

NORTHWESTERN SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JULY 2012



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

Mr. Sam Ring, Board President  
Northwestern School District  
100 Harthan Way  
Albion, Pennsylvania 16401

Dear Governor Corbett and Mr. Ring:

We conducted a performance audit of the Northwestern School District (NSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 14, 2009 through May 27, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the NSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

July 10, 2012

cc: **NORTHWESTERN SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period August 14, 2009 through May 27, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

### **District Background**

The NSD encompasses approximately 122 square miles. According to 2000 federal census data, it serves a resident population of 11,767. According to District officials, in school year 2009-10 the NSD provided basic educational services to 1,659 pupils through the employment of 128 teachers, 52 full-time and part-time support personnel, and 11 administrators. Lastly, the NSD received more than \$12.3 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the NSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings.

**Finding No. 1: Omission of IDEA and ACCESS Funding in Reported Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$21,785.** Our audit of the NSD's Social Security and Medicare wages reported for the 2009-10 and 2008-09 school years found administrative internal control weaknesses which resulted in inaccurate reports being submitted to the Pennsylvania Department of Education (PDE). These inaccuracies resulted in overpayments of \$10,899 and \$10,886 in the 2009-10 and 2008-09 school years, respectively (see page 6).

**Finding No. 2: Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Pupil Transportation Reimbursement and Tax Exempt Fuel Usage.** Our audit of the NSD's pupil transportation records and the reports submitted to PDE for the 2009-10 and 2008-09 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting reimbursements of \$903,594 and \$951,752, respectively, as well as lack of documentation supporting the usage of tax exempt fuel (see page 9).

**Finding No. 3: Failure to Have All School Bus Drivers' Qualifications on File.** Our audit of the NSD's school bus drivers' qualifications for the 2009-10 school year found that not all records were on file at the time of audit. Additionally, documentation was not provided to the NSD by the contractor as specified in the transportation contract (see page 21).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the NSD from an audit we conducted of the 2006-07 and 2007-08 school years, we found the NSD had not taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses and lack of documentation supporting reimbursements for pupil transportation (see page 24).



## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period August 14, 2009 through May 27, 2011, except for the verification of professional employee certification which was performed for the 2010-11 school year.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with 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 NSD'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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

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

*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.

NSD 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 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 25, 2010, we reviewed the NSD's response to PDE dated November 15, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### **Finding No. 1** →

### **Omission of IDEA and ACCESS Funding in Reported Social Security and Medicare Wages Resulted in Reimbursement Overpayments of \$21,785**

*Criteria relevant to the finding:*

Instructions for completing the application state that wages reported in the "Total Taxable Social Security and Medicare Wages" columns must include wages of federally funded employees. Federally funded wages are then reported in a separate column, to be subtracted from the total to determine wages subject to state reimbursement.

Act 29 of 1994 changed the reimbursement calculation for the Commonwealth's share of Social Security and Medicare taxes and created two categories of employees that must be tracked by school entities for reimbursement purposes. The two categories of employees are "existing" employees and "new" employees. The reimbursement calculation is different for each category of employee. These two categories are mutually exclusive and comprehensive, so that an employee will fit into only one category.

Our audit of the Northwestern School District's (NSD) Social Security and Medicare wages reported for the 2009-10 and 2008-09 school years found administrative internal control weaknesses which resulted in inaccurate reports being submitted to the Pennsylvania Department of Education (PDE). These inaccuracies resulted in overpayments of \$10,899 and \$10,886 in the 2009-10 and 2008-09 school years, respectively.

NSD had entered into a consortium agreement with the Northwestern Tri-County Intermediate Unit #5 for the Individuals with Disabilities Education Act and ACCESS federal grant programs. The District submitted wage invoices which were reimbursed through the consortium's federal grant awards. As a result, the wages were ineligible for PDE reimbursement.

The District attributed the error to their initial involvement with the federal grant programs, for which the reimbursement requests were not submitted until after the end of the school year, without taking into consideration the implications on district-paid wages. The District consequently did not develop any internal control procedures to address the ramifications of the federal wage reimbursement on their Social Security and Medicare reimbursement.

It is the responsibility of the District administration to ensure that PDE's reimbursement instructions are properly implemented to guarantee the propriety of reported data and of the requested reimbursement.

Wages eligible for Social Security and Medicare reimbursement were incorrectly submitted to PDE, with consequent reimbursement overpayments, as follows:

| <u>Wages Subject to State Reimbursement</u> |    |                        |                 |                         |             |                                  |
|---|----|------------------------|-----------------|-------------------------|-------------|----------------------------------|
| <u>Reporting Period</u>                     |    | <u>Audited</u>         | <u>Reported</u> | <u>Wages Overstated</u> | <u>Rate</u> | <u>Reimbursement Overpayment</u> |
| Existing Employees:                         |    |                        |                 |                         |             |                                  |
| 7/09 - 6/10                                 | *  | \$4,540,362            | \$4,630,301     | \$ (89,939)             | 0.031       | \$(2,788)                        |
| 7/09 - 6/10                                 | ** | 4,542,725              | 4,632,664       | (89,939)                | 0.00725     | (652)                            |
| 7/08 - 6/09                                 | *  | 4,248,558              | 4,339,652       | (91,094)                | 0.031       | (2,824)                          |
| 7/08 - 6/09                                 | ** | 4,250,512              | 4,341,606       | (91,094)                | 0.00725     | (660)                            |
| New Employees:                              |    |                        |                 |                         |             |                                  |
| 7/09 - 6/10                                 | *  | 3,423,878              | 3,555,108       | (131,230)               | 0.046066    | (6,045)                          |
| 7/09 - 6/10                                 | ** | 3,423,878              | 3,555,108       | (131,230)               | 0.010774    | (1,414)                          |
| 7/08 - 6/09                                 | *  | 3,055,813              | 3,185,699       | (129,886)               | 0.046184    | (5,999)                          |
| 7/08 - 6/09                                 | ** | 3,055,813              | 3,185,699       | (129,886)               | 0.010801    | <u>(1,403)</u>                   |
|   |    | *Social Security Wages |                 | ** Medicare Wages       |             | <u>\$(21,785)</u>                |

**Recommendations**

The *Northwestern School District* should:

1. Comply with PDE instructions for the completion of the Social Security/Medicare reimbursement applications (PDE 2105) when reporting wages paid by federal funds.
2. Perform an internal review of the 2010-11 school year reports prior to PDE submission making necessary revisions as required.

The *Pennsylvania Department of Education* should:

3. Adjust the Social Security/Medicare reimbursement to correct the overpayments of \$21,785.

**Management Response**

Management stated the following:

The District agrees that it had only billed the Intermediate Unit for ½ of the share of FICA and Medicare Tax for the two federal programs, IDEA and ACCESS.

The District employees for which we received reimbursement were not considered the same as federal employees in a District federally operated Programs such as Title I or Title IIB, therefore wages were not reported as federal wages to the state.

This practice of billing was done in accordance with directives received from the previous District Superintendent, and previous Curriculum Director and the IU [intermediate unit] concerning receiving reimbursement for federal wages for these two programs.

The District agrees with the finding, and has resubmitted billings to the IU for reimbursement for the additional share of FICA and Medicare Tax.

The correct rate in the billing has been used for the 2010-11 year. The District has filed for a correction on its current year's PDE 339 [Quarterly Report of Social Security and Medicare Tax Contributions].

**Finding No. 2** →

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

*Criteria relevant to the finding:*

Chapter 23 of the State Board of Education Regulations, Section 23.32(b) provides:

Claims for reimbursement shall cover allowable district expenditures for approved pupil transportation, during the preceding year.

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

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

- (3) The establishment of the routes, schedules and loading zones which comply with laws and regulations. . . .
- (6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

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

Our audit of the District's pupil transportation records and the reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting reimbursements of \$903,594 and \$951,752, respectively, as well as a lack of documentation supporting the usage of tax exempt fuel.

Internal control weaknesses and lack of documentation supporting transportation data were also the subject of a finding in our prior audit report (see page 24).

Background

The school board is required to approve the District's transportation runs, inclusive of miles with and without pupils, total annual approved miles, and associated pupil rosters. The approved mileage and pupil rosters should be independently verified by the District for internal control purposes.

PDE instructions state that districts can use either the sample average method or the weighted average method to report the miles with and without pupils and the greatest number of pupils assigned to a vehicle at one time.

The sample average method is based on the drivers recording monthly odometer readings to a tenth of mile on a stop-by-stop basis for eight months.

In addition to mileage, the drivers record the number of pupils assigned to the vehicle. The eight monthly pupil roster verifications are used to determine the weighted average of the maximum number of pupils assigned to the vehicle at any one time. The rosters also provide information on the District's pupil counts for hazardous and non-reimbursable pupils.

Instructions for completing DE's End-of-Year Pupil Transportation Reports state 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 audit purposes. Additionally, the instructions provide that information and data used by the LEA to support the reports should be retained for audit purposes.

The weighted average method is based on the drivers recording daily odometer readings, again on a stop-by-stop, tenth of a mile basis. Mileage is then multiplied by the number of days in the period and divided by the total number of days in the school year.

Hazardous pupils are defined as those students who reside in an area that the Pennsylvania Department of Transportation (PennDOT) has deemed unsafe and for whom the District is therefore required to provide transportation to and from school, regardless of the distance.

PDE defines non-reimbursable pupils as elementary pupils living within 1.5 miles of their school or secondary pupils living within two miles of their school who are transported by the local education agency. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over PennDOT certified hazardous walking routes.

#### Reporting Errors, Internal Control Weaknesses, and Lack of Documentation

Our audit of NSD's transportation program was limited to the 2008-09 school year because as of May 27, 2011, the District had not yet received the final PDE transportation reports for the 2009-10 school year. However, the preliminary reports for 2009-10 were reviewed to determine consistency in cost reporting, annual approved mileage and pupil count information.

#### Contractor Costs

The District's annual local auditor's report (LAR) stated that the District utilized an accrual basis accounting methodology in compliance with Generally Accepting Accounting Principles (GAAP) for reporting revenues and expenses. However, our audit determined that transportation costs were not computed on an accrual basis and instead were reported on a cash basis. This change in methodologies was not disclosed in the notes of the LAR as required by GAAP and resulted in erroneous costs being



reported both in the LAR and in reports to PDE for reimbursement.

The adoption of the cash basis transportation cost reporting resulted from the District's attempt to reduce paperwork between the District and the contractor by performing an annual reconciliation of all the District's transportation costs and expected contractor reimbursements, whether or not the costs were related to pupil transportation to and from school. Other than the estimated monthly contractual installments due to the contractor and the estimated fuel payments due to the District, all other monetary exchanges were withheld pending the year-end reconciliation. Upon receipt of PDE's transportation reimbursement reports, the District computed a payment due to or from the contractor. An estimated due to/due from payment was not computed and recorded as a year-end adjusting accrual entry on the District's general ledger.

Therefore, based on the District using a cash basis reporting method for transportation costs, we were unable to audit the costs for the 2009-10 school year, as the final due to/due from contractor had not been computed. However, we did review the District's reported contractor costs to ensure consistency in the reporting methodology.

Audit of the 2008-09 school year's General ledger and reported transportation costs found that the District utilized PDE's "Total Allowable Costs" as the base amount due to the contractor, as stipulated by contract, and then adjusted this amount by other contractual provisions, resulting in a net amount due to/due from the contractor. Adjustments to the Total Allowable Costs included the ten estimated contractor installment payments; fuel cost allocations based on contractual requirements; terminal rent reimbursement; utility charges; an annual fee for the fueling station improvements; total extracurricular activity transportation charges, regardless of whether or not paid by a club, PTA or sponsoring organization; prior year adjustments, if applicable; and bus monitors and aides. We noted that the monitors and aides were not always provided as a result of the requirements of a student's Individualized Education Plan (IEP); monitors and aides could be placed on the buses by the contractor, at the District's expense, as a result of a driver's request. In addition, the aides that were required by a student's IEP rode the route regardless of whether or

not that particular special needs pupil was on the bus. The net amount represented the amount due to/due from the contractor, and was recorded in the current operating year as an expense or revenue.

Our audit of the 2008-09 school year reconciliation found adjusted amounts that did not correspond with provided expense documentation. Consultation with District personnel revealed that no detailed notes were maintained on the reconciliation to explain why adjusted amounts were used.

Therefore, we were unable to verify the annual transportation costs reported to PDE for the 2008-09 school year.

It should be noted that the District's transportation reimbursement was not based on the amount paid to the contractor, but was based on PDE's final formula allowance. However, without being able to verify the amount paid to the contractor, we do not know if the District received the appropriate transportation reimbursement.

#### Reported Mileage versus Actual Odometer Readings

The District's school board-approved pupil transportation program does not include pupil rosters, miles with/without pupils, total annual approved miles or afternoon route information.

In addition, the District does not independently verify the route mileage, review or sign-off on PDE monthly mileage verification reports, or require the contractor to retain or submit all bus file documentation for record retention. District personnel placed total reliance on the contractor to not only provide the transportation data but also to verify its validity. This reliance resulted in un-auditable and questionable transportation data being submitted to PDE for transportation reimbursement.

During the 2009-10 school year the District used 23 buses to transport students. Our audit of the 2009-10 transportation mileage records found that of the 23 buses, 17 had reported a total of 24,617 miles in excess of mileage that was supported by the buses' odometer readings.

In the 2008-09 school year, 12 of the reported 22 vehicles had reported 21,909 miles in excess of mileage supported by the buses' odometer readings. District personnel could not adequately explain these variances and stated that the District relies on the contractor to perform the monthly mileage verifications and provide all information required for PDE reporting. The District did not review or question the provided data prior to submission.

Audit of the monthly route mileage verification forms found that 15 of the District's 23 buses in the 2009-10 school year, and 14 of the District's 22 buses in the 2008-09 school year, did not contain afternoon route information. District personnel were unaware of the missing documentation and again placed reliance on the contractor to provide complete and accurate data. Driver mileage forms were not in compliance with PDE's instructions requiring stop-by-stop, tenth of mile recordation. This issue was also cited in previous audit reports (see page 24).

The District required bus drivers to complete a daily vehicle usage log card. However, the transportation manager did not review these cards to ensure that all days of usage, beginning odometer reading, ending odometer reading, driver's name, and purpose of the transportation were properly recorded. Audit of these cards found discrepancies in all fields, including missing days, differing ending and beginning odometer readings, and lack of sign-off and purpose, thus eliminating a District-implemented dual control for mileage verification purposes.

Audit of the documentation supporting the bus routes also found that the District had included separate runs for Pre-K pupils in their mileage computations for miles with and without pupils. The inclusion of these miles is not permissible according to PDE instructions.

Without the District's independent verification of contractor mileage and maintenance of substantiating documentation to support information reported to PDE, we were unable to verify mileage reported to PDE for both years of audit.

#### Nonpublic Pupils

The District transported students to four non-public schools in the 2008-09 and 2009-10 school years. Our audit found that the District did not have bus rosters by which students' eligibility for transportation services could be determined. In addition, no bus routes were on file; only one letter of request for transportation was provided; days transported was based on bus driver information and not school calendars (as only one calendar was on file); and the contractor provided transportation to non-public students on a district-declared "snow day" without informing the District.

Without adequate supporting documentation, verification of information reported to PDE relating to nonpublic pupils could not be performed.

#### Hazardous and Non-Reimbursable Students

As a result of the District's failure to provide rosters or supporting mileage documentation to verify the distance from home to school for the pupils, we could not verify if the number of non-reimbursable pupils or the number of pupils transported on approved hazardous walking routes was accurately reported.

#### Days of Service

Our audit found that in the 2009-10 school year the District reported a 180 school year calendar, with 8 of the 23 buses' days of service exceeding the school calendar. In the 2008-09 school year the District reported a 179 day school calendar, with 11 of 22 buses reporting usage in excess of the school calendar. Days of service were reported to PDE based on contractor and bus driver information, and could not be substantiated by the District. Therefore, we could not verify that the days of service were accurately reported. This may have been a contributing factor to the excess mileage discussed previously.

### Pupil Rosters

The District's school board does not approve pupil rosters as part of the District's pupil transportation program. Neither the District nor the contractor prepared pupil rosters for the 2009-10 or 2008-09 school years. The District relied on a spreadsheet maintained by the transportation manager to report pupil count. However, the District allowed parents to contact the contractor directly regarding transportation changes that were not always relayed back to the District and bus drivers were not required to record the number of students on their monthly mileage checks to verify student counts. In addition, we noted Pre-K and Head Start pupils on the audited routes, and we could not determine whether or not these students were incorrectly included in the reported pupil counts.

Without properly prepared and maintained rosters, we were unable to verify if the reported number of pupils was accurately reported.

### Fuel Usage Controls

The 2008-09 audit of district-purchased tax exempt fuel found no records were available to verify that the tax exempt fuel was used for the exclusive purpose of transporting students to and from school. Our audit found that prior to the start of the 2009-10 school year a new fuel tank and dispensing system were installed that would allow for monitoring of fuel usage for transportation to and from school and for all other purposes. However, District administration was unaware that the transportation manager had not ensured that the fuel reporting system was properly implemented by the contractor, which would have provided the necessary information for fuel cost allocation. We also noted that District management had not been informed of the contractor's non-compliance with District directives, issued prior to the 2009-10 school year, regarding fuel usage reports.

In addition, the transportation manager provided a monthly fuel inventory spreadsheet. At the end of the 2009-10 school year, a shortage of 274 gallons existed between the spreadsheet and the tank reading. District personnel could not explain why their spreadsheet identified more gallons available than the actual tank reading.

The lack of actual documentation to support the use of the tax exempt fuel allows for the potential misuse of the fuel. Sound business practice dictates that the District should be able to track fuel usage by vehicle and therefore be able to discern any unexplained fluctuations that may occur. This would also mitigate the possibility of any fraud concerning fuel usage.

Without properly prepared fuel usage reports, we were unable to verify if the reported cost of fuel was accurate.

#### Layover Time

During the 2009-10 school year, the District allowed the contractor layover time at the area vocational-technical school. However, the District did not apply for or receive approval from PDE for the layover time and was therefore unable to request appropriate reimbursement.

### **Recommendations**

The *Northwestern School District* should:

1. Consult with their local auditors regarding their accounting methodology and determine if resubmission to PDE is required, along with the reissuance of financial information.
2. Review the data submitted for the 2009-10 and 2008-09 school years and work with officials at PDE to resubmit the data, if necessary and if possible.
3. Require the District's transportation contractor to provide all bus file documentation to the District for record retention.
4. Ensure that adequate and appropriate nonpublic pupil information is obtained and retained for audit.

5. Require the transportation manager to properly identify all hazardous and non-reimbursable students for reporting purposes.
6. Obtain all required school calendars to ensure that days of service are properly reported.
7. Develop pupil rosters to verify and confirm pupil counts reported.
8. Modify the system used to monitor fuel usage by the contractor to include the ability to track usage by designated purpose.
9. Ensure that layover hours are properly reported and approved by the state for reimbursement.
10. Ensure that District personnel become more involved in the recordkeeping of pupil transportation supporting documentation provided by the contractor and perform an internal review to ensure the accuracy of data submitted to PDE for reimbursement.
11. Ensure that the transportation manager attends training regarding the collection, maintenance and submission of pupil transportation data.

The *Pennsylvania Department of Education* should:

12. Consider withholding future pupil transportation reimbursement payments until the District prepares and retains support documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, instructions for completing the end-of-year pupil transportation reports, and board policies.

The *Department of Revenue* should:

13. Review the District's internal controls and actual usage of tax exempt liquid fuel purchased by the District and utilized by the pupil transportation contractors.

**Management Response**

Management stated the following:

Calendars and students of non-public schools: Prior to the start of the school year, the district will request and receive a calendar and a request to transport from each non-public school which is requesting transportation for any student living in our district. The transportation office will maintain copies and provide the contractor with copies. The business manager will review calendars and requests for transportation.

Monthly supporting documentation: The contractor will provide the district supporting documentation of each route on a monthly basis (Oct – May), a total of eight months. This documentation will utilize current AM and PM routes with odometer readings to each home or group stop (loading zones) of students. A current route sheet will be used. Mileage will be determined between each stop and the school. In addition, the contractor will determine the miles to the 0.1 mile without and with students. Drivers will sign and date each AM/PM route. The contractor will provide a roster of students for the day the monthly mileage is performed. The transportation director will review each monthly route calculation for accuracy for miles with/without students and will document variations from previous month's report. The director will also review each student on the roster for validity.

Supporting documentation for alternative and special needs routes outside the district: The supporting documentation will be completed within five days of a route change in addition to a monthly report. These routes constantly change and usually cover longer distances in the District and to the school. Therefore these routes will often have more documentation than a regular route. This method will depict more accurate data for the vehicle that is assigned to the route. After the review, the transportation director will provide the business manager the summary and monthly supporting documentation. The contractor must satisfy all monthly requirements before the district releases monthly payments.



Routes for board approval at the beginning of the school year: The transportation director with the assistance of the contractor will provide information for the School Board to approve the proposed bus routes and estimated mileage to the 0.1 mile. The documentation will contain mileage with and without students. Proposed routes will be completed in July of each year for approval at the August board meeting.

Student rosters – distance from schools: the transportation director will maintain a student roster by bus route of the students' walking distance to their attending school. This roster will identify all non-reimbursable, students, all hazardous approved (up to 1-1/2 miles for elementary) (up to 2 miles for secondary students) and reimbursable students.

Spare buses and buses from other terminals: the contractor will inform the transportation director when a district approved bus is inoperable. The contractor will provide the bus number and an estimate of the timeframe the vehicle will be out of service. The contractor will provide a replacement bus and inform the transportation director of the replacement bus number. In the event that a bus is needed from another terminal, the contractor will provide the make, model, year, capacity, VIN, and the beginning mileage. The replacement vehicle will have a mileage card which must be filled out in the same manner as all other cards as long as the vehicle is utilized at this terminal.

District will receive all route documentation from the contractor to validate how each route was conducted.

District will provide the contractor with any changes to daily routes and will maintain documentation.

Fuel usage: The contractor will provide the district a monthly reconciliation of fuel dispensed. The usage log will include the date, vehicle number, amount of fuel dispensed, and the actual use of the fuel i.e. home to school, sports, field trips, etc. Additionally, current fuel process per gallon will be updated on the activity detail report upon delivery of fuel. Along with the miles, the drivers will record the number of gallons used on the trip sheet and the vehicle card.

This plan of action is in addition to the current procedures in place to provide the District with daily mileage log cards which have been properly completed.

**Finding No. 3**

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

*Criteria relevant to the finding:*

PennDOT bus driver regulations require the possession of a valid driver's licenses and passing a physical examination.

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

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

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

Our audit of the District's school bus drivers' qualifications for the 2009-10 school year found that not all records were on file at the time of audit. Additionally, the documentation was not provided to the District by the contractor as specified in the transportation contract.

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

We reviewed the personnel records of seven bus drivers hired since the previous audit and expanded the review to include all personnel currently employed by the NSD's pupil transportation contractor. Our review found that the District did not have on file, at the time of the audit, current valid driver's licenses for two drivers and one driver's child abuse clearance; two additional drivers' clearances were obtained over six months after their date of employment.

The audit also found that for the 2009-10 school year the school board did approve all drivers utilized by the contractor as required by State Board of Education regulations and board policy. However, the approved driver list included only the contractor's employees' names and did not include District verification of current licenses and required clearances as stipulated in board policy, the transportation contract and the driver's manual.

Additionally, at the time of the audit, District personnel did not have on file a detailed list of all bus/van drivers including the substitute drivers the contractor employed for the 2009-10 school year, and the contractor failed to provide the District with copies of all the drivers' licenses and clearances prior to the commencement of the school year, as required by District policy and the pupil transportation contract.

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

The failure to have the records on file at the District was the result of the transportation director's failure to ensure that the transportation contractor complied with provisions of the contract, board policy and certain provisions of the Public School Code and the CPSL.

Lastly, we noted that the District had adopted a board policy requiring the District's transportation contractor to provide written notification to the District 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 suitability to be in direct contact with children. In addition, the transportation contract includes a provision stating: "Any violation of criminal law by a bus driver must be reported immediately to the District in writing." However, the contractor's bus driver's manual did not contain any reference to this policy or contract requirement. This omission could have had ramifications if a situation potentially placing the safety of transported students in jeopardy had not been reported timely to the District.

We informed the transportation manager of the missing bus driver qualification documentation on April 6, 2011. The District's transportation contractor subsequently provided all the missing documentation, except for one van driver's child abuse clearance. District personnel informed the contractor that this driver was in violation of the contract and District policy. Therefore, the driver was not permitted to transport District students until receipt of the clearance.

## **Recommendations**

The *Northwestern School District* should:

1. Ensure that the District's transportation manager reviews each driver's qualifications prior to board approval.

2. Ensure that the transportation contractor does not allow any driver to transport students without required board approval.
3. Require the transportation contractor to enact procedures requiring drivers to immediately report criminal charges and/or convictions.
4. Ensure that the transportation contractor provides the District written notice if current drivers have been charged with or convicted of criminal offenses.
5. Ensure that District-maintained files are up-to-date and complete.

**Management Response**

Management stated the following:

Bus Drivers' Documentation: A current copy of all clearances, licenses, physicals, and dates originally approved by the School Board will be kept on each approved driver and will be maintained in the transportation office. A record of expirations of above documents will be reviewed monthly by the transportation director. The contractor must inform the District immediately if there is a change of status of its management and drivers as per School Board Policy. The Board Secretary/Assistant Secretary will be forwarded a copy of drivers to submit for Board approval.

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

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Our prior audit of the Northwestern School District (NSD) for the school years 2007-08 and 2006-07 resulted in one finding pertaining to transportation. 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 NSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the NSD did not implement recommendations related to the transportation finding.

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

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**Finding:** **Internal Control Weaknesses and Lack of Documentation Supporting Reimbursements Totaling \$1,780,853 for Pupil Transportation.**

Finding Summary: Our audit of the District's pupil transportation records and the reports submitted to PDE for the 2007-08 and 2006-07 school years found internal control weaknesses and a lack of documentation supporting pupil transportation reimbursements of \$886,269 and \$894,584 for the 2007-08 and 2006-07 school years, respectively.

Recommendations: Our audit finding recommended that the NSD:

1. Prepare and maintain records on file, of odometer readings between all bus stops and school, as required by State Board of Education Chapter 23 regulations.
2. Ensure that District personnel become more involved in the recordkeeping of pupil transportation supporting documentation provided by the contractor and perform an internal review to ensure the accuracy of data submitted to PDE for reimbursement.
3. Modify the system used to monitor fuel usage by the contractor to include the ability to track usage by vehicle, on a daily and monthly basis, and the designated purpose.
4. Review the data submitted for the 2007-08 and 2006-07 school years and work with officials at PDE to resubmit the data, if necessary and if possible.
5. Enable the transportation director to attend training regarding the collection, maintenance, and submission of pupil transportation data.

6. Review transportation reports submitted to PDE for subsequent years of audit and ensure the reported information is accurate, and adequate documentation is on file to support mileage reported for each bus.

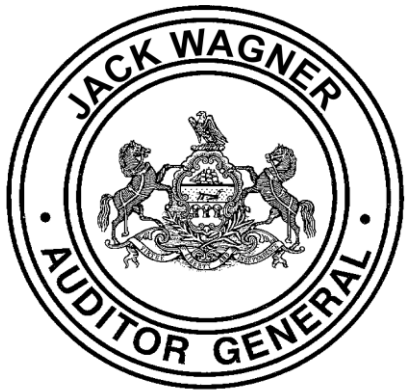
We also recommended that PDE:

7. Consider withholding future transportation reimbursement payments until the District prepares and retains supporting documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, instructions for completing PDE's End-of-Year Pupil Transportation Reports, and board policy.

Current Status:

During our current audit procedures we found that the NSD did not implement the recommendations (see Finding No. 2 on page 9).

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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following:

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