



**DUNMORE SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. John Farris, Board President
Dunmore School District
300 West Warren Street
Dunmore, Pennsylvania 18512

Dear Governor Corbett and Mr. Farris:

We conducted a performance audit of the Dunmore 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 January 4, 2012 through October 24, 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 that the District complied, in all significant respects, with relevant requirements. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit 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 12, 2014

cc: **DUNMORE 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 Dunmore School District (District) in Lackawanna 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 January 4, 2012 through October 24, 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 eight (8) square miles. According to 2010 federal census data, it serves a resident population of 14,052. According to District officials, the District provided basic educational services to 1,535 pupils through the employment of 106 teachers, 34 full-time and part-time support personnel, and nine (9) administrators during the 2011-12 school year. The District received \$6.3 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

Observation: Transportation Contractor Paid in Excess of State Formula

Allowance. Our audit of the Dunmore School District's transportation records for the 2010-11 and 2011-12 school years found that one (1) bus contractor was paid more than the state formula allowance calculated by the Pennsylvania Department of Education (see page 5).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the Dunmore School District (District) from an audit released on June 19, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil transportation data (see page 7).

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 January 4, 2012 through October 24, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through October 7, 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 noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received 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?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Were 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.

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.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal 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 June 19, 2012, we reviewed the District's response to PDE dated April 3, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Transportation Contractor Paid in Excess of State Formula Allowance

Criteria relevant to the observation:

Chapter 23 of the State Board of Education Regulations states that the Board of School Directors is responsible for the negotiation and execution of contracts or agreements with contractors and approval of the drivers of the vehicles providing transportation.

The Pennsylvania Department of Education's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District's aid ratio.

Our audit of the Dunmore School District's (District) transportation records for the 2010-11 and 2011-12 school years found that one (1) bus contractor was paid significantly more than the state formula allowance calculated by the Pennsylvania Department of Education (PDE). This action may have resulted in an unnecessary expenditure of taxpayer funds.

PDE prepares a final formula allowance for each school district, which it uses to determine reimbursement for transportation services. This allowance is based on a number of factors, including the approved daily miles driven, the age of the vehicles, and the greatest number of pupils assigned to ride a vehicle at any one (1) time. Each district then receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by its aid ratio.

The amount paid to the contractor in excess of the calculated formula allowance is as follows:

| School Year | Contracted Cost | Final Formula Allowance | Cost Percentage of Allowance |
|-------------|-----------------|-------------------------|------------------------------|
| 2010-11 | \$ 290,356 | \$ 175,561 | 165.4% |
| 2011-12 | 315,876 | 173,693 | 181.9% |

The District paid the contractor 1.65 times more than the state formula for the 2010-11 school year and 1.81 times more than the state formula for the 2011-12 school year.

The transportation contract for this contractor had been in effect from July 1, 2008 through June 30, 2010. On February 16, 2011, the District's Board of School Directors (Board) voted to approve a five (5) year extension of the contract. Neither the Board nor District requested bids for the transportation contract.

While bidding of pupil transportation service is not required under state law, competitive bidding can result in a lower cost to District taxpayers. Moreover, since PDE

provides a state allowance, it would be prudent for the District to consider that the money that goes towards the transportation contract is local and state tax revenue that is not going towards educating the children of the District.

Recommendations

The *Dunmore School District* should:

1. Consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.
2. Be cognizant of the state's final formula allowance prior to negotiating transportation contracts.

Management Response

Management stated the following:

“The District believes the reason we paid significantly over the state formula is due to the square miles covered in our small district. The formula is largely based on miles transported. We have seven (7) bus runs and only one is over 50 miles round trip. The others are all lower and one run is even under 20 miles. Our contractor does maximize the formula by buying new buses every three (3) years, but that portion of the formula does not outweigh the mileage calculation. The District has been with the current contractor for many years and has had small percentage increases each year. However, when the current contract expires in 2015, the District will solicit quotes to obtain competitive pricing.”

Auditor Conclusion

We are encouraged that the District is open to re-evaluating the process by which it contracts for its transportation services. We will follow up on the issue during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Dunmore School District (District) released on June 19, 2012, resulted in one (1) finding that pertained to errors in reporting pupil transportation data. 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 finding. As shown below, we found that the District did implement our recommendations related to errors in reporting pupil transportation data.

Auditor General Performance Audit Report Released on June 19, 2012

Finding: **Errors in Reporting Pupil Transportation Data Resulted in a Net Reimbursement Overpayment of \$37,979**

Finding Summary: Our prior audit of the District's 2008-09 pupil transportation records submitted to PDE found reporting errors which resulted in a net overpayment of transportation reimbursement totaling \$37,979.

Recommendations: Our audit finding recommended that the District should:

1. Review PDE instructions for completing the end-of-year summary reports to ensure proper reporting of mileage with and without pupils.
2. Implement procedures to review transportation reports prior to submitting to PDE to ensure reports are correct.
3. Review subsequent years' transportation reports and revise if necessary.

The Pennsylvania Department of Education should:

4. Adjust the District's subsidy to recover the \$37,979 net reimbursement overpayment.

Current Status: During our current audit, we found that the District did implement our prior recommendations and submitted correct reports to PDE.

As of our fieldwork completion, PDE has not adjusted the District's subsidy to recover the \$37,979 net reimbursement overpayment.

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
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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.