



**VALLEY VIEW SCHOOL DISTRICT  
LACKAWANNA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**MARCH 2014**

**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  
Twitter: @PAAuditorGen

**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

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

Ms. Ellen Nielsen, Board President  
Valley View School District  
1 Columbus Drive  
Archbald, Pennsylvania 18403

Dear Governor Corbett and Ms. Nielsen:

We conducted a performance audit of the Valley View 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 September 15, 2011 through September 5, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. 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 finding, observation, and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in blue ink that reads "Eugene A. DePasquale".

EUGENE A. DEPASQUALE  
Auditor General

March 13, 2014

cc: **VALLEY VIEW SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period September 15, 2011 through September 5, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately 27 square miles. According to 2010 federal census data, it serves a resident population of 18,224. According to District officials, the District provided basic educational services to 2,551 pupils through the employment of 187 teachers, 40 full-time and part-time support personnel, and ten (10) administrators during the 2011-12 school year. The District received \$11.8 million in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

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

**Finding: Errors in Reporting Pupil Transportation Data Resulted in a Reimbursement Underpayment to the District Totaling \$51,034.** Our audit of the Valley View School District's (District) pupil transportation data submitted to the Pennsylvania Department of Education for the 2010-11 and 2011-12 school years found that errors resulted in pupil transportation reimbursement underpayments to the District of \$30,442 and \$20,592, respectively (see page 6).

### **Observation: Transportation Contractor Paid Significantly Over State Formula.**

Our audit of the Valley View School District's transportation records for the 2010-11 and 2011-12 school years found that one (1) bus contractor was paid significantly more than the state formula allowance calculated by the Pennsylvania Department of Education (see page 8).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the Valley View School District (District) from an audit released on February 24, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting membership for children placed in private homes (see page 11).

## Audit Scope, Objectives, and Methodology

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### 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 September 15, 2011 through September 5, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through May 20, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

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

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies 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 received state subsidies and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## **Methodology**

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and

*What are internal controls?*

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

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

conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

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

To determine the status of our audit recommendations made in a prior audit report released on February 24, 2012, we reviewed the District's response to PDE dated October 23, 2012. We then performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

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### Finding

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#### **Errors in Reporting Pupil Transportation Data Resulted in a Reimbursement Underpayment to the District Totaling \$51,034**

Criteria and Public School Code (PSC) relevant to the finding:

The Pennsylvania Department of Education (PDE) instructions for entering transportation data used to calculate reimbursement requires districts to report the greatest number of pupils assigned to ride a vehicle at any one time during the day.

The numbers of public and nonpublic pupils transported are integral parts of the pupil transportation reimbursement formula. These factors must be accurately reported in accordance with PDE guidelines and instructions to ensure the correct reimbursement is received.

Section 2541 of the PSC provides for payments for pupil transportation.

Our audit of the Valley View School District's (District) pupil transportation data submitted to the Pennsylvania Department of Education (PDE) for the 2010-11 and 2011-12 school years found that inaccurate pupil transportation data was submitted to PDE, which resulted in pupil transportation reimbursement underpayments of \$30,442 and \$20,592, respectively.

Our audit testwork of contracted services found the transportation coordinator underreported the number of pupils transported for one contractor during the 2010-11 and 2011-12 school years by reporting the total number of pupils riding each bus rather than the maximum number of pupils assigned to ride the bus at any one (1) time, in accordance with PDE instructions. Reporting errors made during the 2010-11 and 2011-12 school years were caused by a lack of adequate monitoring procedures and training.

It is the responsibility of District management to have in place adequate internal policies and procedures to ensure that pupil transportation data is accurate, verified, and reported to PDE timely. Without such internal controls, the District cannot be assured that the information it is reporting to PDE is correct or that it is receiving the appropriate transportation subsidy.

PDE was provided a report detailing the errors for use in recalculating the District's reimbursements.

#### **Recommendations**

The *Valley View School District* should:

1. Implement procedures to ensure that bus information, including the number of pupils transported are accurately recorded and reported to PDE.

2. Review reports submitted to PDE for subsequent years and revise, if necessary.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to resolve the underpayment of \$51,034.

### **Management Response**

Management stated the following:

“The Superintendent of the Valley View School District agrees with the findings by the state auditors. The current system for accounting for children who ride the bus depends on a head count on the fifteenth day of each month. To ensure the district is maximizing its subsidy the child count (registration data) will be used to determine the district subsidy. The district will be reimbursed for its entire subsidy from the 2010-2011 school year and the 2011-12 school year. Recommended changes will be implemented beginning with 2012-2013 end of year pupil transportation data.”

### **Auditor Conclusion**

We are encouraged that the District agrees with the finding and has committed to implementing our recommendations. We will follow up on the issue during our next cyclical audit of the District.

## Observation

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

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

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

<u>School Year</u>	<u>Contracted Cost</u>	<u>Final Formula Allowance</u>	<u>Amount Paid in Excess of Formula</u>	<u>% Paid Over Formula</u>
2010-11	\$ 1,559,719	\$ 856,576	\$ 703,143	82.1%
2011-12	<u>1,422,554</u>	<u>876,551</u>	<u>546,003</u>	<u>62.3%</u>
<b>Totals:</b>	<b>\$2,982,273</b>	<b>\$1,733,127</b>	<b>\$1,249,146</b>	<b>72.1%</b>

The transportation contract for this contractor was in effect from July 1, 2008 through June 30, 2011. On September 20, 2010, the Board of School Directors (Board) voted to approve a two-year extension of the contract with a rate freeze for the 2011-12 school year and a 1.5 percent increase for the 2012-13 school year. On February 21, 2012, the Board approved an amendment reducing the rate increase for the 2012-13 and approved to extend the contract through June 30, 2018. Neither the Board nor the District requested bids for the transportation contract.

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

Since PDE provides a state allowance, it would be prudent for the District to consider bidding transportation contracts, which could result in a more cost-effective alternative in spending taxpayer monies.

### **Recommendations**

The *Valley View School District* should:

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

### **Management Response**

Management stated the following:

“At the end of the 2011-12 school year the Superintendent and Business Manager scheduled and attended multiple meetings with [our local representative from our busing company]. There were several significant changes that were made for the 2012-13 school year based on our findings which are listed below.

1. The tiers were reduced from 3 to 2.
2. We reduced the number of students being dropped off/picked up at Day Cares.
3. We checked on the out of district transportation costs (10 mile rule). There was no savings.
4. We changed the start time for the local parochial schools that reduced the number of runs.
5. We met with [our bus company] to look for ways to run the transportation system more efficiently.
6. Reviewed student counts. Counts indicate seats are being utilized at or near their capacity while ensuring safety and not have overcrowding.
7. We have a large number of charter/private/parochial and /alternate education students that we transport that live close to the ten mile.
8. All students need to have a seat available if a school district transports its students.
9. We would welcome any suggestions regarding efficiency that is combined with safety.

10. There seems to be a large discrepancy in the NEIU's billing regarding how much is taken from the Valley View School District subsidy year to year.

That being said, the Superintendent agrees with the observation. It does appear that we need to revisit our transportation reporting process to maximize our subsidy. Currently the Child Count is [completed on the 15<sup>th</sup>] of every month through information gathered by [our transportation contractor]. In the past that information would be relayed to the Transportation Department of the Valle View School District. This process has been in place for many years. Moving forward the state auditor has recommended that we count the 'assigned number' to ensure maximum reimbursement."

### **Auditor Conclusion**

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

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Valley View School District (District) released on February 24, 2012, resulted in one (1) finding pertaining to errors in reporting membership for children placed in private homes (foster children). As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement our recommendations related to errors in reporting membership for foster children.

### **Auditor General Performance Audit Report Released on February 24, 2012**

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**Finding:** **Errors in Reporting Membership for Children Placed in Private Homes Resulted in a Net Underpayment of \$67,876**

Finding Summary: Our prior audit of pupil membership reports submitted to PDE by the District for the 2008-09 and 2009-10 school years found reporting errors for foster children, and a lack of internal controls resulting in underpayments of \$13,872 for the 2008-09 school year and \$54,004 for the 2009-10 school year.

Recommendations: Our audit finding recommended that the District should:

1. Establish internal controls that include reconciliations of the data that is uploaded into the PDE's Pennsylvania Information Management System.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Compare letters for foster children with District reports to ensure that student membership is properly classified.
5. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
6. Review subsequent year reports and if errors are found, submit revised reports to PDE.

We also recommended that PDE should:

7. Adjust the District's allocations to resolve the net underpayment of \$67,876.

Current Status:

During our current audit, we found that the District did implement our prior recommendations and strengthened internal controls to ensure pupil membership is accurately reported to PDE. As of our fieldwork completion date of September 5, 2013, PDE has not adjusted the District's allocations to resolve the net underpayment of \$67,876.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://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 of 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](http://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](mailto:news@auditorgen.state.pa.us).