

PERFORMANCE AUDIT

Glendale Area School District Clearfield County, Pennsylvania

May 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Dr. Andy Mulhollen, Board President
Glendale Area School District
1466 Beaver Valley Road
Flinton, Pennsylvania 16640

Dear Governor Wolf and Dr. Mulhollen:

We conducted a performance audit of the Glendale Area 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 March 2, 2012 through November 17, 2014, except as otherwise stated 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, except as detailed in one finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding 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 that reads "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

May 19, 2015

cc: **GLENDALE 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 in Clearfield 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.

Our audit scope covered the period March 2, 2012 through November 17, 2014, except as otherwise stated 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 60 square miles. According to 2010 federal census data, it serves a resident population of 5,407. According to District officials, the District provided basic educational services to 802 pupils through the employment of 73 teachers, 44 full-time and part-time support personnel, and 6 administrators during the 2011-12 school year. The District received \$8,058,798 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding.

Finding: Lease Agreements Not on File for Tax-Exempt Fuel and Fuel Expenditures of \$123,053 Approved Without Competitive Bidding.

Our audit found that the District purchased tax-exempt fuel without seeking competitive bids and stored the fuel in a tank that was neither owned nor leased by the District as required by the Pennsylvania Department of Revenue. In addition, the District could not verify the tax-exempt fuel was used exclusively for the purpose of transporting students (see page 6).

Status of Prior Audit Findings and Observations. Our prior audit did not include any findings or observations.

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 March 2, 2012 through November 17, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through April 30, 2014.

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:

- ü Were professional employees certified for the positions they held?
 - o To address this objective, auditors reviewed and evaluated certification documentation for all 24 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment at the time of our audit.

- Ü In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable laws [24 P.S. § 25-2541] and procedures?

To address this objective:

- The auditors used a random number generator to choose a selection of District buses for review. The selection size is to be either 25 buses or 25 percent of the total bus population, depending on which was smaller.
- The auditors also reviewed a random selection of seven of the 23 total District buses. For each bus in the selection, auditors reviewed various data, including board approval of routes, manufacturer, serial number, year of manufacture, and seating capacity as required under 24 P.S. § 25-2541.
- In addition, the auditors reconciled the transportation data the District submitted to PDE to the District's final formula allowance and/or contracted costs to ensure accuracy.

- 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 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 *PA Code Chapter 8*, and 23 PA C.S. § 58-6354, and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors initially selected the five newest drivers out of the seven "new drivers" from the current school year and worked backwards to the last time the Bureau of School Audits audited the District and reviewed bus driver compliance.

- 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 of School Directors free from apparent conflicts of interest?
- To address this objective, auditors reviewed all nine of the sitting and recent board members’ employment history, Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District.
- ü Were there any declining fund balances that may pose a risk to the District’s fiscal viability?
- To address this objective, the auditors reviewed the District’s annual financial reports, budget, independent auditor’s reports, summary of child accounting, and general ledger for fiscal years 2007-08 through 2011-12.

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District’s management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District’s internal controls, including any information technology controls, as they relate to the District’s compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal 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, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

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

Findings and Observations

Finding

Lease Agreements Not on File for Tax-Exempt Fuel and Fuel Expenditures of \$123,053 Approved Without Competitive Bidding

Criteria relevant to the finding:

Pennsylvania Liquid Fuels Tax Act (72 P.S. § 2611a-2611x), provides provisions of Chapter 315 “Exempt Sales” provides in Section 315.3 (b) Requirements, in part: When a school district leases or owns vehicles, whether or not the vehicles are operated by the school district employees, the school district may purchase liquid fuels tax exempt from a registered distributor, provided the fuel is placed in bulk storage facilities, leased or owned by the school district.

Section 807.1 of the Public School Code (PSC), 24 P.S. § 807.1(a.2), provides, in part:

All furniture, equipment, textbooks, school supplies and other appliance for use of the public schools costing, subject of adjustment under Section 120, a base amount of eighteen thousand five hundred dollars (\$18,500) or more shall be purchased by the board of school directors only after due advertisement . . . public notice has been given by advertisement once a week for three weeks in not less than two newspapers of general circulation.

Through amendments to the Liquid Fuels Tax and Fuel Use Act, the Pennsylvania General Assemble permits various entities, including political subdivisions, to purchase liquid fuels tax-exempt. A school district is considered a political subdivision and is therefore permitted to purchase tax-exempt fuel. The District purchased 14,940 gallons of tax-exempt fuel during the 2011-12 school year at a cost of \$49,637. The fuel was delivered to a fuel storage tank located at one of the District’s contractor’s bus garage without the proper lease agreement in place.

In order to ensure that tax-exempt fuel is used only for appropriate purposes, the Pennsylvania Department of Revenue (PDR) requires that entities, including school districts, maintain a lease agreement with the storage facilities they use. This agreement should outline specific requirements for the use and storage of the entity’s tax-exempt fuel. Our audit found no fuel tank lease agreement between the contractor and the District.

Also, the audit found no records were available at the District to verify the tax exempt fuel purchased was used for exclusive purpose of transporting students. The lack of actual documentation to support the use of the tax-exempt fuel allows for the potential misuse of the fuel. Proper fuel usage logs would include the following: date, vehicle number, amount of fuel dispensed, odometer reading, vehicle driver name, and the purpose of the fuel being dispensed.

When questioned about the concerns, the District personnel were unfamiliar with the requirements necessary for the storage of tax-exempt fuel or the need to maintain evidence regarding its use.

*Criteria relevant to the finding
(continued):(continued):*

Board Policy 610 states, in part:

The Board shall, after due public notice advertising for competitive bids, purchase furniture, equipment, school supplies and appliances costing \$10,000 or more, unless exempt by statute. The Board shall advertise once a week for three weeks in not less than two newspapers of general circulation.

Good business practice and internal control would require a private key or card-controlled dispensing metering system that would document into which vehicle the fuel was placed and also provide verification of the dispenser.

In conclusion, the District is responsible for requiring and maintaining the actual usage of all tax-exempt fuel it purchases.

Failure to Obtain Competitive Bids: In addition, the District failed to seek bids for the purchase of fuel. During the 2011-12 school year, the District was billed and paid \$32,680 and \$90,373 for gasoline and diesel fuel, respectively. By failing to seek competitive bids, the Board might not have received the benefit of lower costs often associated with bidding.

District administration stated that bids were sought in the past with no bids being received. Therefore, they felt that obtaining quotes was appropriate, and the District didn't incur the financial expense associated with the bidding process.

Recommendations

The *Glendale School District* should:

1. Educate District personnel on the PDR requirements for fuel storage.
2. Obtain a signed/detailed lease agreement with the contractor for the storage of tax-exempt fuel in accordance with the requirements of PDR.
3. Establish procedures to monitor the fuel usage to ensure all fuel purchased is used for school-related purposes only, including the separation of fuel used for extracurricular activities and pupil transportation services.
4. Require the pupil transportation contractors to provide evidence of the actual usage of all tax-exempt fuel purchased.

5. Seek competitive bids in accordance with the Public School Code and Board Policy.
6. Update Board Policy 610 to reflect bidding limits that were revised by Act 84 of 2011 effective January 1, 2012.

Management Response

Management waived the opportunity to respond at this time.

Status of Prior Audit Findings and Observations

Our prior audit of the Glendale Area School District did not include any findings or observations.

Distribution List

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

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera
Acting Secretary of Education
1010 Harristown Building #2
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This report is a matter of public record and is available online at www.PaAuditor.gov. 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@PaAuditor.gov.