

CONNEAUT SCHOOL DISTRICT
CRAWFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mrs. Jody Sperry, Board President
Conneaut School District
219 West School Drive
Linesville, Pennsylvania 16424

Dear Governor Corbett and Mrs. Sperry:

We conducted a performance audit of the Conneaut School District (CSD) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period November 30, 2007 through July 29, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 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 CSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with CSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 22, 2012

cc: **CONNEAUT SCHOOL DISTRICT** Board Members

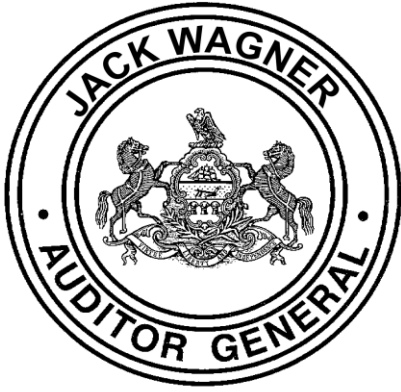


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – Internal Control Weaknesses and Lack of Adequate Documentation Supporting Pupil Transportation Reimbursement and Use of Tax Exempt Fuel	6
Finding No. 2 – Failure to Have All School Bus Drivers’ Qualifications On File	11
Status of Prior Audit Findings and Observations	13
Distribution List	17



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Conneaut School District (CSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CSD in response to our prior audit recommendations.

Our audit scope covered the period November 30, 2007 through July 29, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The CSD encompasses approximately 318 square miles. According to 2000 federal census data, it serves a resident population of 18,601. According to District officials, in school year 2007-08 the CSD provided basic educational services to 2,664 pupils through the employment of 204 teachers, 60 full-time and part-time support personnel, and 18 administrators. Lastly, the CSD received more than \$16.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two compliance-related matters reported as findings.

Finding No. 1: Internal Control Weaknesses and Lack of Adequate Documentation Supporting Pupil Transportation Reimbursement and Use of Tax Exempt Fuel. The CSD had internal control weaknesses and lacked documentation to support reimbursements of \$1,945,475 for the 2007-08 school year and the use of 131,728 gallons of tax exempt fuel (see page 6).

Finding No. 2: Failure to Have All School Bus Drivers' Qualifications On File. The CSD failed to have all required school bus drivers' records on file at the time of audit (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CSD had taken appropriate corrective action in implementing our recommendations pertaining to its Memoranda of Understanding with local law enforcement agencies and outside vendor system access (see page 13).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 30, 2007 through July 29, 2009, except for the verification of professional employee certification which was performed for the period August 1, 2007 through April 30, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 Department of Education (DE) 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, contract, policy, 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 CSD's compliance with applicable state laws, 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 receives state subsidy 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 receives state subsidy and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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

CSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and

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 applicable laws, contracts, grant requirements and administrative procedures.

administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil membership, 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, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with CSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 18, 2008, we reviewed the CSD's response to DE dated May 13, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Internal Control Weaknesses and Lack of Adequate Documentation Supporting Pupil Transportation Reimbursement and Use of Tax Exempt Fuel

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.4 provides, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

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

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

Section 518 of the Public School Code requires retention of these records for a period of not less than six years.

Instructions for completing DE's end-of-year pupil transportation reports state that the local education agency (LEA) must maintain records of miles with pupils, miles, without pupils, and the largest number assigned to each vehicles. Additionally, the instructions state that the procedures, information and data used by the LEA should be retained for audit purposes.

Pennsylvania statutes (75 Pa C.S.A § 9004 (e)) provide that fuel used by political subdivisions of the Commonwealth, which includes school districts, is exempt from the state's Liquid Fuels and Fuels Tax.

Our audit of the District's pupil transportation operations for the 2007-08 school year found internal control weaknesses and a lack of documentation to support pupil transportation reimbursements of \$1,945,475, and the use of 131,728 gallons of tax exempt fuel.

Internal Control Issues

We found that four different employees had served as the District's transportation coordinator during the 2007-08 school year.

The District inconsistently reported transportation vehicle identification numbers in its pupil transportation vehicle reports and in its reports submitted to the Department of Education (DE) for reimbursement.

The District did not keep track of the delays and cancelations at other schools to which they transport students.

The District pays its pupil transportation contractors based on contract formula. The contractors record the routing, mileage, and pupil roster information, and report the pupil transportation data to District personnel, who in turn submit it to DE for reimbursement purposes.

District personnel provided documentation confirming that they randomly select a few buses and ride them to verify the mileage reported by the contractors. However, our audit of this internal review documentation noted that the only mileage documented was at the beginning of a bus run, the first pick-up, the last pick-up and the end of the bus run. Additionally, only one run was tested for each bus. In one case the tested mileage documentation failed to identify which of the contractor's buses was tested.

Documentation Issues

Miles Reported

Bus drivers' monthly mileage report worksheets for one of the District's two transportation contractors failed to identify odometer readings between all bus stops and the school. The monthly mileage reports provided for our audit identified odometer readings at the beginning of a run, first pick-up, last drop-off and end of the run. As a result of the District's failure to provide supporting mileage documentation to verify the distance from home to school for the students, we could not verify the number of non-reimbursable pupils. Non-reimbursable pupils are elementary pupils living within 1.5 miles of their school or secondary pupils living within two miles of their school who are transported by a district. Such pupils are not included in the calculations of transportation reimbursement unless they are classified as exceptional children, are being transported to area vocational-technical schools, or are transported over certified hazardous walking routes. We could not verify if the number of pupils transported on approved hazardous walking routes was accurately reported.

Pupil Count

Pupils were added and deleted for both District contractors after pupil rosters were board approved; however, District personnel failed to retain the supporting documentation provided to the contractors for students added/deleted during the school year. We found that the various school secretaries contact the contractors directly to add or delete the students; however, on occasion a bus driver will pick up a new student without the District's prior knowledge and the contractor is relied upon to provide the information to District personnel.

At the completion of the school year, the contractors provided the District with the pupil data to be submitted for reimbursement. However, District personnel were unable to verify that the data provided by the contractors was correct because they do not retain any pupil count addition/deletion documentation to reconcile with the contractors' addition/deletion documentation.

Non-reimbursable/Hazardous Students

One of the District's two pupil transportation contractors failed to retain the resident addresses of the non-reimbursable and approved hazardous route students who left the District during the 2007-08 school year. We also found there were non-reimbursable students claimed as hazardous students although they do not live on approved hazardous routes.

As a result of the District's failure to maintain documentation to verify the distance from home to school for all the students, non-reimbursable and hazardous students could not be verified.

One contractor was using the non-reimbursable radius as 2 miles for elementary students and 1.5 miles for high school students. As noted previously, the Public School Code sets the radius at 1.5 miles for elementary and 2 miles for high school students.

Nonpublic Pupils

The auditors were unable to verify the number of nonpublic students transported reported by the District to DE. District personnel failed to retain the pupil transportation request lists received from the various nonpublic schools.

Additionally, a listing of nonpublic pupils transported by one contractor failed to identify which bus the pupils rode. The other contractor's listing failed to identify to which nonpublic school the pupils were transported.

The number of pupils transported, daily mileage, the number of days of service, the number of approved hazardous route pupils transported, the number of non-reimbursable pupils transported, the number of nonpublic pupils transported, and the vehicle manufacturer serial number are all integral parts of the pupil transportation reimbursement formula and must be reported and maintained in accordance with State Board of Education regulations and DE guidelines and instructions.

As a result of District personnel's failure to prepare and/or retain support documentation, we were unable to verify that

the District received the correct reimbursement for pupil transportation services.

Fuel Use Control

The District purchased 131,728 gallons of tax exempt fuel during the 2007-08 school year at a total cost of \$403,035.

Through amendments to the Liquid Fuels Tax Act and Fuel Use Tax Act, the Legislature of the Commonwealth of Pennsylvania made available to various entities, including political subdivisions, the right to purchase liquid fuels tax exempt. A school district is considered a political subdivision and is therefore entitled to the purchase of tax exempt fuel.

Our audit found records were not available at the District to verify that the tax exempt fuel purchased was used for the 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 use logs would include the following: date, vehicle number, amount of fuel dispensed, the vehicle driver and the actual purpose of the fuel use.

Good business practices 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.

Recommendations

The *Conneaut School District* should:

1. Prepare and retain complete daily mileage and pupil rosters identifying miles with and without pupils for each bus run, including odometer readings between all bus stops, and retain supporting documentation for all changes.
2. Ensure the accurate reporting of the non-reimbursable and approved hazardous route pupils transported.
3. Prepare and retain supporting documentation to support the nonpublic pupils transported.
4. Review transportation reports submitted to DE for years subsequent to our audit and ensure the reported

information is accurate, and that supporting documentation is on file to support mileage reported for each bus.

5. Establish procedures to monitor the fuel use to ensure all tax exempt fuel purchased is used for school related purposes only.

Management Response

Management stated the following:

The District will require vendors to provide accurate documentation supporting reimbursement for pupil transportation by documenting odometer readings between all bus stops, and school, as required by Chapter 23, State Board of Regulations.

The District will require vendors to track pupil changes from the preliminary runs approved by the Board at the annual August meeting to the runs approved by the Board at the annual September meeting.

The District will require vendors to maintain resident student addresses of the non-reimbursable and approved hazardous routes for a period of seven years.

The District will maintain pupil transportation request lists received from the various non-public schools.

The District will require vendors to establish a system to verify the tax exempt fuel purchased was used for exclusive purpose of transporting students.

Finding No. 2 →

Failure to Have All School Bus Drivers' Qualifications On File

Criteria relevant to the finding:

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's license and passing a physical examination.

Section 111 of the Public School Code requires prospective school employees who would 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.

Section 111 and State Board of Education Regulations require that copies of the criminal history background checks and the child abuse clearances be on file at the District.

Section 6355 of the Child Protective Services Law (CPSL) 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 determined by a court to have a committed child abuse.

Chapter 23 of the State Board of Education Regulations provides 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.

Our audit of the District's school bus drivers' qualifications for the 2008-09 school year found that not all records were on file at the District at the time of our audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the safety and welfare of the students transported in school buses.

We reviewed the personnel records of 25 of the 101 drivers currently employed by the District's transportation contractors. Our review found that at the time of audit the District did not have on file any records for two bus drivers, valid driver's licenses for three bus drivers, valid "S" endorsement cards for 12 bus drivers, current physical forms for eight bus drivers, and child abuse clearance or criminal history records check for one bus driver. Additionally, the criminal history records check for four bus drivers was completed by a third party company which issued an internet print-out indicating "No Record." Section 111 of the Public School code states the criminal history record information must be obtained from the Pennsylvania State Police.

As a result of not having required bus drivers' qualification documents on file at the District, the District was unable to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students. Although all necessary bus driver qualification documents were not on file at the District, the District's transportation contractor subsequently obtained them and provided them to the auditors before the completion of the audit.

Recommendations

The *Conneaut School District* should:

1. Ensure that the District's transportation coordinator reviews each drivers' qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.
3. Obtain criminal history records checks through the Pennsylvania State Police for each driver whose records were obtained through the third party company.

Management Response

Management stated the following:

The District will ensure each drivers' qualifications are reviewed prior to transporting students, will maintain files, separate from transportation contractors, for all drivers.

The District will also require transportation contractors to obtain Act 34 [criminal history] clearances through the Pennsylvania State Police.

Status of Prior Audit Findings and Observations

Our prior audit of the Conneaut School District for the school years 2005-06 and 2004-05 resulted in two reported observations. The first observation pertained to the school violence Memorandum of Understanding (MOU), and the second observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the CSD Board’s written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the CSD did implement recommendations related to the MOU and vendor system access.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Observation No. 1: Memorandum of Understanding Not Updated Timely</i></u></p> <ol style="list-style-type: none"> Continue to review, update and re-execute the MOU between the District and its local law enforcement agencies. Adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the District’s records found that the MOUs between the District and its three local law enforcement agencies were signed May 10, 2001, October 2, 2001, and January 23, 2002, and had not been updated.</p>	<p>Current Status:</p> <p>Our current audit found the CSD did take appropriate corrective action by updating the MOUs on January 14, 2009.</p>
<p><u><i>II. Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses</i></u></p> <ol style="list-style-type: none"> Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) 	<p>Background:</p> <p>Our prior audit found ten weaknesses related to vendor access to the District’s critical student accounting application system.</p>	<p>Current Status:</p> <p>Our current audit followed up on the CSD vendor system access and found the CSD did take appropriate corrective action to comply with all of our recommendations.</p>

<p>made and who made the change(s). Review these reports to determine that the access was appropriate and that data was not improperly altered. Ensure the District is maintaining evidence to support this monitoring and review.</p> <ol style="list-style-type: none">2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.3. Allow access to the system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.		
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<p>6. Upgrades/updates to the District's system should be made only after receipt of written authorization from appropriate District officials.</p> <p>7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>8. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>9. The District's Acceptable Use Policy should include provisions for authentication (e.g., password syntax requirements). Further, all employees should be required to sign this policy.</p> <p>10. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be minimum length of eight characters. Also, the District should maintain a password history that will</p>		
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prevent the use of a repetitive password (i.e., last ten passwords).		
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Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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

The Honorable Ronald J. Tomalis
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. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

