

SCRANTON CITY SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mr. Robert Lesh, Board President
Scranton City School District
425 North Washington Avenue
Scranton, Pennsylvania 18503

Dear Governor Corbett and Mr. Lesh:

We conducted a performance audit of the Scranton City School District (SCSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 14, 2008 through January 14, 2010, 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 SCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in five findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings, observation and recommendations have been discussed with SCSD's management and management was given the opportunity to reply to them. It is unfortunate that in all cases management chose not to reply. It is our hope that school district management will seriously consider implementing our recommendations. We believe the implementation of our recommendations will improve SCSD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 24, 2012

cc: **SCRANTON CITY SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Scranton City School District (SCSD). 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 SCSD in response to our prior audit recommendations.

Our audit scope covered the period February 14, 2008 through January 14, 2010, 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 SCSD encompasses approximately 26 square miles. According to 2000 federal census data, it serves a resident population of 73,766. According to District officials, in school year 2007-08 the SCSD provided basic educational services to 9,966 pupils through the employment of 762 teachers, 343 full-time and part-time support personnel, and 44 administrators. Lastly, the SCSD received more than \$47 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified five compliance-related matters reported as findings and one matter unrelated to compliance that is reported as an observation.

Finding No. 1: Errors in Reporting Pupil Membership Resulted in a \$234,491 Net Subsidy and Reimbursement

Overpayment. Our audit of the District's pupil membership reports submitted to the Department of Education (DE) for the 2006-07 school year found errors in the SCSD's reporting of resident membership days, resulting in a net overpayment of \$234,491 in subsidies and reimbursements. Errors also occurred in the 2007-08 school year; however, we were unable to determine the dollar amount since the 2009-10 basic education funding formula from DE was not yet available (see page 6).

Finding No. 2: District Improperly Paid Retiring Superintendent for Vacation

Days. Our audit of the former SCSD Superintendent's retirement incentives revealed that the SCSD improperly paid the former Superintendent for vacation days accumulated during the 2007-08 school year (see page 8).

Finding No. 3: Errors in Health Services Data Resulted in a Net Reimbursement Underpayment. Our audit of the District's 2007-08 and 2006-07 school year health services reimbursement requests found that in the reports the District filed with the Department of Health it inaccurately reported average daily membership and children receiving dental hygiene services. These errors resulted in a reimbursement underpayment of \$12,839 for the 2007-08 school year, and a reimbursement overpayment of \$8,720 for the 2006-07 school year. Consequently, these errors resulted in a net underpayment of \$4,119 (see page 9).

Finding No. 4: Continued Inadequate Control of Student Activity Funds. Our audit of the SCSD's student activity records for the 2008-09 school year found that the SCSD failed to implement our recommendations from the prior audit and that once again the high school activity fund treasurer sanctioned previously continued not to follow established guidelines for providing adequate control over the student activity funds (SAF). Furthermore, the activity fund treasurer did not maintain adequate supporting documentation for the management of the SAF (see page 11).

Finding No. 5: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that SCSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 14).

Observation: Transportation Contractors Paid Significantly Over State Formula. Our audit of the SCSD's transportation records for the 2007-08 and 2006-07 school years found that the SCSD paid two of its bus contractors significantly more than the state formula allowance calculated by DE. This action may have resulted in an unnecessary expenditure of taxpayer funds (see page 17).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the SCSD from an audit we conducted of the 2005-06, 2004-05 and 2003-04 school years, we found the SCSD had taken appropriate corrective action in implementing our recommendations pertaining to alternative education and certification. However, the SCSD did not take appropriate corrective action in implementing our recommendations pertaining to student activities (see page 19).

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 February 14, 2008 through January 14, 2010, except for the verification of professional employee certification which was performed for the period January 1, 2007 through October 31, 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 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 SCSD'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. Social Security and 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?
- ✓ 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, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observation 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 applicable laws, contracts, grant requirements and administrative procedures.

SCSD 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 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 bus driver qualifications, professional employee certification, 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 SCSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 12, 2009. We performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Pupil Membership Resulted in a \$234,491 Net Subsidy and Reimbursement Overpayment

Criteria relevant to the finding:

Child accounting guidelines and instructions require accurate reporting of pupil membership days, for resident and vocational education membership data, since these are major factors in calculating various district subsidies and reimbursements.

Under the special education subsidy formula, districts are reimbursed for special education expenditures through a funding formula, which utilizes the district's total membership days. Therefore, resident membership errors also affected special education funding based on the 2007-08 and 2006-07 school years.

Our audit of the District's pupil membership reports submitted to the Department of Education (DE) for the 2006-07 school year found errors in the District's reporting of resident membership days, resulting in a net overpayment of \$234,491 in subsidies and reimbursements. Errors also occurred in the 2007-08 school year, however, we were unable to determine the dollar amount since the 2009-10 basic education funding formula from DE was not yet available.

These errors impacted three areas of resident pupil membership: (1) basic education, (2) special education, and (3) vocational education. The reimbursement (over)/underpayments are as follows:

<u>Description</u>	<u>(Over/Underpayments)</u>
<u>Resident:</u>	
Basic Education	\$(233,079)
Special Education	(4,634)
Vocational Education	<u>3,222</u>
Totals	<u>\$(234,491)</u>

DE has been provided with reports detailing the resident membership errors for use in recalculating the District's subsidies and reimbursements. Membership errors also had an effect on the District's market value/personal income aid ratios, which DE will recalculate.

These resident membership reporting errors were caused by District personnel's failure to compare the actual membership days to the reports generated by the District's membership computer system, in order to verify that the information had been entered correctly.

Recommendations

The *Scranton City School District* should:

1. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.
2. Strengthen internal controls to ensure pupil membership is reported in accordance with DE guidelines and instructions.
3. Implement internal controls to compare the actual membership days to the reports generated by the District's membership computer software, in order to verify that the information has been correctly entered.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to DE.
5. Review subsequent years reports and if errors are found, submit revised reports to DE.

The *Department of Education* should:

6. Adjust the District's future allocations to recover the net overpayments for the 2007-08 and 2006-07 school years.

Management Response

Management waived the opportunity to reply.

Finding No. 2 →

District Improperly Paid Retiring Superintendent For Vacation Days

Criteria relevant to the finding:

Contract between the Board of Directors and Chief Executive Officer of the School District of the City of Scranton dated July 11, 2005, states that, “the CEO shall receive twenty (20) working days vacation annually, exclusive of legal holidays, and shall be entitled to sick leave as provided for other district professional personnel. Any vacation shall be taken within twelve (12) months of the year in which it is earned and shall not cumulate.”

Scranton School District’s policy adopted October 15, 2007, for administrative employees titled vacation, states:

“ . . . It’s understood that these days must be used prior to the end of the first quarter of the new calendar year or they will be lost to the employee.”

Our audit of the former District Superintendent’s retirement incentives revealed that the District improperly paid the former Superintendent for vacation days accumulated during the 2007-08 school year.

During the 2007-08 school year the former superintendent informed the school board that he was retiring at the end of that year. Upon meeting with District representatives on May 27, 2008, they agreed to pay him for the 20 vacation days that he had earned during the 2007-08 school year. However, the former Superintendent’s employment contract did not state that he was eligible for payment of unused vacation days. In addition, the District’s vacation policy states that employees will lose vacation days that are not used prior to the end of the first quarter of the new calendar year.

Therefore, the District improperly paid the former Superintendent \$9,649 for 20 vacation days that were not eligible for payment under his original contract, and which he should have lost under the District’s own employment policy.

Recommendations

The *Scranton City School District* should:

1. Require the former Superintendent to repay the \$9,649 he improperly received for the 20 vacation days.
2. Upon the retirement of any employee, follow the provisions of the original employment contract and pay only what is due to the employee prorated for the term of services provided.

Management Response

Management waived the opportunity to reply.

Finding No. 3 →

Errors in Health Services Data Resulted in a Net Reimbursement Underpayment

Criteria relevant to the finding:

Section 2505.1 provides for a reimbursement of actual costs for health services, with a maximum reimbursement of \$1.60 for medical services, \$2 for children receiving dental services and \$7 for nurse services for each child enrolled in a school for the entire term, and a proportionate share for each child enrolled for a part of the school term. In addition, Act 25 of 1991 established that school districts would receive an additional uncategorized reimbursement for health services of \$9.70 multiplied by the district's ADM.

Our audit of the District's 2007-08 and 2006-07 school year health services reimbursement requests found that in the reports the District filed with the Department of Health (DH) it inaccurately reported average daily membership (ADM) and children receiving dental hygiene services. These errors resulted in a reimbursement underpayment of \$12,839 for the 2007-08 school year, and a reimbursement overpayment of \$8,720 for the 2006-07 school year. Consequently, these errors resulted in a net underpayment of \$4,119.

These reporting errors were caused by District personnel's failure to compare the actual membership days to the reports generated by the District's membership computer system, in order to verify that the information had been entered correctly.

The ADM and number of children receiving dental hygiene services errors are listed below:

<u>School Year</u>	<u>Reported</u>	<u>ADM</u>		<u>(Over)/ Understated</u>	<u>Children Receiving Dental Hygiene Services</u>		
		<u>Reported</u>	<u>Audited</u>		<u>Reported</u>	<u>Audited</u>	<u>Understated</u>
2007-08	*11,430.567	12,098.313		667.746	7,039.295	7,349.232	309.937
2006-07	12,396.250	11,912.556		(483.694)	7,465.834	7,531.803	65.969

*The SCSD reported 11,428.7650 ADMs; however, DE paid their subsidy based on \$11,430.567 ADMs.

ADM errors impact three health services subsidies: (1) medical, (2) nurse, and (3) Act 25. The dental hygienist subsidy is separate, so it was not affected by errors in ADM reporting. The four reimbursement (over)/underpayments for school years 2007-08 and 2006-07 are listed below:

<u>School Year</u>	<u>Medical</u>	<u>(Over)/Underpayments</u>			<u>Totals</u>
		<u>Dental Hygienists</u>	<u>Nurse</u>	<u>Act 25</u>	
2007-08	\$1,068	\$620	\$4,674	\$6,477	\$12,839
2006-07	<u>(\$774)</u>	<u>\$132</u>	<u>(\$3,386)</u>	<u>(\$4,692)</u>	<u>(\$8,720)</u>
Totals	<u>\$294</u>	<u>\$752</u>	<u>\$1,288</u>	<u>\$1,785</u>	<u>\$4,119</u>

DH will be provided a copy of this finding by DE for use in making the necessary reimbursement adjustments.

Recommendations

The *Scranton City School District* should:

1. Report ADM for all students for whom comprehensive health records are maintained.
2. Perform an internal review of the membership and health services data prior to submitting reports to DH.
3. Review reports for school years subsequent to the audit period and, if similar errors are found, submit revised reports to DH.

The *Department of Health* should:

4. Adjust the District’s allocations to resolve the reimbursement net underpayments of \$4,119 for the 2007-08 and 2006-07 school years.

Management Response

Management waived the opportunity to reply.

Finding No. 4

Continued Inadequate Control of Student Activity Funds

Criteria relevant to the finding:

Public School Code Section 511 of the PSC does not make provisions for the maintenance of student activity accounts with negative balances and/or no activity. The operation of student activity accounts with negative cash balances and/or no activity is an unusual business practice and teaches students poor fiscal management.

The District's policy states, in part:

VII (A) . . . all expenditures shall be approved by the building Principal in consultation with the activity group and School Treasurer.

(V) . . . student participation is required in all activity groups. At the end of the month, the Faculty Advisor and Student Treasurer must review and approve their subsidiary ledger card.

VIII (C) . . . a check will be prepared only by the School Treasurer when the pay order is properly completed.

VIII (3) The School Treasurer will count the funds, enter the receipts in the cash journal, and give the above individual the remittance advise.

VIII (4) A copy of the deposit slip shall be retained by both the School Treasurer and Student Activity Fund.

VII (D) . . . Original receipts or invoices must be attached to all pay orders. Copies must be kept on file in the schools and are subject to audit. The School Treasurer is charged with storage and retention of all records.

Our audit of the District's student activity records for the 2008-09 school year found that the District failed to implement our recommendations from the prior audit and that, once again, the high school activity fund treasurer sanctioned previously, continued not to follow established guidelines for providing adequate control over the student activity funds (SAF). Furthermore, the activity fund treasurer did not maintain adequate supporting documentation for the management of the SAF.

Our prior audit of the high school activity funds found a continued lack of internal controls and failure to implement corrective action which resulted in:

- Improperly allowing club funds with negative balances;
- Inadequate purchase order documentation;
- Inadequate receipt and deposit documentation to determine if monies were deposited timely;
- Inadequate expense documentation;
- Inappropriately using graduated class accounts;
- Improperly maintaining club funds with no activity for the entire year;
- Inappropriately using club accounts for non-student related activities;
- Improperly paying invoices to the artist in residence from SAF;
- Improperly writing SAF checks to a student advisor's personal credit card company; and
- Significant discrepancies between board approved SAF financial reports and reports supplied by a high school SAF treasurer.

Our current audit revealed the same internal control weaknesses as listed above.

Recommendations

The *Scranton City School District* should:

1. Develop written procedures to ensure that negative balances are not permitted to occur in student activity accounts.
2. Require that all schools use approved purchase orders evidencing student approval of expenses.
3. Require that all purchase orders are complete and have adequate descriptions.
4. Require that documentation is maintained for all activity accounts received from advisors prior to deposit.
5. Require that deposit slips are maintained for audit.
6. Ensure that proper invoice and disbursement documentation is maintained and attached to purchase orders.
7. Ensure only student related account items are purchased through the student activity account and that student control is evidenced.
8. Ensure monies from graduated classes are handled properly in accordance with policy.
9. Require the custodian and treasurer to purge inactive accounts and disburse balances in accordance with District policy.
10. Ensure only student related monies are included in the student activity account.
11. Discontinue the use of personal credit cards for SAF purchases by student advisors.
12. Require the treasurer to send revised SAF financial reports to the board for approval after any revisions by the local auditors.

13. Require the treasurer and custodian of student activity funds to become familiar with and comply with provisions of current Board Policy No. 618 for Special Purpose Funds.

Management Response

Management waived the opportunity to reply.

Finding No. 5 →

Unmonitored Vendor System Access and Logical Access Control Weaknesses

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

The Scranton City School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District is not adequately monitoring vendor activity in their system. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes is increased.

Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District to have the following weaknesses over vendor access to the District’s system:

1. Failure of the contract with the vendor to contain a non-disclosure agreement for the District’s proprietary information.
2. Unable to provide evidence that they require written authorization for adding, deleting, or changing a userID.
3. Does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.

4. Certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters; to maintain a password history (i.e., approximately ten passwords); to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
5. Does not have evidence to support they are reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence to support that the District is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system;
6. Does not perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records (i.e., absence records) to ensure that any unauthorized changes within the system would be detected in a timely manner.

Recommendations

The *Scranton City School District* should:

1. Contain a non-disclosure agreement in the contract with the vendor for the District's proprietary information.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. 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 a minimum length of eight characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); lock out users after

three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).

5. Generate monitoring reports of the vendor activity on the District's system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure they are maintaining evidence to support this monitoring and review.
6. Perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records (i.e., absence records) to ensure that any unauthorized changes within the system would be detected in a timely manner.

Management Response

Management waived the opportunity to reply.

Observation →

Transportation Contractors Paid Significantly Over State Formula

Criteria relevant to the observation:

DE’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 District’s transportation records for the 2007-08 and 2006-07 school years found that the SCSD paid two of its bus contractors significantly more than the state formula allowance calculated by DE. This action may have resulted in an unnecessary expenditure of taxpayer funds.

DE 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 transported. 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 District paid two contractors significantly more than its calculated formula allowance. These amounts were as follows:

	<u>2007-08 School Year</u>		
	<u>Contracted Cost</u>	<u>Final Formula Allowance</u>	<u>Difference</u>
Contractor A:	\$1,780,797	\$684,142	\$1,096,655
Contractor B:	628,873	157,842	471,031
	<u>2006-07 School Year</u>		
Contractor A:	\$1,705,394	\$636,835	1,068,559
Contractor B:	602,493	170,308	432,185

The contract for Contractor A states the following:

“The District shall pay the contractor for the 2005-06 school year the sum of One Hundred Ninety Three and 13/100 (\$193.13) per day for each 72, 48 or 36 passenger buses utilized by the contractor and One Hundred Sixty Seven and 42/100 (\$167.42) per day for each 16 passenger bus utilized by the contractor. The cost for subsequent

years would increase three percent a year until the termination date which is June 30, 2010.”

The contract for Contractor B states the following:

“The District shall pay the contractor for the 2006-07 school year the Van rate per day. The rate for 2006-07 was One Hundred Twenty Nine and 00/100 (\$129.00) per day. The cost for subsequent years would increase 2 percent a year until the termination date which is June 30, 2011.”

District paid Contractor A 2.6 times over state formula for the 2007-08 school year and 2.68 times over state formula for the 2006-07 school year.

The District paid Contractor B 3.98 times over state formula for the 2007-08 school year and 3.54 times over state formula for the 2006-07 school year.

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

Since DE provides a state allowance, it would be prudent for the District to consider a better alternative in spending taxpayer monies.

Recommendations

The *Scranton City 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 waived the opportunity to reply

Status of Prior Audit Findings and Observations

Our prior audit of the Scranton City School District (SCSD) for the school years 2005-06, 2004-05 and 2003-04 resulted in three reported findings. The first finding pertained to alternative education, the second certification deficiencies, and the third student activities. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the SCSD did implement recommendations related to alternative education and certification deficiencies. However, SCSD did not implement any recommendations related to student activities.

School Years 2005-06, 2004-05 and 2003-04 Auditor General Performance Audit Report

Finding No. 1: Continued Alternative Education Subsidy Discrepancies

Finding Summary: Our prior audit of the District's alternative education subsidy program found that documentation supporting its alternative education reimbursements for the 2003-04, 2004-05 and 2005-06 school years was unavailable for audit.

Recommendations: Our audit finding recommended that the SCSD:

Review alternative education subsidy documentation for subsequent school years and ensure that it has been retained for audit.

The Department of Education should:

Adjust the District's allocations to determine if subsequent reimbursements were correct.

Current Status: During our current audit procedures, we found that the SCSD did implement our recommendations regarding alternative education.

Finding No. 2: Continued Certification Deficiencies

Finding Summary: Our prior audit of the professional employees' certificates and assignments for the period March 1, 2005 through September 1, 2007, found two certification deficiencies.

- Recommendations: Our audit finding recommended that the SCSD board require the superintendent to:
1. Assign positions to professional personnel who hold the appropriate certification to qualify for the assignment.
 2. Implement a system of control that would evidence lapsed or invalid certificates.

The *Department of Education* should:

3. Adjust the District's allocations to recover the subsidy forfeiture.

Current Status: During our current audit procedures, we found that the SCSD did implement our recommendations regarding certification.

Finding No. 3: Continued Inadequate Control of Student Activity Funds

Finding Summary: Our prior audit of school records for the 2006-07 school year found that none of the recommendations of the prior audit were adopted and the same high school activity fund treasurer did not follow established guidelines to provide adequate control over the student activity funds (SAF). Furthermore, the activity fund treasurer did not maintain adequate supporting documentation for the management of the SAF.

- Recommendations: Our audit finding recommended that the SCSD:
1. Develop written procedures to ensure that negative balances are not permitted to occur in student activity accounts.
 2. Require that all schools use approved purchase orders evidencing student approval of expenses.
 3. Require that all purchase orders are complete and have adequate descriptions.
 4. Require that documentation is maintained for all activity accounts received from advisors prior to deposit.
 5. Require that deposit slips are maintained for audit.
 6. Ensure that proper invoice and disbursement documentation is maintained and attached to purchase orders.

7. Ensure only student related account items are purchased through the student activity account and that student control is evidenced.
8. Ensure monies from graduated classes are handled properly in accordance with policy.
9. Require the custodian and treasure to purge inactive accounts and disburse balances in accordance with District policy.
10. Ensure only student related monies are included in the student activity account.
11. Discontinue the use of personal credit cards for SAF purchases by student advisors.
12. Require the treasurer to send revised SAF financial reports to the board for approval after any revisions by the local auditors.

Current Status:

During our current audit procedures, we found the SCSD did not implement any recommendations to address this finding (See Finding No. 4 on page 11).



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:

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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.

