

NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

**H. Carl McCall
STATE COMPTROLLER**



***STATE EDUCATION DEPARTMENT
SCHOOL DISTRICT TRANSPORTATION
COSTS***

2000-S-56

**DIVISION OF MANAGEMENT AUDIT AND
STATE FINANCIAL SERVICES**

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H. Carl McCall
STATE COMPTROLLER

Report 2000-S-56

Mr. Richard P. Mills
Commissioner
State Education Department
State Education Building
Albany, New York 12234

Dear Mr. Mills:

The following is our report addressing the State Education Department's monitoring of school district transportation costs.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. We list major contributors to the report in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

February 25, 2002

Division of Management Audit and State Financial Services

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EXECUTIVE SUMMARY

STATE EDUCATION DEPARTMENT SCHOOL DISTRICT TRANSPORTATION COSTS

SCOPE OF AUDIT

During the 1998-1999 school year, school districts outside New York City reportedly transported about 1.4 million students to and from school at a total cost of about \$1.1 billion. About \$592 million of this cost was reimbursed through State aid paid by the State Education Department (Department). About 59 percent of these students were transported by district-operated buses, 39 percent by contracted buses, and 2 percent by public transportation carriers. The districts are generally required by law to provide such transportation to all students residing within the district who do not live within a short distance of their school, regardless of whether that school is a public school within the district, a nonpublic school within the district, or a nonpublic school outside the district. Each district is responsible for making its own transportation arrangements, and the Department is responsible for monitoring these arrangements.

Our audit addressed the following questions about the Department's monitoring of school district transportation costs outside New York City for the period July 1, 1998 through October 15, 2000:

- Is the guidance provided by the Department sufficient to enable the districts to identify opportunities for improving the efficiency of their transportation services?
- Are school district reimbursement claims for transportation contract costs adequately reviewed by the Department?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found the Department does not analyze district transportation costs for the purpose of identifying improvement opportunities, but could identify such opportunities if it performed analyses of this kind. We also found that the Department's review of district transportation contracts and the reimbursement claims related to these contracts is not as thorough as it should be.

School districts are required by the State Education Law to transport students to and from school in an economical manner. To help the districts meet this requirement, the Department provides them with guidance and oversight. While the Department plays an important role with the districts, it mostly reacts to district requests for assistance and does not attempt to identify, and provide guidance to, districts with unusually high transportation costs. Also, the Department does not attempt to identify districts that have reduced their transportation costs through efficient practices so that the best of these practices can be shared with other districts. (See pp. 5-6)

We identified a number of districts with unusually high costs as well as practices that might help such districts reduce their costs. These practices include using specialized software to maximize the efficiency of bus routes and coordinating with nearby districts to share buses that transport students to nonpublic schools, especially when such schools are located outside a district. While a school district's transportation practices are generally a local issue, the cost of these practices is usually a statewide issue, because in most districts a high percentage of the cost is reimbursed by State aid. As a result, if a district's transportation practices are more costly than necessary, most of the excessive costs are paid by taxpayers in other school districts, who have no say in that district's practices. We recommend that the Department analyze district transportation costs to help the districts identify opportunities for improving the efficiency of their transportation services. (See pp. 7-10)

The Department awarded a number of grants to school districts for efficiency studies addressing various aspects of district operations, including student transportation services. We reviewed some of the studies and concluded that they had the potential to help districts make significant improvements in their transportation services. However, the potential benefits of the studies were not fully realized, because the Department did not follow up with the districts to determine whether they realized any benefits from the studies and did not share the results of the studies with other school districts. We recommend the Department document and share the benefits of such studies. (See pp. 10-13)

We examined the processes used by the Department to review contracts for transportation services and to review districts' reimbursement claims for these contracts. We found that unapproved contracts, inappropriate contract award practices, and excess claims may not always be detected. We recommend the Department improve its controls over transportation contracts and the related reimbursement claims. (See pp. 15-19)

Comments of Department Officials

Department officials agree with most of our recommendations and indicate that actions have been or will be taken to implement them.

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INTRODUCTION

Background

Generally, each school district in New York State is required by Chapter 3635 of the State Education Law to provide transportation to and from school to all students residing within the district who are in need of such transportation. A student is considered to be in need of transportation if the student lives more than a certain distance away from his or her school (this distance varies depending on the student's grade level and can vary from district to district). Such a student must be transported to and from school regardless of whether the student attends a public school within the district, a nonpublic school within the district, or a nonpublic school outside (but within a certain distance of) the district.

The costs incurred by a school district in transporting its students to and from school may be eligible for reimbursement by the State Education Department (Department) in accordance with complex State aid formulas that take various factors into account. On the basis of these formulas, a district may be reimbursed for as little as 6.5 percent, and for as much as 90 percent, of its eligible transportation costs, and on average districts are reimbursed for about 75 percent of these costs. The costs eligible for reimbursement include the costs of acquiring and operating buses; contracting for bus service; using public transportation carriers to transport students; and related administrative and support activities, including the acquisition and use of specialized software for developing bus routes. Districts are reimbursed for these costs by submitting an annual reimbursement claim to the Department for its review and approval.

According to information maintained by the Department, during the 1998-99 school year, nearly 2 million students were transported to and from school by the more than 700 school districts in New York State at a total cost of more than \$1.5 billion, \$807 million of which was reimbursed through State aid paid by the Department. About 1.4 million of these students were transported by school districts outside New York City (these districts are the focus of this audit report), while about 576,000 students were transported by the districts in New York

City. During this year, 59 percent of the districts outside New York City were transported by district operated buses, 39 percent by contracted buses, and 2 percent by public transportation carriers.

Each district is responsible for making its own arrangements for transporting students to and from school. The Department is responsible for monitoring these arrangements. Since the transportation costs of most districts are largely reimbursed by the State, a district may not always have a strong incentive to ensure that its transportation services are provided as efficiently as possible. Therefore, the Department is often in the best position to identify opportunities for improving the efficiency of a district's transportation services.

Audit Scope, Objectives and Methodology

We audited the Department's oversight of school district transportation costs outside New York City for the period July 1, 1998 through October 15, 2000. The objectives of our performance audit were to determine (1) whether the guidance provided by the Department is sufficient to enable the districts to identify opportunities for improving the efficiency of their transportation services, and (2) whether school district reimbursement claims for transportation contract costs are adequately reviewed by the Department. We did not include New York City school districts in our audit because students in these districts are generally transported to and from school by public transportation carriers, while most of the students outside New York City are transported by bus. Because of this difference, school district transportation practices in New York City are not likely to be comparable to the practices outside New York City.

To accomplish our audit objectives, we interviewed Department and school district officials, and reviewed records maintained by the Department and selected districts. We also developed and sent a questionnaire to 150 randomly selected school districts to gain an understanding of their transportation programs. In addition, we visited eight districts to examine their transportation practices and identify possible reasons for wide differences among districts in the average annual cost per student transported. We selected the eight districts to include a mixture of rural, urban and suburban districts, and districts that ranged from high to low in their average annual cost per student transported. The eight districts we visited were the Cohoes City

School District in Albany County, the Lansingburgh Central School District in Rensselaer County, the Menands Union Free School District in Albany County, the New York Mills Union Free School District in Oneida County, the Remsen Central School District in Oneida County, the Saugerties Central School District in Ulster County, the Schodack Central School District in Rensselaer County, and the Walkkill Central School District in Ulster County.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of Department Officials

A draft copy of this report was provided to Department Officials for their review and comment. Their comments have been considered in the preparation of this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the

State Education Department shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

IMPROVING THE EFFICIENCY OF DISTRICT TRANSPORTATION PRACTICES

We found that the Department provides useful guidance to school districts in their administration of transportation services. However, the Department mostly reacts to district requests for assistance and does not attempt to identify, and provide guidance to, districts with unusually high transportation costs, and does not attempt to identify districts that have reduced their transportation costs through efficient practices so that the best of these practices can be shared with other school districts. When we analyzed district transportation costs and visited selected districts, we identified a number of districts with unusually high costs. We also identified practices that might help districts reduce their costs. We recommend the Department perform similar analyses and use the results of the analyses to help districts improve the efficiency of their transportation services.

Analyzing Transportation Costs and Practices

School districts are required by Chapter 3635 of the Education Law to transport students to and from school in a reasonable and economical manner. The Commissioner of Education has held that, if a district fails to consider costs because they would be paid by taxpayers elsewhere in the State, the district would not be fulfilling its responsibility to operate in an economical manner. To help the districts fulfill this responsibility, the Department provides guidance to the districts and oversees their activities. In providing this guidance and oversight, the Department is responsible for promoting cost-effective business practices and identifying inefficiencies that need to be corrected. In its fulfillment of these responsibilities, the Department can help the districts identify opportunities to improve the efficiency of their operations.

The Department's Transportation Unit is responsible for overseeing school districts' transportation services and providing guidance to the districts in matters relating to student transportation. The Unit consists of four employees, two of whom are primarily responsible for reviewing district contracts

with bus service providers and two of whom respond to telephone inquiries from the districts. According to Unit staff, the Unit reviews about 8,000 contracts or contract extensions a year, and receives 20 to 25 e-mails a day regarding all aspects of student transportation.

We examined the activities performed by the Transportation Unit and found that, while the Unit plays an important role in providing information to the districts, it mostly reacts to district requests for assistance and does not attempt to identify, and provide guidance to, districts with unusually high transportation costs. In addition, the Unit does not attempt to identify districts that have reduced their transportation costs through efficient practices so that the best of these practices can be shared with other school districts. In fact, we found that the Unit does not perform any analyses of district transportation costs. As a result, the Department is less able to help the districts identify opportunities to improve the efficiency of their transportation services. Also, considering that State aid for transportation services totals about \$807 million a year, we question the adequacy of the staffing resources allocated to monitoring these costs.

While most aspects of a school district's transportation practices are a local issue, the cost of these practices is usually a statewide issue, because in most districts a high percentage of the cost is reimbursed by the State. As a result, if a district's transportation practices are more costly than necessary, most of the excessive costs are paid by taxpayers in other school districts, who have no say in that district's practices. It is the Department's responsibility to protect the interests of these other taxpayers by monitoring the efficiency of transportation practices in all school districts. While the improvement opportunities identified by such monitoring may result in relatively small cost savings for individual school districts, the cumulative savings to taxpayers statewide could be considerable.

To demonstrate the potential benefits of analyzing district transportation costs for the purpose of identifying best practices that can be shared with other districts, we analyzed the transportation costs reported by 683 districts outside New York City for the 1998-99 school year (we included all the districts outside New York City, except for a few small unusual districts). These costs were reported on the annual State aid reimbursement claim forms submitted to the Department by the

districts, and therefore included all the transportation expenses believed by the districts to be eligible for reimbursement. At the time of our analysis, these claim forms had yet to be audited by the Department, so any adjustments to the expenses claimed by the districts had yet to be made by the Department.

According to these reimbursement claims, during the 1998-99 school year, the districts outside New York City incurred about \$989 million in reimbursable costs while transporting 1,453,548 students to and from school, for an average cost of about \$680 for each student who was transported during the year. To provide a basis for our analysis, we calculated the average cost per student transported for each of the districts outside New York City. We then compared the district averages to one another and to the overall average of \$680 per student.

We found that the average transportation cost per student varied considerably among the districts, and was often significantly higher than the overall statewide average of \$680 per student. For example, in 27 districts, the cost of transporting students to and from school averaged more than \$1,500 per student, and in 12 districts, this cost averaged more than \$3,000 per student. In comparison, in 41 districts, this cost averaged less than \$400 per student. To further facilitate our analysis, we grouped the districts by county. We found that, even within the same county, the average transportation cost per student often varied considerably among the districts. (See Exhibit A, which shows the highest and lowest district transportation cost per student within each county.)

To identify possible reasons for the wide difference in cost among the districts and determine whether any of the practices used by the lower-cost districts could help the higher-cost districts reduce their costs, we visited eight districts and met with district officials to discuss their transportation practices. The eight districts ranged from high to low in their average transportation cost per student, and included a mixture of rural, urban and suburban districts.

We identified certain practices in each of the higher-cost districts that may have contributed to their higher-than-average costs. For example, one of the districts, with an average cost of more than \$900 per student, buses about 225 of its students to private schools outside the district at a cost of about \$500,000 a year (an average cost of about \$2,200 per student). Even though the district is permitted by the Education Law to pick up such students at centralized drop-off points, the district allows

all these students to be picked up at their homes. The district does not share bus service with other school districts that transport students to these same private schools, a cost-saving practice that is encouraged by the Department.

Another district, with an average cost of about \$880 per student, purchases fuel for its buses from a local vendor rather than through the State contract. Since fuel purchased through the State contract cost about 64 cents a gallon less than fuel purchased from local vendors in the district and since the district's buses must travel unusually long distances (the district covers an unusually large area), this practice could significantly increase the district's total transportation costs. A district official told us they do not use the State contract for fuel because the fuel would have to be stored on school grounds, and the school board will not permit this.

We further determined that this large rural district does not use computer routing software. However, the district official we spoke with told us he had only recently learned that the cost of the software was eligible for State aid reimbursement, and he told us he may purchase the software for the district, which has many complicated routing problems. If the software helps the district develop new and more efficient routes, the district's transportation costs could be lowered. Transportation efficiency studies often mention the use of routing software as an important tool in reducing the cost of district bus transportation services.

We note that many other districts also might benefit from the use of such software, as only 38 percent of the 120 districts that responded to our survey of 150 school districts outside New York City indicated that they use computerized software in the development of their bus routes. The software is used by two of the lower-cost districts we visited, and officials from one of these districts (a rural district with an average cost of about \$580 per student) told us they are happy with the routing software and believe it has made their transportation program more efficient. We recommend the Department encourage districts to use this software by providing them with examples of the cost savings that have been realized by districts using the software.

We also determined that two of the districts incur very high costs in transporting their special education students to schools located outside the district (one district paid about \$12,000 per student to bus 45 special education students to and from

school, the other district paid about \$6,800 per student to bus about 70 special education students to and from school). Both districts contract for transportation services. While many of the costs associated with special education programs cannot be controlled by the districts (for example, children with certain disabilities must receive a certain degree of supervision on the bus ride and must attend certain kinds of schools, which may not be located close to some districts), transportation costs can be reduced if a district shares bus services with other districts that send students to the same schools. However, neither of these districts shares bus services with other districts. We note that one of the other districts we visited is located close to one of these two districts, and buses most of its special education students to the same locations as this district.

We further determined that one of the lower-cost districts (its average cost was about \$350 per student) has implemented a potentially cost-saving practice, as it has recently started leasing its bus fleet instead of purchasing new buses. According to district officials, this practice has cut the district's annual capital expenditures by more than one-third, and has reduced the district's outlay for maintenance and parts by \$30,000 to \$50,000 a year. It is possible that this practice could yield similar savings for other districts that own their own buses.

We recognize that a district's transportation costs are influenced by many factors, some of which cannot be controlled by the district, such as its size, the number of special education students living in the district, or the district's distance from the schools that must be attended by these special education students. We also recognize there are many legitimate reasons for transportation costs to vary from district to district, and a variance by itself does not necessarily indicate an inefficiency. However, some transportation practices are inefficient, and since the costliness of these inefficiencies is largely subsidized by taxpayers in other districts, the Department should protect the interests of the taxpayers by identifying, and helping to improve, such inefficient practices. Our analysis of transportation costs and practices shows that, if similar types of analyses were performed by the Department on a regular basis, opportunities for improving the efficiency of district transportation services could be identified. We therefore recommend that the Department perform such analyses and use the results of the analyses to help the districts identify opportunities for improving the efficiency of their transportation services.

Recommendations

1. Regularly analyze the school districts' transportation costs to identify districts with high costs per pupil and districts with low costs. Follow up with the high-cost districts to determine why the costs are high, and suggest actions that could be taken to reduce the costs. Follow up with the low-cost districts to determine whether they use practices that could help other districts reduce their transportation costs, and if so, make these practices known to the other districts.

(Department officials indicate that they partially agree with this recommendation. They indicate that the Department funded a three-year project in the Spring of 2001, which will require school officials to analyze their own transportation programs. Under the project, districts will complete a self-assessment questionnaire and will be provided with a manual on pupil transportation costs, including best practices. However, the Department did not indicate agreement to regularly analyze school district transportation costs and to follow-up with high and low cost districts as we recommended.)

Auditors' Comments: We continue to urge the Department to analyze school district per pupil transportation costs. Such analysis is effective in helping to identify school district best practices and improvement opportunities. Moreover, the computer data and software needed for the analysis are readily available and help to make it relatively efficient.

2. Inform the school districts about the benefits of routing software, and provide the districts with examples of the cost savings that have been realized by districts using the software.

(Department officials agree with this recommendation.)

Helping Districts Reduce Transportation Costs

The Department has awarded a number of grants to school districts for efficiency studies addressing various aspects of a district's operations, including student transportation services. During the 1997-98 and 1998-99 school years, more than

\$400,000 in such grants were awarded to 32 districts for efficiency studies addressing transportation services. We contacted officials in 10 of these 32 school districts and asked them whether the efficiency studies had helped them improve their transportation services. Officials in all ten districts told us that the studies were valuable tools for improving the operation of their transportation programs. Officials in seven of the districts told us they had implemented recommendations from the studies, and as a result, had reduced costs, improved efficiencies and enhanced safety in their transportation programs. Officials in the other three districts told us that while they had not yet implemented recommendations from the studies, they found the studies useful. For example, one official noted that the studies had provided the impetus for improvements in other district programs.

In one of the efficiency studies, the Orchard Park Central School District, the Town of Orchard Park, and the Village of Orchard Park contracted with a consultant in September 1998 for assistance in determining the feasibility of sharing transportation-related resources. The study focused on the evaluation of the pros and cons of the development of a new transportation facility for the school district along with any related services that might be provided to the Town or Village. The study identified the need to move the existing district transportation facility from a busy traffic hub and make extensive repairs to the facility's structure. The study also determined that the Town needed a larger transportation facility. The study therefore recommended that the district relocate its transportation facility to a site large enough to accommodate the needs of both the district and the Town. A district official told us that an appropriate site has been found and the municipalities have begun to share supplies. We believe such regional sharing of resources has the potential to yield cost savings for all participants. In other studies, districts also have implemented recommendations made in the efficiency studies. For example, Half Hollow Hills CSD established a multi-year plan for the replacement of buses to reduce high maintenance costs. They also changed the staffing in their maintenance department as recommended by the study. Also, NorthRose-Wolcott CSD is implementing a study recommendation to develop a transportation schedule that would allow them to lengthen the k-2 instructional day. If the trial run proves successful they will permanently institute the changes.

While we did not verify the benefits reported by the districts we contacted, it appears that efficiency studies of school district transportation services have the potential to help districts make significant improvements in their transportation services. To ensure that such improvements are realized, the Department should follow up with the districts receiving the grants to determine whether their transportation services were improved as a result of the study, and verify any such improvements on a selected basis. Moreover, to maximize the benefits of studies that do result in improvements, the Department should share the results of successful studies with other school districts, so that other districts can make similar improvements in their own transportation services.

However, we found the Department did not establish a process for following up with districts to determine whether they implemented study recommendations or realized any benefits from the recommendations. The districts were required only to submit to the Department a copy of the report resulting from the study. We also found that the Department did not share the results of the studies with other school districts, and in fact, did not even share the reports with the Transportation Unit, which is responsible for overseeing school district transportation services. As a result, the potential benefits of the studies were not fully realized.

No grants for efficiency studies were awarded by the Department in the 1999-2000 and 2000-2001 fiscal years, because such grants are no longer funded by the Legislature. We note that, if the Department analyzed district transportation costs for the purpose of identifying improvement opportunities, as we recommend in this report, efficiency grants could be used to help districts address the opportunities identified by the Department.

In addition, in the questionnaire we sent to 150 school districts outside New York City, we asked the districts how they obtained information from the Department (e.g., by phone, through Department bulletins, from the Department's Internet site) and whether they were satisfied with the guidance they received on matters relating to student transportation. The 120 districts that responded to the questionnaire indicated that, generally, they were highly satisfied with the information they received about student transportation. They also indicated that they prefer to contact the Department by telephone, and use the Department's bulletins and Internet site infrequently (only 30 percent of the

responding districts used the Department's website and only 21 percent read Department bulletins, while 68 percent of the districts preferred to talk directly to Department staff).

While answering questions by telephone is the most appropriate way to address some matters, it may not be an efficient method for providing information that is relevant to more than one district. Use of a broadcast fax or an internet message are more efficient and effective ways to address common information needs of multiple districts. The Department's Internet site has the potential to be an excellent source of information for the districts, but it cannot achieve this potential if it is not used by the majority of the districts. We recommend that the Department encourage the districts to use the Internet site and take actions to increase the use of the site by the districts.

Recommendations

3. Follow up with the districts that have received grants for efficiency studies relating to transportation services to determine whether their transportation services were improved as a result of the studies, verify these improvements on a selected basis, and share the results of successful studies with other school districts. Use the Department's Internet site as well as broadcast fax messages to help share the results of the successful studies.

(Department officials agree to implement this recommendation to the extent that staffing levels permit.)

4. Encourage the districts to use the Department's Internet site and take actions to increase the use of the site by the districts. Establish a goal of making the Internet site the districts' primary source of information for matters relating to student transportation.

(Department officials agree with this recommendation.)

REIMBURSING DISTRICT COSTS FOR TRANSPORTATION CONTRACTS

The Department must approve all school district contracts for transportation services. We examined the process used by the Department to review these contracts. We also examined the process used by the Department in reviewing the reimbursement claims related to these contracts. We identified control weaknesses in both these processes. As a result of these weaknesses, unapproved contracts, inappropriate contract award practices, and claims in excess of allowable amounts may not always be detected by the Department.

According to Section 156.1 of the Department's Regulations, all school district contracts for transportation services must be approved by the Department, and should not be approved unless they meet various requirements. For example, the contracts must be competitively bid and, if they include annual extensions, the extensions must be submitted for the Department's approval and cannot provide for cost increases of more than a certain amount. Transportation contracts and contract extensions are reviewed and approved by the Department's Transportation Unit. To ensure that all relevant requirements are met, Unit staff are expected to review the contracts in accordance with a checklist of requirements. The Transportation Unit is responsible for the review and approval of approximately 8,000 transportation contracts or contract extensions each year.

Once a contract or contract extension is approved, it should be filed in the State Aid Claims Unit (Claims Unit), which processes all district reimbursement claims, including claims related to transportation contracts. The reimbursement claims are paid when they are submitted to minimize delays in reimbursing the districts. The claims are audited in the following year by the Claims Unit to ensure that they comply with Department requirements, and any audit adjustments are applied to the current year's claim. Claims Unit staff are expected to audit the claims in accordance with a checklist of these requirements.

To determine whether school district transportation contracts were reviewed in accordance with Department requirements, we

selected a judgmental sample of ten school districts and examined all 256 transportation contracts and contract extensions that were submitted by these districts, and approved by the Transportation Unit, for the 1999-2000 school year. In our examination, we compared the approved contracts and contract extensions to the checklist of requirements used by the Transportation Unit. Since these contracts and contract extensions had been approved by the Unit, they should have met all the relevant requirements on the checklist.

However, we found that 62 of the 256 contracts or contract extensions did not meet at least one relevant requirement on the checklist, and in total failed to meet 174 relevant requirements from the checklist. For example, 26 of the contracts did not include the required bid tabulation, seven of the contracts were not advertised in accordance with Department regulations, and one contract was extended for 23 consecutive years without being rebid. These 62 noncompliant contracts or contract extensions were submitted by nine of the ten selected school districts. We conclude that the Department's process for reviewing transportation contracts is not working as intended. As a result, inappropriate contract award practices may not always be detected by the Department, and the resulting contract costs may be higher than necessary.

To evaluate the adequacy of the Department's process for reviewing reimbursement claims related to transportation contracts, we examined the claims submitted by the ten selected districts for the 1999-2000 school year. In accordance with the Department's process, these claims were paid when they were submitted, but had yet to be audited by the Claims Unit. We compared the districts' transportation contract claims to the checklist of requirements used by the Claims Unit in its audit process. Since the checklist requires that such claims be evaluated for compliance with contract terms, we also compared the claims to the related contracts. We determined that some of the claims did not comply with contract terms and certain other Department requirements. In addition, because 27 of the contracts were not on file in the Claims Unit, the appropriateness of the claims relating to these contracts could not be evaluated. As a result, in total, six of the ten districts may have been overpaid as much as \$186,645 on their transportation claims for the year, which together totaled about \$22.5 million.

If the Department's audit process worked as intended, the missing contracts and the other potential overpayments would be identified when the claims of the six districts were audited by the Claims Unit. However, when we reviewed a prior year's claim from one of these districts, we found that the missing contracts were not identified when the claim was audited by the Claims Unit. Rather, no audit adjustments were made to the claim, even though the district was paid a total of \$90,369 for 12 transportation contracts that were not on file in the Claims Unit, and according to Department records, had never been approved by the Transportation Unit. During the audit process, the payments made on these missing contracts should have been disallowed until copies of the approved contracts could be provided for review. Moreover, since the transportation contract is the primary source of information about the types and amounts of transportation expenses that may be legitimately claimed by a district that contracts for its bus services, we question how the Claims Unit can audit a district's transportation claims in the absence of these contracts. We attempted, but were unable, to obtain copies of the 12 missing contracts from the school district. We recommend that the Department review the payments made in relation to these contracts, and determine whether any of the payments should be disallowed.

We therefore conclude that the Department's process for reviewing reimbursement claims relating to transportation contracts may not work as intended. Even if the process works as intended for some claims, since the claims are not audited until at least a year after they are paid, missing contracts are not identified in a timely manner and overpayments are not recovered in a timely manner. We recommend that the Department establish procedures for ensuring that a transportation contract is approved before payments are made on claims relating to the contract, and consider establishing other pre-payment review procedures for identifying claims with a high risk of failing to comply with critical Department requirements. In developing these procedures, the Department should increase the coordination between the Transportation Unit and the Claims Unit in order to take advantage of work already performed by the Transportation Unit in its review and approval of transportation contracts.

We also identified a systematic weakness in the audit process used by the Claims Unit. According to Department regulations, a school district may not claim more than \$500 in miscellaneous transportation expenses for any single school year. However,

we found that the Claims Unit does not examine the individual expense categories claimed by a district. Rather, it only examines the total expenses claimed by a district. As a result, the Claims Unit cannot identify, and make adjustments to, miscellaneous transportation expense claims in excess of \$500.

When we examined all the reimbursement claims submitted by the districts outside New York City for the 1998-99 school year, we identified a total of \$327,1144 in miscellaneous transportation expense claims in excess of \$500. Eleven districts claimed more than \$10,000 in miscellaneous transportation expenses for the year, including one district that claimed \$24,482 in such expenses. At the time of our review, the claims had yet to be audited by the Claims Unit. Department officials told us the audit process would be modified to address individual expense categories.

In addition, we determined that the process used by the Claims Unit in reviewing claims for payment duplicates many of the steps taken by the Transportation Unit in its contract approval process. For example, both units review transportation contracts for documentation indicating that the contract was appropriately advertised and competitively bid, and both units perform calculations to ensure that cost increases in contract extensions are not excessive.

Department officials told us they are making improvements in their processes for reviewing transportation contracts and related reimbursement claims. In particular, they say they are establishing a database for maintaining information related to transportation contracts, and this information should be available to Claims Unit staff to provide better assurance that claims will be not paid for contracts that have not been finalized or approved.

Recommendations

5. Do not approve transportation contracts unless they meet Department requirements.

6. Establish procedures for ensuring that reimbursements are not paid for contracts that have not been approved. Consider establishing other pre-payment review procedures for identifying claims with a high risk of failing to comply with critical Department requirements. In developing these procedures, increase the coordination between the Transportation Unit and the Claims Unit.

(Department officials agree with recommendations number 5 and number 6.)

7. Review the audited payments made in relation to the 12 missing transportation contracts, and determine whether any of the payments should be disallowed.

(Department officials disagree with this recommendation. They state that the audit does not mention the districts or contracts in question. As a result, it is not possible to respond directly to the recommendation. However, the Department thinks that the problems cited by the audit were due to incorrect contracts numbers, not missing contracts. After further review, the Department contended that the disallowable expenses would be \$3,496. Officials indicated that a new contract database linked to Schedule J should solve the problem in the future.)

Auditors' Comments: Our follow-up indicates that problems with missing and incorrectly numbered contracts have been resolved. We conclude that there was \$10,068 in excess claiming resulting in an overpayment of \$4,631.

8. Modify the process for auditing claims so that individual expense categories are audited.

(Department officials disagree with this recommendation. They indicate that it appears to run counter to joint efforts of OSC and the Department to implement risk-based analysis for desk audits, rather than performing detailed desk audits.)

Recommendations (Cont'd)

Auditors' Comments: We agree with joint efforts to implement risk-based analysis for desk audits. As a clarification, our intention was that this recommendation would pertain uniquely to miscellaneous expenses that were being claimed in excess of the \$500 limitation. During the audit, Department officials told us that their processes would be modified to address this situation.

9. Eliminate unnecessary duplication of effort between the Transportation Unit and the Claims Unit.

(Department officials agree with this recommendation.)

**Range in Average Transportation Cost Per Student
Among the School Districts in Each County
For the 1998-99 School Year**

County	High	Low
ALBANY	\$6,788.20	\$414.06
ALLEGANY	\$1,046.27	\$468.37
BROOME	\$1,093.05	\$286.27
CATTARAUGUS	\$1,122.10	\$272.62
CAYUGA	\$894.83	\$418.34
CHAUTAUQUA	\$1,088.94	\$340.96
CHEMUNG	\$507.99	\$355.91
CHENANGO	\$704.03	\$446.67
CLINTON	\$4,032.62	\$398.88
COLUMBIA	\$1,095.90	\$557.81
CORTLAND	\$652.69	\$460.60
DELAWARE	\$1,164.13	\$394.15
DUTCHESS	\$1,454.47	\$458.80
ERIE	\$977.85	\$319.30
ESSEX	\$1,803.90	\$539.81
FRANKLIN	\$791.92	\$390.59
FULTON	\$839.28	\$445.06
GENESEE	\$1,160.55	\$369.98
GREENE	\$776.73	\$592.80
HAMILTON	\$1,531.53	\$1,067.22
HERKIMER	\$1,105.76	\$408.50
JEFFERSON	\$937.39	\$449.64
LEWIS	\$935.20	\$612.23
LIVINGSTON	\$947.30	\$434.58
MADISON	\$1,042.90	\$290.59
MONROE	\$1,241.82	\$369.63
MONTGOMERY	\$1,108.70	\$630.62
NASSAU	\$3,248.96	\$156.62
NIAGARA	\$1,101.38	\$455.54
ONEIDA	\$1,019.65	\$345.36
ONONDAGA	\$5,945.12	\$444.71
ONTARIO	\$663.40	\$444.31

ORANGE	\$1,099.00	\$168.05
ORLEANS	\$714.63	\$429.21
OSWEGO	\$1,037.60	\$460.86
OTSEGO	\$1,500.00	\$232.28
PUTNAM	\$1,352.29	\$699.72
RENSSELAER	\$1,671.99	\$200.97
ROCKLAND	\$1,291.50	\$441.37
ST. LAWRENCE	\$1,363.33	\$432.50
SARATOGA	\$843.73	\$341.44
SCHENECTADY	\$837.10	\$429.89
SCHOHARIE	\$873.66	\$480.71
SCHUYLER	\$731.84	\$635.46
SENECA	\$703.34	\$415.62
STEUBEN	\$1,017.94	\$243.42
SUFFOLK	\$3,713.68	\$156.32
SULLIVAN	\$908.89	\$592.81
TIOGA	\$708.29	\$512.26
TOMPKINS	\$731.57	\$509.74
ULSTER	\$923.99	\$552.56
WARREN	\$9,335.43	\$355.68
WASHINGTON	\$822.16	\$389.65
WAYNE	\$854.43	\$492.77
WESTCHESTER	\$6,607.79	\$390.06
WYOMING	\$983.73	\$499.98
YATES	\$747.88	\$622.44

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January 3, 2002

Mr. Jerry Barber
Audit Director
Office of the State Comptroller
A.E. Smith State Office Building
Albany, New York 12236

Dear Mr. Barber:

Below are the State Education Department's responses to the State Comptroller's Draft Report (2000-S-56) regarding the State Education Department's monitoring of school district transportation costs.

Recommendation 1: Regularly analyze the school districts' transportation costs to identify districts with high costs per pupil and districts with low costs. Follow up with the high-cost districts to determine why the costs are high, and suggest actions that could be taken to reduce the costs. Follow up with the low-cost districts to determine whether they use practices that could help other districts reduce their transportation costs, and if so, make these practices known to the other districts.

We agree, in part, with this recommendation. The Department funded a three-year project in the spring of 2001, which will require school officials to analyze their own district transportation programs. A comprehensive self-assessment questionnaire will be developed for school districts to review their transportation operations. The questionnaire, which will be completed twice by all districts during the next three years, will cover regulatory compliance and safety in school district and contractor operations. The project will also supply districts with a complete manual on pupil transportation operations including best practices.

While this approach will provide districts with valuable information, the Department recognizes that there is no simple method for determining the efficiency and cost-effectiveness of a district's transportation program. Each district faces different circumstances which must be factored into its analysis.

Recommendation 2: Inform the school districts about the benefits of routing software, and provide the districts with examples of the cost savings that have been realized by districts using the software.

We agree with the recommendation. The State Education Department will inform school districts about the benefits of computerized routing through workshops, conferences and our website.

Recommendation 3: Follow up with the districts that have received grants for efficiency studies relating to transportation services to determine whether their transportation services were improved as a result of the studies, verify these improvements on a selected basis, and share the results of successful studies with other districts. Use the Department's Internet site as well as broadcast fax messages to help share the results of the successful studies.

We agree, in part, with this recommendation. The State Education Department will, to the extent that our staffing levels permit, follow up with school districts that have received grants for efficiency studies.

Recommendation 4: Encourage the districts to use the Department's Internet site and take actions to increase the use of the site by the districts. Establish a goal of making the Internet site the districts' primary source of information for matters relating to student transportation.

We agree with this recommendation. The State Education Department will continue to encourage school officials, parents, and others, to make use of our website, through workshops and conferences, and by continuing to include a request on staff voice mail greetings, that the caller check our website before leaving a telephone message.

Recommendation 5: Do not approve transportation contracts unless they meet Department requirements.

We agree with the recommendation. Subsequent to the period covered by this audit the State Education Department has developed and implemented a contract database with many edits to prevent errors and has linked this database to the State Aid claim process on Schedule J. The database determines automatically if a bid is required, checks for prior year contract approval before allowing an extension to be approved, calculates and tracks late contract filings and executions, and generates problem and approval letters to districts.

Recommendation 6: Establish procedures for ensuring that reimbursements are not paid for contracts that have not been approved. Consider establishing other pre-payment review procedures for identifying claims with a high risk of failing to comply with critical Department requirements. In developing these procedures, increase the coordination between the Transportation Unit and Claims Unit.

We agree with the recommendation. Subsequent to the period covered by this audit the State Education Department has developed and implemented a contract database with many edits to prevent errors and to prevent claiming of contract expenses on Schedule J prior to contract approval. The computer system will eliminate the duplicative checking previously done by the Pupil Transportation Unit and the State Aid Claims Unit.

Recommendation 7: Review the audited payments made in relation to the 12 missing transportation contracts, and determine whether any of the payments should be disallowed.

We disagree with the recommendation. The audit does not mention the district or the contracts in question. As a result, it is not possible to respond directly to this recommendation. However, based on the amount listed in the audit and a previous request from the Office of the State Comptroller, we think that most of the problems cited were due to incorrect contract numbers entered on Schedule J, not missing contracts. After review of the contracts and expenses, the aid disallowance would be \$3,496, not \$90,369 as stated in the audit report. This problem should be eliminated with the new contract database being linked to the Schedule J.

Over the past few years, SED has, with the concurrence of OSC, focused on risk-based analysis for desk audits rather than performing detailed desk audits of every expense. SED established audit triage parameters, in conjunction with OSC. These parameters are used to identify those districts with significant changes and a more thorough desk audit carved out for those high-risk districts. While SED believes that the existing audit triage parameters agreed to by OSC are sufficient to identify material exceptions, the Department will continue to work with OSC to update and refine this process.

Recommendation 8: Modify the process for auditing claims so those individual expense categories are audited.

We disagree with the recommendation. This recommendation would appear to run counter to the joint efforts of OSC and SED to implement a risk-based analysis for desk audits. SED and OSC have established audit triage parameters, which have become the standard operating procedure for both agencies. The Department recommends that consideration be given to excluding this recommendation from the final report.

Recommendation 9: Eliminate unnecessary duplication of effort between the Transportation Unit and the Claims Unit.

We agree with this recommendation. The State Education Department has developed a contract database. This computerized process will eliminate the need for the Claims Unit to double-check the Pupil Transportation Unit's approval of contracts.

Questions regarding responses to recommendations 1-4 should be directed to Charles Szuberla at (518) 474-2238. Questions regarding responses to recommendations 5-9 should be directed to Burt Porter at (518) 486-2422.

Sincerely,



Richard H. Cate

cc: Charles Szuberla
Burt Porter