



SHARON CITY SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Melvin Bandzak, Board President
Sharon City School District
215 Forker Boulevard
Sharon, Pennsylvania 16146

Dear Governor Corbett and Mr. Bandzak:

We conducted a performance audit of the Sharon City School District (SCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 16, 2010, through June 12, 2012, 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 SCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in 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.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

April 9, 2013

cc: SHARON CITY 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 Sharon City School District (SCSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period July 16, 2010, through June 12, 2012, 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 SCSD encompasses approximately 5 square miles. According to 2010 federal census data, it serves a resident population of 14,038. According to District officials, in school year 2009-10 the SCSD provided basic educational services to 2,128 pupils through the employment of 173 teachers, 110 full-time and part-time support personnel, and 10 administrators. Lastly, the SCSD received more than \$17.2 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the SCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, two matters unrelated to compliance are reported as observations.

Finding: School Bus Drivers'

Qualification Deficiencies. We reviewed the personnel records of five newly hired bus drivers employed by the contracted carriers transporting SCSD students. Our review found that two of the five drivers did not have the correct criminal history record check on file. The drivers had fingerprint clearances done by the Federal Bureau of Investigation through the Pennsylvania Department of Public Welfare (PDPW). The PDPW's clearance only looks for child abuse violations and not other criminal violations (see page 6).

Observation No. 1: Amount Paid to the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education's Final Formula Allowance.

Our audit of the SCSD's contracted pupil transportation costs for the school years ending June 30, 2007, through June 30, 2010, found that the contracted cost of the SCSD's pupil transportation operation had increased substantially more than the rate of inflation over the four year period, based on data submitted to the Pennsylvania Department of Education (PDE) by the SCSD for reimbursement purposes. The amount paid to the SCSD's transportation contractors

increased more than the PDE's inflation adjustment formula allowance, which is used to determine the SCSD's reimbursement for transportation services (see page 8).

Observation No. 2: The Sharon City School District Lacks Sufficient Internal Controls Over Its Student Record Data.

Our review of the SCSD's controls over student record data integrity found that internal controls need to be improved. Specifically, our review found the SCSD does not have adequate procedures in place to ensure continuity over its Pennsylvania Information Management System data submission in the event of a sudden change in personnel or child accounting vendors (see page 12).

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

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 July 16, 2010, through June 12, 2012, except for the verification of professional employee certification, which was performed for the period May 6, 2010, through April 9, 2012.

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 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 SCSD'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?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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.

The SCSD's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any IT controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant agreements and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, student activity fund records 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 the SCSD's operations.

Findings and Observations

Finding

School Bus Drivers' Qualification Deficiencies

Criteria relevant to the finding:

The Pennsylvania Department of Transportation's bus driver regulations require the possession of a valid driver license and passing a physical exam.

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

Additionally, Public School Code Section 111(7)(c.1) provides, in part:

"Beginning April 1, 2007, administrators shall maintain on file with the application for employment a copy of the Federal criminal history record in a manner prescribed by the Department of Education."

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 Sharon City School District's (SCSD) school bus drivers' qualifications for the 2011-12 school year found that the SCSD did not have all the correct records on file at the time of the audit.

Several different state statutes and regulations established 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 five newly hired bus drivers employed by the contracted carriers transporting the SCSD's students. Our review found that two of the five drivers did not have the correct federal criminal history record on file. The drivers had fingerprint clearances done by the Federal Bureau of Investigation through the Pennsylvania Department of Public Welfare (PDPW). The PDPW's clearance only looks for child abuse violations and not other criminal violations.

The contractor, who provided the clearances, and the SCSD's personnel were unaware that the PDPW's fingerprint clearance was not sufficient for driver qualification purposes.

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

On April 27, 2012, we informed the SCSD's management of the missing documentation and instructed them to immediately obtain the necessary documents so that they could ensure the drivers are properly qualified to have direct contact with children. On May 4, 2012, the SCSD's personnel provided us with the necessary documentation, and we verified the drivers' had the proper qualifications to continue to have direct contact with children.

Recommendation

The *Sharon City School District* should:

1. Ensure the SCSD's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Acquire and maintain, in the SCSD's transportation office, proper employee qualifications prior to bus drivers transporting students.
3. Require the contractor to provide complete records for each driver and retain the information on file at the SCSD.

Management Response

Management stated the following:

“Management agrees that two (2) bus drivers' clearances were obtained through the PA Department of Public Welfare (DPW) and not PA Department of Education (PDE) as recommended. We understand that PDE provides greater coverage than DPW. Both drivers obtained new clearances through PDE and both were fine.”

“In future contracts with our bus companies, the District shall include a section that all clearances must be through PDE.”

Observation No. 1

Amount Paid to the Pupil Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education's Final Formula Allowance

Our audit of the Sharon City School District's (SCSD) contracted pupil transportation costs for the school years ending June 30, 2007, through June 30, 2010, found that the contracted cost of the District's pupil transportation operations had increased substantially more than the rate of inflation over the four year period, based on data submitted to the Pennsylvania Department of Education (PDE) by the District for reimbursement purposes. The amount paid to the District's transportation contractors increased more than PDE's inflation adjustment formula allowance, which is used to determine the District's reimbursement transportation services.

PDE's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District's aid ratio.

The following chart details the fluctuation in contracted costs compared to PDE's final formula allowance:

<u>School Year</u>	<u>Contracted Costs</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2009-10	\$231,273*	\$130,506	\$100,767	77.21
2008-09	\$226,567*	\$135,596	\$ 90,971	67.09
2007-08	\$170,661*	\$117,877	\$ 52,784	44.78
2006-07	\$231,306*	\$171,829	\$ 59,477	34.61

*District personnel improperly reported the cost of fuel provided to one of the contractors for each school year, which resulted in misstatements of the contractor's actual cost. Our audit review added \$29,267 in fuel costs to the 2009-10 school year, deducted \$30,524 from the 2008-09 school year, deducted \$69,494 from the 2007-08 school year, and deducted \$27,370 from the 2006-07 school year reported contracted costs. It should be noted, the reporting errors had no effect on the District's transportation reimbursement, as the amount paid to the contractor exceeded PDE's reimbursable final formula allowance.

Our audit of services provided by the pupil transportation contractor found that over the last four years the number of vehicles used to transport pupils had decreased, the District's total number of pupils transported had decreased, and the number of approved annual miles traveled had decreased, detailed as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	10	118	82,746
2008-09	15	116	88,484
2007-08	12	121	77,657
2006-07	11	122	126,360

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

<u>School Year</u>	<u>Contractor</u>	<u>Amount Paid Contractor</u>	<u>Final Formula Allowance</u>	<u>Difference</u>	<u>(Over)/Under Percent</u>
2009-10	A	\$167,233	\$66,432	\$(100,801)	(251.74)
	B	64,040	64,074	34	.05
2008-09	A	\$167,167	\$65,147	\$(102,020)	(256.60)
	B	59,400	70,449	11,049	15.68

The following chart details the total amount paid both contractors each school year, the maximum cost allowable, the total reimbursement received by the District from PDE, and the actual tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contracted Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$231,273	\$130,472	\$108,018	\$123,255
2008-09	226,567	124,547	102,066	124,501
2007-08	170,661	106,244	86,812	83,849
2006-07	<u>231,306</u>	<u>108,409</u>	<u>87,107</u>	<u>144,199</u>
Total	<u>\$859,807</u>	<u>\$469,672</u>	<u>\$384,003</u>	<u>\$475,804</u>

A query summary of PDE's pupil transportation data noted that 486 school districts and area vocational-technical schools in Pennsylvania contracted out their pupil transportation service for the 2009-10 school year. Approximately 26.54 percent of local educational agencies (LEAs) paid their contractors the final formula allowance or less. Additionally, 23.86 percent paid less than 10 percent over their final formula allowance. The SCSD for the 2009-10 school year paid its contractors 77.21 percent over state formula, compared to 67.08 percent during the 2008-09 school year. Of the 486 LEAs, approximately 91.15 percent of LEAs pay their contractors closer to or less than the state's formula than the SCSD.

During the audit, the auditors obtained copies of the latest transportation contracts for both contractors. Both contracts provide a base daily rate. However, one contractor receives an increase of the previous year's rate by a percent change not less than 2.5 percent and not more than 3 percent of the Consumer Price Index established by the Bureau of Labor Statistics of the United States Department of Labor. In addition, this same contractor also paid up to \$1.75 per gallon for fuel, with the District splitting the fuel costs 50/50 after the first \$1.75 per gallon for the period July 1, 2010, through June 30, 2014.

The District's business manager confirmed that the District's board of directors did not seek competitive bids for the pupil transportation service for the contract period. It was agreed they would negotiate with the same local contractors that had been providing the service for several prior school years. Additionally, the contracts did not indicate that any consideration of PDE's approved final formula allowance was made in establishing the daily rates that were approved.

Recommendations

The *Sharon City School District* should:

1. Prior to negotiating new contracts, be cognizant of the state's final formula allowance cost formula.
2. Prepare pupil transportation contracts to ensure the local effort share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
3. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.
4. Consider routinely seeking competitive bids for the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.

Management Response

Management stated the following:

“Management agrees with this Observation and plans on meeting with the one (1) bus company in question to re-negotiate the current contract to reduce the amount paid.”

Observation No. 2

The Sharon City School District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

According to the Pennsylvania Department of Education's (PDE) 2009-10 PIMS User Manual, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEAs must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the LEA's controls over data integrity found that internal controls need to be improved. Specifically, our review found the District does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Recommendations

The *Sharon City School District* should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission.
2. Cross-train individual(s) to familiarize them with PDE's child accounting reporting requirements and PIMS reporting procedures in the event of a sudden personnel change.

Management Response

Management stated the following:

“Management agrees with the observation that the responsibility of PIMS rests solely with one (1) employee. It is the intention of the School District to provide some cross training and have a backup individual for the PIMS system. In addition, the District has a PIMS manual but will develop one more specific to Sharon City School District.”

Status of Prior Audit Findings and Observations

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

Distribution List

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, and the following:

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 231 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.

