



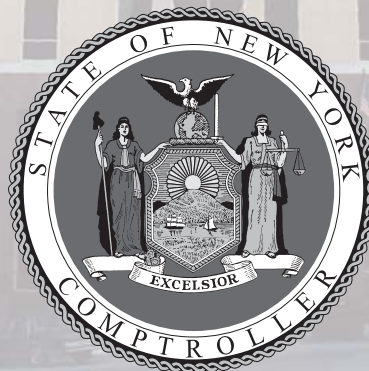
Royalton-Hartland Central School District Internal Controls Over Student Transportation Services

Report of Examination

Period Covered:

July 1, 2006 — July 2, 2008

2008M-209



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Royalton-Hartland Central School District, entitled *Internal Controls Over Student Transportation Services*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Royalton-Hartland Central School District (District) is located in the Towns of Royalton, Hartland and Lockport in Niagara County, Alabama in Genesee County, and Ridgeway and Shelby in Orleans County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are three schools in operation within the District, with approximately 1,600 students and 200 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$21.8 million, which were funded primarily with State aid, real property taxes and grants.

In 2005, the District contracted with a vendor to provide transportation services to its students. Transportation of students to and from various schools and programs represents a significant cost to the District. The District reported total expenditures of over \$1.5 million for the transportation of students during the 2006-07 school year.

Objective

The objective of our audit was to evaluate internal controls over student transportation services. Our audit addressed the following related question:

- Are internal controls over student transportation services appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment of the District's financial operations included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the area of student transportation services and, therefore, we examined internal controls over student transportation services for the period July 1, 2006 to July 2, 2008.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Student Transportation Services

The District contracts with a transportation vendor to provide morning and afternoon bus service to and from the District's elementary school, middle school, and high school, and various academic locations outside the District. The District's costs for bus transportation are based, by contract, on the length of time each route takes and the types of vehicles used¹. The amount of time each route takes is documented by the bus drivers on daily vehicle inspection reports. The District also provides the fuel to the vendor for use in the vehicles that transport the students. The transportation vendor periodically orders the fuel, the fuel vendor delivers it to the transportation vendor's facility and the fuel vendor sends the bill to the District. District officials are responsible for closely monitoring student transportation services to ensure that the services provided are in accordance with the terms of the contract and good business practices, and for monitoring fuel delivered to the transportation vendor's facility to ensure that it is used only for District transportation services.

Internal controls over student transportation services were not appropriately designed and operating effectively to adequately safeguard District assets. District officials did not monitor transportation services or the fuel delivered to the transportation vendor's facility.

- Transportation Services — District officials did not compare the information on the monthly invoices submitted by the transportation vendor to the daily vehicle inspection reports to determine if the amounts billed were accurate. In addition, the vendor used the District-contracted buses to transport District students and students from neighboring Districts on shared bus routes to the same academic locations outside of the District. Although the vendor billed all the districts for these shared bus routes, the costs for these shared bus routes were not addressed in the District's transportation contract.
- Fuel — District officials did not verify that the amount of fuel purchased for the transportation vendor was actually used on transportation services provided to the District. Because the vendor used District contracted buses to transport District students and students from neighboring Districts, the District

¹ The vendor uses 66 passenger busses, 6 - 20 passenger vans, five passenger vans, or wheelchair vans to provide transportation to District students.

incurred the cost of the fuel used on the eight shared bus routes. The cost was not charged to any of the other four Districts and there was nothing in the contract to indicate that the District will be reimbursed or otherwise credited for the fuel used on the shared bus routes. After we brought this matter to the attention of District officials and the transportation vendor, the transportation vendor provided the District with an additional \$9,369 credit for fuel costs for the 2007-08 fiscal year. No credit was provided for the fuel used on the shared routes in the 2006-07 fiscal year. Furthermore, the vendor may be receiving questionable tax benefits from these transactions because the fuel purchases are tax-exempt.

Due to these control weaknesses, we reviewed the amounts that the District paid for the eight shared bus routes. Our testing disclosed that the transportation vendor overcharged the District:

- The vendor's invoice charges were based on route times that included the transportation of students from neighboring Districts. As a result, the District was over-billed. The vendor provided the District with credits totaling \$54,869² based on what the vendor determined was the amount of time that the District-contracted buses spent outside of the District, presumably to pick up and drop off student(s) from other District(s). However, for at least three of the shared bus routes, the credits were significantly less than they should have been, considering that the routes would have been less costly if they were not shared with another District. For example, during 2007-08, the vendor provided daily round trip transportation for one District student to a school located in Sanborn, New York. This route was also used to transport one student from a neighboring District to the same school. The vendor initially billed the District \$198³ per day, but subsequently reduced the charge to \$168⁴ to account for the time that the bus was presumably in the other District. This adjustment resulted in a credit of \$5,360 to the District for that route. For 2007-08, the District paid the vendor \$30,173 for this route, net of the credit. The vendor also charged the other District nearly \$13,000⁵ for this route.

² \$22,365 for the 2006-07 fiscal year, and \$32,504 for the 2007-08 fiscal year, excluding the credit for fuel of \$9,359. The District agreed to allow the vendor to spread the credit equally over the subsequent year's ten monthly billings rather than requiring the vendor to issue a refund check.

³ Based on a 5.5 hour route

⁴ Based on a 4.67 hour route

⁵ Based on 1 hour of service per day provided to that District

We used an Internet-mapping site to estimate the cost for this route assuming that it was not shared with the other District. Two daily round trip runs⁶ to transport one District student to Sanborn would take approximately 2.75 hours to complete. Based on the contract rate that was in effect, this would have cost the District about \$16,700, which is approximately \$13,500⁷ less than the amount paid. Thus, it appears that the vendor should have provided the District with a larger credit for this route.

- For one shared route, the vendor billed the District based on a daily route time of four hours, net of the credit. Although the daily vehicle inspection reports indicated that it took four hours to complete the route, this included the time to transport one District student and two students from a neighboring District. For 2007-08, the vendor billed Royalton-Hartland over \$25,800 and the other District \$14,400 for this route. It appears that the District was over-billed since the vendor was transporting students from the other District and billing the other District as well.
- For three shared bus routes, the vendor billed the District for the use of a 6-20 passenger van. However, only one District student was transported on two of the bus routes, and only two District students were transported on the third bus route. Had the smaller five-passenger van that was listed in the contract been used, the District could have saved approximately \$8 to \$10 per day. As a result, the District paid at least \$4,800 more than necessary for the 2007-08 fiscal year.

Recommendations

1. District officials should compare the information on the monthly invoices submitted by the transportation vendor to the vehicle inspection reports to ensure that the amounts billed are accurate and reasonable.
2. The Board should amend the transportation contract to address how the costs for shared bus routes will be equitably allocated between participating Districts.
3. District officials should monitor the use of fuel to ensure that fuel purchased by the District is used for only District purposes.
4. The Board should amend the transportation contract to address the use of fuel for shared bus routes.

⁶ 90 miles per day

⁷ It is interesting to note that \$13,500 is nearly the same amount the vendor billed the other district for the shared route.

5. District officials should seek reimbursement from the transportation vendor for the fuel use attributable to other Districts for shared bus routes during the 2006-07 fiscal year.
6. District officials should independently verify the reasonableness of route times using an Internet-mapping site.
7. The Board should consider requesting additional credits for shared bus routes in instances where the costs have been significantly higher than they would have been had the District not shared bus routes.
8. District officials should contact the NYS Department of Taxation and Finance for guidance concerning the sales tax consequences of the fuel purchase arrangement with the transportation vendor.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.



Royalton-Hartland Central School District

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*Paul J. Bona, Jr.
Superintendent*

*Kelly J. Griffith
Business Administrator*

November 26, 2008

Robert E. Meller, Chief Examiner
Buffalo Regional Office
Office of the State Comptroller
295 Main Street, Room 1050
Buffalo NY 14203-2510

Dear Mr. Meller:

Please allow this letter to serve as the school district's response to the audit recommendations shared with the district on November 5, 2008.

The district is in agreement with the audit findings and is in the process of preparing a Corrective Action Plan to outline how it will implement the audit recommendations in a positive manner to improve operations in the area of student transportation services.

Sincerely,

Paul J. Bona, Jr.
Superintendent of Schools
Royalton-Hartland Central School District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected student transportation services for further audit testing and focused our attention on transportation routes shared with other Districts:

- We reviewed the transportation contract and interviewed officials from the District and the vendor about the transportation services provided.
- We examined monthly invoices submitted by the transportation vendor and compared the amounts billed with corresponding daily vehicle inspection reports prepared by the bus drivers to determine if the District was properly billed for these services in accordance with the contract and if the District was receiving the credit for sharing services with other Districts.
- We estimated route times using an Internet-mapping site, student addresses and school locations.
- We obtained a transportation invoice from a neighboring District that shared routes with the District and compared the reasonableness of the annual cost and services provided to both Districts.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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