

Minnesota Department of Education

June 4, 2009

Mr. Jim Bauck, Superintendent
Independent School District #877
214 N. E. 1st Avenue
Buffalo, Minnesota 55313

Dear Mr. Bauck:

Enclosed are the audit report and recomputations of the 2007-08 transportation aids as a result of our audit pertaining to the eligible students transported and transportation cost for the 2007-08 fiscal year of Independent School District #877, Buffalo.

The audit adjustments affecting state aid for fiscal year 2007-08 are approximations and are summarized below:

1) Special Education Regular – State Aid	(\$3,044.93)
2) Special Education Excess Cost – State Aid	(271.08)
3) Nonpublic Pupil Transportation Revenue – State Aid	2,485.80
4) Interdistrict Desegregation/Integration Revenue – State Aid	<u>(\$1,234.76)</u>
Total Net Decrease In State Aid	<u>(\$2,064.97)</u>

See attached aid recomputations.

The audit adjustment shown in Exhibit E under finance code 720, Regular To and From School, shows an adjustment to reported expenditures. This adjustment will affect nonpublic pupil transportation state aid entitlement in fiscal year 2009-10.

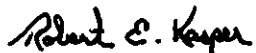
I suggest that you review the findings and recommendations in the report. If there is any additional information the district believes may have a bearing on the final determination of this report, the district may appeal this audit. The appeal must be received by **Chas Anderson, Deputy Commissioner, Room C24, 1500 Highway 36 West, Roseville, Minnesota 55113-4266**, within 30 calendar days from the date of this letter. Extensions beyond 30 calendar days may be requested and granted by Chas Anderson.

The appeal must be in writing and include:

- a. The specific finding in the audit report,
- b. Why the appeal is being requested,
- c. Additional information that should be considered (if the finding was for specific students, then the information must be provided for each student),
- d. Comments on why this material was not made available during the audit or the exit conference, and
- e. Whether or not a meeting with the Department is requested to explain the information in the appeal letter. The meeting must be requested within 30 days of the date of the audit report.

If no appeal is received within 30 calendar days, this Audit Report becomes the Final Report.

Sincerely,



Robert E. Kasper
Audit Supervisor
(651) 582-8800

Enclosure

C: Mr. Dave Wilson, Chairman
Board of Education

This Audit Report is confidential until a Final Report or final determination is made. The Final Report or final determination contains PRIVATE DATA and must be safeguarded as such.

AUDIT REPORT

Introduction

We have audited Independent School District (ISD) #877, Buffalo, pertaining to its transportation data as reported to the Minnesota Department of Education (MDE) for the 2007-08 fiscal year. The audit covered the period from July 1, 2007 to June 30, 2008.

Minnesota Statutes, Section 127A.41, Subdivision 3, states:

"Audits. The commissioner shall establish procedures for conducting and shall conduct audits of district records and files for the purpose of verifying district pupil counts, levy limitations, and aid entitlements. The commissioner shall establish procedures for selecting and shall select districts to be audited. Disparities, if any, between pupil counts, levy limitations, or aid entitlements determined by audit of district records and files and data reported by districts in reports, claims and other documents shall be reviewed by the commissioner who shall order increases or decreases accordingly. Whenever possible, the commissioner shall audit at least 25 districts each year pursuant to this subdivision."

Scope

The examination was performed on a selective basis in a manner and to the extent considered necessary in the circumstances and in accordance with Generally Accepted Auditing Standards, giving due regard to Minnesota Rules, Department Directives and Minnesota Statutes.

Audit Procedures

The audit included, but was not limited to: an examination of the revenue and expenditure guidelines, dated 03/11/09; posted transaction report, dated 03/11/09; posted transaction report, dated 04/20/09; posted transaction report, dated 04/21/09; contracts; invoices; journal entries; transportation allocation by miles 2007-2008, working papers; payroll account detail, dated 03/11/09; bus garage rent receipts; American Student Transportation late run revisions, dated 04/27/09; 2007-08 special education bus routes; individual education plan (IEP); list of nonpublic students attending outside district borders, 2007-08; list of nonpublic students transported to St. France Xavier and Salem Lutheran nonpublic schools; school board policies on transportation; and the Minnesota Automated Reporting Student System (MARSS) enrollment and pupil transportation reports from the Minnesota Department of Education.

Findings and Recommendations

An examination of the accounting records at Independent School District #877, Buffalo, on April 20-23, 27-29 and May 5, 2009, the dates of the audit, disclosed the following:

Part I – Students Transported

Shown below are the “To and From Transportation Categories” which show differences between reported and audited student counts, an explanation of the differences, and our recommendations.

1. **Regular Category, Code 01 – Finance Dimension 720**

	<u>Reported</u>	<u>Audited</u>	<u>Difference</u>
Nonpublic – Paper Report	340	346	6

The difference of 6 additional nonpublic students is due to reasons unknown. The district had reported 340 students transported, however the audited count showed 346 students transported as shown in Exhibit A.

We recommend that under the Regular Category, Code 01 – Finance Dimension 720, the number of **nonpublic** students reported be increased by 6.

Part II - UFARS Expenditures

Exhibit E shows differences between reported and audited expenditures for each transportation finance code. An explanation of the differences and our recommendations are listed below.

2. The district used the following methods to distribute costs to various transportation finance codes:

- American Student Transportation and Technology Information Education Services (TIES) → costs were expensed directly to transportation finance code 714, Integration/Desegregation Transportation, based on the description and amount shown on the bills from the private carriers.
- Laidlaw Transit Inc. → costs were expensed directly to transportation finance code 721, Regular Summer School, based on the description and amount shown on the bills from the private carrier.
- American Student Transportation, Laidlaw Transit, Inc., Parents who transported resident students to nonpublic schools located outside district boundaries, fuel adjustment, professional fees, postage, supplies and miscellaneous expense → costs were allocated to transportation finance codes 716, Noon Kindergarten; 717, Late Activity – Public; 720, Regular To and From School; 721, Regular Summer School; 723, Transportation of Pupils Attending Special Education Programs; 725, Between Schools - Public; and 733, Nonauthorized Transportation, based on American Student Transportation’s vehicle miles.

- A portion of the Superintendent's Salary (\$6,152.01), Director of Finance & Operation's Salary (\$5,949.96), MARSS Data Processing Operator's Salary (\$10,139.99) and related Fringe Benefits (\$6,828.86) → costs were allocated based on American Student Transportation's vehicle miles.

An examination of the methods used to distribute costs to the various transportation finance codes revealed the following:

American Student Transportation

- a. American Student Transportation costs totaling \$4,392.11 were expensed directly to transportation finance code 714, Integration/Desegregation Transportation, based on the description and amount shown on the bills from the private carrier. This amount should have been included in the district's allocation based on American Student Transportation's vehicle miles (see Exhibit C).
- b. The fuel adjustments expensed to the following account codes were included in the district's allocated costs twice by error:

01-005-276- 720 -212-000	\$214,073.55
01-005-276- 723 -212-000	\$30,391.91

See District's "Transportation Allocation by Miles 2007-2008" working papers.

- c. American Student Transportation leased a bus garage from ISD #877, Buffalo. In fiscal year 2007-08 lease payments amounted to \$97,210.00. The lease payments were receipted to revenue account code 05-005-276-000-181-000, Rent School Facilities. These lease payments, totaling \$97,210.00 should have been deducted from American Student Transportation's total expenditures before allocating their costs based on mileage (see Exhibit C).
- d. In lieu of a performance bond American Student Transportation issued a one-time payment of \$20,000.00 to ISD #877, Buffalo. This payment was receipted to revenue account code 01-005-000-000-099-000, Misc. Revenue From Local Source. This payment, totaling \$20,000.00 should have been deducted from American Student Transportation's total expenditures before allocating their costs based on mileage (see Exhibit C).
- e. American Student Transportation over-billed the district \$9,276.96 pertaining to late activity trips. The district was billed for late activity trips on Fridays throughout the school year. However, except for January 18, 2008 there were no late activity trips on Fridays. At the time of the audit, American Student Transportation agreed to reimburse the district \$9,276.96. The \$9,276.96 reimbursement was deducted from American Student Transportation's total expenditures before allocating their costs based on mileage (see Exhibit C).

Parents Transporting Resident Students to Nonpublic Schools Located Outside District Boundaries

- f. Costs totaling \$23,490.60 were allocated to various transportation finance codes based on American Student Transportation's vehicle miles. However, since the parents provided transportation exclusively in one transportation category, (720, Regular To and From School) the parents are considered Sole Contractors.¹ Therefore, the \$23,490.60 should have been expensed directly to transportation finance code 720, Regular To and From School (see Exhibit D).

Laidlaw Transit Inc.

- g. Laidlaw Transit Inc. provided minimal transportation services in fiscal year 2007-08. The district expensed \$7,349.74 directly to transportation finance code 721, Regular Summer School and the remaining \$26,424.97 was allocated based on American Student Transportation's vehicle miles to transportation finance codes 716, Noon Kindergarten; 717, Late Activity – Public; 720, Regular To and From School; 721, Regular Summer School; 723, Transportation of Pupils Attending Special Education Programs; 725, Between Schools - Public; and 733, Nonauthorized Transportation. The total amount paid to Laidlaw Transit Inc. should have been allocated based on Laidlaw Transit Inc.'s vehicle miles. However, since Laidlaw Transit Inc. no longer provides transportation services to ISD #877, Buffalo in fiscal year 2008-09 and did not provide the school with mileage figures for fiscal year 2007-08, we allowed the district to expense Laidlaw Transit Inc.'s expenditures directly to transportation finance codes 721, 723 and 733 based on the description and amount shown on the bills from the private carrier (see Exhibit D).

Transportation Opt Out

- h. The district expensed \$20,000.00 to account code 01-005-276-720-306-000 Misc. Expense. The \$20,000.00 was deposited into the Food Service Revenue account 02-005-279-701-141-000. This amount represents meal reimbursement for 400 students @ \$50.00 per student for those students who had voluntarily surrendered their "to and from school" transportation privileges, per Minnesota Statutes 123B.88, Subd.2. The \$20,000.00 was included in the district's allocation based on American Student Transportation's vehicle miles and should not have been. Since the students were not transported to and from school the, \$20,000.00 is not an allowable transportation expenditure. Therefore, the total transportation expenditures were decreased by \$20,000.00 (see Exhibit E).

Superintendent, Director of Finance & Operations and MARSS Data Processing Operator Salaries and Related Fringe Benefits

- i. Administrative Salaries (Superintendent, Director of Finance & Operations and MARSS Data Processing Operator), and related fringe benefits totaling \$29,070.82 were expensed

¹ Contractor who provides transportation serves exclusively in one transportation category.

to transportation finance code 720, Regular To and From School, based on an estimate only. These costs were then allocated to various transportation finance codes based on American Student Transportation's vehicle miles. At the time of the audit there were no time sheets or time studies to support the portion of their salaries that were expensed to transportation. In addition central office administrators and staff are not allowable transportation expenditures. Therefore, the total transportation expenditures were decreased by \$29,070.82 (see Exhibit E).

Minnesota Statutes, Section 123B.92, Subd. 5 District Reports, states in part:

- “ (a) Each district must report data to the department as required by the department to account for transportation expenditures.
- (b) Salaries and fringe benefits of district employees whose primary duties are other than transportation, including central office administrators and staff, building administrators and staff, teachers, social workers, school nurses, and instructional aides, must not be included in a district's transportation expenditures, except that a district may include salaries and benefits according to paragraph (c) for (1) an employee designated as the district transportation director, (2) an employee providing direct support to the transportation director, or (3) an employee providing direct transportation services such as a bus driver or bus aide.
- (c) Salaries and fringe benefits of the district employees listed in paragraph (b), clauses (1), (2), and (3), who work part time in transportation and part time in other areas must not be included in a district's transportation expenditures unless the district maintains documentation of the employee's time spent on pupil transportation matters in the form and manner prescribed by the department...”

Financial Accounting For Student Transportation Services, Cost Allocation Methods and Salary and Fringe Benefit Limitations, August 2005 (Revised March 2006), Salaries and Fringe Benefits, Page 4, states in part:

“The salaries and fringe benefits of the district employees who work part-time in transportation and part-time in other areas (e.g., custodian/bus driver, MARSS Secretary/Transportation Secretary) may only be included in transportation if there is written documentation. For part-time transportation employees, the following forms of documentation will be acceptable:

1. Timesheets. Timesheets must identify the hours worked on transportation responsibilities. The employee and his/her supervisor must sign and date the time sheets.
2. Time Studies. Time studies must be conducted at least three times during a school year. The first time period studied should be from August 15 through September 15; the second period should be from January 15 to February 15; and the third time period should be from April 15 through May 15. The time study must include the name of the employee, title, specific transportation job responsibilities, and the hours worked on those responsibilities. The employee

and his/her supervisor must sign and date the time study. *Attachment G* is a sample time study that may be used for this purpose.

Failure to sign and date any of the above documents will result in an employee's salaries/fringe benefits being disallowed. In addition, districts may be asked to produce position descriptions identifying a part-time employee's transportation responsibilities. General statements such as "works on transportation matters" will not be acceptable. An after-the-fact time study or survey will not be accepted. The time study must be done during the specified time periods."

Therefore, costs were recalculated and redistributed to the proper transportation finance codes as shown in Exhibits B, C, D, and E.

We recommend that finance codes: (a) 720, Regular To and From School, be decreased by \$82,752.21, (b) 714, Integration/Desegregation Transportation be decreased by \$1,234.76, (c) 716, Noon Kindergarten, be decreased by \$6,646.99, (d) 717, Late Activity – Public, be decreased by \$3,803.90, (e) 723, Transportation of Pupils Attending Special Education Programs, be decreased by \$3,537.76, (f) 725, Between Schools – Public, be decreased by \$4,119.16, (g) 733, Nonauthorized Transportation, be decreased by \$5,630.71, and (h) Total Transportation Costs, be decreased by \$107,725.49 (see Exhibit E).

Part III - Mileage Report, Form ED-01652-27, Page 2 (Paper Report)

3. The majority of costs were allocated based on number of miles buses traveled. An examination of the miles reported on the Miles, Hours or Routes by Category Report, Form ED-01652-27, Page 2 (Paper Report) revealed the following errors (see also Exhibit B):

American Student Transportation

- a. 714, Interdistrict Desegregation/Integration – Add 1,534 miles not reported.
- b. 721, Summer School Regular/Excess – Deduct 12,620 summer school 2008 miles, summer school costs were reported in fiscal year 2008-09.

We recommend that the mileage report be adjusted accordingly (see Exhibit B).

General Comments

- The district did not submit their cost allocation worksheets showing how they allocated transportation expenditures to the various transportation finance dimension codes to MDE. The worksheets were due by September 15, 2008.

In a memorandum to the Superintendent of Schools from Kelly Wosika, Pupil Transportation Specialist, MDE, dated May 14, 2008, Subject: 2007-08 Pupil Transportation Reporting Forms and Instructions, page 3, states in part:

“ Districts will be required to submit the worksheets on how they determined their cost for each category of transportation service. The worksheets are due to MDE on September 15th each year.”

We recommend that in future years the district submit their cost allocation worksheets showing how they allocated transportation expenditures to the various transportation finance dimension codes to MDE.

- The transportation contracts between the district and parents who transport their children to various nonpublic schools located outside the district boundaries do not state that the service is for transporting resident nonpublic school students from home to the district border only.

We recommend that in the future the contracts state that the service is for transporting resident nonpublic school students from home to the district border only.

- There was no written contract on file at the time of the audit for Technology Information Education Services (TIES) a private carrier who transported students to and from an interdistrict desegregation/integration school.

We recommend that in the future the district enter into an approved written contract for all transportation services. The contract should clearly state what services are to be provided, dates when services are to be performed, payment terms, insurance coverage and signed by both parties.

- Nine special education students' individual education plans were reviewed. Of the 9 student IEP's reviewed 5 did not address a transportation need that was different from the general student population and why special transportation is necessary for the student to make progress towards goals established in the student's IEP as shown below:

No mention of transportation in the IEP:

Sara Peter, grade 9
Adam Pipal, grade 2

Nathan Pierre, grade 5
Zack Pfeffer, grade 11

No mention of why special transportation services are needed:

William Marsten, grade 8

We recommend that in the future the student's IEP state that special transportation services are needed and the reason why those services are needed.

- The school board policy identifying which students would be transported to and from school stated that the district shall provide transportation for all resident students who reside two miles or more from the school. It also states that the district may, in its discretion, also provide transportation to any student to and from school for any other purpose deemed appropriate by the school board. At the time of the audit district personnel informed me that

students who lived less than 1 mile from school and did not live in a hazardous area were transported to and from school. Those students should have been coded with a MARSS Transportation Code of "05" Ineligible/Nonresident and the cost of transporting those students reported under UFARS Code 737 Ineligible/Nonresident Pupil.

We recommend that in the future the district update their transportation policy identifying all students who are eligible to ride the bus to and from school.

We also recommend that in the future the district code students and costs properly for those students who are transported to and from school, live less than 1 mile from school and do not live in a school board designated hazardous area.

- There was no school board policy, at the time of the audit, identifying traffic, drug or crime hazardous areas for those students who live less than 1 mile from school and offered daily transportation.

We recommend that in the future the school board develop a policy identifying traffic, drug or crime hazardous areas for those students who live less than 1 mile from school and offered daily transportation.

Auditors' Opinion

It is our opinion that with the exceptions noted in the findings listed above, the transportation data as reported by the school district has been handled in accordance with Minnesota Rules, Department Directives and Minnesota Statutes.

Examined By

Robert E. Kasper, Audit Supervisor, Administrative Services Division.

Acknowledgement

We take this opportunity to thank Superintendent Jim Bauck and his staff for their cooperation during the course of the audit.

**Independent School District #877, Buffalo
Number of Nonpublic Students Transported
Fiscal Year 2007-08**

<u>Name of Nonpublic School</u>	<u>No. of Students Transported</u>
1. Benilde-St Margaret	3
2. Breck School	2
3. Calvary Memorial Christian	2
4. Cedarcrest Academy	5
5. Christ Comm. Watertown	4
6. Fourth Baptist Christian	11
7. Good Shepherd	1
8. Heritage Christian Academy	7
9. Holy Name of Jesus	1
10. Holy Trinity, Winsted	2
11. Immaculate Heart of Mary	1
12. Marantha Christian Academy	5
13. Mary Queen of Peace, Rogers	10
14. Mayer Lutheran	2
15. Minnehaha Academy	3
16. Minnetonka Christian Academy	1
17. Mt. Olive Lutheran	7
18. Providence Academy	5
19. Redeemer Lutheran	2
20. River Christian Academy	1
21. St. Frances Xavier ^a	162
22. St. James Lutheran	15
23. St. Johns Lutheran	12
24. St. Michael Catholic	12
25. St. Peter and Paul	4
26. St. Timothy, Maple Lake	4
27. St. Vincent DePaul	1
28. Salem Lutheran ^a	39
29. Spring Hill School	2
30. Totino Grace	1
31. West Lutheran	19
Total	<u>346</u>

Footnote:

a. Located In District

Department of Education
Program Finance

May 26, 2009
District 877

2007-08 NONPUBLIC PUPIL TRANSPORTATION AUDIT RECOMPUTATION

	Reported <u>Amount</u>	Audited <u>Amount</u>
1. FY08 Nonpublic Regular FTEs	340	346
2. FY08 Nonpublic Excess FTEs	0	0
3. Total FY08 Nonpublic FTEs	340	346
4. Average Base Cost per FTE	\$ 390.54	\$ 390.54
5. Growth in General Education Allowance \$5074/\$4783	1.06084	1.06084
6. FY08 Nonpublic To and From Aid (3) x (4) x (5)	\$ 140,862.15	\$ 143,347.95
7. FY08 Nonpublic Nonregular Aid	\$ 0.00	\$ 0.00
8. Total FY08 Nonpublic Transportation Aid	\$ 140,862.15	\$ 143,347.95

Department of Education
Program Finance

May 26, 2009
District 877

2008-09 INTERDISTRICT DESEGREGATION TRANSPORTATION AUDIT RECOMPUTATION

	<u>Reported Amount</u>	<u>Audited Amount</u>
1. FY08 Finance 714 Expenditures \$	116,484.76	\$ 115,250.00
2. Total FY09 Interdistrict Desegregation Transportation Aid	\$ 99,653.81	\$ 98,419.05