



UPPER DAUPHIN AREA SCHOOL  
DISTRICT

DAUPHIN COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

JUNE 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. John Blyer, Board President  
Upper Dauphin Area School District  
5668 State Route 209  
Lykens, Pennsylvania 17048

Dear Governor Corbett and Mr. Blyer:

We conducted a performance audit of the Upper Dauphin Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 25, 2009 through August 31, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies 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 significant noncompliance with state laws and administrative procedures, as detailed in the three audit findings within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education and the Public School Employees' Retirement System.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

June 17, 2013

cc: **UPPER DAUPHIN AREA SCHOOL DISTRICT** Board of School Directors

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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 Upper Dauphin Area School District (District). 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 August 25, 2009 through August 31, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 91 square miles. According to 2010 local census data, it serves a resident population of 9,759. According to District officials, the District provided basic educational services to 1,256 pupils through the employment of 106 teachers, 60 full-time and part-time support personnel, and 9 administrators during the 2009-10 school year. Lastly, the District received \$8.3 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings within this report.

#### **Finding No. 1: Errors in Reporting Pupil Transportation Data Resulted in Overpayments Totaling \$554,713.**

Our audit of the District's pupil transportation records submitted to the Pennsylvania Department of Education found reporting errors which resulted in overpayments of transportation reimbursement totaling \$302,011 in the 2009-10 school year and overpayments of \$252,702 in the 2008-09 school year (see page 6).

#### **Finding No. 2: Improper Reporting of Retirement Wages.**

Our audit of the District's administrative employment contracts and payroll records found the business manager's lump sum vacation payout may have been improperly reported as eligible retirement wages to the Public School Employees' Retirement System for the 2011-12 school year (see page 11).

#### **Finding No. 3: Certification Deficiency.**

Our audit of the District's professional employees' certificates and assignments found that an emotional support teacher was appointed for the 2010-11 school year using an emergency certificate with an effective date of August 1, 2010. This certificate expired at the end of the 2010-11 school year and the teacher continued employment in the position without a valid certificate until May 1, 2012 (see page 13).

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

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Pennsylvania 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 Pennsylvania 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 25, 2009 through August 31, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2010 through June 5, 2012.

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

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 District'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?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ 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 did 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?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District'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 information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes, and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.



## Findings and Observations

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### **Finding No. 1** →

*Criteria relevant to the finding:*

Section 2541 of the Public School Code provides, in part:

School districts shall be paid by the Commonwealth for every school year on account of pupil transportation which, the means and contracts providing for which, have been approved by the Pennsylvania Department of Education. . . .

### **Errors in Reporting Pupil Transportation Data Resulted in Overpayments Totaling \$554,713**

Our audit of the Upper Dauphin Area School District's (District) pupil transportation records submitted to the Pennsylvania Department of Education (PDE) found reporting errors that resulted in transportation reimbursement overpayments of \$302,011 in the 2009-10 school year and \$252,702 in the 2008-09 school year, for a total of \$554,713 in reimbursement overpayments.

The errors were caused by the contractor providing District personnel with incorrect mileage reports for all buses. Errors included:

- Mileage for 28 buses incorrectly overstated by 900.6 miles per day for the 2009-10 school year
- Mileage for 24 buses incorrectly overstated by 733.1 miles per day for the 2008-09 school year.

In addition to the \$554,713 in transportation reimbursement overpayments made to the District by PDE, the District overpaid its contractor the same amount based on the transportation contract.

The District also discovered pupil transportation discrepancies on its own during the 2010-11 school year and sent revised reports to PDE for the 2010-11 school year, before the reimbursement was made.

The District ended its contractual relationship with its transportation contractor on December 31, 2011. However, at the end of our audit fieldwork, the former transportation contractor still had not reimbursed the District for the total amount of the overpayments it received for the 2009-10, 2008-09 and 2010-11 school years. Moreover, according to the District, the former transportation contractor is no longer in business.

We have provided PDE with reports detailing the errors to be used in the recalculation of the District's pupil transportation reimbursement.

## **Recommendations**

The *Upper Dauphin Area School District* should:

1. Use all means possible to recover the remaining monies due from the contractor.
2. Verify all route mileage in a timely manner.
3. Verify that the most cost effective routes are being utilized.

The *Pennsylvania Department of Education* should:

4. Adjust the District's transportation subsidy to recover the overpayments for the years of audit.

## **Management Response**

Management stated the following written by its solicitor:

“As part of its reply to the proposed finding, the School District provides the following important background information:

The District had a written contract with [the contractor] for school transportation services for many years. As part of the ongoing arrangement, [the contractor] assisted the District with the development of school bus and van routes, and providing mileage data necessary for submission to the Pennsylvania Department of Education in order to receive transportation reimbursement funds.

In the spring of 2011, the School District authorized the [the company] to conduct a transportation study based on routes used during the 2010-2011 school year. The goal of the study was to optimize the existing two tier routes and to provide a possible one tier routing solution. The study, released to the District on June 2, 2011, revealed substantial mileage discrepancies between the actual distances of [the contractor's] school bus and van routes, and the mileage [the contractor] was stating on forms submitted to the District. Thereafter, the Business Manager investigated all of [the contractor's] school bus and van routes for the 2010-2011 school year, and found excessive mileage reporting on 20 of 21 routes. Based upon this investigation, the District

concluded [the contractor] overcharged it for transportation services by at least \$327,746 (and possibly more) during the 2010-2011 school year.

In July 2011, the School District's Superintendent of Schools and Business Manager met with [the contractor] to address these mileage discrepancies. When confronted with the information, [the contractor] agreed to repay a substantial amount of money to the District. Ultimately, [the contractor] repaid \$337,175.77 to the School District in two separate checks, and agreed to forego its receipt of a School District payment due under the transportation contract in the amount of \$120,000, for a total amount of \$457,175.77.

After meeting with [the contractor], the Superintendent and the President of the Board of School Directors reported the discrepancies to the State Police. They also advised a neighboring school district of the issue, because that district also contracted with [the contractor] for bus services.

Additionally, the District's solicitor reported the District's discovery of [the contractor's] inaccurate mileage reporting to the Chief Counsel at the Pennsylvania Department of Education. The Department's Chief Counsel subsequently advised the District's solicitor that this matter was being referred to the Inspector General's Office for further investigation. In August 2011, the District's solicitor provided the Inspector General's Office with documentation of the District's investigation of [the contractor's] mileage reporting for the 2010-2011 school year.

In light of its discovery, the District submitted revised mileage reimbursement reports to the Pennsylvania Department of Education for the 2010-2011 school year, to reflect what it reasonably believed to be the actual mileage of [the contractor's] school bus and van routes.

The District substantially reduced its use of [the contractor] for transportation services at the beginning of the 2011-2012 school year, and ended the contractual relationship between the parties on December 31, 2011.

With the foregoing background information in mind, we provide the School District's responses to the Auditor General's proposed finding and recommendations:

**Finding No. 1: Errors in Reporting Pupil Transportation Data Resulting in an Overpayment of \$554,713.**

The District is unable to evaluate the accuracy of the Auditor's General's conclusions regarding the amount of state reimbursement allegedly overpaid for the 2008-09 and 2009-10 school years. The District has requested the complete data relied upon by the Auditor General in developing its conclusions on such alleged amounts, but the Auditor General has not provided such data to the District. Because the District's own investigation of [the contractor's] mileage reports was only for the 2010-2011 school year, we cannot evaluate accuracy of information the Auditor General has declined to provide to the District for 2008-09 and 2009-10 school years.

**Recommendation No. 1: Use all means possible to recover the monies due to them from the contractor.**

The District previously demanded and received a sizeable repayment of funds from [the contractor]. The District also reported its discovery of misreporting by [the contractor] to the State Police, the Department of Education and the Inspector General's Office.

If the Auditor General provides data to the School District demonstrating that [the contractor] misstated its mileage figures for the 2008-09 and 2009-10 school years, the District will seek repayment from [the contractor]. The actual steps to be undertaken in seeking such recovery will need to take into account whether [the contractor] is judgment proof once the Auditor General provides the District the requested data.

**Recommendation No. 2: [Verify All Route Mileage In a Timely Manner.]**

Agreed. In fact, the District is already doing so. It has purchased software to design school bus and van routes used by its transportation contractors, which was used to design routes for the 2011-2012 and 2012-2013 school years. The District will continue to use this software to independently verify the accuracy of the mileage of each school bus and van route.

**Recommendation No. 3: Verify the most cost-effective routes are being utilized.**

Again, we agree and the District is already doing so. The software identified above verifies whether the most cost-effective routes are being utilized. The District will continue to use this software to design its own school bus and van routes in order to provide student transportation services in a cost effective manner.

In short, the Upper Dauphin Area School District brought this situation to the attention of the appropriate authorities and has already implemented appropriate changes to prevent potential future abuses by transportation contractors.”

**Auditor Conclusion**

We applaud the District’s efforts to obtain restitution from its former transportation contractor and its efforts to contact the appropriate law enforcement agency. We continue to recommend that the District try to secure the remaining overpayment amounts. To help achieve that goal our audit team met with the District’s current Business Manager and discussed the results of our review and the procedures we used to come to our conclusions. The District should follow the same procedures to recalculate the overstated miles for the 2008-09 and 2009-10 school years, in order to assess the overstatements.

## Finding No. 2

## Improper Reporting of Retirement Wages

### *Criteria relevant to the finding:*

The Pennsylvania Retirement Code, 24 Pa. C.S. § 8102, provides that only compensation based on the Standard Salary schedule may be reported as qualified earnings to the Public School Employees' Retirement System (PSERS) for retirement purposes.

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: "exclude . . . payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits."

Our audit of the Upper Dauphin Area School District (District) administrative employment contracts and payroll records found the former business manager's lump sum vacation payout may have been improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS) for the 2011-12 school year.

On November 25, 2011, the District paid the former Business Manager \$6,460.44 for unused vacation time and the District made a contribution to PSERS in the amount of \$484.53.

"According to the business manager's contract, it stated that if the business manager terminates employment in the district before the end of the term with this agreement . . . any unused vacation leave which accrued during the year of termination shall be paid in full at the rate of compensation earned by the business manager when the vacation leave accrued."

However, a letter from PSERS dated June 14, 2012, stated that if an employee receives a lump sum payout for vacation leave, it is not eligible for retirement purposes. Thus, by making contributions to the former business manager's retirement account based on the payout of his unused vacation artificially inflated his retirement wages. It appears that this error occurred because of a lack of knowledge of PSERS regulations.

## Recommendations

The *Upper Dauphin Area School District* personnel to:

1. Report to PSERS only those wages allowable for retirement purposes, as stated in the PSERS Employer Reference Manual.
2. Review PSERS retirement regulations and implement procedures for reviewing all salary and contribution reports, to ensure that only eligible wages are being reported to PSERS for retirement contributions.

The *Public School Employees' Retirement System* should:

3. Adjust the payment in question as ineligible for retirement purposes.

**Management Response**

Management stated the following:

“Cause of the Problem: Employee was given a lump sum of the amount owed for vacation days and we included this amount as part of retirement earnings.

Corrective action: The district contacted PSERS and was provided documentation as to when vacation time payouts are retirement eligible. The documentation we received was provided to the auditor. In the future, district personnel will make sure that all sick leave and vacation leave payouts are paid in the proper manner and if there are questions PSERS will be contacted prior to making the payout.”

### Finding No. 3

### Certification Deficiency

*Criteria relevant to the finding:*

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Our audit of the Upper Dauphin Area School District (District) professional employees' certificates and assignments was conducted to determine compliance with the Public School Code, Bureau of School Leadership and Teacher Quality (BSLTQ), and Pennsylvania Department of Education's Certification and Staffing Policies and Guidelines. We found that an employee assigned as an emotional support teacher was appointed for the 2010-11 school year using an emergency certificate with an effective date of August 1, 2010. This certificate expired at the end of the 2010-11 school year and the teacher continued employment in the position without a valid certificate until May 1, 2012.

Information pertaining to the assignment in question was submitted to BSLTQ for its review. On August 3, 2012, BSLTQ confirmed the deficiency and determined the District will be subject to a subsidy forfeiture of \$1,995 for the 2011-12 school year. The deficiency resulted from the District's failure to adequately monitor emergency certified employees certificates.

Failure to obtain or maintain required certificates jeopardizes the District's ability to ensure teachers are appropriately certified to teach assigned courses.

### Recommendations

The *Upper Dauphin Area School District* should:

1. Strengthen controls to help ensure that professional employees' certificates are kept current.
2. Develop procedures to determine that applications for permanent certificates have been received by BSLTQ.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to recover the \$1,995 subsidy forfeiture.



## Management Response

Management stated the following:

“Cause of the Problem: The application for the Long-Term Substitute with Educational Obligation certificate was to be submitted to PDE by the outgoing Supervisor of Special Education on behalf of the applicant. The supervisor retired and did not mail the paper application. In the meantime, the requirement to use TIMS for such applications took effect. The applicant was of the belief the information was mailed to PDE and was being processed as was the District Office. While the District did not receive notice of PDE’s receipt of the application, it wrongly assumed this was due to a delayed timeline caused by the transition to TIMS.

Corrective Action: All applicants for PDE certificates are made aware it is their responsibility to begin the application process in TIMS. The immediate supervisor of the staff member and District Office personnel understand the need to review TIMS on a regular basis to ensure all application requests are being processed as required.”

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

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**O**ur prior audit of the Upper Dauphin Area School District resulted in no findings or observations.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).

