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OFFICE OF THE STATE COMPTROLLER

April 1, 2004

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

Re: Report 2003-F-40

Dear Mr. Mills:

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 have reviewed the actions taken by officials of the New York State Education Department (Department) as of November 10, 2003, to implement the recommendations contained in our audit report, *School District Transportation Costs* (Report 2000-S-56). Our report, which was issued on February 25, 2002, reviewed the Department's oversight of school district transportation costs outside New York City.

Background

School districts in New York State are required by Section 3635 of the State Education Law to provide transportation to and from school to all students residing within the district who do not live within a short distance of their school and are in need of such transportation. A major portion of the costs incurred by a school district in transporting its students to and from school may be eligible for reimbursement by the Department. Therefore, the Department is often in the best position to identify opportunities for improving the efficiency of a district's transportation services. The Department reports that, during the 2001-02 school year, approximately 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 \$1.9 billion, nearly \$1 billion of which was reimbursed through State aid paid by the Department.

Summary Conclusions

In our prior audit, we found that the Department did not analyze these transportation costs for the purpose of identifying improvement opportunities, but could have identified such opportunities if it had done so. We identified a number of districts with unusually-high costs as well as practices that might help the districts reduce their costs, such as 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 those located outside a district. We also determined that studies funded by Department grants to individual school districts could help districts make significant improvements in their transportation services. However, the potential benefits were not fully realized because the Department did not follow up with the districts, and did not share the study results with other school districts. We further determined that the Department could be more thorough in its review of school district transportation contracts and the reimbursement claims related to these contracts.

In our follow-up review, we found that the Department has made progress in implementing the recommendations contained in our prior audit.

Summary of Status of Prior Audit Recommendations

Of the nine prior audit recommendations, Department officials have implemented four recommendations, have partially implemented four recommendations, and have not implemented one recommendation.

Follow-up Observations

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.

Status - Partially Implemented

Agency Action - The Department received funding for a three-year project to develop and implement a self-assessment tool that school officials could use to analyze their district transportation programs. The Department has completed its first draft of the comprehensive self-assessment questionnaire, which it tested in the spring of 2003 using 18 school districts throughout upstate New York. The 18 districts have completed and returned the questionnaires for review by Department staff. The Department anticipated that the self-assessment tool would be ready to be distributed to all the districts by January 2004.

According to the Department, the self-assessment tool will help districts assess their overall pupil transportation service operations, including the degree to which the districts are in compliance with State and federal safety guidelines. The self-assessment tool will also help the districts collect information concerning best practices, facilitating their efforts to increase cost efficiency while enhancing pupil safety. Although much work has been completed, Department staff will not have an opportunity to analyze overall costs or identify districts that need improvement until all the districts have completed and returned their self-assessments.

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.

Status - Implemented

Agency Action - Twice a year, most recently in February and July 2003, the Department sponsors conferences for all school bus transportation officials. Benefits associated with the use of routing software are regularly discussed at these conferences, and participants can purchase routing software from vendors who are also attending. The Department also uses its Transportation Unit's website to communicate the benefits associated with the routing software.

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 school districts. Use the Department's Internet site as well as broadcast fax messages to help share the results of the successful studies.

Status - Not Implemented

Agency Action - Department officials informed us that they had never obtained funding for a part-time position that would have allowed them to gather and review information on the potential benefits identified by the districts' studies. As a result, the Department has not initiated this project.

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.

Status - Implemented

Agency Action - The Department's new website has improved links to subjects of interest to parents, school bus administrators, and school bus drivers, including many safety and operations improvements. In addition, at its February and July 2003 conferences, the Department provided attendees with an update on the improvements made to its Transportation Unit's website.

Recommendations 5 and 6

Do not approve transportation contracts unless they meet Department requirements.

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.

Status - Partially Implemented

Agency Action - The Department has implemented a new computerized process for reviewing and approving transportation contracts. The new process eliminates the duplicative checking previously done by the Transportation Unit and the State Aid Claims Unit. However, depletion of resources has lengthened the timeline for contract approval. As a result, the new system cannot yet be used to ensure that aid payments are made only for approved contracts. The Department is reviewing alternative procedures for streamlining the contract approval process.

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.

Status - Partially Implemented

Agency Action - Before our report was issued, the Department reviewed the payments made in relation to 12 contracts from one school district that appeared to be missing, according to our audit work. They found that the contracts were not missing; they had been numbered incorrectly. Upon subsequent review, we identified excess claims resulting in an overpayment of \$4,631. According to Department officials, the contracts submitted by the district had all met Department parameters at the time they performed their original audit. District officials argued that the Department does not normally re-examine and change such determinations. As a result, the Department has not recovered the \$4,631 overpayment from the district.

Recommendation 8

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

Status - Implemented

Agency Action - The Department's new computerized process includes data edit checks that flag expenses exceeding the \$500 miscellaneous expense limit imposed by Department regulations.

Recommendation 9

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

Status - Implemented

Agency Action - The Department's new edit checks eliminate the need for the Claims Unit to re-audit the contracts. The current procedures require the Management Service Unit to enter contract information and respond to edit checks that automatically verify contract data.

Major contributors to this report were John Buyce, Joel Biederman, and Don Wilson.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address the unresolved issues discussed in this report. We also thank the Department's management and staff for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: Mr. Thomas E. Sheldon, Associate Commissioner
Ms. Theresa Savo, Chief Financial Officer
Ms. Deirdre A. Taylor, Division of Budget