



HERMITAGE SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2014

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. Tim Kizak, Board President
Hermitage School District
411 North Hermitage Road
Hermitage, Pennsylvania 16148

Dear Governor Corbett and Mr. Kizak:

We conducted a performance audit of the Hermitage 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 November 2, 2011 through July 25, 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, 2011 and June 30, 2012. 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 significant non-compliance with relevant requirements, as detailed in the two (2) audit findings and one (1) observation within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings and observation include recommendations aimed at the District and the Pennsylvania Department of Education.

Our audit findings, 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

June 19, 2014

cc: **HERMITAGE SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – Transportation Internal Control Weaknesses and Non-Compliance with Pennsylvania Department of Education Reporting Instructions Resulted in a Questionable Reimbursement of \$84,700	6
Finding No. 2 – Failure to Have Established Internal Controls Relating to Contracted Bus Drivers’ Credentials and Required Board Approval	11
Observation – The Hermitage Area School District Lacks Sufficient Internal Controls Over Its Student Record Data	15
Status of Prior Audit Findings and Observations	18
Distribution List	22

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Hermitage School District (District) in Mercer County. 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 November 2, 2011 through July 25, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 30 square miles. According to 2010 federal census data, it serves a resident population of 16,220. According to District officials, the District provided basic educational services to 1,105 pupils through the employment of 148 teachers, 116 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$9,345,823 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found significant non-compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the two (2) audit findings and one (1) observation within this report.

Finding No. 1: Transportation Internal Control Weaknesses and Non-Compliance with Pennsylvania Department of Education Reporting Instructions Resulted in a Questionable Reimbursement of \$84,700.

Our audit found that the Hermitage School District did not maintain supporting documentation needed to verify the accuracy of the number of non-public and charter school students transported. In addition, we found numerous internal control weaknesses (see page 6).

Finding No. 2: Failure to Have Established Internal Controls Relating to Contracted Bus Drivers' Credentials and Required Board Approval.

Our audit of the Hermitage School District (District)'s eleven (11) school bus drivers' credentials, hired since September 2011, revealed significant documentation deficiencies (see page 11).

Observation: The Hermitage School District Lacks Sufficient Internal Controls Over Its Student Record Data.

The Hermitage School District does not have adequate internal controls in place regarding its submission of child accounting data into the Pennsylvania Information Management System (see page 15).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the Hermitage School District (District) from an audit released on January 23, 2012, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to bus drivers' qualifications and the amount paid to the District's contractors when compared to the Commonwealth's final formula allowance (see page 18).

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 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 November 2, 2011 through July 25, 2013, except for the verification of professional employee certification, which was performed for the period September 2, 2011 through June 17, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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 non-compliance 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 non-compliance 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 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 current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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

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

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.

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 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, 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.

To determine the status of our audit recommendations made in a prior audit report released on January 23, 2012, we reviewed the District's response to PDE dated April 23, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Transportation Internal Control Weaknesses and Non-Compliance with Pennsylvania Department of Education Reporting Instructions Resulted in a Questionable Reimbursement of \$84,700

Criteria relevant to the finding:

Section 2509.3 of the Public School Code (PSC), 24 P.S. § 25-2509.3, states that:

For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of three hundred eighty-five dollars (\$385) for each nonpublic pupil transported.

Additionally, Chapter 23 of the State Board of Education Regulations, 22 Pa Code 23.4, indicates that the board of school directors of the school district is responsible for:

(2) The selection and approval of appropriate vehicles . . . and eligible operators who qualify under the law and regulations.

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

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

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

(7) The negotiation and execution of contracts or agreements with contractors . . .

Pupil transportation program requirements are defined by Public School Code (PSC) and the Pennsylvania Department of Education (PDE). Our audit revealed that the Hermitage School District (District) did not comply in all respects with the PSC or PDE requirements in several areas of transportation reporting.

Non-public and Charter School Students: Our audit of the non-public and charter school pupils transported found that the District could not provide supporting documentation for the following number of pupils:

	2010-11		2011-12	
	<u>Pupils</u>	<u>Subsidy</u>	<u>Pupils</u>	<u>Subsidy</u>
Reported	150	\$ 57,750	143	\$ 55,055
<u>Supported</u>	<u>31</u>	<u>11,935</u>	<u>52</u>	<u>20,020</u>
Unsupported	119	\$ 45,815	91	\$ 35,035

As a result, we could not verify those pupils were transported by the District and, therefore, could not determine that the District was entitled to the non-public transportation reimbursement for these students, totaling \$84,700.

The transportation coordinator attributed the reporting errors to the District's failure to enter all non-public and charter school students in the District's transportation software system, resulting in the non-public and charter school students not appearing on the District's bus rosters.

Route Mileage: The District did not require their transportation contractors to report mileage on a stop-by-stop tenth of mile basis, as directed by PDE instructions. In addition, mileage logs were not signed or dated attesting to the submitted data from one (1) contractor that submitted the required monthly mileage checks by fax in July 2012 and August 2011, without

Criteria relevant to the finding (continued):

Section 508 of PSC, 24 P.S. § 5-508, provides:

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:

Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100) . . .

Instructions for completing the Pennsylvania Department of Education's End-of-Year Pupil Transportation Reports provides that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle. Additionally, the instructions provide that information and data used by the LEA to support the reports should be retained for audit purposes.

original documentation being provided to the District for review.

For the 2011-12 school year, our audit selected eight (8) vehicles at random. The initial review of the supporting documentation found that two (2) of the tested vehicles for one (1) contractor had miles that were significantly lower than the miles reported to PDE. We then expanded our audit to include a review of six (6) of the contractor's twelve (12) vehicles and determined that five (5) of the six (6) vehicles—83.3 percent—had errors in the mileage reported to PDE.

The Transportation Coordinator attributed the mileage underreporting to a procedural change within the District for the 2010-11 school year. This new calculation does not use the transportation data required by PDE's formula. As a result of the procedural change made in the 2010-11 school year, we reviewed a sample of vehicles for that school year and found additional reporting errors in the vehicles tested.

The effect on the transportation reimbursement could not be calculated because these vehicles are used by more than one (1) school district and, as such, the components are used by PDE in computing the overall reimbursement for all districts using the vehicles in question. Nevertheless, the District should have procedures in place to ensure that the transportation components are reported in compliance with PDE instructions.

Sample Average Pupil Counts: Our audit revealed that the District did not maintain rosters for the entire school year, as required. The District printed the rosters on the day after we requested the information, so we were unable to verify that no revisions were made to the data prior to the date they were printed, or therefore, its validity.

Internal Control Weaknesses: Our audit noted that the transportation coordinator had sole responsibility for the preparation and submission of transportation data to PDE. According to the District, due to past and continuing budget constraints, the District has had to reduce staff and reassign responsibilities while continuing to meet all administrative duties. This lack of dual control and accountability for performed procedures resulted in transportation reporting

errors that may have been preventable if an independent review had been performed.

Contracts: The District employs one (1) contractor to perform special education van runs. The contractor received Board approval for 32 private transportation contracts in the 2011-12 school year and 52 in the 2012-13 school year. No written or signed master agreement was available to support the Board's approved private transportation contracts.

The lack of written contractual agreements exposed both the District and the involved contractor to legal risks, liabilities, and damages had any type of event or accident occurred that involved the transported students. Best business practice dictates that contractual agreements are to be placed in writing and signed to define and protect both parties' rights, responsibilities, duties, and obligation.

Our review of the private transportation contracts revealed that the rate charged is not negotiated but is instead set by the contractor. The transportation coordinator was unaware of the methodology used by the contractor to arrive at the per diem rate charged to the District.

The District, not the contractor, should be establishing the rate paid for transportation services, as to guarantee that the District's taxpayers are getting the optimal service for the best value.

Recommendations

The *Hermitage School District* should:

1. Require the transportation coordinator to establish appropriate non-public/charter school pupil policies and procedures to ensure that all transported students are documented and included on bus rosters as required.
2. Require administration and the transportation coordinator to review the Board's Pupil Transportation Program to ensure that it is in compliance with PDE instructions inclusive of mileage.

3. Require all contractors to provide monthly mileage tests on a stop-by-stop tenth of mile basis with driver signature and date.
4. Require all contractors to include student counts on their monthly mileage tests; mileage reports should be provided timely and not after the end of the school year.
5. Implement written procedures relating to the review and input of contractor submitted documentation to ensure propriety of information.
6. Review transportation reports submitted to PDE for years subsequent to those we audited and ensure the reported information is accurate and that supporting documentation is on file to support all data reported for each bus.
7. In conjunction with the District's solicitor, develop an appropriate Master Contract for special runs.
8. Require the transportation manager to work with other school districts to determine cost trends and perform the necessary negotiations with contractors to ensure that the quoted rates are the lowest available.

The *Pennsylvania Department of Education* should:

9. Withhold the nonpublic and charter school students' overpayment of \$84,700 from future transportation subsidies.
10. Determine if the District will be allowed to resubmit mileage information on the audit identified under reported vehicles for addition subsidy.

Management Response

Management stated the following:

“While management agrees with the finding that non-public students were not included on school bus rosters, this procedure has been reviewed in past state audits with no findings or recommendations to change our procedure. We will include our non-public students on our

transportation rosters in the future. Concerning the overpayment of \$84,700, we disagree that this is truly an overpayment. When we reviewed the guidelines from the Public School Code and PDE-2089 [Summary of Pupils Transported], we found that the language used for non-public student reporting did not differ from the public student reporting. There is no requirement for a school district to prove that a public student rode a school bus at least once and we were unable to find guidelines from PDE or the School Code that stated or inferred that a non-public student had this additional requirement in order to be reported. The management respectfully requests that this amount is not garnished from future subsidies to the School District.”

Auditor Conclusion

We are encouraged that the District agrees with our finding. We note, however, that the instructions for the completion of the Summary of Pupils Transported (PDE 2089) clearly states, in part:

Enter the total number of resident non-public school pupils you transported to and from school.

Documentation identifying the names of these pupils should be retained for review by the Auditor General’s staff. . .

The finding stands as presented. We will follow up on our recommendations during our next cyclical audit of the District.

Finding No. 2

Failure to Have Established Internal Controls Relating to Contracted Bus Drivers' Credentials and Required Board Approval

Criteria relevant to the finding:

Pennsylvania Department of Transportation bus driver regulations requires that school employees who operate a school bus transporting students to/from and school-sponsored events are required to have a school bus endorsement on their license.

Section 111 of the Public School Code (PSC), 24 P.S. § 1-111 (Act 34 of 1985, as amended), requires prospective school employees who have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Additionally, as of April 1, 2007, under Act 114 of 2006, as amended (see 24 P.S. § 1-111 (c.1)), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by the Pennsylvania Department of Education. The review of CHRI report is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

Our audit of the Hermitage School District (District) included the testing of a sample of eleven (11) school bus drivers' credentials, all hired since September 2011, to determine compliance with state and federal reporting requirements. Our testwork revealed significant documentation deficiencies:

- Two (2) drivers with expired licenses,
- One (1) Mercer County resident with an out-of-state commercial license,
- Four (4) drivers without valid physical examination forms,
- Seven (7) drivers without current Act 151 Child Abuse Clearances,
- Seven (7) drivers without current Act 34 Pennsylvania Criminal History Clearances,
- Seven (7) drivers without current Act 114 FBI Criminal History Clearances, and
- Two (2) drivers who were not board-approved prior to transporting students.

Additionally, our audit noted that the bus driver list provided by the District's transportation coordinator for our review did not agree with the list of drivers approved by the District's Board of School Directors (Board). Neither the transportation coordinator nor administrative personnel could explain why the board-approved drivers were different from the list provided by the transportation coordinator.

The deficiencies were attributed to a communication breakdown between the transportation coordinator and the District administration. For example, the transportation coordinator was not consulted when the administration presented the list of bus drivers to the Board for approval. In addition, the transportation coordinator relied on the District's transportation contractors to monitor and provide updated documentation. The District did not maintain an in-house control list.

*Criteria relevant to the finding
(continued):*

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa.C.S. § 6355, known as Act 151, requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the responsible for injury or abuse in a founded report for school employee.

Regarding the maintenance of documentations, Section 111(7)(b) of the PSC, 24 P.S. § 1-111(7)(b), provides in part:

Administrators shall maintain a copy of the required information . . . [and] . . . Administrators shall require contractors to produce a report of criminal history record information for each prospective employee of such contractor prior to employment . . .

Chapter 23 of the State Board of Education Regulations indicates that the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

By the completion of our audit, the District had received a copy of a Pennsylvania school bus drivers license for the driver with the out-of-state license, two (2) current physical examination forms, and one (1) current license with a statement that the second driver no longer was employed by the contractor.

By not having the required bus drivers' credentials on file and appropriate Board approval, the District was unable to provide full assurance that the contracted drivers were qualified to transport students. Utilization of unqualified drivers presents an increased risk to the safety and welfare of the District's students.

Board Policies Weaknesses

Our review of the Board Policy No. 810, *Transportation*, revealed that the policy does not reference that the District and its Board are ultimately responsible to approve all drivers prior to their transporting District students and that, based on Act 24, drivers have 72 hours to report charges or allegations of criminal charges that are deemed severe to affect future employment.

Board Policy No. 810.1, *Employment of School Bus Drivers*, states that bus driver approval will occur at the Board's August meeting. However, the Public School Code requires that new drivers must be board approved prior to transporting students regardless of when hired.

Board Policy No. 810.2, *Drug/Alcohol Testing*, requires contractors to have testing programs, but the policy does not require that the contractors provide evidence of such programs.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that it has on file all required paperwork for persons transporting District students, whether employed directly by the District or contracted drivers. By not having the required bus drivers' credentials on file and by not having appropriate Board approval, the District was unable to provide full assurance that the contracted drivers were qualified to transport students. Utilization of unqualified drivers could present an increased risk to the safety and welfare of the District's students.

Recommendations

The *Hermitage School District* should:

1. Implement procedures to ensure that the bus drivers list submitted for Board approval has been provided by the transportation coordinator and reviewed by administration to ensure propriety. Copies of associated resolutions should then be provided to the transportation coordinator for record.
2. Require the transportation coordinator to develop and maintain a bus driver list inclusive of hire and termination dates to ensure that driver's status is current and accurate to avoid future clearance exceptions.
3. Develop policies and procedures to ensure that drivers recommended by the contractor have credentials that are in accordance with the Public School Code and that clearances other than "no record" are presented to administration for determination of acceptability.
4. Require the transportation coordinator to establish procedures to ensure that all drivers' credentials are maintained current.
5. Review Board policies to ensure that contractors are not allowed to utilize any driver in the transportation of students prior to the obtaining of all required credentials, the submission of the credentials to the District for review, and receipt of verification that the driver has been properly reviewed and Board approved to transport students.

Management Response

Management stated the following:

"Management agrees with this finding and will require that the District Transportation Coordinator construct and maintain a spreadsheet of all district drivers. This spreadsheet will be kept current on a daily basis to ensure proper monitoring of all driver credentials. The Board Secretary will keep the Transportation Coordinator informed of Board approval of Driver Lists in writing to ensure proper driver approval."

Auditor Conclusion

We are encouraged that the District agrees with our finding. We will follow up on our recommendations during our next cyclical audit of the District.

Observation

The Hermitage School District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into the system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review found that the Hermitage School District's (District) personnel were unfamiliar with available PIMS reports and could not provide the requested year-end summary reports. We subsequently obtained the necessary documentation from PDE.

District personnel stated that neither business office personnel nor the child accounting coordinator were familiar with the various reports available in PIMS and as a result, there was no reconciliation of the Commonwealth-paid tuition for non-residents placed in private homes (foster children) to the non-resident membership data uploaded in PIMS. Furthermore, our audit revealed that no reconciliation of revenue to membership data reported has occurred since PDE's conversation to PIMS in the 2009-10 school year.

Criteria relevant to the observation (continued):

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

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.

Additional internal control weaknesses noted:

The District had not established policies or procedures to ensure that:

- The child accounting, information technology personnel and the business office personnel operated as a team to ensure that open communication exist relating to membership reporting and the Commonwealth-paid tuition received.
- A methodology of dual controls existed to ensure the accuracy of the membership data submitted in PIMS
- Analysis of the end-of the year PIMS reports is performed to ensure that the reported data is accurate and that non-resident reimbursable students can be identified and membership data is verified and accurate.
- Appropriate cross-training has occurred in the child accounting coordinator position to ensure continuity of operations.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that student data is collected, is accurate, and is reported timely to PDE. Without such internal controls, the District cannot be assured the student data it is reporting to PDE is accurate or that it is receiving the correct subsidy reimbursement.

Recommendations

The *Hermitage School District* should:

1. Contact PDE for assistance in data corrections and the balancing of foster students' tuition subsidy.
2. Develop procedures requiring an annual reconciliation of internal records and PIMS reported tuition for orphans and children placed in private homes.
3. Develop an internal control procedure requiring the periodical review of PIMS reports to ensure that all data is properly accounted for and the associated revenue impact is recognized.

4. Implement procedures to ensure that communication is maintained between personnel in the information technology department, child accounting department, and in the business office.
5. Ensure that the District personnel attend PIMS' conferences and seminars to stay abreast of reporting requirements and disseminate information to the business office, when appropriate.
6. Establish procedures for verification of other institutions' reported non-resident membership data to identify the student and the validity of the reported data.

The *Pennsylvania Department of Education* should:

7. Provide the District assistance in reconciling their non-resident subsidy received in the 2010-11 and 2011-12 school years.
8. Determine the accuracy of the District's requested non-resident membership changes especially those involving the Auditor General's prior audit.

Management Response

Management stated the following:

“Management agrees with this finding and will provide employees additional training and resources to ensure that this does not re-occur in the future.”

Auditor Conclusion

We are encouraged that the District agrees with our observation. We will follow up on our recommendations to the District during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Hermitage School District (District) released on January 23, 2012, resulted in two (2) findings and one (1) observation. The first finding pertained to pupil transportation reporting, the second finding pertained to bus drivers qualifications, and the observation pertained to transportation contractors' costs. 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 and observation. As shown below, we found that the District did not implement our recommendations related to transportation and bus drivers' qualifications. Our recommendations related to transportation cost were being implemented during our audit fieldwork.

Auditor General Performance Audit Report Released on January 23, 2012

Finding No. 1: **Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Reimbursement for Pupil Transportation and Lack of Documentation Supporting Usage of Tax Exempt Fuel**

Finding Summary: Our prior audit of the District's pupil transportation records and the reports submitted to the Pennsylvania Department of Education (PDE) for the 2008-09 and 2009-10 school years found reporting errors, internal control weaknesses, and a lack of documentation supporting \$494,538 and \$516,285, respectively. We also found a lack of documentation supporting the usage of tax exempt fuel.

Recommendations: Our audit finding recommended that the District should:

1. Prepare and maintain records of odometer readings between all bus stops and pertinent loading zones, as required by Chapter 23 regulation.
2. Prepare and retain on file the District source documentation used to report pupil transportation data to PDE, including the sample average for pupils that enter, withdraw, or relocate within the District and when bus route mileage changes occur.
3. Prepare and maintain morning and afternoon bus rosters.
4. Conduct an internal review to ensure the greatest number of pupils and mileage were accurately reported to PDE for reimbursement.

5. Ensure all contractor cost for transportation to and from school is properly reported.
6. Ensure adequate current liability insurance coverage is provided by each contractor at the beginning of each school year. Documentation verifying the coverage should be retained in District files.
7. Establish procedures to monitor the fuel usage to ensure all tax-exempt fuel purchased is used for school-related purposes only, including separation of fuel usage for transportation to and from school and other transportation services.
8. Require the pupil transportation contractors to provide evidence of the actual usage of all tax-exempt fuel purchased for Pennsylvania Department of Revenue (PDR) review. PDR is responsible for determining the actual fuel tax liability.
9. Enable the transportation coordinator to attend any seminars regarding the proper collection, maintenance, and submission of transportation data.
10. Review transportation reports submitted to PDE for years subsequent to those we audited, and ensure the reported information is accurate and that supporting documentation is on file to support all data reported for each bus.

We also recommended that the PDR should:

11. 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 did not implement our prior recommendations except for fuel usage logs, which was defined as a "work in process", as noted in Finding No. 1 in the current report (see page 6).

Finding No. 2:

School Bus Drivers' Qualification Deficiencies

Finding Summary:

Our prior audit of the District's school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of our audit.

Recommendations:

Our audit finding recommended that the District should:

1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractor to ensure that the District's files are up-to-date and complete.

Current Status:

During our current audit, we found that the District did not implement our recommendations, as noted in Finding No. 2 in the current report (see page 11).

Observation:

Amount Paid to the Pupil Transportation Contractor Greatly Exceeds Pennsylvania Department of Education Final Formula Allowance

Finding Summary:

Our prior audit of the District's contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the District's pupil transportation operation had increased substantially more than the rate of inflation over the four-year (4) period, based on data submitted to PDE by the District for reimbursements purposes. The amount paid to the District's transportation contractor increased more than PDE's inflation adjusted final formula allowance which PDE uses to determine the District's reimbursement of transportation services.

Recommendations:

Our audit finding recommended that the District should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all of the District's pupil transportation services to ensure the most efficient costs to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is minimal as permitted 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 is in a “work-in-progress” state and had renegotiated the major contract, will be renegotiating the two (2) other contracts, and will be evaluating the remaining contractor’s run rate. Due to the “work-in-progress” status, the prior audit’s observation will be evaluated in the next audit.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at 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. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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