

UNITED SCHOOL DISTRICT
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2011

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

Ms. Trudy DeRubis, Board President
United School District
10780 Route 56 East
Armagh, Pennsylvania 15920

Dear Governor Corbett and Ms. DeRubis:

We conducted a performance audit of the United School District (USD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period May 14, 2010 through August 16, 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 USD complied, in all significant respects, with applicable state laws, regulations, 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 USD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve USD's operations and facilitate compliance with legal and administrative requirements. We appreciate the USD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 22, 2011

cc: **UNITED SCHOOL DISTRICT** Board Members

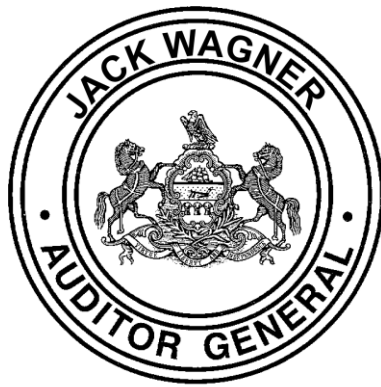


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in Overpayments of \$48,828	6
Finding No. 2 – Failure to Have All School Bus Drivers’ Qualifications on File	8
Finding No. 3 – Errors in Reporting Pupil Membership Resulted in an Overpayment of \$12,092	10
Status of Prior Audit Findings and Observations	11
Distribution List	13



Executive Summary

Audit Work

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

Our audit scope covered the period May 14, 2010 through August 16, 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 USD encompasses approximately 131 square miles. According to 2000 federal census data, it serves a resident population of 8,269. According to District officials, in school year 2009-10 the USD provided basic educational services to 1,274 pupils through the employment of 101 teachers, 46 full-time and part-time support personnel, and 9 administrators. Lastly, the USD received more than \$11.1 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Finding No. 1: Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in Overpayments of \$48,828. Internal control weaknesses and errors in transportation were due to lack of documentation and incorrectly reporting data. This resulted in overpayments of \$48,828 (see page 6).

Finding No. 2: Failure to Have All School Bus Drivers' Qualifications on File. Our audit of the USD's school bus drivers' qualifications for the 2010-11 school year found not all records were on file at the time of the audit (see page 8).

Finding No. 3: Errors in Reporting Pupil Membership Resulted in an Overpayment of \$12,092. Errors in membership were due to USD not properly reporting nonresident membership days. This resulted in an overpayment of \$12,092 (see page 10).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the USD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the USD had not taken appropriate corrective action in implementing our recommendations pertaining to reporting membership data (see page 11) and transportation data (see page 12).

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 May 14, 2010 through August 16, 2011.

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 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 USD'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?
- ✓ 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

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, observations and conclusions based on our audit objectives.

USD 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 pupil membership records.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 5, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in Overpayments of \$48,828

Criteria relevant to the finding:

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

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

Our audit of pupil transportation records and reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found errors, which resulted in an overpayment in transportation subsidy of \$17,692 for the 2009-10 school year and an overpayment of \$31,136 for the 2008-09 school year.

In school year 2009-10 the District did not correctly report daily mileage, nonpublic pupils, contractor cost, and the days of service the buses ran for the year.

In school year 2008-09 the District did not correctly report daily mileage.

Daily mileage, nonpublic pupils, contractor cost and days of service are integral parts of the transportation subsidy formula and must be reported accurately and in accordance with DE instructions to ensure the correct subsidy is received.

Additional internal control weaknesses were:

- District personnel failed to retain backup documentation to support the sample average calculation of greatest number of pupil's assigned for each bus for the 2009-10 and 2008-09 school years. No documentation was available to support the monthly snapshots of pupils assigned to each bus; and
- No documentation was available to verify the number of hazardous route pupils reported for the 2009-10 and 2008-09 school years. Hazardous route pupils are any pupil 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 so certified by Pennsylvania's Department of Transportation.

The errors and internal control weaknesses were the result of District personnel failure to ensure the accuracy of data submitted and to prepare and retain documentation necessary for the pupil transportation audit.

We have provided DE with reports to be used for the recalculation of the District's pupil transportation subsidy.

Recommendations

The *United School District* should:

1. Conduct an internal review to ensure the daily mileage, pupil count, days of service, contractor cost, hazardous pupils, and nonpublic pupils are accurately recorded and reported to DE.
2. Prepare and retain on file the source data used to report pupil transportation data to DE.
3. Perform a review of subsequent years' data for accuracy and resubmit reports if necessary.

The *Department of Education* should:

4. Adjust the District's future allocations to correct the overpayments of \$48,828.

Management Response

Management stated the following:

The Director of Finance will review the trip sheets received from [the bus contractor] to attempt to rectify the miles "with" and the miles "without" errors. The Director of Finance will also review the pupils transported to ensure all students are being reported. The review for both items will be done quarterly.

Finding No. 2

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's license 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.

Public School Code 111(c.1) requires school administrators to maintain on file a copy of employees' federal criminal history record.

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

Chapter 23 of the State Board of Education Regulations indicates that 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 2010-11 school year found that not all current records were on file at the time of our 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 the 31 bus drivers currently employed by the United School District'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 and/or valid 'S' endorsement card indicating completion of safety training for 13 bus drivers, current physical forms for 14 bus drivers, and Pennsylvania criminal histories, federal criminal histories and child abuse clearance statements for 4 bus drivers.

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 District's transportation coordinator's failure to ensure the transportation contractor complied with provisions of the contract and certain provisions of the Public School Code.

On July 27, 2011, we informed United School District management of the missing documentation and instructed them to obtain the necessary documents. On August 2, 2011, District personnel provided us with the necessary documentation, and we verified that the drivers had proper legal qualifications to continue to transport students.

Recommendations

The *United School District* should:

1. Ensure that the District's transportation coordinator reviews each driver's current qualifications prior to that driver transporting students.
2. Maintain files at the District, separate from the transportation contractor, for all District drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.
3. Require the transportation contractor to adhere to provisions of the contract and provide the District with documents identified in the contract prior to the commencement of the school year and prior to the drivers having any contact with District students.

Management Response

Management stated the following:

The Director of Finance will review the driver's qualifications quarterly to make sure the District collects current clearances and qualifications from [the bus contractor] as required.

Finding No. 3

Errors in Reporting Pupil Membership Resulted in an Overpayment of \$12,092

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with DE guidelines and instructions, since this is a major factor in determining the district's subsidies and reimbursement.

Our audit found that the District's pupil membership reports submitted to DE for the 2008-09 school year were inaccurate. Clerical errors resulted in an overpayment of \$12,092 in Commonwealth-paid tuition for children placed in private homes.

The errors were caused by double-reporting two nonresident foster students.

We have provided DE with reports detailing the errors for use in recalculating the District's tuition for children placed in private home reimbursement.

Recommendations

The *United School District* should:

1. Perform an internal review of all pupil membership reports and supporting documentation before submission to DE.
2. Review subsequent school year's membership reports for accuracy and resubmit if necessary.

The *Department of Education* should:

3. Adjust the District's future allocations to correct the overpayment of \$12,092.

Management Response

Management stated the following:

The Superintendent and Director of Education will meet quarterly with the Director of Special Services to review the nonpublic students as well as the resident and nonresident students for both accuracy and duplication.

Status of Prior Audit Findings and Observations

Our prior audit of the United School District (USD) for the school years 2007-08 and 2006-07 resulted in two reported findings. The first finding pertained to pupil transportation, and the second to pupil membership. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. As shown below, we found that the USD did not implement recommendations related to pupil transportation and pupil membership.

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

Finding No. 1: Internal Control Weaknesses and Errors in Pupil Transportation Reports Resulted in a Net Underpayment of \$37,363

Finding Summary: Our prior audit of pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found errors which resulted in a subsidy underpayment of \$41,284 for the 2007-08 school year and an overpayment of \$3,921 for the 2006-07 school year.

Recommendations: Our audit finding recommended that the USD:

1. Conduct an internal review to ensure the daily mileage, pupil count, non-reimbursable pupils, hazardous pupils, and nonpublic pupils are accurately recorded and reported to DE.
2. Prepare and retain on file the source data used to report pupil transportation data to DE.
3. Prepare and maintain records on file of odometer readings between all bus stops and school, as required by Chapter 23 regulations.
4. Perform a review of subsequent years' data for accuracy and resubmit reports to DE if necessary.

We also recommended that DE:

5. Adjust the District's future allocations to correct the net underpayment of \$37,363.

Current Status: During our current audit procedures we found that the USD did not implement the recommendations. Our audit of the 2009-10 and 2008-09 school years found significant reporting errors that resulted in Finding No. 1 in our current report (see page 6). As of August 16, 2011, DE had not yet adjusted the District's allocations to correct the net subsidy underpayment.

Finding No. 2: Errors in Reporting Pupil Membership Resulted in an Overpayment of \$23,694

Finding Summary: Our prior audit found that the District's pupil membership reports submitted to DE for the 2006-07 school year were inaccurate. Clerical errors resulted in an overpayment of \$23,694 tuition for children placed in private homes.

Recommendations: Our audit finding recommended that the USD:

1. Perform an internal review of all pupil membership reports and supporting documentation before submission to DE.
2. Review subsequent school year's membership reports for accuracy and resubmit if necessary.

We also recommended that DE:

3. Adjust the District's future allocations to correct the overpayment of \$23,694.

Current Status: During our current audit procedures we found that the USD did not implement the recommendations. Our audit of the 2008-09 school year found significant reporting errors that resulted in Finding No. 3 in our current report (see page 10). As of August 16, 2011, DE had not yet adjusted the District's allocations to correct the overpayment.

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:

The Honorable Tom Corbett
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The Honorable Ronald J. Tomalis
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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.

