

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

JULY 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. George Trauner, Board President
Union City Area School District
107 Concord Street
Union City, Pennsylvania 16438

Dear Governor Rendell and Mr. Trauner:

We conducted a performance audit of the Union City Area School District (UCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 22, 2008 through January 26, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding 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 cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

July 1, 2010

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, regulations, 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 July 22, 2008 through January 26, 2010, 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 2007-08 and 2006-07.

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 2007-08 the UCASD provided basic educational services to 1,315 pupils through the employment of 105 teachers, 75 full-time and part-time support personnel, and 10 administrators. Lastly, the UCASD received more than \$11.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the UCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Internal Control Weaknesses and Lack of Documentation Supporting Pupil Transportation Reports. Our audit of the UCASD pupil transportation reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found internal control weaknesses and lack of documentation supporting UCASD's non-reimbursable and hazardous pupil counts (see page 6).

Status of Prior Audit Findings and Observations. The UCASD had no audit findings or observations in the audit we conducted of the 2005-06 and 2004-05 school years.



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 22, 2008 through January 26, 2010, except for the verification of professional employee certification which was performed for the July 1, 2009 through January 26, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the UCASD's compliance with applicable state laws, regulations, 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?

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, regulations, 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 and conclusions based on our audit objectives.

UCASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, 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 and attachments, non-resident pupil membership records, reimbursement applications and deposited state funds.

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

Findings and Observations

Finding

Internal Control Weaknesses and Lack of Documentation Supporting Pupil Transportation Reports

Criteria relevant to the finding:

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

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

(3) The establishment of routes, schedules and loading zones which comply with laws and regulations. . . .

(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

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

Our audit of the District's board minutes, the board approved bus routes, the board approved transportation policies, and pupil transportation reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found internal control weaknesses and lack of documentation supporting the 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.

The internal control weaknesses were as follows:

- Board approved bus routes did not include bus rosters listing all pupils assigned to each bus, stop-by-stop mileage, or mileage with and without pupils to the tenth of a mile, as required by DE instructions.
- The District's transportation policy number 3545, approved over ten years ago, states, in part, "Transportation will generally be provided only for those pupils who live one or more miles away from the school they attend." As a result of this policy the District is transporting pupils who reside within mileage limits that would classify them as nonreimbursable.

According to DE guidelines, nonreimbursable pupils are elementary pupils living within one and one half miles of their school or secondary pupils living within two miles of their school who are transported by the District. These pupils are to be excluded from the District's transportation reimbursement formula.

During the 2007-08 and 2006-07 school years, the District reported 285 and 246 nonreimbursable pupils, respectively, but could not provide documentation to

support the number of nonreimbursable pupils reported. Stop-by-stop mileage identifies the pupil's distance from their home to the school.

- In the 2007-08 and 2006-07 school years the District reported 130 and 141 hazardous pupils, respectively. We found that the hazardous routes certified by the Pennsylvania Department of Transportation (PennDOT) were last updated in November of 1997; since then neither the District nor the transportation contractor have investigated whether additional streets and roads should be classified as hazardous.

According to DE guidelines, hazardous pupils are any pupils living in an area where the highway, road or traffic conditions are such that walking constitutes a hazard to the safety of the child, as certified by PennDOT.

In the 13 years since the PennDOT review, some of the Districts' routes, due to increased traffic flow, may now fall into the hazardous classification, which would allow the District to receive funding for pupils previously identified as nonreimbursable pupils.

Additionally, personnel responsible for reporting pupil transportation have not attended any training seminars relating to the state requirements for transportation reporting.

The internal control weaknesses and the lack of supporting documentation were caused by District personnel not requiring detailed documentation supporting the daily mileage with and without pupils, number of approved hazardous route pupils transported, and number of nonreimbursable pupils transported. These are all integral parts of the transportation reimbursement formula and must be maintained accurately in accordance with State Board of Education regulations and DE guidelines.

The failure to prepare and retain detailed pupil transportation records resulted in the auditor being unable to verify that the District received the correct pupil transportation reimbursement for the two school years under audit.

Recommendations

The *Union City Area School District* should:

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 Chapter 23 regulations.
4. Update District routes with PennDOT 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 reporting 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 documentation is on file to support data reported.

Management Response

Management stated the following:

The District will take the recommendations under advisement. In addition, the District will consider:

1. Consulting with the District Solicitor on what the School Code requires to be submitted to the Board for approval each year in the pupil transportation program.
2. Evaluating and modifying the transportation recordkeeping system of the District.
3. Taking steps to determine if additional hazardous routes exist.
4. Attending training session on transportation reporting.

Status of Prior Audit Findings and Observations

Our prior audit of the Union City Area School District for the school years 2005-06 and 2004-05 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.auditorgen.state.pa.us, and the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

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

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office Building
Harrisburg, PA 17120

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

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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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