



WARREN COUNTY SCHOOL DISTRICT  
WARREN COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2013

COMMONWEALTH OF PENNSYLVANIA

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

DEPARTMENT OF THE AUDITOR GENERAL





Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen

**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

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

Mr. Arthur Stewart, Board President  
Warren County School District  
589 Hospital Drive  
North Warren, Pennsylvania 16365

Dear Governor Corbett and Mr. Stewart:

We conducted a performance audit of the Warren County School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period September 8, 2010 through June 21, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects with relevant requirements, except as detailed in one audit finding within this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding, observation, 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,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

November 19, 2013

cc: **WARREN COUNTY 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 Warren County School District (District). Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period September 8, 2010 through June 21, 2013, 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 2011-12, 2010-11, 2009-10, and 2008-09 school years.

### **District Background**

The District encompasses approximately 884 square miles. According to 2010 federal census data, it serves a resident population of 41,815. According to District officials, the District provided basic educational services to 4,764 pupils through the employment of 371 teachers, 268 full-time and part-time support personnel, and 24 administrators during the 2011-12 school year. Lastly, the District received \$38.8 million in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding. In addition, we identified one matter unrelated to compliance that is reported as an observation.

**Finding: Continued Administrative Weaknesses Resulted in Unverifiable Social Security and Medicare Wages Totaling \$5,612,044.** Our audit of the Warren County School District's Social Security and Medicare reimbursement again identified a lack of internal controls relating to the reporting, balancing, and verification of actual federally funded program wages and benefits received. As a result, we were unable to verify the accuracy of the application submitted to the Pennsylvania Department of Education for reimbursements totaling \$5,612,044 for the 2011-12, 2010-11, 2009-10, and 2008-09 school years (see page 7).

**Observation: The District Spent \$28,268 on an Employee Severance Package Even Though the Employee's Contract Was Terminating.** The Warren County School District's (District) Board of School Directors (Board) entered into an employment contract with an individual to serve as the Director of Human Resources with a term of three years from September 11, 2007 through June 30, 2010. Sixteen days before the Director of Human Resources' contract ended, the Board entered into an Agreement of Separation

(Agreement) with its Director of Human Resources, which required it to pay her \$24,678 in salary and benefits. In addition, the District paid the Director of Human Resources \$3,590 for unused vacation days even though this expense was not part of the Agreement on her original contract (see page 11).

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

With regard to the status of our prior audit recommendations to the Warren County School District (District) from an audit released on January 14, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to reporting its transportation of nonpublic pupils (see page 15), improving its managerial direction and authority to avoid internal controls breakdowns (see page 16), ensuring it had supporting documentation for its transportation subsidy (see page 19), and maintaining documentation for its school bus drivers (see page 23). However, the District has not taken appropriate correction action in implementing our recommendations pertaining to Social Security and Medicare reimbursements (see page 22).

## 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 Section 403 of The Fiscal Code, 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 September 8, 2010 through June 21, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through April 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 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 (PDE) 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 certain relevant 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 received state subsidies 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 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, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ 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 certain relevant state 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 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). 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 relevant requirements 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.



Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 14, 2013, we reviewed the District's response to PDE dated May 6, 2013. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

### Finding

### Continued Administrative Weaknesses Resulted in Unverifiable Social Security and Medicare Wages Totaling \$5,612,044

*Criteria relevant to the finding:*

The 1986 Budget Reconciliation Act requires local education agencies (LEA) to deposit Social Security and Medicare tax contributions for wages earned on or after January 1, 1987, directly to authorized depositories or Federal Reserve banks. LEAs were required to pay the full amount of the employer's tax due including the Commonwealth's share, which is 50 percent of the employer's share of tax due for employees employed by the LEA prior to July 1, 1994, (existing employees). For employees who had never been employed by an LEA prior to July 1, 1994 (new employees), Social Security and Medicare employer shares are reimbursed based on the LEA's aid ratio or 50 percent whichever is greater. LEAs are subsequently reimbursed for the Commonwealth's matching share based on wages reported to the Pennsylvania Department of Education, excluding wages paid with federal funds.

The Commonwealth reimburses local education agencies (LEAs) for a portion of their employers' share of the Social Security and Medicare taxes they pay on their employees' wages. However, the taxes that LEAs pay on staff members paid with federal funds are ineligible for this reimbursement. Consequently, LEAs must account for these taxes separately and only report the taxes paid on non-federally funded positions to the Pennsylvania Department of Education (PDE) for reimbursement.

As part of our current audit, we reviewed the Warren County School District's (District) 2011-12, 2010-11, 2009-10, and 2008-09 school years' state Social Security and Medicare tax contribution reimbursement applications, in order to determine whether the District had properly accounted for wages paid through federal programs. We again identified a lack of internal controls relating to the reporting, balancing, and verification of District employees paid with federal funding. As a result, the auditors were unable to verify the accuracy of the state Social Security and Medicare tax contribution reimbursement applications that the District submitted to PDE. These applications were for the following reimbursements:

School Year	Reimbursements
2011-12	\$1,329,737
2010-11	1,480,435
2009-10	1,454,525
2008-09	<u>1,347,347</u>
Total:	<u>\$5,612,044</u>

The auditors were unable to reconcile the District's final expenditure reports for federal programs with the state Social Security and Medicare tax contribution reimbursement applications that it submitted to PDE. According to District personnel, the wages on its federal expenditure reports were based on budgeted or projected amounts, rather than on actual wages paid.

*Criteria relevant to the finding (continued):*

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

Therefore, the auditors could not tie the District's federal wages reported to its PDE reimbursement applications. Moreover, the auditors could not determine whether those ineligible wages had been included in the District's reimbursement applications.

We made the District aware of similar federal wage reporting weaknesses in October 2008 and again in September 2010. Thus, this is the third consecutive audit of the District that has included this finding. While the District has agreed with our audit findings in both of our prior audits, constant turnover in the personnel responsible for reporting payroll and federal programs has prevented the District from fully implementing its corrective action plan. In addition, the District's business manager was under the impression that the necessary reconciliations were being performed.

Nevertheless, since our prior audits, the District has taken some steps toward properly recording federal wage taxes. For example, the District's staff accountant who creates all Budget Unit Numbers (BUN), now reconciles to make sure all federal BUN's are included in the quarterly Social Security reports.

It is imperative that the District's payroll office, business office, and federal programs office communicate and work together to ensure all applications are completed accurately. Furthermore, it is the responsibility of District management to ensure that proper internal controls are not only in place, but being utilized and working properly. Without assurance that the internal policies and procedures that have been put into place are effective, the District cannot realize the benefit of the internal controls.

## **Recommendations**

The *Warren County School District* should:

1. Maintain payroll and grant expenditure records that identify actual employee wages paid with federal funding.
2. Establish procedures for reconciling Social Security and Medicare wages reported to PDE with payroll records and federal grant monies on a quarterly basis.

3. Establish a mechanism for verifying that District personnel annually reconcile reported federal wages with the state Social Security and Medicare tax contribution reimbursement applications that it submitted to PDE.
4. Ensure that District personnel comply with PDE instructions for the completion of the Reconciliation of Social Security and Medicare Tax Contributions form when reporting wages paid by federal funds.
5. Perform an internal review of reports submitted subsequent to the years of audit, making necessary revisions as necessary.
6. Develop written internal procedures regarding the reconciling of wages that can ensure that practices are adhered to when there is a change in personnel.

### **Management Response**

Management stated the following:

“The District has had a constant turnover of staff and as a result was never able to implement the corrective action plan that was necessary to resolve the finding. The District does reconcile the federal wages that are being reported for the Social Security and Medicare reimbursement applications with the payroll records and the payroll records are part of the general ledger records. Processes have been implemented that require the Accountant to set up all federal [Budget Unit Number] BUN numbers to ensure transparency between the two processes of BUN creation and BUN selection for reporting. An additional reconciling step will be added to the process, which is outlined in the Corrective Action that is planned.

### Corrective Action Plan

#### Specific Steps Taken:

1. The Director of Business Services or Staff Accountant are the sole people responsible for BUN creation. Any Federal BUN that is created for a payroll related account is communicated both to the Payroll Supervisor and the Staff Accountant to ensure all Federal BUNs

are included in required [Social Security Reporting] SSR reporting.

2. Personnel in the area of Title I monies have created a quarterly reconciliation to ensure that wages paid during the quarter and annually, as recorded in the districts' payroll software, reconcile to Federal money as requested and budgeted for such programs. This model will be shared with all Federal programs areas (i.e. IDEA, Perkins, etc.) to ensure quarterly analysis and reconciliations are completed. A procedure names "Grants Recording and Reconciliation" will be used as a model to ensure compliance.
3. The District continues to review, monitor and educate its personnel in the timely and accurately submission of the SSR reports.
4. The District will continue to review all SSR reports submitted subsequent to the audit period and will have this review completed prior to the end of the 2013-2014 school year.

Time Table for Implementation:

All items in the Specific Steps Taken section have been implemented unless indicated otherwise.

Monitoring Procedures:

Although corrective action has already occurred, unless otherwise mentioned, the Business Services department will continue to monitor the related activity via the procedures or specific actions taken detailed above for current and future periods."

**Auditor Conclusion**

We commend the District for its plan to finally fully implement internal controls over its Social Security and Medicare reimbursement process. However, we remain concerned that these internal controls are not being monitored to ensure that they are working properly and effectively. We will follow up on the District's progress during our next cyclical audit.

**Observation** →

**The District Spent \$28,268 on an Employee Severance Package Even Though the Employee’s Contract Was Terminating**

*Criteria relevant to the observation:*

Section 508 of the Public School Code of 1949 (PSC), 24 P.S. § 5-508, provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects:--

\*\*\*

Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors.”

Additionally, Section 1164 (relating to Compensation plans for school administrators) of the PSC, 24 P.S. § 11-1164, commonly referred to as “Act 93,” provides, in part:

“ . . . a means by which compensation matters affecting school administrators can be resolved within the framework of a management team philosophy.” (See 24 P.S. § 11-1164(b))

On September 10, 2007, the Warren County School District (District) Board of School Directors (Board) voted to enter into an employment contract (Contract) with an individual to serve as the District’s Director of Human Resources.

The Contract had a term of three years, from September 11, 2007 through June 30, 2010. The Contract provided compensation to the Director of Human Resources of \$85,000 in the first year, as well as a variety of benefits in accordance with the District’s Administrative Compensation Plan. Neither the Contract nor the Administrative Compensation Plan included any separation provisions nor did it provide for the payment of any unused sick or vacation days prior to retiring from the District.

However, on May 10, 2010, the Board approved the elimination of the position of Director of Human Resources effective as of June 30, 2010. Shortly after this decision and two weeks before the end of the original Contract, the Board approved an Agreement of Separation (Agreement) that set forth the terms under which the Director of Human Resources would leave the District’s employment on June 30, 2010. Although it was approved by the Board on June 14, 2010, this Agreement was not included as an addendum in the official board meeting minutes nor was it made available to the public for review. Nevertheless, its purpose was outlined at the beginning of the document as follows:

“The employment agreement with the District expires on June 30, 2010, and due to a reorganization in the Human Resources Department, the [Director of Human Resources] position has been eliminated and the District will not be renewing the employment agreement. The parties desire to reach an agreement as to the terms of separation from employment in an amicable fashion and the District wishes to assist with transition to employment elsewhere.”

The Agreement also included numerous stipulations regarding the benefits that the District would provide to the

Director of Human Resources after she left her position.  
The following provisions financially impacted the District:

“2. The District will continue to pay [the Director of Human Resources] salary, in the usual bi-weekly installments, less lawful deductions, through and until September 30, 2010. However, [the Director of Human Resources] will no longer be entitled to the continuation of salary if she becomes employed. If that occurs, salary payments will cease immediately upon notice that she has been hired. In the event she receives notice of being hired in July, 2010, payments will continue until July 30, 2010.”

“3. The District will continue to pay [the Director of Human Resources] health insurance coverage through September 30, 2010. [The Director of Human Resources] will continue to be responsible to contribute toward the premiums in the same amounts she paid at the time of her separation. The District’s obligation to continue [the Director of Human Resources] health insurance until September 30<sup>th</sup>; however, will cease upon her receiving notice of her being hired by an employer that makes available to her health insurance coverage.”

The Director of Human Resources also acknowledged that, without the terms in the Agreement, she would not have been entitled to any of the additional salary and health insurance benefits she received. Furthermore, she agreed “not to disclose any information regarding the cause, existence or substance of the Agreement,” except to her attorney, other professional advisors, or spouse.

The District paid the Director of Human Resources \$24,678 in salary and benefit costs for the period July 1, 2010 through September 30, 2010. Additionally, on June 30, 2010, the District paid the Director of Human Resources \$3,590 for unused vacation days even though this expense was not part of the Agreement on the original Contract.

The District’s taxpayers paid \$28,268 to an employee whose Board-approved contract was terminating and had no need for any agreement in order to terminate the employee/employer relationship. Moreover, the District

paid her \$3,590 in unused vacation days even though doing so was not required by either the Agreement or her original Contract. This is money that would have been better spent on the education of the District's students. At the very least, the District should have been more open with the public regarding why such a payment was necessary, and it should have explained how the expense benefitted the District's taxpayers.

### **Recommendations**

The *Warren County School District* should:

1. Include termination, buy-out, and severance provisions in future employee contracts to protect the interests of the District and its taxpayers when employment ends prematurely for any reason.
2. Document in the official board meeting minutes, in detail, why the District chooses to expend large amounts of public money on ending an administrator contract when the contract was at its conclusion.

### **Management Response**

Management stated the following:

“The District acknowledges that specifying severance provisions in an employment contract to protect the interests of a district and its taxpayers makes good business sense. However, it only became law to include these in agreements in September of 2012, and that law relates only to contracts with superintendents. Prior to the advent of the law, the district was unaware of any other districts in its region (or across the state) that addressed the prospect of a buyout or a severance option, particularly for a Director of Human Resources. In any event, the period of time which the Board of Directors agreed to continue the salary and benefits for the Director of Human Resources is not overly generous or irresponsible in light of the current language contained in the School Code relating to superintendents.

It also must be noted that the Director of Human Resources had retained counsel and raised legal issues with respect to her separation from employment. A legal challenge to the basis of her departure from the district and whether she had



continuing rights to employment remained a possibility. While the District recognizes that much of the information surrounding an employee's departure from a school district will be subject to the Right-to-Know Act and is a matter of public record, not everything can be disclosed. Some of the discussions leading to these types of separation agreements contain sensitive information and relate to confidential personnel matters that cannot be shared with the public.

The District will specify the termination, buy-out or severance provisions, when legally permissible, should such a situation arise in the future. Furthermore, the Administration will continue to provide information to the Board ensuring that matters required to have Board approval are done so appropriately.”

### **Auditor Conclusion**

We recognize the sensitive nature of such negotiations. However, the District's taxpayers have a right to know why it was necessary to pay an employee a non-contract required severance package when her contract was set to expire. Moreover, the public should have some explanation as to why this money was better spent on the employee than on the education of the District's students.

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

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Our prior audit of the Warren County School District (District), released on January 14, 2013, resulted in five findings, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did implement our recommendations related to nonpublic pupils, lack of managerial direction, internal control weaknesses in transportation, and documentation for school bus drivers. The District did not implement our recommendations relating to Social Security and Medicare wages.

### **Auditor General Performance Audit Report Released on January 14, 2013**

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**Finding No. 1:                   Errors in Pupil Transportation Pupil Counts Resulted in Overpayments Totaling \$44,992**

Finding Summary:           Our prior audit of the District's pupil transportation records for the 2007-08 and 2006-07 school years found errors in the reporting of nonpublic pupils, non-reimbursable pupils, and charter school pupils transported resulted in overpayments totaling \$44,992.

Recommendations:       Our audit finding recommended that the District:

1. Implement procedures to ensure that nonpublic pupils transported by the District are reported accurately and adequate documentation is kept on file to support the number reported.
2. Require all nonpublic schools to provide rosters of students who require transportation.
3. Require all nonpublic schools to provide calendars for the correct reporting of vehicle usage to PDE.
4. Implement procedures to ensure that charter school pupils transported by the District are reported accurately and adequate documentation is kept on file to support the number reported.
5. Implement procedures to ensure that non-reimbursable pupils transported by the District are reported accurately and adequate documentation is kept on file to support the number reported.
6. Review subsequent years' transportation reports submitted to PDE and revise, as necessary.

We also recommended that PDE should:

7. Adjust the District's subsidy to recover the overpayments of \$44,992.

Current Status:

Our current audit reviewed the District's 2010-11 transportation records and found that at that time the District had not implemented all of our recommendations. Instead, during the 2010-11 school year, the District had only contacted the private schools to obtain listings of students who required transportation. However, the District did not track whether students entered or withdrew throughout the school year. These procedures were not implemented until the 2011-12 school year when District personnel developed a form to be completed by the person/school requesting transportation titled "request for transportation or transportation change." The form is now kept on file in support of the initial request for transportation listing from the schools.

Our report also recommended the District review subsequent years' transportation reports submitted to PDE and revise as necessary. This recommendation could not be implemented because the District's support documentation was inadequate to do so accurately.

As of June 21, 2013, PDE had not recovered the District's subsidy overpayment of \$44,992.

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**Finding No. 2:**

**Lack of Managerial Direction and Authority Resulted in Internal Control Breakdowns in Governance, Communication, and Efficient Operations within the District**

Finding Summary:

Our prior audit found that the District's operations, recordkeeping, defined responsibilities, and managerial activities lacked cohesiveness, communication, and leadership.

Recommendations:

Our audit finding recommended that the District:

1. Establish policies and procedures to ensure that the concepts of fiscal responsibility and accountability to taxpayers are readdressed by the Board of School Directors (Board) and the District.
2. Establish procedures to ensure that revenue received by the District is properly classified on the general ledger and reported in the correct year of receipt.

3. Establish procedures for the completion of the annual financial report (AFR) and the maintenance of supporting documentation files.
4. Revise the District's investment policy to correctly identify responsibility.
5. Require the business office to work in conjunction with the Treasurer and Board Secretary on the financial information and statements to be presented to the Board.
6. Require the business office to reconcile on a monthly basis the District's bank and investment statements, with appropriate journal entries prepared and posted after supervisory approval.
7. Establish procedures to reduce the number of expenditures that are not approved by the Board.
8. Revise the District's debit/credit card policies and pre-authorized payments policies to strengthen District control over expenditures.
9. Establish procedures to ensure that the District has sufficient funds available prior to the Board's approval of payments to be made.
10. Implement security procedures relating to the check signing machine, including controls over the availability of the keys to the check signing machine, and appropriate supervisory approval.
11. Require business office personnel to establish appropriate filing systems to ensure required reports and supporting documentation are available for audit purposes.
12. Require the business office to develop written policies and procedures defining responsibilities, controls, and reporting structure.
13. Require the business office to prepare, review, and maintain monthly financial statements for cash flow and fund balances.
14. Re-establish the Board Secretary's position as a liaison between the Board and the business office.
15. Open communication between the Treasurer, the Business Administrator, and the Board Secretary to ensure the Public School Code compliance is upheld.

Current Status:

Our current audit found that the District did implement our recommendations.

On April 5, 2013, the District adopted a written procedure called “Revenue Recognition” to provide guidance on properly recording revenues.

On April 9, 2013, the District adopted a written procedure called “AFR-2057” which was developed to provide guidance and timing requirements for the completion of the AFR in a timely manner.

On June 13, 2011, the District revised its Investments Policy No. 4203.

On May 1, 2013, the District adopted a written procedure called “Business Office Staff” to help define responsibilities, controls, and reporting structure for business office staff.

On April 9, 2013, the District adopted a written procedure called “Bank and Investment Reconciliation” to ensure all bank/investment accounts are reconciled monthly and corresponding journal entries are booked into the general ledger.

On April 9, 2013, the District adopted a written procedure called “Grant Recording and Reconciliation” to ensure that grant revenues and expenses are properly recorded in the general ledger, accurately reflect grant activity, and are acted upon in a timely manner.

On May 1, 2013, the District adopted a written procedure called “Special Check Requests” to provide additional guidance on requests being made for special checks.

On October, 10, 2011, the District revised its Credit Card Policy No. 4120 to strengthen their controls over expenditures.

On April 9, 2013, the District adopted a written procedure called “Cash Flow” to provide the Director of Business Services with the most current cash flow position of the District. The Director of Business Services is currently working on a model that will assist with the projection of Fund Balance which will be completed by June 30, 2013.

On May 1, 2013, the District adopted a written procedure called “Filing of Audit Related Documents” to ensure that specific personnel are assigned to the task of keeping audit related and corresponding supporting documents filed in a manner that provides ease of

accessibility. Additionally, on December 6, 2010, the Board adopted a Written Policy No. 3221 titled Records Management Policy so the records management plan is consistent with all other district policies pertaining to records.

On March 10, 2008, the District revised its Policy No. 2105 that documents specific duties of its Board officers and appointees as identified in the Public School Code.

At the December 6, 2010 reorganization meeting, the Board adopted and approved the Pennsylvania School Board Association Code of Conduct and Standards for effective school governance and code of conduct for members of Pennsylvania school boards.

The Board's approved job description for the Board Secretary defines the roles and expectations of this position. The Board Secretary, Board Treasurer, and Director of Business Services have developed a strong communicative relationship that embodies the best interest of the District, while ensuring all are well informed on District and Board agenda items.

**Finding No. 3: Internal Control Weaknesses, Lack of Documentation Supporting Pupil Transportation Reimbursements of \$6,126,077, and Lack of Documentation Supporting Usage of Tax Exempt Fuel**

Finding Summary: Our prior audit of the District's pupil transportation records and reports submitted to PDE for the 2007-08 and 2006-07 school years found nonpublic and other pupil count reporting errors (see Finding No. 1), internal control weaknesses, and a lack of documentation supporting reimbursements of \$3,182,990 and \$2,943,087, respectively, as well as a lack of documentation supporting the usage of tax exempt fuel.

Recommendations: Our audit finding recommended that the District:

1. Develop and implement procedures to ensure that all transportation costs are properly recognized and reconciled to the general ledger prior to submission of data to PDE for reimbursement.
2. Implement procedures to ensure that District personnel and transportation contractors receive complete contracts inclusive of all attachments and maintain signed copies on file at the District.
3. Prepare and retain on file at the District source documentation used to report pupil transportation data to PDE, including the number of nonpublic pupils transported, the weighted averaging for pupils

that enter, withdraw, or relocate within the District, and when bus route mileages change.

4. Conduct an internal review to ensure the daily mileage, pupil counts, the amount paid contractors, and days of service are accurately reported and supporting documentation is available.
5. Implement procedures to ensure that the Board reviews and approves all contractor payments prior to disbursement to the individual contractors.
6. Implement procedures to ensure that contractors submit monthly odometer readings verifying mileage with and without pupils and pupil counts.
7. Implement procedures to ensure that contractors are required to report vehicle usage by mileage and number of days prior to approving payment to the contractors.
8. Require contractors to submit periodic invoices for payment with adequate supporting documentation.
9. Implement procedures to ensure that all route changes are approved by the District prior to implementation by the contractors.
10. Ensure adequate current liability insurance coverage is provided and retained on file at the District by each contractor at the beginning of each school year, and that the District is listed as the additional insured, as required by the contracts.
11. Ensure that District personnel become more involved in the recordkeeping of pupil transportation supporting documentation provided by the contractor and perform an internal review to ensure the accuracy of data submitted to PDE for reimbursement.
12. Establish internal control procedures for payments made to the contractors and vendors, including a review by the District's business office personnel for appropriateness and accuracy, and ensure a separation of duties in the payment process.
13. Establish procedures to monitor the fuel usage to ensure all tax exempt fuel purchased is used for school-related purposes only.
14. Require the pupil transportation contractors to provide evidence of the actual usage of all tax exempt fuel purchased.

15. Implement requirement for District personnel to provide the Board with periodic reports on the newly purchased software, and the impact on the number of routes and potential cost savings.
16. District personnel should be required to participate in on-line pupil transportation training sessions or attend training conferences.
17. Review transportation reports submitted to PDE for subsequent years of audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported for each bus.

We also recommended that PDE:

18. Consider withholding future pupil transportation reimbursement payments until the District prepares and retains supporting documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, and instructions for completing PDE's End-of Year Pupil Transportation Reports.

We also recommended that the Pennsylvania Department of Revenue:

19. Review the District's internal controls and actual usage of tax exempt liquid fuel purchased by the District and utilized by the pupil transportation contractors.

Current Status:

During our current audit, we found that the District implemented all but one of our recommendations.

Recommendation #17 could not be completed as inadequate source information was not available to update years 2008-09 and 2009-10.

The District hired a new Transportation Manager who began his duties in the 2009-10 school year and began making the changes then.

We noted that all costs are reconciled (recommendation #1), complete contracts are maintained (#2), all data is now on file at the District for all pupils and mileage (#3), reviews are done and documentation is available (#4), monthly odometer readings are submitted (#6), mileage and days are set by District (#7), invoices are submitted (#8), route changes are approved by the District (#9), insurance is on file and the District is listed as an additional insured (#10), District personnel now create routes and determine mileages (#11), all District payments are reviewed by the business office (#12), a fuel card system is in place to track fuel purchases (#13 and #14), reports have been provided to the



Board (#15), and on-line training sessions have been viewed (#16). The Board approves all contractor contracts prior to the school year and the payments are made to the contractors on the 30<sup>th</sup> of each month (#5).

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**Finding No. 4: Continuing Administrative Weaknesses Resulted in Unverifiable Social Security and Medicare Wages for School Years 2007-08 and 2006-07**

Finding Summary: Our prior audit of the District's Social Security and Medicare reimbursement applications for the school year 2007-08 and 2006-07 again identified a lack of internal controls relating to the identification, reporting, balancing, and verification of actual federally funded program wages and benefits received. As a result, the auditors were unable to verify the accuracy of the applications submitted to PDE for reimbursement of \$1,293,425 and \$1,214,925 for the 2007-08 and 2006-07 school years, respectively.

Recommendations: Our audit finding recommended that the District:

1. Ensure that District personnel properly recognize federal wage employees on the District's payroll records.
2. Ensure that District personnel annually reconcile reported wages paid with federal grants with District records.
3. Ensure that District personnel comply with PDE instructions for the completion of the Reconciliation of Social Security and Medicare Tax Contributions form when reporting wages paid by federal funds.
4. Perform an internal review of reports submitted subsequent to the years of audit, making necessary revisions as required.

We also recommended that PDE:

5. Review the propriety of the reimbursement received for the years of audit.

Current Status: During our current audit procedures, we found that the District implemented one our prior recommendation (#1) to properly recognize federal wage employees on the District's payroll records. The staff accountant, who creates all Budget Unit Numbers (BUN), now reconciles to make sure all federal BUN's are included in the quarterly social security reports. However, the District did not implement

recommendations #2, #3, or #4 as detailed in our follow-up finding in the current audit report (see Finding, page 7).

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**Finding No. 5:**                    **Continued Lack of Documentation Necessary to Verify School Bus Drivers' Qualifications**

Finding Summary:            Our prior audit of the school bus drivers qualifications for school year 2009-10 found that the District did not have on file the state required licenses and clearances for each driver.

Recommendations:        Our audit finding recommended that the District:

1. Ensure the District's transportation manager reviews each driver's qualifications prior to that person transporting students.
2. Ensure that all driver files are reviewed for content and propriety of documentation.
3. Ensure that District maintained files are up-to-date and complete.
4. Instruct the District's transportation manager to provide to the Board, prior to the initiation of the school year, a listing of all drivers indicating whether or not the listed drivers comply with the Pennsylvania licensing and clearance requirements.

Current Status:            During our current audit, for the 2012-13 school year, we found that the District did implement our recommendations. All qualifications are reviewed prior to transporting students, and the District's files were up-to-date. We noted in our review of minutes that all bus drivers are board-approved at the beginning of each school year and through-out the school year as necessary.

## **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.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

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

The Honorable Carolyn Dumaesq  
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

Ms. Lori Graham  
Acting Director  
Bureau of Budget and Fiscal Management  
Pennsylvania 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

Mr. Tom Templeton  
Assistant Executive Director  
School Board and Management Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

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