's suitability to have direct contact with children. However, the Montour School District (District) still does not have written policy or procedures in place to ensure that it is notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures, which was also the subject of an observation in our prior audit report (see page 39), is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations

The *Montour School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Management Response

Management provided a written response indicating agreement with the finding but made no further comment regarding corrective action.

Status of Prior Audit Findings and Observations

Our prior audit of the Montour School District (District) for the school years 2003-04 and 2002-03 resulted in one reported finding and one observation. The finding pertained to violations of the Public Official and Employee Ethics Act, and the observation pertained to weaknesses in administrative policies regarding bus drivers' qualifications. 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 District Board's written response provided to the Pennsylvania Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the District did implement recommendations related to the violations of the Public Official and Employee Ethics Act, but did not implement our recommendations related to bus drivers' qualifications.

School Years 2003-04 and 2002-03 Auditor General Performance Audit Report

Finding

Violations of the Public Official and Employee Ethics Act

Finding Summary:

Our prior audit of the District's records for calendar years 2002, 2003, 2004 found that one, three and two board members, respectively, failed to file Statements of Financial Interest as required.

Recommendations:

Our audit finding recommended that the District:

1. Seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file a Statement of Financial Interests.
2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act.

Current Status:

During our current audit procedures, we found that the District did follow our recommendations and has implemented corrective actions to address the board members' failure to file Statements of Financial Interests.

Observation:

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation

Summary:

Our prior audit found that the District did not have written policies and procedures in place to ensure that it is notified if current District

employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the District:

1. Develop a process to determine, on a case-by-case basis, whether prospective employees of the District have been convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when current employees charged with or convicted of crimes that call into question their suitability to have direct contact with children and to ensure the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Current Status: During our current audit procedures, we found that the District did not implement the recommendations (see Observation No. 2, page 37).

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:

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

Mr. Michael F. Consedine
Commissioner
Pennsylvania Insurance Department
Room 1326 – Strawberry Square
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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.

