

UNION CITY AREA SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Ms. Jennifer M. Gourley, Board President
Union City Area School District
107 Concord Street
Union City, Pennsylvania 16438

Dear Governor Corbett and Ms. Gourley:

We conducted a performance audit of the Union City Area School District (UCASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period January 26, 2010 through September 30, 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 UCASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 23, 2012

cc: **UNION CITY AREA SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

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

Our audit scope covered the period January 26, 2010 through September 30, 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 UCASD encompasses approximately 75 square miles. According to 2000 federal census data, it serves a resident population of 7,177. According to District officials, in school year 2009-10 the UCASD provided basic educational services to 1,260 pupils through the employment of 104 teachers, 80 full-time and part-time support personnel, and 12 administrators. Lastly, the UCASD received more than \$11.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the UCASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Amount Paid to Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance. Our audit of the UCASD's pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the amount the UCASD paid to contractors for pupil transportation had increased substantially more than the rate of inflation over the four-year period, based on data submitted to the Department of Education by the UCASD for reimbursement purposes (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the UCASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the UCASD had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses and lack of documentation supporting pupil transportation reports (see page 10).



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 January 26, 2010 through September 30, 2011, except for:

- Professional employee certification, which was reviewed for the 2010-11 school year; and
- Pupil transportation costs, which were reviewed June 30, 2007 through June 30, 2010.

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 Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a 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 UCASD'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 buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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

UCASD 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, 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 UCASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2010, we reviewed the UCASD's response to DE dated January 13, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation →

Amount Paid to the Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance

Our audit of the Union City Area School District’s (UCASD) pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the amount the District paid to contractors for pupil transportation had increased substantially more than the rate of inflation over the four-year period, based on data submitted to the Department of Education (DE) by the District for reimbursement purposes.

The amount paid to the District’s transportation contractor increased more than DE’s inflation adjusted final formula allowance used to determine the District’s reimbursement of transportation services.

DE’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 cost compared to DE’s final formula allowance:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2006-07	\$1,119,348	\$686,174	\$433,174	63.13
2007-08	1,188,465	718,241	470,224	65.47
2008-09	1,187,739	714,875	472,864	66.15
2009-10	1,277,530	726,349	551,181	75.88

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 vehicles traveled had decreased over the four-year period, detailed as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2006-07	36	1,110	368,856
2007-08	33	1,130	373,048
2008-09	37	1,117	351,092
2009-10	34	1,064	363,642

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

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2006-07	\$1,119,348	\$ 686,174	\$ 572,127	\$ 547,221
2007-08	1,188,465	718,241	602,262	586,203
2008-09	1,187,739	714,875	587,580	600,159
2009-10	<u>1,277,530</u>	<u>726,349</u>	<u>596,158</u>	<u>681,372</u>
Totals	<u>\$4,773,082</u>	<u>\$2,845,639</u>	<u>\$2,358,127</u>	<u>\$2,414,955</u>

A query of DE's pupil transportation data found that 486 school districts and vocational-technical schools contracted their pupil transportation service during the 2009-10 school year. Approximately 27 percent of the LEAs paid their contractors the final formula or less. An additional 23 percent paid less than 10 percent over their final formula allowance. For the 2009-10 school year the UCASD paid its contractor 75.9 percent over the state formula, compared to 66.14 percent during 2008-09 school year. Of the 486 LEAs, 51 percent of them paid their

contractors closer to or less than the state formula than UCASD for the 2009-10 school year.

During the audit the auditors obtained a copy of the current contract, which was approved on April 14, 2008, commencing July 1, 2008 and continuing through June 30, 2013. The contract is broken out into three sections: (1) routes to and from school, which includes the vocational-technical routes, (2) pre-kindergarten routes, and (3) athletic runs.

Costs for the athletic runs are not included with regular transportation costs for reimbursement purposes.

The contract provides for percentage increases of three percent in years 2008-09, 2011-12 and 2012-13 and 4 percent in 2009-10 and 2010-11. In addition, beginning in 2008-09 a per mile rate is paid for the Pre-Kindergarten runs \$2.75 for buses and \$1.65 for vans. The rate goes up incrementally for each year of the contract.

At the time, it was agreed the District would not seek competitive bids and would instead negotiate with the same local contractor that had been providing excellent service to the District.

While the bidding of pupil transportation services is not required under state law, competitive bidding can result in a lower cost to District taxpayers.

Recommendations

The *Union City Area School District* should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing base rates and increases that are in line with DE's final formula allowance for all pupil transportation costs.

4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation.

Management Response

Management stated the following:

Cause of the problem

- 1.) Since the District is located in southern Erie County where few educational services are available, more miles are traveled each year in order to provide educational opportunities to students.
- 2.) The District has Special Education students in placements outside of the District that require the travel of more miles.
- 3.) The District has started bussing more students within the one mile elementary and two miles for secondary range because of safety concerns in the community.

Corrective actions

- 1.) The District will review all trips for educational services outside of the District. Trips will be combined and shared with other neighboring Districts if possible.
- 2.) The District will review Special Education student placements. The District will investigate offering special needs classes in-house to see if these could be offered at a lower cost than what is currently being paid for tuition and transportation out of the District classes.
- 3.) The District is currently working to have additional routes deemed as hazardous so that more students that are transported will be reimbursable.
- 4.) District personnel will become familiar with the state's transportation cost formula. The District will monitor trips more closely and be able to justify any increases.

Status of Prior Audit Findings and Observations

Our prior audit of the Union City Area School District (UCASD) for the school years 2007-08 and 2006-07 resulted one reported finding. The finding pertained to internal control weaknesses and lack of documentation supporting pupil 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 UCASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the UCASD implemented recommendations related to internal control weaknesses and lack of documentation supporting pupil transportation reports.

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

Finding	Internal Control Weaknesses and Lack of Documentation Supporting Pupil Transportation Reports
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Finding Summary: Our prior audit of the District's board minutes, the board-approved bus routes, and the board-approved transportation reports submitted to DE for the 2007-08 and 2006-07 school years found internal control weaknesses and lack of documentation supporting mileage and the nonreimbursable and hazardous pupil counts reported.

As a result, we were unable to verify the accuracy of transportation reimbursement of \$572,127 and \$556,659 received for the 2007-08 and 2006-07 school years, respectively.

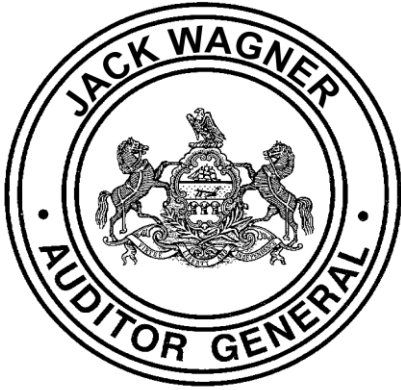
Recommendations: Our audit finding recommended that the UCASD:

1. Conduct an internal review to ensure the daily mileage, pupil count, hazardous pupils, and non-reimbursable pupils are accurately recorded and reported to DE.
2. Prepare and retain on file source documentation supporting the number of non-reimbursable pupils transported, hazardous pupils transported, and the weighted average of daily miles with and without pupils.
3. Prepare and maintain records on file of odometer readings between all bus stops and school, as required by the State Board of Education regulations.
4. Update District routes with the Pennsylvania Department of Transportation to ensure that all hazardous routes are properly identified for reimbursement purposes.

5. Allow the District's personnel to attend conferences and training sessions relating to pupil transportation reports and recordkeeping requirements.
6. Review transportation reports submitted to DE for years subsequent to those of our audit and ensure the reported information is accurate, and that the documentation is on file to support data reported.

Current Status:

During our current audit procedures we found that the UCASD implemented the recommendations. However, there is an observation regarding the cost of pupil transportation in our current report (see page 6).



Distribution List

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

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

