

WARREN COUNTY SCHOOL DISTRICT
WARREN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mr. Arthur Stewart, Board President
Warren County School District
589 Hospital Drive - Suite A
North Warren, Pennsylvania 16365

Dear Governor Corbett and Mr. Stewart:

We conducted a performance audit of the Warren County School District (WCSD) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period October 8, 2008 through September 8, 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, as they were the most recent reimbursements subject to audit. 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 WCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the five findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in cursive script that reads "Jack Wagner".

**JACK WAGNER
Auditor General**

January 14, 2013

cc: **WARREN COUNTY 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 Warren County School District (WCSD). 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 WCSD in response to our prior audit recommendations.

Our audit scope covered the period October 8, 2008 through September 8, 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 WCSD encompasses approximately 774 square miles. According to 2009 local census data, it serves a resident population of 40,986. According to District officials, in school year 2007-08 the WCSD provided basic educational services to 5,311 pupils through the employment of 463 teachers, 292 full-time and part-time support personnel, and 38 administrators. Lastly, the WCSD received more than \$37.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the WCSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for five compliance-related matters reported as findings.

Finding No. 1: Errors in Pupil Transportation Pupil Counts Resulted in Overpayments Totaling \$44,992. Our audit of the WCSD's pupil transportation records for the 2007-08 and 2006-07 school years found errors in the reporting of nonpublic pupils, non-reimbursable pupils, and charter school pupils transported, which resulted in overpayments totaling \$44,992 (see page 6).

Finding No. 2: Lack of Managerial Direction and Authority Resulted in Internal Control Breakdowns in Governance, Communication, and Efficient and Effective Operations Within the District. During our audit of the WCSD, we found the overall governance of the WCSD to be ineffective (see page 10).

Finding No. 3: Internal Control Weaknesses, Lack of Documentation Supporting Pupil Transportation Reimbursements of \$6,126,077, and Lack of Documentation Supporting Usage of Tax Exempt Fuel.

Our audit of the WCSD's pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found internal control weaknesses and a lack of documentation supporting reimbursements of \$3,182,990 and \$2,943,087, respectively, as well as a lack of documentation supporting the usage of tax exempt fuel (see page 22).

Finding No. 4: Continuing Administrative Weaknesses Resulted in Unverifiable Social Security and Medicare Wages for the School Years 2007-08 and 2006-07.

Our audit of school years 2007-08 and 2006-07 WCSD Social Security and Medicare reimbursements submitted to PDE for \$1,293,425 and \$1,214,925, respectively, again identified a lack of internal control procedures relating to the identification, reporting, balancing of, and verification of actual federally funded program wages and benefits received (see page 33).

Finding No. 5: Continued Lack of Documentation Necessary to Verify School Bus Drivers' Qualifications.

Our audit of the WCSD's school bus/van drivers' qualifications for the 2009-10 school year again found that the WCSD did not have on file the state required licenses and clearances for each driver (see page 36).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the WCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the WCSD had not taken appropriate corrective action in implementing our recommendations pertaining to nonpublic counts and inadequate transportation documentation (see page 39), bus driver qualifications (see page 40), and Social Security and Medicare reimbursements (see page 41). However, the WCSD did take appropriate corrective action in implementing our recommendations pertaining to administrative procedures related to bus drivers' qualifications (see page 41), and vendor system access and logical access and environmental controls (see page 42).

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 October 8, 2008 through September 8, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2008 through May 31, 2010.

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 (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, 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 WCSD'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?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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

WCSD 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

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.

controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and reimbursement applications.
- And deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2010, we reviewed the WCSD's response to PDE dated June 14, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Pupil Transportation Pupil Counts Resulted in Overpayments Totaling \$44,992

Criteria relevant to the finding:

Section 2509.3 of the Public School Code (PSC) provides, in part:

“For the school year 2001-2002 and each school year thereafter, each school district shall be paid the sum of three hundred eighty-five dollars (\$385) for each nonpublic school pupil transported.”

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

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

“(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

“(6) The maintenance of a record of pupils transported to and from school, including determination of pupils’ distances from home to pertinent school bus loading zones.”

PSC Section 1726-A(a) provides, in part:

“Districts providing transportation to a charter school outside the district and, for the 2007-08 school year and each year thereafter, districts providing transportation to a charter school within the district, shall be eligible for payments under Section 2509.3 for each public school student transported.”

Our audit of the Warren County School District’s (WCSD) pupil transportation records for the 2007-08 and 2006-07 school years found errors in the reporting of nonpublic pupils, charter school pupils and non-reimbursable pupils transported, resulting in overpayments totaling \$44,992.

Nonpublic and Charter School

During the audit of the transportation records for the 2007-08 and 2006-07 school years, the District provided source documentation which included pupils who were transported to educational entities that were not nonpublic. The inclusion of these pupils resulted in an overstatement of 31 pupils in the 2007-08 school year and 45 pupils in the 2006-07 school year.

The District did not request or obtain from the nonpublic schools a request for transportation identifying enrolled pupils from the WCSD. The District relied on the transportation contractors to identify the nonpublic pupils requiring transportation.

The District also did not obtain nonpublic school calendars and instead developed their own information. Review of the District’s prepared calendars showed two of the non-public schools were in session in excess of the District’s 179 day school term. The extra nonpublic days in session were not reported to the Pennsylvania Department of Education (PDE), and the auditor could not confirm the accuracy of the District’s nonpublic calendars.

Additionally, in the 2007-08 school year, the District reported 197 charter school pupils. Supporting documentation showed only 169 pupils, an overstatement of 28 pupils.

As a result of the nonpublic and charter school pupil count errors, the District was overpaid \$40,040 in nonpublic/charter school transportation subsidy, \$17,325 in the 2007-08 school year and \$22,715 in the 2006-07 school year.

Non-Reimbursable Pupils

DE defines non-reimbursable pupils as elementary pupils living within 1.5 miles of their school or secondary pupils living within two miles of their school who are transported by the District. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over Pennsylvania Department of Transportation certified hazardous walking routes.

For the 2007-08 and 2006-07 school years, the District incorrectly reported the number of non-reimbursable pupils. In 2007-08, the District reported 108 non-reimbursable pupils. However, source documentation showed that 22 of the pupils were special education students and should have been included in the pupil transportation reimbursement. In 2006-07 the District failed to report a total of 87 non-reimbursable pupils. These errors resulted in an underpayment of \$2,574 in the 2007-08 school year and an overpayment of \$7,526 in the 2006-07 school year with a net overpayment of \$4,952 in pupil transportation reimbursement.

The problems were the result of a breakdown in internal controls that occurred in compiling pupil transportation reimbursement data required by PDE.

Recommendations

The *Warren County School District* should:

1. Implement procedures to ensure that nonpublic pupils transported by the District are reported accurately and adequate documentation is kept on file to support the number reported.
2. Require all nonpublic schools to provide rosters of students who require transportation.

3. Require all nonpublic schools to provide calendars for the correct reporting of vehicle usage to PDE.
4. Implement procedures to ensure that charter school pupils transported by the District are reported accurately and adequate documentation is kept on file to support the number reported.
5. Implement procedures to ensure that non-reimbursable pupils transported by the District are reported accurately and adequate documentation is kept on file to support the number reported.
6. Review subsequent years' transportation reports submitted to PDE and revise, as necessary.

The Pennsylvania *Department of Education* should:

7. Adjust the District's subsidy to recover the overpayments of \$44,992.

Management Response

Management stated the following:

1. The Business Administrator and Transportation Manager will develop and implement procedures to ensure that nonpublic pupils transported by the district are accurately reported and that these records are kept on file to back up the number reported.
2. The Transportation Office will require all nonpublic schools to provide rosters of students enrolled.
3. The Transportation Office will require all nonpublic schools to provide calendars to support the number of days pupils are transported.
4. The Business Administrator and Transportation Manager will develop and implement procedures to ensure that charter school pupils transported by the district are accurately reported and that these records are kept on file to back up the number reported.

5. The Business Administrator and Transportation Manager will develop and implement procedures to ensure that non-reimbursable pupils transported by the district are accurately reported and that these records are kept on file to back up the number reported.
6. [The Transportation Office will] review and revise the applications in question and resubmit to the PDE.

Finding No. 2 →

Lack of Managerial Direction and Authority Resulted in Internal Control Breakdowns in Governance, Communication, and Efficient and Effective Operations Within the District

Criteria relevant to the finding:

Public School Code (PSC) sections:

24 PS 24-2408 provides, in part:

“In all school districts the auditors’ report of the finances of the district for the preceding year . . . shall be filed with the board of school directors, entered on the minutes of the board by the secretary thereof and forwarded to the [Secretary of Education].”

24 PS 5-508 provides, in part:

“The affirmative vote of a majority of all the members of the board of school directors in every school district . . . shall be required in order to take action on the following subjects:

“Adopting the annual budget.

“Levying and assessing local taxes. . . .

“Entering into contracts of any kind. . . .”

During our audit of the Warren County School District (WCSD) we found the overall governance of the District to be ineffective.

The audit found that the District’s operations, recordkeeping, defined responsibilities, and managerial activities lacked cohesiveness, communication, and leadership. Review of the District’s board minutes and additional documentation provided by District personnel indicated that board members were divided in their actions and took defensive postures by refusing to address internal control issues and thus provided little direction to the administration.

District Governance and Internal Control

Erroneous Annual Financial Reports

A five-year revenue analysis of the WCSD’s annual financial reports (AFR) found significant variances in several of the District’s reported subsidies received from the Commonwealth. The District explained the variances as posting errors or revenue misclassification issues, but could not locate their AFR files or provide general ledger information to support the computation of the reported reimbursements and subsidies.

Due to the significance level of the variance noted in the transportation reimbursement, \$935,437, the auditor requested substantiation to support the state reported funding. District administration consulted their external auditors, who determined that the error was the result of an incorrect year-end posting and required the reissuance of the local auditors’ report for the 2008-09 school year. This correction also required the District to file an amended AFR with the Pennsylvania Department of Education (PDE). Subsequent to completion of our fieldwork, we

24 PS 6-687(b) provides, in part:

“The board of directors shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation, available for school purposes in that district. Within fifteen (15) days after the adoption of the budget, the board of school directors shall file a copy of the same in the office of the Department of [Education].”

24 PS 4-440 provides, in part:

“The treasurer of each school district shall deposit the funds belonging to the school district in the school depository, if any, as directed by the board of school directors, and shall at the end of each month make a report to the school controller, if any, and to the secretary of the board of school directors of the amount of funds received and disbursed by him during the month.”

24 PS 4-440.1(a) provides, in part:

“The board of school directors in any school district . . . shall invest school district funds consistent with sound business practices.”

were informed that the amended AFR was filed with PDE on November 23, 2010.

Board Treasurer

Fund Investments

In June 2009, the board updated Board Policy #4203, Investment Practices, placing the sole responsibility for the District’s investments with the “Director of Business Services.” In August 2009, the board passed a motion allowing the board president to send a Letter of Instruction to a financial institution stating again that the “Director of Business Services” had sole authority to manage and modify the accounts and investments of the District. However, the position title of Director of Business Services was eliminated by the Board in January 2005, which the board’s 2009 policy failed to recognize.

Our review of the board minutes also found that in April of 2010 the board voted to terminate the District’s investment company broker, close the associated accounts, and move the investments elsewhere. The board pursued no further action until June 2010, when the District’s investment team again decided to terminate the same broker and shop for a new investment company. As of September 8, 2010, no action had occurred and the broker in question was still the broker of record.

Treasurer’s Monthly Report

The monthly treasurer’s report is prepared by the business office using month-end financial institution statements. The report iterated the bank and investment statement information regarding the prior month’s ending balance, deposits, disbursements and the current month’s ending balance; outstanding deposits and disbursements were not included. Therefore, the Treasurer’s report did not accurately reflect the District’s monthly deposits, expenditures, or available cash balance, as required by the Public School Code (PSC).

24 PS 4-441 provides:

“The school treasurer shall settle his accounts annually with the board of school directors for each school year.”

24 PS 4-439 provides, in part:

“The treasurer of each school district shall receive all State appropriations, district school taxes and other funds belonging to the district and make payments out of the same on proper orders approved by the board of school directors”

24 PS 6-607 provides, in part:

“No school order shall be authorized by the board, or signed by the president or secretary of any board of school directors, unless there are sufficient funds in the treasury of the district to pay the same. . . .”

24 PS 10-1089(a) provides:

“A governing board of a school may employ or continue to employ a person serving in the function of business administrator of the school entity who shall perform such duties as the governing board may determine, including, but not limited to, the business responsibilities specified in the section 433 of this act.” (NOTE: Section 433 relates to the duties of the board secretary.)

Treasurer’s Annual Reconciliation of District Accounts

The treasurer’s job description and the PSC require the treasurer to prepare and present to the board an annual reconciliation report of revenue received and expenditures paid. No reconciliation reports were prepared or provided to the board for review, analysis, or inclusion in the official board meeting minutes for the 2007-08, 2008-09 and 2009-10 school years.

Unreconciled Bank Statements

The issue of unreconciled bank statements has been an ongoing problem for the District and had been cited by the District’s external auditors. We noted that at the time of our fieldwork, which was completed September 8, 2010, the bank statements had not been fully reconciled since October 2009. In addition, the auditor learned that the District relied on their local auditors for reconciliation assistance and the preparation of required journal entries to bring the accounts and general ledger into balance. District personnel attributed the lack of timely reconciliation, in part, to the failure to record account and wire transfers, unrecorded deposits, and automatic charge card debits.

Without up-to-date bank and investment statement reconciliation, the auditor questioned how the District and board knew their cash availability for operations and expenditure payments.

Treasurer’s Execution of Checks Drawn

Our audit found that the treasurer is not involved in the execution of District checks, except for the signing of special check requests. The Treasurer was also not involved in the board approval process of checks to be paid at the monthly meeting, or the notification to accounts payable to disburse the board approved payments.

No formal notification procedures for the payment of invoices were implemented by the District. Consequently, some are paid without board approval or prior to board approval.

24 PS 4-433 provides, in part:

“The secretary of the board of school directors shall perform the following duties:

“(1) He shall keep a correct and proper record of all the proceedings of the board;

“(2) He shall after the board has acted on and approved any bill or account for the payment of money . . . prepare and sign an order on the treasurer for the payment of the same. He may prepare and sign orders on the treasurer for the payment of amounts owing under any contracts, which shall previously have been approved by the board, and by the prompt payment of which the district will receive a discount or other advantage , without the approval of the board first having been secured;

“(3) He shall attest, in writing, the execution of all deeds, contracts, reports, and other instruments that are to be executed by the board;

“(4) He shall furnish whenever requested, any and all reports concerning the school affairs of the district . . . ;

“(5) He shall have general supervision of all the business affairs of the school district subject to the instruction and direction of the board of school directors;

“(6) He shall be the custodian of all the records, papers, office property, and official seal of the school district . . . ;

Disbursement of Board-Approved Payments

The auditor also learned that the business office did not always release board-approved payments in a timely manner. Payments had been held for up to nine days after board approval before being released. The holds were attributed to a lack of District funds to cover the expenditures. This procedure places the board in a precarious situation as the Commonwealth forbids the approval of payments unless the District has sufficient revenue to pay the approved expenditures.

Expenditures Not Approved by the Board

We noted in the board minutes that the board at its annual reorganization meeting allows for District payment of payroll, bonds, interest, utilities and other pertinent bills as they come due without prior board approval. These are good business practices that allow the District to take advantage of discounts and avoid late charges. However, the District has expanded these exceptions to include:

- Special checks—the District enacted procedures to be utilized in emergency situations providing for immediate payment of an invoice. However, our audit found that the special check requests were now being used in lieu of petty cash disbursements; at Directors’ discretion to expedite payment receipt; as a means to avoid the lengthy purchasing department processing time; and as a means to make contractual payments.
- Pre-Authorized Debit/Credit Card Purchases—on August 10, 2009 the board approved a “financial institution package.” As part of this package, the board president signed an agreement allowing the District’s checking account to be charged automatically for the District’s debit/credit card purchases. No copy of the agreement was maintained at the District; a copy was obtained for us by the business administrator through the District’s banking representative. District policy requires two signatures to enter into a contractual agreement; furthermore, the board did not pass an exception resolution allowing the president to enter into the agreement alone.

“(7) He shall keep correct accounts with each receiver of taxes, school treasurer, or school tax collector of the district, reporting a statement of the same, together with a statement of the finances of the district, at each regular meeting of the board, which statement shall be entered in full upon the minutes.

“(8) He shall perform such other duties pertaining to the business of the district as are required by this act or the board of school directors may direct.”

Chapter 13 of the Pennsylvania statutes, (65 PS 302) provides, in part:

“Any authorized officer, after filing with the Secretary of the Commonwealth his manual signature certified by him under oath, may execute or cause to be executed with a facsimile signature in lieu of his manual signature any instrument of payment.”

The WCSDs’ business administrator’s employment contract defines the position as the “Financial Information Liaison,” and states that the business administrator will be the primary source for District financial information utilized by the board and administration.

The signed agreement allowed the financial institution to automatically charge purchases to the District’s general fund checking account. The automatic debit/credit card purchases averaged between \$13,000 and \$15,000 a month or \$156,000 to \$180,000 annually. The majority of these purchases were for property maintenance and general supplies, even though the District’s debit/credit card procedures state that debit/credit card usage was to be limited to conferences and seminars. No explanation was provided for why the approved purchasing procedures were not adhered to.

- Contractual payments – the District operated under the assumption that once the board approved a contract the associated contractual payments did not require additional board approval before disbursement. We found that contracts relating to building and grounds and transportation (see also Finding No. 3), were processed under this assumption. The PSC limits the pre-paying of contractual payments to those situations where the District will receive a discount or other advantage.

Our audit of the monthly list of expenditures to be approved by the board also included several disbursements that were not approved by the board, including special checks, automatic debit/credit card payments and the contractors’ payments. The auditor asked District personnel whether or not the board was aware of the non-approved disbursements and was informed that to be aware of them the board members would have to review the listed check dates and understand that any check that was dated prior to the board meeting date did not require their approval, while those dated after the board meeting were items awaiting approval.

While the PSC does not require the differentiation of pre-paid expenditures from those awaiting approval, prudent business practice dictates that the District’s cash procedures and activities should be monitored by the board to ensure that taxpayer funds are appropriately spent.

Cash Disbursements

Our review and observation of the District's cash disbursement procedures found a lack of dual controls in both the payroll and accounts payable departments. The lack of adequate dual cash controls over District funds was attributed to the location of the specialized facsimile check printers utilized by the District. When the printers were initially obtained, the District contemplated having a dual control procedure where the payroll clerk would process the accounts payable checks and match the checks to the processed invoices, and the clerk in the business office would process the payroll checks and verify the payroll information. These dual control procedures were never implemented. Hence, the payroll and accounts payable departments each have total control over their payment and reconciliation process. Thus, there are no checks and balances to ensure District asset safety.

The auditor also noted that no dual controls were employed in the operation of the District's check signing machine. The machine was operated on an as-needed basis. There were no controls over the keys to the check signing machine, and no preapproval or supervisory sign-off was required. District personnel stated that these manual checks were included in other disbursements presented to the board and therefore were not individually listed on the monthly checks to be approved.

In addition, District personnel could not verify whether or not Commonwealth approval had been obtained for the utilization of facsimile signatures in the printers or on the check signing machine, as required by law.

Again, prudent business practice requires the implementation of adequate cash controls to ensure the propriety of all transactions.

Business Office

The District's previous external auditors cited problems with obtaining requested information and required reports from the business office. The Auditor General's staff expressed the same concern, as information that was requested at the initiation of the audit, May 18, 2010, had not yet been received as of September 8, 2010, the auditor's last day of fieldwork.

The performance of the Auditor General's audit was impeded due to the frequent need to locate and obtain required information from alternative sources. This process resulted in untimely delays in the completion of the Auditor General's work, duplication of meetings to discuss our needs and why the information was required, and repetition of audit procedures as differing information was provided.

Written Policies and Procedures

After identifying managerial, procedural and internal control weaknesses in the District's day-to-day business operations, the auditor requested copies of the business office's operating procedures for review. The auditor was informed that the business office's policies and procedures were not formalized. During our discussions with District personnel relating to operating procedures, supervisory personnel were not always able to identify who was responsible for performing specific duties, or what dual controls were utilized to protect the District's assets.

Monthly Financial Statements/Information

The board placed responsibility for the preparation of monthly financial statements in the business administrator's job description, thus relieving the board secretary of financial accountability to the board. Our review of the board minutes found that the board has not been presented with District financial statements since December 2005. In addition the board is required by PSC Section 511 (24 P.S. 511(d)) to review and accept into their minutes the student activity account reports at least quarterly, which has not occurred since November 2003.

Board Secretary

The WCSD board Secretary's position has become ineffective. The school board and its secretary have not been communicating directly and have not been working effectively with each other regarding the day-to-day operational concerns and PSC requirements.

The board secretary informed the board that the following issues needed to be addressed or rectified:

- Presentation and inclusion in board minutes of the District's monthly financial statements, inclusive of cash flow and fund balances;
- Inclusion in the board minutes of copies of all properly signed and executed contracts, including signature cards and banking agreements for record retention purposes and Right-to-Know requests;
- Submission of District board packet information to the secretary in a timely manner, to ensure proper inclusion in the electronic board packets and listing on the board's agenda;
- Stopping the circumvention of the secretary's control and accountability of board meeting information by requiring all District personnel to work in conjunction with her, and disallowing personnel from directly placing information in the packets without her knowledge; and
- The need to address the internal control issues relating to the day-to-day operations.

The board took no action on the secretary's concerns.

In addition, our audit found that the business office and the treasurer did not communicate with the board secretary regarding special check exceptions, automatic payment of debit card charges, unapproved contractor payments, and the holding of board-approved disbursements. Therefore, the board secretary was not aware of these exceptions to the PSC.

Recommendations

The *Warren County School District* should:

1. Establish policies and procedures to ensure that the concepts of fiscal responsibility and accountability to taxpayers are readdressed by the board and the District.
2. Establish procedures to ensure that revenue received by the District is properly classified on the general ledger and reported in the correct year of receipt.
3. Establish procedures for the completion of the AFR and the maintenance of supporting documentation files.
4. Revise the District's investment policy to correctly identify responsibility.
5. Require the business office to work in conjunction with the treasurer and board secretary on the financial information and statements to be presented to the board.
6. Require the business office to reconcile on a monthly basis the District's bank and investment statements, with appropriate journal entries prepared and posted after supervisory approval.
7. Establish procedures to reduce the number of expenditures that are not approved by the board.
8. Revise the District's debit/credit card policies and pre-authorized payments policies to strengthen District control over expenditures.
9. Establish procedures to ensure that the District has sufficient funds available prior to the board's approval of payments to be made.
10. Implement security procedures relating to the check signing machine, including controls over the availability of the keys to the check-signing machine, and appropriate supervisory approval.
11. Require business office personnel to establish appropriate filing systems to ensure required reports and supporting documentation are available for audit purposes.

12. Require the business office to develop written policies and procedures defining responsibilities, controls and reporting structure.
13. Require the business office to prepare, review and maintain monthly financial statements for cash flow and fund balances.
14. Re-establish the board secretary's position as a liaison between the board and the business office.
15. Open communication between the treasurer, the business administrator and the board secretary, to ensure PSC compliance is upheld.

Management Response

Management stated the following:

1. The Business Administrator will develop and implement written procedures to ensure that revenue received by the school district is properly classified on the general ledger and reported in the correct year of receipts.
2. The Business Administrator will develop written procedures (that involve central office directors and business office staff) to ensure the completion of the AFR accurately and in a timely manner.
3. The Business Administrator will attend PASBO [Pennsylvania Association of School Business Officials] or other state conferences to enhance his job performance skills.
4. The Business Administrator will develop written procedures (that involve business office staff and central office directors) that ensure grant revenues and expenses are properly recorded in the general ledger, accurately reflect grant activity, and are acted upon in a timely manner.
5. The Business Administrator will develop written procedures that ensure the Business Office will reconcile on a monthly basis, the District's bank and investment statements with appropriate journal entries.

6. The Business Administrator will develop written procedures that reduce the number of non-board approved expenditures.
7. The Business Administrator will develop written procedures that ensure that the district has sufficient funds available prior to the Board's approval of payments to be made.
8. The Business Administrator will develop written procedures that establish a filing system to ensure required reports and supporting documentation is available for audit purposes.
9. The Business Administrator will develop written procedures that define responsibilities, controls, and reporting structure for Business Office staff.
10. The Business Administrator will develop written procedures that require the Business Office to prepare, review, and maintain monthly financial statements for cash flow and fund balances.
11. The Superintendent in cooperation with the Board will develop written policy and procedures which establishes a clear line of authority between the Superintendent and Business Administrator.
12. The Superintendent in cooperation with the Board and the Board Secretary will develop written policy and procedures to establish the Board Secretary's position as a liaison between the Board and the Business Office.
13. The Superintendent in cooperation with the Board, Board Secretary, and Business Administrator will develop written policy and procedures that fosters open communication between the Treasurer, the Business Administrator, and Board Secretary.
14. The Superintendent in cooperation with the Board will develop written policy and procedures that ensures initial and continued professional development in the area of Board governance, and business obligations.

15. The Business Administrator, Superintendent, and Board will review the District credit card policies and preauthorization payments to strengthen control over expenditures.

Finding No. 3

Criteria relevant to the finding:

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

“The Board of Directors of a school district is responsible for all aspects of pupil transportation programs, including the following: . . .

“(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

“(6) The maintenance of a record of pupils transported to and from school, including determination of pupils’ distances from home to pertinent school bus loading zones.”

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

Instructions for completing DE’s End-of-Year Pupil Transportation Reports provides that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils and the greatest number of pupils assigned to each vehicle. Additionally, the instructions provide that information and data used by the LEA to support the reports should be retained for audit purposes.

Internal Control Weaknesses, Lack of Documentation Supporting Pupil Transportation Reimbursements of \$6,126,077, and Lack of Documentation Supporting Usage of Tax Exempt Fuel

Our audit of the Warren County School District’s (WCSD) pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found nonpublic and other pupil count reporting errors (see Finding No. 1), internal control weaknesses, and a lack of documentation supporting reimbursements of \$3,182,990 and \$2,943,087, respectively, as well as a lack of documentation supporting the usage of tax exempt fuel.

Internal Control Weaknesses

Our the audit of the 2007-08 and 2006-07 school years found deficiencies in the transportation operations, a lack of supervisory review/and training, and a general misunderstanding of PDE pupil transportation reporting requirements. The deficiencies contributed to inadequate internal controls over payments made to contractors and vendors and over the submission of District information to PDE for state reimbursement.

Transportation Software Program

When the transportation manager was hired in May 2008 he was given the responsibility of fully implementing the transportation software program the District had been using since 2004, but which had not become fully functional due to the District’s transportation department’s inability to keep up with the necessary routine maintenance of the program.

According to the District’s technology department, in October 2009 the board expressed concerns regarding the transportation software and started looking at other options that would integrate with the District’s student information system and assist in creating new, more efficient, bus routes. In March 2010, the District approved a new transportation software program which, as of September 8, 2010, had still not been implemented.

Section 443 of the PSC (24 PS 4-433) provides, in part, that the board secretary “may prepare and sign orders on the treasurer for the payment of amounts owing under any contracts which shall previously have been approved by the board, and by the prompt payment of which the district will receive a discount or other advantage, without the approval of the board first having been secured.”

Through amendments to Act 105, Liquid Fuels Tax Act, and Act 550, Fuel Use Tax Act, the Legislature of the Commonwealth of Pennsylvania made available to various entities, including political subdivisions, the right to purchase liquid fuels tax exempt. A school district is considered a political subdivision and is therefore entitled to the purchase of tax exempt fuel.

As a result of the failure to follow through on the implementation of the new transportation program, the District committed taxpayer funds without realizing any potential cost savings.

Lack of Supervisory Review/Training

The District failed to provide the transportation manager with the appropriate training in the operations of the District’s transportation department. Instead of taking a proactive approach and seeking the necessary training, the transportation manager relied on the transportation department’s secretary to continue the department’s operations. This resulted in the secretary having no effective supervision.

The transportation manager did not become familiar with the transportation department’s operations or recognize how the lack of internal controls could affect the District’s overall transportation costs and state reimbursement. Ideally, an internal audit of the transportation department’s end-of-year reports and documentation would have provided an opportunity for the new transportation manager to learn the components of PDE’s transportation funding formula and the transportation data spreadsheet used by the prior transportation manager.

Transportation Contracts

District transportation contracts that we requested for audit were not readily available. The transportation department did not maintain up-to-date contractor files. As a result, the transportation department’s secretary experienced difficulty in providing the contracts for the 2007-08 school year. Based on our audit, the following was noted:

1. Two of the District’s nine van contracts were missing initially, though they were later located.
2. All 11 contracts for conventional school buses were missing initially; again they were later located.

3. All of the contracts we reviewed were missing two attachment schedules: Schedule A, which details the District's pupils, routes, times and other terms, and Schedule B, which details the approved per diem rates for transportation.
4. The van contract stated that vehicles were to be ten years of age or less. We found that 12 of 74 vehicles were more than ten years old.
5. The van contracts did not contain provisions for fuel reimbursement, but the District was in fact supplying fuel.

The transportation manager could not provide any information regarding the exceptions noted above. In addition, without the appropriate rate sheets and routes, the auditor could not confirm if the contractors were being properly reimbursed.

Transportation Costs

Contractors were not required to submit invoices or any type of supporting documentation to receive their monthly payments. Payment was based on the initial information submitted by the contractors, which included mileage with and without pupils and the greatest number of pupils transported per route. This data was entered into an internal spreadsheet that was created by the prior transportation manager. The spreadsheet uses PDE's transportation reimbursement formula to come up with a daily rate that the District uses in the transportation contracts.

We noted that the contractors established their own routes, rosters and mileage, and submitted the information to the District for billing. Contractors were also expected to provide timely notice of changes inclusive of rosters and mileage. These changes were then entered by the secretary into the spreadsheet and used to adjust past and future contractor payments. No supervisory approval was required prior to the change. With the automatic adjustment to the contractor's monthly payment, the District had no controls in place to ensure that changes were correct. In addition, contractor payments did not

require board approval prior to disbursement (see Finding No. 2).

Our audit of the 2007-08 monthly contractor payments, District transportation contracts, and the transportation department's spreadsheet found the following:

- Nine vehicles that were listed on the spreadsheet were used for transportation and the District received reimbursement. However, they were not listed on any of the District's contracts as approved vehicles;
- Five vehicles were listed on the contracts that were not on the District's payment spreadsheet;
- One vehicle identification number was not in agreement between the contract and spreadsheet;
- One contract was modified, adding another vehicle, but was not initialed or dated. The secretary added the vehicle to the spreadsheet without question; and
- From September 2007 through January 2008, several contractors' vehicles were paid at the 2006-07 school year's rate as the District awaited receipt of the contractors' preliminary route information.

Our audit also noted that District transportation personnel did not reconcile the vehicles identified on the contracts to the payment spreadsheet. Without reconciliation procedures the District could not verify the accuracy of the contractors' payments.

Monthly Mileage Reports and Rosters

The transportation manager did not require contractors to submit monthly mileage reports to ensure that routes, rosters and mileage did not change and that pre-computed contractor payments were accurate. The transportation department's secretary stated that the monthly mileage reports were not required and contractors would only resubmit if they changed their routes. The submitted change was entered into the spreadsheet, which would then adjust past and future payments accordingly.

The secretary was not required to obtain supervisory approval to input the changes on the spreadsheet, and no dual controls existed to confirm that the data was entered correctly. The lack of internal control procedures forfeited the District's ability to determine the accuracy of payments to the contractor, effectively allowing the District's contractors to police themselves, making changes as they saw fit.

Vehicle Mileage

For the 2007-08 school year, 25 of the District's 171 vehicles were selected for audit. Mileage information reported to DE for twenty of the vehicles' was based on initial run data that was performed by the contractor and could not be verified. Files for the remaining five vehicles contained additional mileage sheets with no supporting documentation to show what necessitated the new mileage reports.

Our audit also identified the following contractor changes that affected transportation data reported, and ultimately the District's reimbursement from the Commonwealth, and for which District approval prior to implementation was not required:

- Contractors changed routes based on parent calls, including changes in pick-up and drop-off locations and address changes;
- Contractors changed vehicles and charged fuel to the District without notification or approval;
- Contractors were responsible for pupil rosters, resulting in possible miscounts or inaccurate identification of the vehicle to which a pupil was assigned, since the District did not maintain a master roster of pupils transported;
- Contractors developed their own routes and could implement changes without District approval; and
- Contractors were not required to report vehicles' days of operation.

Fuel Usage

Our audit found no records available at the District to verify that the tax exempt fuel purchased was used for the exclusive purpose of transporting students. The lack of actual documentation to support the proper use of the tax exempt fuel could allow for the potential misuse of the fuel. Proper fuel usage logs should include the following: dates, vehicle number, amount of fuel dispensed, initials of the vehicle driver and the actual purpose of the fuel dispensed.

The transportation secretary was to monitor fuel usage through the use of the District's transportation spreadsheet, by comparing the approved maximum number of gallons per vehicle to the actual gallons purchased per vehicle. At the time of audit, it was noted that data in this section of the spreadsheet was not shown by vehicle but by contractor, and furthermore reflected allocated fuel costs that were higher than actual disbursements made by the District. The auditor could not determine if all district-purchased fuel was being utilized to transport students.

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

Also, the District directly reimbursed two contractors for fuel purchased. The District applied for and received a liquid fuel tax refund for one contractor who could not purchase his fuel tax-exempt. This reimbursement was recorded as miscellaneous revenue instead of as an offset to the District-paid transportation costs, resulting in the failure to match reported revenues and expenses.

Transportation Costs Reported to DE

The auditor was unable to reconcile reported transportation costs to the District's general ledger or to the transportation department's spreadsheet. Neither the transportation manager nor the secretary could explain how the reported costs were derived. In addition, no reconciliation or documentation was maintained to support the reported costs.

Our audit also found that the secretary, transportation manager, and business manager did not know that the District's transportation costs must be substantiated with records retained for audit and that the improper reporting of transportation costs can influence the District's transportation reimbursement. The lack of substantiated documentation could also affect the District's annual external audit and the proper classification of expenses and appropriate matching of revenues and expenses.

Contractor Liability Insurance

District management and the District's Board of Directors were verbally informed during our audit of the 2002-03 and 2003-04 school years that the District was not listed as "additional insured" on the transportation contractors' liability insurance policies, as required by the transportation contracts. This was also addressed in a finding in our prior audit report (see page 38). This is therefore the third audit in a row in which the auditor noted that the District was not named as "additional insured" on the contractor's liability insurance policies. This contractual provision, when adhered to, provides an additional layer of security to the District should any of the contractual vehicles become involved in an accident or face suit for any type of an infringement involving the District's pupils.

Recommendations

The *Warren County School District* should:

1. Develop and implement procedures to ensure that all transportation costs are properly recognized and reconciled to the general ledger prior to submission of data to DE for reimbursement.
2. Implement procedures to ensure that District personnel and transportation contractors receive complete contracts inclusive of all attachments and maintain signed copies on file at the District.
3. Prepare and retain on file at the District source documentation used to report pupil transportation data to DE, including the number of nonpublic pupils transported, the weighted averaging for pupils that enter, withdraw or relocate within the District, and when bus route mileages change.

4. Conduct an internal review to ensure the daily mileage, pupil counts, the amount paid contractors, and days of service are accurately reported, and supporting documentation is available.
5. Implement procedures to ensure that the board of directors reviews and approves all contractor payments prior to disbursement to the individual contractors.
6. Implement procedures to ensure that contractors submit monthly odometer readings verifying mileage with and without pupils and pupil counts.
7. Implement procedures to ensure that contractors are required to report vehicle usage by mileage and number of days prior to approving payment to the contractors.
8. Require contractors to submit periodic invoices for payment with adequate supporting documentation.
9. Implement procedures to ensure that all route changes are approved by the District prior to implementation by the contractors.
10. Ensure adequate current liability insurance coverage is provided and retained on file at the district by each contractor at the beginning of each school year, and that the District is listed as the additional insured, as required by the contracts.
11. Ensure that District personnel become more involved in the recordkeeping of pupil transportation supporting documentation provided by the contractor and perform an internal review to ensure the accuracy of data submitted to PDE for reimbursement.
12. Establish internal control procedures for payments made to the contractors and vendors, including a review by District business office personnel for appropriateness and accuracy, and ensure a separation of duties in the payment process.
13. Establish procedures to monitor the fuel usage to ensure all tax exempt fuel purchased is used for school related purposes only.

14. Require the pupil transportation contractors to provide evidence of the actual usage of all tax exempt fuel purchased.
15. Implement requirements for District personnel to provide the school board with periodic reports on the newly purchased software, and the impact on the number of routes and potential cost savings.
16. District personnel should be required to participate in on-line pupil transportation training sessions or attend training conferences.
17. Review transportation reports submitted to PDE for subsequent years of audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported for each bus.

The Pennsylvania *Department of Education* should:

18. Consider withholding future pupil transportation reimbursement payments until the District prepares and retains supporting documentation as required by Chapter 23 regulations, Section 518 of the Public School Code, and instructions for completing PDE's End-of Year Pupil Transportation Reports.

The *Department of Revenue* should:

19. Review the District's internal controls and actual usage of tax exempt liquid fuel purchased by the District and utilized by the pupil transportation contractors.

Management Response

Management stated the following:

1. The Business Administrator and Transportation Manager will develop and implement written procedures to ensure that all transportation costs are properly recognized and reconciled to the general ledger prior to submitting the PDE form 1049 to the Department of Education for subsidy reimbursement. These procedures will involve an internal review by the Business Administrator and Transportation manager to ensure the accuracy of data submitted to the PDE for reimbursement.

2. The Business Administrator and Transportation Manager will develop and implement written procedures to independently monitor the mileage driven by each vehicle (odometer readings) and consumption of fuel for said mileage each month. These procedures will ensure that contractors submit monthly odometer readings, verifying mileage with and without pupils and pupil count, and also provide evidence of the actual usage of all tax exempt fuel purchased.
3. The Business Administrator and Board Attorney will prepare contract agreements, review these contract agreements with the bus contractors, and maintain signed copies on file at the District.
4. Current contracts effective July 1, 2010, contain provisions for fuel reimbursement.
5. Each contract now contains a written statement that names the school district as “additional insured” and that adequate current liability insurance coverage is provided and retained on file at the beginning of each school year.
6. Beginning immediately, the Board of School Directors at the August Board meeting will approve the list of vehicles and vehicle changes which will be filed in the Transportation office and reconciled with the Excel spreadsheet. Changes will be submitted to the Board monthly.
7. Contracts as of July 1, 2010 stipulate that transportation contractors will receive payments on the last business day of each month or the 30th of the month.
8. The Business Administrator and Transportation Manager will prepare and retain on file at the District source documentation used to report pupil transportation data to DE, including the number of nonpublic pupils transported, the weighted averaging for pupils that enter, withdraw, or relocate within the District, and when bus route mileages change.

9. The Business Administrator and Transportation Manager will prepare and implement procedures that address the issue of Board approval of contractor payments prior to disbursement.
10. The Business Administrator and Transportation Manager will prepare and implement internal control procedures for payments made to the contractors and vendors which shall include the business office staff and transportation office staff to review for appropriateness and accuracy to ensure that a separation of duties exists in the payment process.
11. The Business Administrator and Transportation Manager will report to the Superintendent, who in turn will provide periodic reports to the Board, on the newly purchased software and the impact on the number of routes and potential cost savings.
12. The Business Administrator will monitor the periodic participation of the Transportation Department personnel in relevant training conferences and workshops.

Finding No. 4

Continuing Administrative Weaknesses Resulted in Unverifiable Social Security and Medicare Wages for School Years 2007-08 and 2006-07

Criteria relevant to the finding:

The 1986 Budget Reconciliation Act required Local Education Agencies (LEA) to deposit Social Security and Medicare tax contributions for wages earned on or after January 1, 1987, directly to authorize depositories or Federal Reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's share. LEAs are subsequently reimbursed for the Commonwealth's matching share based on wages reported to DE, excluding wages paid with federal funds.

Our audit of the Warren County School District's (WCSD) Social Security and Medicare reimbursement applications for the school years 2007-08 and 2006-07 again identified a lack of internal controls relating to the identification, reporting, balancing and verification of actual federally funded program wages and benefits received. As a result, the auditor was unable to verify the accuracy of the application submitted to the Pennsylvania Department of Education (PDE) for reimbursement of \$1,293,425 and \$1,214,925 for the 2007-08 and 2006-07 school years, respectively.

District administrators were made aware of the reporting weaknesses in October 2008, when our prior audit was performed (see page 41). WCSD's management response to our prior Social Security and Medicare wages audit finding stated, in part:

"Corrective action will include performing detailed analysis of the aforementioned fiscal periods beginning in 2004-2005 forward. Comparative analysis will include comparing federal program funding and expenditure, payroll reporting, and reconciliation with general ledger accounts.

"Based on the results of those procedures, any amended reports which may be required will be prepared and filed with the State.

"Subsequent District procedure will include reconciliation of the three areas; Federal Programs, Payroll, and General Ledger accounting on a quarterly basis when payroll tax returns are filed."

However, at the beginning of our current audit, in May of 2010, the auditor was informed that the corrections had not been implemented, because the payroll supervisor had been assigned additional duties which precluded the implementation of corrective action.

District personnel further stated that at the June 14, 2010 board meeting, WCSD's school board approved the response to our prior audit report, which included the statement that corrective action for the years of 2006-07 and 2007-08 would be performed in the next 90 days.

However, the auditor explained to District personnel that Department of the Auditor General has an understanding with PDE that once we have initiated an audit the District cannot submit further revisions. On July 26, 2010, District personnel confirmed this information with PDE and stated that reports for school years subsequent to our current audit years would be corrected when our current audit is completed.

Recommendations

The *Warren County School District* should:

1. Ensure that District personnel properly recognize federal wage employees on the District's payroll records.
2. Ensure that District personnel annually reconcile reported wages paid with federal grants with District records.
3. Ensure that District personnel comply with PDE instructions for the completion of the Reconciliation of Social Security and Medicare Tax Contributions form when reporting wages paid by federal funds.
4. Perform an internal review of reports submitted subsequent to the years of audit, making necessary revisions as required.

The *Pennsylvania Department of Education* should:

5. Review the propriety of the reimbursement received for the years of audit.

Management Response

Management stated the following:

The Business Administrator in coordination with the Federal Programs Director will develop and implement written procedures to ensure that (a) federal wage employees are recognized on the District's payroll records; (b) District personnel annually reconcile federal grant wages with District paid wages; and (c) district personnel comply with Department of Education instructions for the completion of the Reconciliation of Social Security and Medicare tax computations when reporting wages paid by federal funds.

Finding No. 5

Continued Lack of Documentation Necessary to Verify School Bus Drivers' Qualifications.

Criteria relevant to the finding:

PSC Section 111 (24 P.S. 1-111) requires prospective school employees who would have direct contact with children including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 111 was amended to require any employee or employee of a contractor hired on or after April 1, 2007, to submit a copy of the Federal criminal history record that is to be obtained from the FBI.

Similarly, Section 6355 of the CPSL, 23 Pa. C.S. 6355, requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Chapter 23 of the State board of Education Regulations, Section 23.4 (2) provides, in part, that the board of directors of a school district is responsible for:

“The selection and approval . . . of eligible operators who qualify under the law and regulations.”

Our audit of the Warren County School District's school bus/van drivers' qualifications for the 2009-10 school year again found that the District did not have on file the state required licenses and clearances for each driver.

Additionally, our audit noted that the board of school directors did not approve the bus drivers as required by State Board of Education regulations.

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

1. Possession of a valid driver's license;
2. Current physical examination form;
3. Completion of school bus driver skills and safety training;
4. Lack of convictions for certain criminal offenses;
5. Federal Bureau of Investigation record check; and
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained in the box to the left, the fourth and fifth requirements were set by the Public School Code, and the sixth requirement was set by the Child Protective Services Law.

Using a random number generator, we initially audited 42 bus drivers (5 new and 37 long-term) of the 227 drivers employed by the District's transportation contractors. The initial review identified the following problems:

New Drivers:

- 3 of the 5 new drivers did not have their federal criminal history record on file; and
- one new driver's file could not be located.

Long-term Drivers:

- one driver's current license was not on file; and
- three current physical examinations forms were not on file.

With the large number of exceptions in the new driver sample, an additional 5 new drivers were added to the audit. The following additional problems were noted:

- one new driver's federal criminal history record check was not on file;
- one driver had unreadable fingerprints for the federal criminal history record check, requiring the employer to obtain three other forms of identification according to Pennsylvania Department of Education instructions. The transportation contractor relied solely on a utility bill, and the District did not question it; and
- one driver's license was not on file.

The transportation manager maintained an internal checklist to ensure that all required current driver documentation was submitted by the contractors and filed accordingly in the District files. The District's checklist showed no exceptions and our findings were attributed to the lack of timely filing.

During fieldwork for our audit we informed the District of the missing documentation. All missing documentation was subsequently obtained by the District prior to our completion of fieldwork.

As a result of the failure to have the required bus drivers' qualification documents properly filed, District personnel were not able to review the documents to determine whether all drivers were qualified to transport students, and the auditor initially was not able to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

Recommendations

The *Warren County School District* should:

1. Ensure that the District's transportation manager reviews each driver's qualifications prior to that person transporting students.
2. Ensure that all driver files are reviewed for content and propriety of documentation.
3. Ensure that District maintained files are up-to-date and complete.
4. Instruct the District's transportation manager to provide to the board, prior to the initiation of the school year, a listing of all drivers indicating whether or not the listed drivers comply with the Pennsylvania licensing and clearance requirements.

Management Response

Management stated the following:

The Business Administrator and Transportation Manager will implement the procedures described in the Management Reply to the 2008 Auditor General findings to ensure that (1) the Transportation Manager will review each driver's qualifications prior to that person transporting students; (2) that all driver files are reviewed for content and propriety of documentation; and (3) that the Warren County School District maintains up-to-date complete files.

Status of Prior Audit Findings and Observations

Our prior audit of the Warren County School District (WASD) for the school years 2005-06 and 2004-05 resulted in three reported findings and two observations, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the WCSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings and observations. As shown below, we found that the WCSD did not implement recommendations related to nonpublic pupil transportation, bus drivers' qualifications, and Social Security and Medicare reimbursements. The WCSD did implement corrective actions related to administrative policies regarding bus drivers' qualifications and undocumented vendor system access and weaknesses in logical access and environmental controls.

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

Finding No. 1: **Nonpublic Pupil Transportation Reimbursement Was Overpaid \$5,775, and Other Transportation Documentation Was Inadequate**

Finding Summary: Our prior audit of the 2005-06 school year pupil transportation records found the following:

1. The District overreported nonpublic pupils to PDE.
2. The District failed to maintain adequate documentation needed to verify the accuracy of hazardous route pupil transportation.
3. The District did not maintain bus mileage and pupil count documentation for 2 of the 25 audit selected buses.
4. The District did not follow-up on our 2003-04 school year audit recommendation relating to being named co-insured on the District's pupil transportation contractors insurance policies.

Recommendations: Our audit finding recommended that the WASD:

1. Implement procedures to ensure that nonpublic pupils transported by the District are reported accurately and adequate documentation is kept on file to back up the number reported.
2. Ensure that District transportation personnel keep a listing of students transported that live on hazardous routes.

3. Require District transportation personnel to keep and maintain accurate records of daily mileage and pupil counts for all vehicles.
4. Insist that the District's transportation contractors name WCSD as coinsured on their liability insurance policies.
5. Review subsequent years' transportation reports and revise as necessary.

Current Status: Our audit found continued weaknesses in the reporting of nonpublic pupils (see Finding No. 1, page 6) and documentation of transportation data (see Finding No. 3, page 22).

We therefore concluded that the District did not take corrective action to satisfy all of our recommendations.

The District did have a listing of hazardous students.

As of September 10, 2010, the overpayment of \$5,775 is pending final adjustment by PDE.

Finding No. 2: Lack of Documentation Necessary to verify Bus Drivers' Qualifications

Finding Summary: Our previous audit of records pertaining to the contracted bus drivers found a lack of documentation needed to verify that all of the contracted drivers possessed the minimum required qualifications for employment.

Recommendations: Our audit finding recommended that the WASD:

1. Immediately obtain from the transportation contractors missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Review the files of all bus driver's to determine if any documentation is missing for those drivers not included in our sample.
3. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to the person transporting students.

Current Status: Our current audit again found weaknesses in the documentation necessary to verify bus driver qualifications (see Finding No. 5, page 36).

We therefore concluded that the District has not taken corrective actions to satisfy our recommendations.

Finding No. 3: Administrative Weaknesses Resulted in Unverifiable Social Security and Medicare Reimbursements of \$2,446,448

Finding Summary: Our prior audit of Social Security and Medicare wages reported for the 2005-06 and 2004-05 school years found numerous administrative internal control weaknesses, which made the verification of the accuracy of Social Security and Medicare reimbursement received by the District impossible.

Recommendations: Our audit finding recommended that the WASD:

1. Comply with PDE instructions when reporting wages paid by federal funds.
2. Perform an internal review of reports submitted subsequent to the years of audits, making necessary revisions as required.
3. Maintain payroll and grant expenditure records that identify actual employee wages paid with federal funding.

Current Status: The District has not implemented corrective actions relating to this finding (see Finding No. 4, page 33).

Further review will be performed in the next audit.

Observation No. 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Driver Qualifications

Observation Summary:

Our prior audit found that neither the District nor the transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the WASD:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call

into question their suitability to continue to have direct contact with children.

Current Status: Our current audit found that this District has implemented changes in their and the transportation contractors' manuals requiring drivers to report suspicion, charges or conviction of all offenses, not just those related to their suitability of having direct contact with children.

We therefore concluded that the District did take corrective action to satisfy our recommendations.

Observation No. 2: Undocumented Vendor System Access and Weaknesses in Logical Access and Environmental Controls

Observation

Summary: Our prior audit noted that the WCSD had certain weaknesses in logical access controls.

Recommendations: Our audit observation recommended that the WCSD:

1. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e. last ten passwords) and lock out users after three unsuccessful attempts.
2. Generate monitoring reports (including firewalls logs) of outside vendor activity on the system. Monitoring reports should include the date, time and reason for access, change(s) made and who made the change(s). The District should also review these reports to determine that the access was appropriate and that data was not improperly altered and ensure it is maintaining evidence to support this monitoring and review.
3. Implement additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire extinguishers in the server room.

Current Status: Our current audit found no continued weaknesses in the area of vendor system access and logical access and environmental controls.

Employees must now choose their own passwords, which must follow specific complexity requirements and must be changed every 30 days.

Firewall equipment was updated in the summer of 2009 to enable logging capabilities to monitor access. The vendor keeps logs per incident that summarize connection details. These firewalls are monitored and reviewed daily.

Additionally, the vendor provided a more secure solution that prevents LAN level access and provides technology department an email notification if a support specialist is accessing the system to fix a “trouble ticket.”

Lastly, the District installed fire extinguishers and a smoke detection system in the server room.

Based on the results of our current audit, we concluded that the District did take corrective actions to satisfy our recommendations.



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