



**GREATER JOHNSTOWN SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

DECEMBER 2013

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
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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Richard Unger, Board President
Greater Johnstown School District
1091 Broad Street
Johnstown, Pennsylvania 15906

Dear Governor Corbett and Mr. Unger:

We conducted a performance audit of the Greater Johnstown 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 February 25, 2011 through April 26, 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, 2010 and June 30, 2009. 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 two (2) findings noted in this report. It should be noted that one (1) of the findings, having to do with pupil transportation reporting, has been included in our last four (4) audits of the District. In addition, 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 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,

EUGENE A. DEPASQUALE
Auditor General

December 11, 2013

cc: **GREATER JOHNSTOWN 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 Greater Johnstown School District (District) in Cambria 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 February 25, 2011 through April 26, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 29 square miles. According to 2010 federal census data, it serves a resident population of 33,556. According to District officials, the District provided basic educational services to 3,212 pupils through the employment of 232 teachers, 99 full-time and part-time support personnel, and nineteen (19) administrators during the 2009-10 school year. Lastly, the District received \$23 million in state funding in the 2009-10 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 two (2) compliance related matters reported as findings. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation.

Finding No. 1: Errors in Reporting Non-Resident Membership Resulted in a \$16,061 Total Underpayment in Tuition for Foster Children.

Our audit of the Greater Johnstown School District's non-resident pupil membership records for the 2009-10 and 2008-09 school years found errors in the reporting of non-resident membership for children placed in private homes (foster children) resulting in underpayments of \$9,355 and \$6,706, respectively (see page 6).

Finding No. 2: Continued Weaknesses in Controls and a Lack of Documentation Supporting Reimbursements for Pupil Transportation.

Our audit of the Greater Johnstown School District's (District) pupil transportation reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found weaknesses in internal controls and a lack of documentation supporting reimbursements of \$1,151,764 and \$1,114,808, respectively. This is the fourth consecutive audit of the District that included this finding (see page 8).

Observation: District's Transportation Costs Exceeded the State Formula. Our audit of the Greater Johnstown School District's (District) contracted pupil transportation costs for the school years June 30, 2006 through June 30, 2010, found that the contracted cost of the District's pupil transportation operations is substantially more than the Pennsylvania Department of Education's inflation adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services (see page 12).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Greater Johnstown School District (District) from an audit we released on November 14, 2011, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to weaknesses in controls and a lack of documentation supporting reimbursement for pupil transportation (see page 15).

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 February 25, 2011 through April 26, 2013, except for transportation reimbursement, which covered the school years 2005-06 through 2009-10.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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:

- ✓ 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?
- ✓ 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?

- ✓ In areas where the District received transportation subsidies, was 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 there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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?
- ✓ 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 votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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, contracts, regulations, 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.

Lastly, to determine in the status of our audit recommendations made in a prior audit report released on November 14, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

*Public School Code (PSC)
relevant to the finding:*

Section 2503(c) of the PSC provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on membership days reported for such children.

Errors in Reporting Non-Resident Membership Resulted in a \$16,061 Total Underpayment in Tuition for Foster Children

Our audit of the Greater Johnstown School District's (District) non-resident pupil membership records submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found errors in the reporting of non-resident membership. The errors resulted in PDE underpaying the District \$9,355 and \$6,706 for tuition for children placed in private homes (foster children) for the 2009-10 and 2008-09 school years, respectively.

For the 2009-10 school year, District personnel understated elementary non-resident membership for foster children by twelve (12) days and understated secondary membership for foster children by 177 days. Additionally, District personnel understated secondary non-resident membership for foster children by 139 days for the 2008-09 school year.

The errors were the result of District personnel misclassifying non-resident students as resident students and their failure to adequately familiarize themselves with these requirements.

It is the responsibility of District management to have in place appropriate internal policies and procedures to ensure that student data is accurately collected and reported timely. Without these internal controls, the District does not have assurance that it is reporting accurate data or that it is receiving the correct state subsidy.

Recommendations

The *Greater Johnstown School District* should:

1. Ensure that someone, other than the person preparing the membership reports, reviews the data thoroughly to ensure students are properly classified prior to submitting reports to PDE.

2. Review reports submitted to PDE for the years subsequent to the audit period and submit revised reports if errors are found.
3. Contact PDE to determine if additional training can be obtained for those individuals responsible for classifying students and non-residents in order to ensure that this process is being performed correctly.

The *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to correct the total underpayment of \$16,061.

Management Response

Management agreed with the finding without further comment.

Finding No. 2

Continued Weaknesses in Controls and a Lack of Documentation Supporting Reimbursements for Pupil Transportation

Criteria relevant to the finding:

The Pennsylvania Department of Education's instructions for completing end-of-year transportation reports provides district personnel guidance for reporting the number of days vehicles provided service, the daily miles vehicles traveled with and without pupils, and the number of pupils assigned to ride vehicles.

Our audit of the Greater Johnstown School District's (District) pupil transportation reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found weaknesses in internal controls and a lack of documentation supporting reimbursements totalling \$1,151,764 and \$1,114,808, respectively.

This is the fourth consecutive audit of the District that has included this finding. Despite our department's repeated recommendations to address the deficiencies in the tracking of this subsidy, the District has been unable to properly support the accuracy of its transportation reimbursements totaling nearly \$8.7 million since the 2002-03 school year.

Our review found internal control weaknesses and a lack of documentation in the following areas:

Number of Days Buses Transported Pupils

According to the transportation director, when a bus transported only District pupils, District personnel used the District's school calendar to calculate the number of days pupils were transported. However, when a bus transported District and nonpublic pupils, District personnel used a flat 180 days of service. Our review found that this process was problematic, given that the District and the nonpublic schools do not follow the same calendar and are not always open on the same days. Therefore, buses that transported both District and nonpublic pupils could have provided more than 180 days of services. Furthermore, such a difference in service could have impacted the accuracy of the District's transportation reporting to PDE.

Miles per Day With and Without Pupils

The auditor's review of the District's transportation data for the 2009-10 school year found that District personnel failed to report the average daily miles for those buses that made noon runs in addition to the normal morning and afternoon trips. However, because the source documentation used to

report average daily mileage was unavailable, we could not determine the effect of these errors. In addition, we found no evidence that the District's transportation director verified the accuracy of the information provided by the contractor regarding the number of miles per day the buses traveled.

Number of Pupils Assigned

For the 2009-10 school year, District personnel utilized the sample average method to calculate the greatest number of pupils transported for each bus run. However, District personnel did not use these calculations when they reported to PDE the number of pupils assigned to each run. Instead, District personnel used the bus roster they believed had the single greatest pupil count and reported that number instead of the sample average. PDE instructions require districts to utilize either a weighted average method or a sample average method to calculate the greatest number of pupils assigned for each bus run.

We could not determine the greatest number of pupils assigned to ride buses or verify the District's sample average of pupils assigned because bus rosters were not available to reflect changes in pupil ridership during the school year.

Approved Annual Excess Hours

District personnel applied for and were granted approval from PDE for excess bus driver hours due to the fact that District roads are generally congested during the time students are being transported to and from school. District personnel reported 7,004 and 7,519 total annual excess hours for the 2009-10 and 2008-09 school years, respectively. We could not verify the total annual excess hours reported to PDE because District personnel could not provide supporting documentation to show how they had calculated the excess hours.

Hazardous Route Pupils

District personnel reported 851 and 792 pupils transported that were living along Pennsylvania Department of Transportation-approved hazardous routes for the 2009-10 and 2008-09 school years, respectively. These pupils, for

whom the District would not normally be reimbursed because they live within walking distance of their school, were included in the District's calculation for transportation reimbursement. However, District personnel could not provide supporting documentation indicating how they arrived at the numbers reported. As a result, we were unable to verify the accuracy of the hazardous route pupils reported to PDE.

The District's internal control weaknesses and lack of documentation were caused by the following operational breakdowns:

- District transportation personnel failed to comply with PDE transportation reporting instructions and guidelines.
- District personnel failed to obtain and maintain all of the data necessary to prepare the annual PDE transportation reports from the contractor.

Recommendations

The *Greater Johnstown School District* should:

1. Contact PDE and/or the Pennsylvania Association of School Business Officials to arrange training on how to properly report transportation data for District transportation personnel.
2. Ensure that the District personnel obtain and maintain the supporting documentation necessary to prepare the annual PDE transportation reports, as required by PDE.
3. Ensure that the District's transportation director, or a member of his staff, verifies the accuracy of all of the data provided to the District, including the number of miles per day the buses traveled, prior to reporting the information to PDE for subsidy reimbursement.

Management Response

Management agreed with the finding without further comment.

Auditor Conclusion

While we acknowledge the District's agreement with our finding, we are very concerned that, as stated in the body of the finding, this is the fourth consecutive audit—covering eight consecutive school years—of the District that has included this finding. Each of the past three (3) audits, the District has agreed with our findings and pledged to implement our recommendations, and each time it has failed to do so. We will again follow up on this finding during our next cyclical audit of the District.

Observation

District's Transportation Costs Exceeded the State Formula

Criteria relevant to the observation:

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, 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 Greater Johnstown School District's (District) contracted pupil transportation costs for the school years ending June 30, 2006 through June 30, 2010, found that the District's operational expenses for transportation were substantially higher than the Pennsylvania Department of Education's (PDE) inflation-adjusted final formula allowance. The final formula allowance is used to determine the District's state reimbursement of pupil transportation services, and while districts' transportation costs can exceed this amount, significantly surpassing it can be an indication that districts need to look for ways to reduce their contractor costs.

PDE'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. Districts receive the lesser of the final formula allowance for the vehicles or the actual amount paid to the transportation contractor, multiplied by the districts' aid ratios.

The following chart details the contractor cost compared to PDE's final formula allowance:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Cost Over Formula</u>	<u>Percentage Over Formula</u>
2009-10	\$2,288,291	\$1,230,026	\$1,058,265	86.0%
2008-09	2,062,172	1,196,294	865,878	72.4%
2007-08	1,958,285	1,197,507	760,778	63.5%
2006-07	1,814,393	1,127,466	686,927	60.9%
2005-06	1,422,821	1,144,028	278,793	24.4%

Our review of the services provided by pupil transportation contractors, as reported to PDE, found that over the last five (5) years, the number of vehicles used to transport pupils had increased 6.1 percent. The number of pupils transported has decreased 15.4 percent, and the total approved annual miles have increased 0.1 percent, detailed as follows:

<u>School Year</u>	<u>Vehicles</u>	<u>Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	52	2,880	416,202
2008-09	52	2,809	416,431
2007-08	47	2,954	422,296
2006-07	48	2,955	404,077
2005-06	49	3,403	415,850

Therefore, while the District’s contractor costs and the number of vehicles used in transport appear to be rising, there has not been a similar rise in the District’s number of approved annual miles and pupils. This inconsistency, coupled with the rising costs of the transportation contract (as shown below and on the table on page 12), illustrates how the contract is not responsive to the fiscal or logistical needs of the District.

The following chart details the total amount paid to the contractor each school year, the maximum allowable cost, the total reimbursement received by the District from PDE, and the actual local tax dollars required to operate the District’s pupil transportation program. In the five (5) years shown, contractor cost has increased 60.8 percent, reimbursement from PDE has increased 3.6 percent, and the local share has increased 265.7 percent.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$2,288,291	\$1,230,026	\$1,151,764	\$1,136,527
2008-09	2,026,172	1,196,294	1,114,808	947,364
2007-08	1,958,285	1,197,507	1,164,890	793,395
2006-07	1,814,393	1,127,466	1,064,061	750,332
2005-06	1,422,821	1,144,028	1,112,002	310,819
% Increase	+60.8 %	+7.5%	+3.6%	+265.7%

District personnel provided the auditor with the current pupil transportation contract. However, the contract expired on June 30, 2011. The contract does have an automatic renewal clause, which stipulates that unless either party notifies the other of its interest in renegotiating

within 90 days prior to the expiration date, the contract will automatically renew on a year-to-year basis. The contract provides a base daily rate and an increase in the previous year's rate by the percentage change in the Consumer Price Index established by the Bureau of Labor Statistics of the United States Department of Labor. The contract did not indicate that there would be any consideration of PDE's approved final formula allowance. District administrative personnel stated that there has been no renegotiation of a new contract and that the District's Board of School Directors have not sought competitive bids for the pupil transportation services.

While the bidding of pupil transportation services is not required under state law, competitive bidding can result in a lower cost to District taxpayers. Our testing found that the high contractor costs might be the result of the District not soliciting bids for pupil transportation services. In addition, the current transportation contract's automatic renewal clause may discourage the two (2) parties from negotiating a new contract. However, the District does have some mitigating factors that could increase its costs, including requiring the contractor to employ a bus monitor for each school bus used to provide transportation services to the District and providing special services for transporting students with disciplinary issues.

Recommendations

The *Greater Johnstown School District* should:

1. Consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.
2. Consider renegotiating the District's current transportation contract next year, instead of allowing it to automatically renew.
3. Consider the state's final formula allowance formula when renewing or renegotiating the District's transportation contract.

Management Response

Management agreed with the observation without further comment.

Status of Prior Audit Findings and Observations

Our prior audit of the Greater Johnstown School District (District) released on November 14, 2011, resulted in one (1) reported finding. The finding pertained to weaknesses in controls and a lack of documentation supporting reimbursements for pupil transportation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding. As shown below, we found that the District did not implement the recommendations related to weaknesses in controls and a lack of documentation supporting reimbursements for pupil transportation.

Auditor General Performance Audit Report Released on November 14, 2011

Finding: **Weaknesses in Controls and a Lack of Documentation Supporting Reimbursements for Pupil Transportation**

Finding Summary: Our prior audit of pupil transportation reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found weaknesses in internal controls and a lack of documentation supporting reimbursements of \$1,164,890 and \$1,064,061, respectively.

Recommendations: Our audit finding recommended that the District:

1. Institute controls necessary to ensure that the number of days buses transported pupils, the miles per day buses transported pupils, the miles per day buses traveled with and without pupils, and the number of pupils assigned to ride buses are reported accurately and in accordance with PDE's instructions.
2. Review reports submitted to PDE for the years subsequent to the audit period and submit revised reports if errors are found.

Current Status: During our current audit, we found that the District did not implement the recommendations (see Finding No. 2 in the current audit report on page 8).

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.