

PERFORMANCE AUDIT

Farrell Area School District Mercer County, Pennsylvania

April 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Reverend Lora A. Adams-King, Superintendent
Farrell Area School District
1600 Roemer Boulevard
Farrell, Pennsylvania 16121

Mr. Terry Harrison, Board President
Farrell Area School District
1600 Roemer Boulevard
Farrell, Pennsylvania 16121

Dear Reverend Adams-King and Mr. Harrison:

We conducted a performance audit of the Farrell Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). We also evaluated the application of best practices in the area of school safety. Our audit covered the period August 14, 2012 through March 16, 2016, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011, 2012, 2013, and 2014. 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 applied best practices in the areas listed above and complied, in all significant respects, with relevant requirements except as detailed in our three findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report.

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,

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

Eugene A. DePasquale
Auditor General

April 28, 2016

cc: **FARRELL AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the 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. We also determined whether the District applied best practices related to school safety.

Our audit scope covered the period August 14, 2012 through March 16, 2016, 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 2010-11, 2011-12, 2012-13, and 2013-14 school years.

District Background

The District encompasses approximately three square miles. According to 2010 federal census data, it serves a resident population of 5,734. According to District officials, the District provided basic educational services to 867 pupils through the employment of 72 teachers, 87 full-time and part-time support personnel, and 8 administrators during the 2013-14 school year. The District received \$10.1 million in state funding in the 2013-14 school year.

Audit Conclusion and Results

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

Finding No. 1: Weaknesses in School Board Minutes and Noncompliance with Sunshine Act and Board Policy.

In an effort to gain understanding of governance and operations of the District, we reviewed the Board of School Directors' (Board) board meeting minutes from March 12, 2012 through May 12, 2014. During the review, we noted violations of school board policy and the Public School Code (PSC) related to the payment of District expenditures. We also noted that the District violated the Sunshine Act by not announcing the purpose of executive sessions on 13 occasions. These violations were the result of District personnel being unaware of the requirements for maintaining board meeting minutes. Failure to adhere to the requirements of the PSC and the Sunshine Act lessens the transparency and accountability to the public (see page 8).

Finding No. 2: The District Failed to Maintain Supporting Documentation Required for its State Social Security and Medicare Subsidies Totaling \$1,287,765.

Our audit revealed that the District could not provide documentation supporting the District's total wages reported for the 2010-11, 2011-12, and 2012-13 school years. As a result, the audit could not determine whether the District's state reimbursements totaling \$1,287,765 were appropriate. The District failed to maintain paper copies of

their payroll records and could not access them electronically after switching payroll systems in March 2013. The District's failure to implement appropriate documentation retention procedures was in noncompliance with the PSC and Board Policy No. 800. Without these source documents, we were unable to determine whether the District received the proper Social Security and Medicare reimbursements (see page 12).

Finding No. 3: The District Failed to Maintain Supporting Documentation Required for its State Transportation Subsidies Totaling \$642,354. Over the four-year period covering July 1, 2010 through June 30, 2014, the District received \$642,354 in pupil transportation subsidies. In an effort to verify the accuracy of the funding, we requested documentation that supported the transportation data reported to PDE for reimbursement. The District could not provide the necessary documentation to support the transportation data that was reported to PDE. The District's failure to ensure that documentation was retained for audit was in noncompliance with the PSC and Board Policy No. 800. As a result, we were unable to determine whether the District received the proper pupil transportation reimbursements (see page 14).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the four findings and two observations (see pages 17-22).

Audit Scope, Objectives, and Methodology

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 PSC 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 14, 2012 through March 16, 2016. In addition, the scope of each individual audit objective is detailed below.

Regarding state subsidies and reimbursements, our audit covered the 2010-11, 2011-12, 2012-13, and 2013-14 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 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:

- ü Were professional employees certified for the positions they held?
 - o To address this objective, the auditors reviewed and evaluated certification documentation for all 121 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment for the 2013-14 school year.

- Ü In areas where the District received state subsidies and reimbursements based on non-resident pupil membership, did it follow applicable laws,¹ regulations, and procedures?
 - To address this objective, the auditors reviewed placement information on all 66 of the District's non-resident students for the 2010-11 and 2011-12 school years.

- Ü In areas where the District received state subsidies and reimbursements based on payroll, did it follow applicable laws,² regulations, and procedures?
 - To address this objective, the auditors requested supporting documentation for the Social Security wages paid to all employees by the local education agency (LEA) during the 2010-11, 2011-12, and 2012-13 school years.

- Ü In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable laws³ and procedures?
 - To address this objective, the auditors reviewed all 12 District vehicles in the 2010-11 and 2011-12 school years, and all 15 District vehicles in the 2012-13 school year. For each vehicle, the auditors reviewed various data, including board approval of routes, manufacturer, serial number, year of manufacture, and seating capacity as required.

¹ 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306, and 22 Pa. Code Chapter 11.

² 24 P.S. § 8326 and 24 P.S. § 8535.

³ 24 P.S. § 25-2541.

- Ü Did the District ensure that bus drivers transporting District children at the time of the audit have the necessary license, physicals, training, background checks, and clearances as outlined in applicable laws,⁴ and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors haphazardly selected five of the ten drivers hired by the District during the 2015-16 school year to ensure all bus driver's requirements were met.
- The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.

- Ü Were votes made by the District's Board free from apparent conflicts of interest?

- To address this objective, the auditors reviewed all 11 of the sitting and recent board members' employment history, Statements of Financial Interest for the calendar years 2011, 2012, and 2013, board meeting minutes, and any known outside relationships with the District.

- Ü Did the District take appropriate steps to ensure school safety?

To address this objective:

- The auditors reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and applicable laws.⁵ Generally, the auditors evaluate the age of the plan,

⁴ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8.*

⁵ 24 P.S. §§ 13-1302-A, 1302.1-A, 13-1303-A, and 13-1303.1-A.

whether it is being practiced through training, and whether the school has an after action process for trying to improve on the results of its training exercises.

- In addition, the auditors conducted on-site reviews of both of the District's school buildings to assess whether they had implemented basic physical safety practices based on national best practices.

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, 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 controls 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, 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.

To determine the status of our audit recommendations made in a prior audit report released on June 19, 2013, we reviewed the District's response to PDE dated April 13, 2015. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Weaknesses in School Board Minutes and Noncompliance with Sunshine Act and Board Policy

Criteria relevant to the finding:

Section 433 (related to Duties [of board secretary]) of the PSC, 24 P.S. § 4-433, provides in part:

“the secretary of the board of school directors shall perform the following duties:

(2) . . . after the board has acted on and approved the bill or account of the payment of money . . . prepare and sign an order on the treasurer for the payment of the same.”

Board Policy 616 - Payment of Bills states in part:

“each bill or obligation of this district must be fully itemized, verified, and approved by the Board . . . all claims for payment shall be submitted to the Board and record in the minutes of the board meeting.”

Section 708 (related to Executive sessions) of the Pennsylvania Sunshine Act, 65 Pa.C.S. § 708, provides, in part:

“(b) . . . the reason for the executive session must be announced at an open meeting occurring immediately prior to or subsequent to the executive session.”

In an effort to gain an understanding of the governance and operations of the District, we reviewed the board meeting minutes from March 12, 2012 through May 12, 2014. During the review, we noted noncompliance with the District’s board policy and the PSC related to the payment of District expenditures. We also noted that the District failed to comply with the Sunshine Act by not announcing the purpose of executive sessions on 13 occasions and failed to have complete and accurate minutes. These instances of noncompliance with important provisions of law and policy were the result of District personnel being unaware of the requirements for maintaining board meeting minutes. Failure to adhere to the requirements of the PSC and the Sunshine Act lessens the District’s transparency and accountability to the public.

Noncompliance with the Public School Code and School Board Policy

Our audit found that the Board Secretary did not present and include in the board meeting minutes the District’s expenditures for discussion and approval prior to payment.

The PSC requires the Board Treasurer to make payments out of the District’s funds on proper orders approved by the Board. PDE’s guidance and prudent business practices require that board meeting records be complete and clearly reflect the actions taken by the Board as part of their public records. Together with the related documentation, complete board minutes facilitate the clarity and transparency of the Board’s governance.

*Criteria relevant to the finding
(continued):*

Section 702 (related to Definitions) of Sunshine Act, 65 Pa.C.S. § 703, provides:

“Executive Session is a meeting from which the public is excluded, although the agency may admit those persons necessary to carry out the purpose of the meeting.

By way of further background, the legislative intent of the Sunshine Act (Act), 65 Pa.C.S. § 701 *et seq.*, is as follows: “(a) Findings.--The General Assembly finds that the right of the public to be present at all meetings of agencies and to witness the deliberation, policy formulation and decision-making of agencies is vital to the enhancement and proper functioning of the democratic process and that secrecy in public affairs undermines the faith of the public in government and the public's effectiveness in fulfilling its role in a democratic society. (b) Declarations.--The General Assembly hereby declares it to be the public policy of this Commonwealth to insure the right of its citizens to have notice of and the right to attend all meetings of agencies at which any agency business is discussed or acted upon as provided in this chapter.” [Emphases added.] See 65 Pa.C.S. § 702.

Noncompliance with the Sunshine Act

Our audit found that the District failed to comply with provisions of the Sunshine Act related to executive sessions.

The General Assembly enacted the Sunshine Act to ensure the right of its citizens to have notice of, and the right to attend, all meetings of agencies at which any agency business is discussed or acted upon. The General Assembly determined that the public had the right to be present at all meetings of agencies and to witness the agency's deliberation, policy formulation, and decision making. In addition, the General Assembly found this access to be vital to the enhancement and proper functioning of the democratic process. Moreover, it found that “secrecy in public affairs undermines the faith of the public in government and the effectiveness in fulfilling its role in a democratic society.”

The Sunshine Act permits executive sessions to be held for one or more of the following six specific reasons:

- The employment of an individual and other personnel matters.
- To consider matters related to negotiation or arbitration of a collective bargaining agreement.
- To consider purchase and lease of real estate property.
- To consult with an attorney in connection with litigation.
- To consider information which is protected by a lawful privilege or otherwise protected by the law.
- To consider matters of academic admission or standings.⁶

⁶ 65 Pa.C.S. § 708(a).

Moreover, the act requires that agencies, including school boards, must announce the reason for an executive session immediately prior to or subsequent to the executive session during a public meeting. In addition, consistent with the intent of the act, agencies should ensure complete and accurate minutes.

We found the Board did not comply with this provision of the Sunshine Act related to executive sessions on 13 occasions for the period March 12, 2012 through May 12, 2014. The Board held these executive sessions without stating the purpose of each session. The District's Business Manager informed the auditors that the purpose was announced at the time of the meeting; however, the recording of the purpose was never documented in the board meeting minutes.

Recommendations

The *Farrell Area School District* should:

1. Ensure the Board reviews and approves monthly expenditures.
2. Adhere to the provisions in accordance with the Sunshine Act, specifically related to stating the purpose of each session.

Management Response

Management stated the following:

“The Farrell Area School District is committed to being in compliance with the Public School Code regarding Board minutes and the Sunshine Act.

The current Business Manager and Board Secretary have corrected the violations of school board policy and the Public School Code as related to the payment of district expenditures. [Supporting documentation provided for the March 2016 Board minutes showing presentation of both compass and post approval checks, for the Board to consider and approve. Other financial documents are included in the Financial Statements of the Board to approve, so that the meeting records clearly reflect the actions taken by the Board as part of the public record.

In regards to the noncompliance with the Sunshine Act, the district understands the right of its citizens to have notice of, and the right to attend all meetings at which business is discussed or acted upon.

While the Farrell Area School District and its Board has always stated the purpose of each executive session, we will now ensure that the purpose is recorded as part of the board minutes, in order to adhere to the provisions of the Sunshine Act. Please see the attached March 2016 showing the reasons the board entered into executive session.”

Auditor Conclusion

We are encouraged that the District’s current Business Manager and Board Secretary have corrected the violations of the District’s board policy and the PSC. Further, we are pleased that the District is taking proactive steps to be more transparent in regard to its executive sessions and board minutes. We will review these and any other corrective actions taken by the District during our next audit.

Finding No. 2

The District Failed to Maintain Supporting Documentation Required for its State Social Security and Medicare Reimbursement Subsidies Totaling \$1,287,765

Criteria relevant to the finding:

The 1986 Budget Reconciliation Act requires LEAs to deposit Social Security and Medicare tax contributions for wages 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).

Act 29 of 1994 further changed the way in which LEAs are reimbursed for Social Security and Medicare contributions by providing that employees who had never been employed by an LEA prior to July 1, 1994 (new employees) would have Social Security and Medicare employer shares reimbursed based on the LEA's aid ratio or 50 percent whichever is greater.

Our audit revealed that the District could not provide documentation supporting the District's total wages reported for the 2010-11, 2011-12, and 2012-13 school years. As a result, we could not verify the accuracy of the District's state reimbursement totaling \$1,287,765. The District failed to maintain paper copies of their payroll records and could not access them electronically after switching payroll systems in March 2013. The District's failure to ensure that documentation was retained for audit not only was in noncompliance with the PSC but also with Board Policy No. 800, which governs the retention of records. Without this documentation, we could not determine whether the reimbursements received by the District were appropriate.

The following chart includes the reimbursement reported on the District's annual financial report.

School Year	Reimbursement Amount Received
2010-11	\$ 483,492
2011-12	420,974
2012-13	<u>383,299</u>
Total	<u>\$1,287,765</u>

The District's former Business Manager provided excerpts of Excel spreadsheets and copies of the annual reconciliations of Social Security and Medicare wage reports. However, the District was not able to provide payroll reports that were used to create these spreadsheets. Additionally, the District could not provide copies of Internal Revenue Service Form 941, employer's quarterly federal tax return.

The District's current Business Manager confirmed that the information could not be located for the years in question and stated that he has maintained copies of the supporting documentation since becoming the Business Manager in April 2015.

Criteria relevant to the finding (continued):

LEAs are subsequently reimbursed for the Commonwealth's share based on wages reported to PDE, excluding wages paid with federal funds. *See also* Section 8329 (relating to Payments on account of social security deductions from appropriations) of the PSC, 24 Pa.C.S. § 8329 and the *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools*.

Board Policy No. 800 – Records Management provides in part:

“ . . . the Board shall retain, as a permanent record of the district, board minutes, annual auditor's reports and annual financial reports. All other financial records, including financial account books, orders, bills, contracts, invoices, receipts, and purchase orders, shall be retained by the district for a period of not less than six (6) years.”

24 P.S. § 5-518 of the PSC provides in part:

“ . . . financial records of the district . . . shall be retained by the district for a period of not less than six years.”

Recommendations

The *Farrell Area School District* should:

Retain all documentation supporting Social Security and Medicare reports submitted for reimbursement in accordance with the PSC and the District's board policy.

Management Response

Management stated the following:

“The new Business Manager is aware of the District's failure to maintain paper copies of the payroll records after switching payroll systems in March of 2013. He is also aware that the District's failure to implement appropriate documentation retention procedures violates the Public School Code and Board Policy 800.

As the new Business Manager, I am aware of the importance that payroll back-up is crucial for auditing standards and that with each PDE 339⁷ and PDE 2105⁸ files since I became Business Manager, all back-up is attached to both the PDE 339 and PDE 2105.

All PDE 339 and PDE 2105 with back-up are available for audit.”

Auditor Conclusion

We are encouraged that the District has implemented corrective actions in regard to proper retention of documentation. We again point out the vital importance of maintaining the documentation necessary to ensure the District received proper the Social Security and Medicare subsidy reimbursements. We will review this and any other corrective actions implemented by the District during our next audit.

⁷ Quarterly Social Security and Medicare Tax Contributions reported in October, January, and April.

⁸ Annual Reconciliation of Social Security/Medicare Tax Contributions due in July.

Finding No. 3

The District Failed to Maintain Supporting Documentation Required for its State Transportation Reimbursement Subsidies Totaling \$642,354

Criteria relevant to the finding:

Section 518 of the PSC, 24 P.S. § 5-518, provides, in part:

“Financial records of district . . . shall be retained by the district for a period of not less than six years.”

22 Pa. Code § 23.4 of the State Board of Education’s regulations provides, in part:

“the board of directors of a school district is responsible for all aspects of pupil transportation programs, including the following:

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

Board Policy No. 800 – Records Management provides in part:

“the Board shall retain, as a permanent record of the District, board minutes, annual auditor’s reports and annual financial reports. All other financial records, including financial account books, orders, bills, contracts, invoices, receipts, and purchase orders, shall be retained by the District for a period of not less than six years.”

Over the four year period covering July 1, 2010 through June 30, 2014, the District received \$642,354 in student transportation subsidies. In an effort to verify the accuracy of these subsidies, we requested documentation that supported the transportation data reported to PDE for reimbursement. However, the District could not provide the necessary documentation to support the transportation data that was reported. The District’s failure to implement appropriate controls over the retention of records for audit was in noncompliance with the PSC and Board Policy No. 800. Failure to retain this documentation resulted in the auditors being unable to determine whether the amount that the District received for pupil transportation reimbursements was appropriate.

The District’s current Business Manager could not explain why the necessary supporting documentation was not available; however, he stated that improvements have been made for the 2014-15 and 2015-16 school years.

The District’s student transportation reimbursement is based on several components that are reported by the District to PDE for use in the calculation of the reimbursement. These components include the number of days transported, the mileage with and without students, total annual approved miles, and number of students transported on each run. The District utilizes a contractor to provide transportation services, and the mileage and student rosters should be independently verified by District personnel prior to the Board’s approval.

When transportation service is provided by the District to students attending nonpublic or charter schools, the District receives an additional \$385 per student.

The chart below displays the subsidy received by the District for the four-year period.

<u>School Year</u>	<u>Regular Transportation Reimbursement</u>	<u>Nonpublic/Charter School Reimbursement</u>
2010-11	\$125,701	\$ 0
2011-12	193,498	0
2012-13	174,635	4,235
2013-14	<u>139,708</u>	<u>4,577</u>
Total	<u>\$633,542</u>	<u>\$8,812</u>

The District did not receive any funds for transporting nonpublic/charter school students for two of the school years, which is not typical for school districts. However, we could not determine whether the District was properly reimbursed for each school year due to the lack of supporting documentation.

Recommendations

The *Farrell Area School District* should:

Retain all documentation supporting transportation reports submitted for reimbursement in accordance with the PSC and the District’s board policy.

Management Response

Management stated the following:

“The Farrell Area School District realizes that failure to retain documentation not only violates the Public School Code but also Board Policy 800.

The new Business Manager and the Superintendent realize the importance of proper documentation and have reassigned our transportation responsibilities to our assistant High School Principal.

We are currently receiving from our vendor and our in-house drivers daily reports that are turned in on a monthly basis, information that includes days transported, mileage with and without pupils, and the number of pupils transported on each run.

Our Director of Special Education has verified the pupil rosters and we are in the process of independently verifying mileage for each run.

In addition, we are signed up for the PASBO web cast titled 'Staying Out of Trouble with Your Transportation Audit.' We will also participate in ongoing training such as the aforementioned, made available to us in order to ensure that we remain in compliance."

Auditor Conclusion

We are encouraged that the District has implemented corrective actions in regard to documentation retention. We again point out the vital importance of the District maintaining the documentation necessary to ensure the District received the proper pupil transportation reimbursement. We will review this and any other corrective action implemented by the District during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the District, released on June 19, 2013, resulted in four findings and two observations, 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 PDE, performed audit procedures, and interviewed District personnel regarding the prior findings and observations. As shown below, we found that the District did implement our recommendations related to the findings and observations.

Auditor General Performance Audit Report Released on June 19, 2013

Prior Finding No. 1: District Improperly Utilized Monies from a Special Capital Reserve Fund to Pay Back Wages (Resolved)

Prior Finding Summary:

Our prior review of the District's financial records and board meeting minutes found that the administration violated 53 P.S. § 1434 by depositing \$284,496 from a special capital reserve fund into the General Fund during the 2010-11 school year. These monies were used to cover \$218,997 in back wages owed to a former District employee as part of a settlement agreement, and the remaining balance of \$65,499 was retained in the General Fund.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Adhere to the provisions of 53 P.S. § 1434 pertaining to the use of capital reserve funds.
2. Transfer the \$284,496 from the General Fund into a reclassified capital projects type fund that is subject to the legislative restrictions placed on capital reserve funds by the Board.
3. Review the Board's actions with the District's solicitor to ensure compliance with the Pennsylvania Statutes.

We also recommended that PDE should:

4. As the State's educational regulatory agency, review this finding and determine what further actions, if any, should be taken because of the improper utilization of the designated funds.

Current Status: During our current audit, we found that the District did implement our prior recommendations. On March 25, 2015, the District transferred \$284,496 from the General Fund account into the Capital Reserve fund.

Prior Finding No. 2: Deficiencies Found in Reporting Charter School Tuition Resulted in a New Reimbursement Overpayment of \$57,474 (Resolved)

Prior Finding Summary:

Our prior audit of the District's records pertaining to the payment of tuition to charter schools found District personnel incorrectly reported the tuition paid to charter schools for the 2008-09 and 2009-10 school years to PDE, resulting in a new reimbursement overpayment of \$57,474.

Prior Recommendations:

Our prior audit finding recommended that the District should:

Require District personnel to establish internal review procedures to ensure the accuracy of applications submitted to PDE for Commonwealth reimbursement.

We also recommended that PDE should:

Recover the net reimbursement overpayment of \$57,474.

Current Status: Since 2011, the Commonwealth no longer reimburses school districts for a portion of its charter school tuition payments; therefore, our current audit did not include a review of tuition payments to charter schools or the charter school reimbursement applications.

Prior Finding No. 3: Lack of Supporting Documentation and Errors in Reporting Pupil Membership for Children Placed in Private Homes and Wards of the State Resulted in Lost Reimbursement Revenue (Resolved)

Prior Finding Summary:

Our prior audit of the District's pupil membership reports submitted to PDE for the 2008-09 and 2009-10 school years found a lack of documentation to support pupil membership days for non-resident children placed in private homes (foster children) and non-resident children labeled as wards of the state.

Prior
Recommendations:

Our prior audit finding recommended that the District should:

1. Ensure that the determination of residence forms for students in facilities or institutions are sent to the alleged school districts of residence as soon as possible after the enrollment of non-resident students in a facility or institution.
2. Perform an internal audit prior to submission of pupil membership reports to PDE to ensure all students are classified correctly.
3. Reference the Pennsylvania Information Management System (PIMS) manual of reporting for instructions on the proper coding of non-resident membership days.
4. Review membership reports submitted to PDE for school years subsequent to the audit, and if reporting errors are found, contact the PIMS help desk for guidance in changing coding and submit revised reports to PDE.

Current Status:

During our current audit, our testing and audit inquires revealed that the District implemented our prior audit's recommendations. The District runs parallel reports in their student information system (SIS) to compare against the PIMS data to ensure students are properly classified and tuition is billed accurately. Additionally, the new Business Manager reviewed the membership records for the 2013-14 school year and recalculated tuition invoices.

Prior Finding No. 4: School Bus Drivers' Qualification Deficiencies (Resolved)

Prior Finding
Summary:

Our prior audit of the District school bus drivers' qualifications for the 2011-12 school year found that the District did not have all the required records on file at the time of our audit.

Prior
Recommendations:

Our prior audit finding recommended that the District should:

1. Ensure the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Require the contractor to provide complete records for each driver and retain the information on file at the District.

3. Ensure that the one driver who does not have a Federal Bureau of Investigations (FBI) criminal record check be prohibited from driving and having direct contact with children until the FBI record check is obtained and examined.

Current Status:

During our current audit, our testing and audit inquires revealed that the District implemented our prior audit's recommendations. Our current review of five newly hired drivers in the 2015-16 school year noted all bus driver qualifications were on file at the District.

**Prior Observation
No. 1:**

Amount Paid Pupil Transportation Contractors Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance (Resolved)

Prior Observation
Summary:

Our prior audit of the District's contracted pupil transportation costs for the school years beginning July 1, 2006 through June 30, 2010, found that the contracted pupil transportation costs had increased substantially more than the rate of inflation over the four-year period. Specifically, the amount paid to the District transportation contractors increased greater than PDE's inflation adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

Prior
Recommendations:

Our prior audit observation recommended that the District should:

1. Prior to negotiating a new contract, be cognizant of the State's final formula allowance.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as possible by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Current Status:

During our current audit, we found that the District did implement three of our prior recommendations. While the Board did not

implement Recommendation No. 2 regarding competitive bids for transportation services, the Board renegotiated their contract for the transportation of special education students for the 2013-14 school year. This contract included a two percent increase while the prior years' contract included a three percent increase for each year. Additionally, on May 22, 2013, the Board eliminated transportation for students in Kindergarten through Fourth grade, thereby reducing transportation costs.

Prior Observation**No. 2:****The Farrell Area School District Lacks Sufficient Internal Controls Over Its Student Record Data (Resolved)**Prior ObservationSummary:

PDE bases all LEAs' state subsidy calculations on the student record data it receives in PIMS. PIMS is a statewide longitudinal data system or "data warehouse" designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education system.

Our review found that internal controls over data integrity needed to be improved. Specifically, our testing found that:

1. The District incorrectly reported 1 student out of 20 tested as a resident when he was actually a nonresident. However, we noted that the District did correctly bill the student's home district for the tuition expense.
2. One student out of the twenty tested was incorrectly coded and did not appear as a ward of the state on the District's Summary of Child Accounting Membership report.
3. The lack of student documentation noted in bullet three above is a violation of the contract between the District and Crossroads Group Homes and Services, Inc. (Crossroads) in effect for the 2009-10 school year.
4. The District does not have adequate written procedures in place to ensure continuity over its PIMS data in the event of a sudden change in personnel or child accounting vendors.

Prior

Recommendations:

Our prior audit observation recommended that the District should:

1. Perform an internal audit prior to submission of pupil membership reports to PDE to ensure all students are classified correctly.
2. Maintain, in compliance with the contract that the District has with Crossroads, attendance and membership records, ensuring Crossroads provides all necessary information to the District so that the residency of all students can be verified and reported correctly by District personnel.
3. Prepare written procedures to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
4. Review subsequent school years' pupil membership reports submitted to PDE for accuracy and proper supporting documentation and revise reports, if necessary.
5. Ensure the contract requires Crossroads to provide the District with documentation supporting the placement of each student, school District, or state of residency and the parents or guardian names of each student attending the facility.

Current Status:

During our current audit, our testing and audit inquires revealed that the District implemented our prior audit's recommendations. The District has implemented a procedure on how to create all of the PIMS data files for both student and staff reporting that will tie in to both the SIS and CSIU software packages. In addition, the District will create a workbook of all local and state trainings. The District's registration packet includes a student enrollment form, verification of residency form, home language survey, a request of health and school records, a registration statement, and a student residency questionnaire. Additionally, the school attendance officer will receive and update attendance cards on a daily and weekly basis. The District reviewed the 2013-14 school year membership and made a couple of revisions to non-resident students.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

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