

# PERFORMANCE AUDIT

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## West Mifflin Area School District Allegheny County, Pennsylvania

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November 2015



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Dr. Daniel Castagna, Superintendent  
West Mifflin Area School District  
1020 Lebanon Road  
West Mifflin, Pennsylvania 15122

Mr. Daniel J. McDonald, Board President  
West Mifflin Area School District  
1020 Lebanon Road  
West Mifflin, Pennsylvania 15122

Dear Dr. Castagna and Mr. McDonald:

We conducted a performance audit of the West Mifflin Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). We also evaluated the application of best practices in some areas as described in the Objectives, Scope, and Methodology section of this report. Our audit covered the period June 16, 2010 through October 22, 2015, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009, 2010, 2011, and 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with relevant requirements, as detailed in the two audit findings and two observations within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings and observation include recommendations aimed at the District.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale  
Auditor General

November 17, 2015

cc: **WEST MIFFLIN AREA SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the District. Our audit sought to answer certain questions regarding the District's application of best practices; compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period June 16, 2010 through October 22, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

### **District Background**

The District encompasses approximately 15 square miles. According to 2010 federal census data, it serves a resident population of 21,548. According to District officials, the District provided basic educational services to 3,128 pupils through the employment of 207 teachers, 118 full-time and part-time support personnel, and 18 administrators during the 2011-12 school year. The District received \$14,098,589 in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit resulted in the two audit findings and two observations within this report.

**Finding No. 1: The District Experienced Two Consecutive Years of a Negative General Fund Balance.** Our review of the District's financial records found that the District had a General Fund deficit for the school years ending June 30, 2010 and June 30, 2011, and is potentially in a financially declining position. These deficits were the result of worsening economic conditions and the incurrence of new debt for two construction projects (see page 8).

**Finding No. 2: School District Professional Employees' Certification Deficiency.** Our review of the District's professional certification documentation found that one individual was teaching with a lapsed certificate during the 2011-12 and 2012-13 school years. The Pennsylvania Department of Education's (PDE) final review confirmed the deficiency, and the District is subject to subsidy forfeitures of \$2,184 and \$2,175 for the 2011-12 and 2012-13 school years, respectively (see page 16).

**Observation No. 1: The District's Multiple Refinancing of Debt Results in Excess Interest Costs and Unnecessarily Burdens Future Taxpayers.** Our audit found that the District has engaged in the refinancing of debt multiple times over the last eight years. The repeated use of debt refinancing is not a sound, long-term financial strategy and could lead to increased interest costs and large balloon payments in the future (see page 18).

**Observation No. 2: School District Lacked Written Policy Relating to Meals Purchased on District Credit Cards.** Our audit of the District's procurement card policy and procedures found that the District had 44 active credit cards assigned to District personnel. Eight of these cards were used by District administrators. Our review of the eight administrators found incurred expenses totaling \$25,554 for a 12 month period covering November 2013 through October 2014. We also found that seven of the administrators charged a total of \$5,863 for food purchases, including restaurant meals. Administrators at the District explained these costs were considered "job related expenses," but the District's policies did not include them as an allowable job related expense (see page 25).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the District, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to an administrator buy-out and pupil transportation (see page 28). The District also implemented our recommendations regarding the internal control weaknesses in vendor system and logical access (see page 29).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code (PSC) of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period June 16, 2010 through October 22, 2015. In addition, the scope of each individual audit objective is detailed below.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with PDE reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ü Were professional employees certified for the positions they held?
  - o To address this objective, the auditors reviewed and evaluated certification documentation for all 63 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment during the period of July 1, 2010 through September 1, 2013.

- Ü In areas where the District received state subsidies and reimbursements based on non-resident pupil membership, did it follow applicable laws<sup>1</sup> and procedures?
  - To address this objective, the auditors reviewed placement information on the District's 12 non-resident students in the 2008-09 school year, 5 non-residents in the 2009-10 school year, 4 students in the 2010-11 school year, and 12 non-resident students in 2011-12 school year.
  
- Ü In areas where the District received state subsidies and reimbursements based on rental and sinking fund reimbursements, did it follow applicable laws?<sup>2</sup>
  - To address this objective, the auditors reviewed bond payment schedules and compared the payment schedules to the applications for reimbursement for all four of the projects that the District applied for reimbursement in the 2010-11 and 2011-12 school years.
  
- Ü Did the District ensure that bus drivers transporting District children had the necessary license, physicals, training, background checks, and clearances as outlined in applicable laws,<sup>3</sup> and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors selected 5 of 31 drivers hired during the 2013-14 school year, and determined whether the drivers had the necessary licenses, physicals, training, background checks, and clearances. The review included both district-employed and contractor-employed drivers, as appropriate.

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<sup>1</sup> 24 P.S. § 13-1301, 13-1302, 13-1305, and 13-1306 and 22 Pa. Code Chapter 11.

<sup>2</sup> 24 P. S. § 25-2575, 25-2575.1, 25-2575.2.

<sup>3</sup> 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 Pa. Code Chapter 8.

- The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.

ü Did the District ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable for the most current year available?

To address this objective:

- For the 2009-10 school year, the auditors selected 20 out of 3,091 total registered students (5 resident, 5 non-resident, 5 from intermediate units, and 5 from area vocational-technical schools, all selected randomly) from the vendor software listing and verified that each child was appropriately registered with the District.
- In addition, the auditors randomly selected 2 out of 32 school terms reported on the Summary of Child Accounting and verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Fact Template.

ü Were there any declining fund balances that may pose a risk to the District's fiscal viability?

- To address this objective, the auditors reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years July 1, 2005 through June 30, 2012.



Ü Did the District take appropriate steps to ensure school safety?

- To address this objective, the auditors completed a follow-up review on a variety of documentation, including student and faculty handbooks and anti-bullying policies, to assess whether the District followed best practices in school safety and applicable laws.<sup>4</sup>

Ü Did the District take appropriate steps to ensure that District issued credit cards were secure and expenses were in accordance with District policy?

- To address this objective, the auditors reviewed credit card charges for all District administrators from November 1, 2012 through October 31, 2013.

Ü Did the District take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.
- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

## **Methodology**

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

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<sup>4</sup> 24 P.S. § 13-1301-A *et seq.*

*What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

To determine the status of our audit recommendations made in a prior audit report released on July 26, 2012, we reviewed the District's response to PDE dated August 27, 2012. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

### Finding No. 1

### The District Experienced Two Consecutive Years of a Negative General Fund Balance

*Criteria relevant to the finding:*

Section 609 of the PSC, 24 P.S. § 6-609, provides, in part:

“No work shall be hired to be done, no materials purchased, and no contracts made by any board of the school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

The Pennsylvania Association of School Business Officials (PASBO) in its testimony, at a public hearing on fiscally distressed school districts, to the Senate Education Committee on January 24, 2012, provided a number of indicators that should be disclosed annually. The Local Annual Audit indicators require the following:

- An Unqualified Opinion on the independent auditors audit report;
- Zero instances of Material Weaknesses in Internal Control; and
- Zero indicators of Bond Defaulting,

Best Business Practices and/or general financial statement analysis tools require the following:

1. The trend of current ratios should be at least 2 to 1 or increasing. Anything less calls into question the school district’s ability to meet its current obligations with existing resources.

Our review of the District’s annual financial reports, local auditor’s reports, and General Fund budgets for the fiscal years ended June 30, 2006, 2007, 2008, 2009, 2010, 2011, and 2012, found the District reported a declining fund balance for three of the seven years under review and a General Fund deficit was reported in the fiscal years ended June 30, 2010 and 2011, as shown in the following schedule:

| <b>Trend: Fund Balance</b>           |                               |
|--------------------------------------|-------------------------------|
| <u>Year Ended</u><br><u>June 30,</u> | <u>Fund</u><br><u>Balance</u> |
| 2006                                 | \$4,490,907                   |
| 2007                                 | 4,551,951                     |
| 2008                                 | 3,741,029                     |
| 2009                                 | 1,335,610                     |
| 2010                                 | (3,118,694)                   |
| 2011                                 | (791,632)                     |
| 2012                                 | 1,549,591                     |

We also reviewed several financial indicators in an effort to assess the District’s financial stability. Our review found that the District is potentially in a financially declining position.

We reviewed 22 financial benchmarks based on best business practices established by several agencies, including PASBO, the Colorado State Auditor, and the National Forum on Education Statistics. The following were among the general areas we evaluated: **(1)** the level of the General Fund – fund balance (assigned and unassigned), **(2)** the amount of total debt service, **(3)** the current ratio (current assets ÷ current liabilities) of all governmental funds, and **(4)** the trend of annual changes in financial position for all governmental funds.

*Criteria relevant to the finding  
(continued):*

2. A quick asset ratio or trend of ratios approaching 1 or less indicates a declining ability to cover obligations with the most liquid assets.
3. A debt-to-asset ratio or trend of ratios increasing towards 1 to 1 or greater is an indication that the school district's liabilities are approaching the level of the district's assets. This indicates the district has a debt level that may be too great for the district to adequately function.
4. The costs for a school district student attending a charter school is paid out of the sending district's operating funds. This results in a reduction of the funds available for use in providing educational services to the district's students that remained in the traditional public school. This scenario continues until the number of students attending charter schools is so large that the district can reduce costs by closing a school building and reduces the number of staff employed by the district.
5. The trend of effective tax rates as compared to levied tax rates should be stable or increasing to ensure the school district has sufficient tax revenues to maintain its educational services at an appropriate level.

Act 141 of 2012<sup>5</sup> permits PDE to place a school district with serious financial problems on a financial watch list. This designation gives the District access to additional technical assistance from PDE. Likewise, if a school district's financial condition deteriorates to the point that it has to request an advance on its annual basic education subsidy, PDE may declare it to be in financial recovery status. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the District and the development of a district-wide financial recovery plan.

Our testing found the District scored negatively on the following benchmarks:

1. ***Qualified Opinion:*** The District received a qualified opinion on its audited financial statements for the 2011-12 school year. A qualified opinion indicates the financial statements were not in conformity with governmental generally accepted accounting principles. This indicates the District has underlying accounting and financial issues which may exacerbate the effects other negative benchmarks have on the District's financial position.
2. ***Decreasing Governmental Funds Current Ratio:*** For the period 2006 to 2012, the total governmental funds current ratio (current assets ÷ current liabilities) was decreasing. A decreasing trend towards 1-to-1 or even lower indicates that the District's financial solvency is decreasing toward a point where the District may not be able to pay its current debts without an infusion of cash. Potential creditors use this ratio to measure a District's ability to pay its short-term debts. A declining trend may also prevent the district from obtaining any new debt, such as loans, or increase the interest rate on the debt it can obtain, thereby costing the District more money.

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<sup>5</sup> 24 P.S. § 6-601-A *et seq.*

The following chart documents the District's decreasing current ratio:

| <b>Decreasing Governmental Funds Current Ratio</b> |                |          |                    |                |
|----------------------------------------------------|----------------|----------|--------------------|----------------|
| <u>(Current Assets ÷ Current Liabilities)</u>      |                |          |                    |                |
| <u>Year Ended</u>                                  | <u>Current</u> |          | <u>Current</u>     | <u>Current</u> |
| <u>June 30,</u>                                    | <u>Assets</u>  | <u>÷</u> | <u>Liabilities</u> | <u>= Ratio</u> |
| 2006                                               | \$ 8,845,931   |          | \$4,978,331        | 1.78 to 1      |
| 2007                                               | \$11,963,757   |          | \$7,382,819        | 1.62 to 1      |
| 2008                                               | \$12,357,338   |          | \$9,207,163        | 1.34 to 1      |
| 2009                                               | \$42,276,915   |          | \$8,136,172        | 5.20 to 1      |
| 2010                                               | \$32,264,014   |          | \$8,858,400        | 3.64 to 1      |
| 2011                                               | \$21,186,068   |          | \$5,522,037        | 3.84 to 1      |
| 2012                                               | \$ 8,581,360   |          | \$7,879,387        | 1.09 to 1      |

3. **Increasing Debt-to-Asset Ratio:** For the trend period 2006 to 2012, the governmental funds debt-to-asset ratio (current liabilities ÷ current assets) is increasing. An increasing trend towards 1-to-1 or more is an indication that the District may not be able to pay its current liabilities with current assets on hand. This trend could require the District to liquidate non-current assets or wait for an inflow of revenues. As a result, the District might have to increase the time it holds invoices prior to making payment. This action could impede the District's ability to obtain a loan or other debt instrument. It could also result in a higher cost for any new debt that is obtained.

The following chart documents the District's increasing debt-to-asset ratio:

| <b>Increasing Governmental Funds Debt-to-Asset Ratio</b> |                    |          |                |                |
|----------------------------------------------------------|--------------------|----------|----------------|----------------|
| <u>(Current Liabilities ÷ Current Assets)</u>            |                    |          |                |                |
| <u>Year Ended</u>                                        | <u>Current</u>     |          | <u>Current</u> | <u>Current</u> |
| <u>June 30,</u>                                          | <u>Liabilities</u> | <u>÷</u> | <u>Assets</u>  | <u>= Ratio</u> |
| 2006                                                     | \$4,978,331        |          | \$ 8,845,931   | 0.56 to 1      |
| 2007                                                     | \$7,382,819        |          | \$11,963,757   | 0.62 to 1      |
| 2008                                                     | \$9,207,163        |          | \$12,357,338   | 0.75 to 1      |
| 2009                                                     | \$8,136,172        |          | \$42,276,915   | 0.19 to 1      |
| 2010                                                     | \$8,858,400        |          | \$32,264,014   | 0.27 to 1      |
| 2011                                                     | \$5,522,037        |          | \$21,186,068   | 0.26 to 1      |
| 2012                                                     | \$7,879,387        |          | \$ 8,581,360   | 0.92 to 1      |

4. ***Increase in Charter School Students:*** During the trend period 2006 to 2012, the number of District students attending charter schools has increased by over two percent. At the same time, the cost of students attending charter schools increased. Further, the charter school costs as a percentage of revenues increased. Consequently, the amount of District funds available for in-house educational services has been reduced. This could cause the District to reduce services to the students that remained in the District’s schools. Specifically, unless the number of students attending charter schools is significant enough to reduce the number of staff or the number of school buildings, the District cannot reduce its operating costs even though it is receiving less money.

The following charts document the District’s increasing charter school attendance, increasing charter school costs, and increasing charter school costs as a percentage of total revenues over the trend period, respectively:

| <b>Trend: Charter School Membership Growth</b><br><i>(As a Percentage of Total District Membership)</i> |                                     |          |                                     |          |                                               |
|---------------------------------------------------------------------------------------------------------|-------------------------------------|----------|-------------------------------------|----------|-----------------------------------------------|
| <u>Year Ended</u><br><u>June 30,</u>                                                                    | <u>Charter School</u><br><u>ADM</u> | <u>÷</u> | <u>Total District</u><br><u>ADM</u> | <u>=</u> | <u>Charter School/</u><br><u>District ADM</u> |
| 2006                                                                                                    | 33.233                              |          | 3,303.987                           |          | 1.01%                                         |
| 2007                                                                                                    | 34.525                              |          | 3,252.137                           |          | 1.06%                                         |
| 2008                                                                                                    | 79.172                              |          | 3,213.996                           |          | 2.46%                                         |
| 2009                                                                                                    | 74.461                              |          | 3,104.734                           |          | 2.40%                                         |
| 2010                                                                                                    | 77.057                              |          | 3,059.222                           |          | 2.52%                                         |
| 2011                                                                                                    | 75.875                              |          | 2,941.864                           |          | 2.58%                                         |
| 2012                                                                                                    | 75.872                              |          | 2,895.766                           |          | 2.62%                                         |

The average daily membership (ADM) is the average number of students in membership during the respective period (aggregate day’s membership divided by days in session). *Glossary of Child Accounting Terms, Pennsylvania Department of Education, pp. 1-8, September 2004.*

| <b>Trend: Charter School Cost Growth</b>                |                                                  |   |                                              |   |                                                      |
|---------------------------------------------------------|--------------------------------------------------|---|----------------------------------------------|---|------------------------------------------------------|
| <i>(As a Percentage of Total District Expenditures)</i> |                                                  |   |                                              |   |                                                      |
| <u>Year</u><br><u>Ended</u><br><u>June 30,</u>          | <u>Tuition Paid To</u><br><u>Charter Schools</u> | ÷ | <u>Total District</u><br><u>Expenditures</u> | = | <u>Charter</u><br><u>Costs/Total</u><br><u>Costs</u> |
| 2006                                                    | \$407,986                                        |   | \$34,056,625                                 |   | 1.20%                                                |
| 2007                                                    | 228,875                                          |   | 35,028,011                                   |   | 0.65%                                                |
| 2008                                                    | 681,075                                          |   | 39,502,168                                   |   | 1.72%                                                |
| 2009                                                    | 860,074                                          |   | 40,966,907                                   |   | 2.10%                                                |
| 2010                                                    | 805,418                                          |   | 41,481,297                                   |   | 1.94%                                                |
| 2011                                                    | 859,088                                          |   | 37,874,904                                   |   | 2.27%                                                |
| 2012                                                    | 719,984                                          |   | 35,773,037                                   |   | 2.01%                                                |

| <b>Trend: Charter School Cost Growth</b>            |                                                  |   |                                          |   |                                                      |
|-----------------------------------------------------|--------------------------------------------------|---|------------------------------------------|---|------------------------------------------------------|
| <i>(As a Percentage of Total District Revenues)</i> |                                                  |   |                                          |   |                                                      |
| <u>Year</u><br><u>Ended</u><br><u>June 30,</u>      | <u>Tuition Paid To</u><br><u>Charter Schools</u> | ÷ | <u>Total District</u><br><u>Revenues</u> | = | <u>Charter</u><br><u>Costs/Total</u><br><u>Costs</u> |
| 2006                                                | \$407,986                                        |   | \$39,262,034                             |   | 1.04%                                                |
| 2007                                                | 228,875                                          |   | 40,450,577                               |   | 0.57%                                                |
| 2008                                                | 681,075                                          |   | 44,190,904                               |   | 1.54%                                                |
| 2009                                                | 860,074                                          |   | 44,006,172                               |   | 1.95%                                                |
| 2010                                                | 805,418                                          |   | 43,558,381                               |   | 1.85%                                                |
| 2011                                                | 859,088                                          |   | 45,403,736                               |   | 1.89%                                                |
| 2012                                                | 719,984                                          |   | 42,791,469                               |   | 1.68%                                                |

5. ***Decreasing Effective Tax Rates:*** For the trend period 2006 to 2012, the trend of effective tax rates (actual property tax revenue ÷ assessed taxable property value) compared to the levied tax rates is decreasing. A decreasing trend indicates that the rate of tax collections is decreasing even though the levied tax rate is increasing or staying the same. This is an indicator of the relative fiscal health of the taxpayers and the support available to the District. As a result of the decreasing trend, the District cannot expect an increase in property taxes to provide increased revenues to the District. Therefore, the District's ability to generate additional resources is very slight or dependent on additional funding from the state.

The following chart documents the decreasing effective tax rate as compared to levied tax rate over the trend period:

| <b>Trend: Decreasing Effective Millage Rate</b>        |                                         |   |                                        |   |                                            |
|--------------------------------------------------------|-----------------------------------------|---|----------------------------------------|---|--------------------------------------------|
| (As a Percentage of the Actual Assessed Millage Rates) |                                         |   |                                        |   |                                            |
| <u>Year</u><br><u>Ended</u><br><u>June 30.</u>         | <u>Effective</u><br><u>Millage Rate</u> | ÷ | <u>Assessed</u><br><u>Millage Rate</u> | = | <u>Tax Collection</u><br><u>Percentage</u> |
| 2006                                                   | 20.15                                   |   | 21.09                                  |   | 96%                                        |
| 2007                                                   | 20.02                                   |   | 20.43                                  |   | 98%                                        |
| 2008                                                   | 20.08                                   |   | 21.09                                  |   | 95%                                        |
| 2009                                                   | 19.07                                   |   | 22.29                                  |   | 86%                                        |
| 2010                                                   | 19.47                                   |   | 22.99                                  |   | 85%                                        |
| 2011                                                   | 20.23                                   |   | 22.99                                  |   | 88%                                        |
| 2012                                                   | 20.05                                   |   | 22.99                                  |   | 87%                                        |

### **Recommendations**

The West Mifflin Area *School District* should:

1. Provide the Board of School Directors (Board) standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
2. Maintain and monitor sensitive budgetary controls so that expenditures do not exceed revenues.
3. Open a dialogue with the District's communities, West Mifflin and Whitaker Boroughs, to keep stakeholders informed of the financial status and health of the District.
4. Conduct a survey for parents sending children to a charter school to determine the reason why the District is losing more students to charter schools.



## Management Response

Management stated the following:

“There were several major reasons for the General Fund deficit for the years ending June 30, 2010 and June 30, 2011. They were:

- Assessment Declines, especially from the Century III Mall and General Motors’ properties;
- Economic Conditions;
- A Building Program without required millage increases; and
- A spike in Cyber/Charter school costs.

The District used a five point strategy beginning in 2009-2010 to deal with financial issues. First, to address rising Tuition costs, the District created an In-house Cyber School, which saved over \$200,000 in the first year of the program. Second, a Pension Escrow Fund to address future PSERS’ rates was established and funded beginning in 2009. Third, staffing was decreased and programs downsized during the development of the 2010/2011 General Fund Budget in an effort to equate revenues and expenditures for current and future years, in effect eliminating 23 positions while fully staffing the Special Education Program and eliminating the Intermediate Unit as a service provider. Fourth, the district executed a plan (capitalized interest and scoop financing) to restructure debt and ultimately raise fund balance. Fifth, a total of 50 more positions were eliminated during the 2011/12 school year to further ‘right size’ the organization to a lower level of revenue.

Although Fund Balance stayed negative in 2010/2011, by June 30, 2012 a positive Fund Balance was achieved.”

### **Auditor Conclusion**

We acknowledge that the General Fund balance was positive for the fiscal year ending June 30, 2012. However, as of June 30, 2013, the District's General Fund balance was negative \$1,268,743. This highlights the District's tenuous financial condition and we continue to recommend that the District immediately develop and implement an operating budget where expenditures do not exceed revenues. Without a stable General Fund balance, the District risks further financial instability that could affect district-wide operations.

## Finding No. 2

## School District Professional Employees' Certification Deficiency

### *Criteria relevant to the finding:*

Section 1202 of the PSC, 24 P.S. 12-1202, provides, in part:

“. . . No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the PSC, 24 P.S. 25-2518, provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.”

Our audit of the District's professional employees' certifications found one individual was teaching with a lapsed certificate during the 2011-12 and 2012-13 school years. The deficiency occurred because the District did not have a system in place to track the time being used on the certificate. Having a tracking process in place would have enabled the District to notice that the individual was coming to the end of the validity of the certificate and allowed the District to prevent the employee from being employed as an elementary teacher for two school years after the employee's Level I certificate expired.

Information pertaining to the certificate in question was submitted to PDE's Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. On January 28, 2014, BSLTQ confirmed the irregularities. Therefore, the District is subject to subsidy forfeitures of \$2,184 and \$2,175 for the 2011-12 and 2012-13 school years, respectively.

### **Recommendations**

The *West Mifflin School District* should:

Put procedures in place to ensure all professional employees area properly certified for their assignments.

The *Pennsylvania Department of Education* should:

Recover the subsidy forfeiture levied as a result of BSLTQ's determination.

### **Management Response**

Management stated the following:

“The employee that was improperly certified is no longer working with the school district.”

### **Auditor Conclusion**

We acknowledge that this employee is no longer working at the District, but we continue to encourage the District to implement our recommendation to ensure that this issue does not occur in the future. We will determine whether the District properly addressed this issue during our next audit.

## Observation No. 1

### The District's Multiple Refinancing of Debt Results in Excess Interest Costs and Unnecessarily Burdens Future Taxpayers

#### *Criteria relevant to the observation:*

Best business practices as cited by the *Wall Street Journal* related to bond refunding, includes the following:

- The maturity date of the new debt obligation should be sooner than or equal to the maturity date of the refunded debt.
- The interest rate(s) for the new debt obligation should be less than the interest rate(s) for the defunded debt.
- Bonds should mature on a relatively balanced time frame over the life of the bond, rather than in very small increments over a large portion of the bond period with one or a few large balloon payments in the final year or two.

Additionally, bond refunding should be infrequent and result in savings to the bond issuer.

These requirements are also recommended by the "Civic Federation," a non-partisan research organization committed to maximizing the quality and cost effectiveness of government services.

Our audit found that the District has engaged in the refinancing of debt multiple times over the last eight years. The refinancing was done in an effort to lower the District's total annual debt payments and provide for more current operating income in light of a worsening financial situation. The refinancing and staff reductions allowed the District to eliminate a \$3.1 million deficit at the end of the 2010-11 school year without raising taxes. However, repeated use of debt refinancing is not a sound, long-term financial strategy and could lead to large balloon payments in the future that are unable to be met.

Debt refinancing is a legal and common financial management tool. Refinancing debt by borrowing or issuing a bond to pay off existing debt and lowering payments is done by governments, multi-national corporations, and individual citizens. This technique, sometimes called "scoop and toss," "scoop financing," or "refunding" is becoming more common at the local government and school district level to meet the increasing economic pressures resulting from growing pension contribution payments and shrinking tax revenues.

Use of debt refinancing becomes concerning when it a) extends payment periods beyond the original maturity date of the refinanced bond obligation, and b) is used repeatedly in a relatively short amount of time. The proverbial *kicking the can down the road* may provide short-term financial relief, but the extending of debt payment periods masks a problem without solving it - taking on an amount of debt that is incompatible with the economic realities of an organization.

In the case of the District, the District took on debt during the last decade to pay for its new middle school and athletic facilities. The entire state felt the effect of the recession that began in 2007, and school district's finances were temporarily buoyed by American Relief and Recovery Act (ARRA) federal stimulus funds. ARRA money ended in 2011 and was not replaced in the state's General Fund budget. Add to that the drop in state and federal education

funding with dramatic increases in mandatory pension payments, and the District is not alone in facing funding challenges. The District specifically has also suffered from a precipitous drop in local real estate values, which, if not reversed, will continue to have a lasting effect on the District's tax revenues and its long-term financial health.

With respect to debt refinancing, the District issued four bond/notes<sup>6</sup> in the fiscal years 2010-11 and 2012-13 that were either total debt refunding instruments or partial debt refunding instruments.

1. **Series A Note of 2011** (\$2,552,475): This bond was issued to refinance principal and interest payments due in 2011 from three bonds issued in 2002 and 2003. This issuance was referred to as "scoop refunding" in District financial statements and has added total escrow requirements of over \$2.7 million to be repaid by the District over the next 20 years.
2. **Series B Note of 2011** (\$8,046,262): This bond was issued for two purposes. First, \$6.0 million was issued to fund an ongoing construction project. The remaining \$2,046,262 was issued to refinance principal and interest payments due in 2011 from a bond issued in 2009. The interest payments on this refinancing will be paid by the District over the next 22 years.
3. **Series of 2012** (\$9,508,913): This bond was issued to refinance principal and interest payments due in 2012 from a bond issued in 2002 and a bond issued in 2011. The net increase in interest due as a result of this refinancing is \$3,610,138, which is scheduled to be paid over 22 years. The increase in the present value of the interest payments for the new bond as compared to the retired bonds is \$113,082 when using 3.2% as the interest rate to calculate the present value.
4. **Series of 2013** (\$6,595,337): This bond was issued for two purposes. First, \$3.0 million was issued to fund an ongoing construction project. The remaining \$3,595,337 was issued to refinance principal and interest payments due in 2013 from a bond issued in 2011. The interest payments on this refinancing will be

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<sup>6</sup> For more detailed information, please see the chart after the recommendations.

paid by the District over the next 19 years. The increase in the present value of these interest payments compared to the retired bonds is calculated to be \$87,982 when using 3.2% as the interest rate to calculate the present value.

While the short-term effect of the refunding may be viewed positively because it helped the District work its way out of an operating deficit, the long-term effect has a negative impact on the District. The overall long-term effect is an increase to the period of time it takes the District to pay off its debt and an increase in debt due as shown in the present value cost increase to the District in the Series 2012 and 2013 refinances. This refinancing effectively pushes the ultimate payment and cost of the bonds onto the shoulders of future generations for principal and interest costs that were due currently. It is especially concerning when the practice is used multiple times for the same debt, which is occurring in these instances.

The District has indicated that it used a financing method called Wrap-Around Debt Service.<sup>7</sup> This method in theory allows for relatively even debt service over the lives of the District's bonds by enabling the District to make minimal principal payments on the new issues while the District is paying off the principal on a more balanced principal and interest (Level Debt Service)<sup>8</sup> payment schedule for the older outstanding bond issues. This method is set up to make two to three large principal payments at the end of the maturity period for the wrap-around bond issues (assuming that the funds are available to make the required payments). However, the downside of doing this is the District incurs additional interest expense on the bonds that mature at the end of the maturity period. This is because

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<sup>7</sup> This debt service structure wraps the amortized principal and interest payments around the District's current outstanding debt service so that overall debt service remains level. Principal payments in the wrap-around structure are normally increased in the later maturities of the issue, increasing the total debt service over the life of the issue. Benefits of this financing structure are more apparent in the early years of the financing. Debt service payments in the years immediately following the issuance of new debt are minimized, eliminating the problems with the level debt service structure. *PDE Manual of Accounting*, Chapter 12, Debt Management, Accounting and Reporting.

<sup>8</sup> The annual debt service payments over the life of the issue are equal in amount. In the early years of the financing, interest payments are at their highest and will decrease over the life of the issue, while the principal payments increase. If a school district has several bond issues outstanding, the resulting overall debt service payments will not be level, with larger debt service payments in the earlier years until the earlier bond issues are paid. Current outstanding debt, along with expectations of future borrowings must be considered. *PDE Manual of Accounting*, Chapter 12, Debt Management, Accounting and Reporting.

the highest interest rates are paid on the last bonds to mature. While this method is good at evening out cash flows, it results in excessive interests costs to the District.

Additional information related to the District’s bond issuances is included in the table included below our recommendations.

**Recommendations**

The *West Mifflin Area School District* should:

1. Only issue refunding instruments that mature no later than the original bond issue’s maturity date.
2. Only issue bond obligations that result in a more balanced principal repayment process rather than balloon payments the last few years of the bond period.
3. Limit issuing bonds to an infrequent process, thus reducing the incurrence of, and financing of, bond issuance costs to a minimum.

| Bond Issue            | Date of Issue/Maturity Date           | Stated Purpose                                                                                                                                                                                          | Effect                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Series A Note of 2011 | February 1, 2011/<br>January 15, 2032 | <i>Refund on a current basis the debt service payments (principal and interest payments due within one year) for the Series A and B of 2002 issues and the 2003 issue in the amount of \$1,052,475.</i> | The District will be paying off the \$1,052,475, which should have been paid during the fiscal years ending June 30, 2011 and 2012, over a 20 year period, including additional interest on the debt, essentially paying interest on interest. Interest costs on the \$2,552,475 (\$1,052,475 + \$1,500,000) refunded debt service costs, plus issuance costs of \$112,525, totals \$2,766,837.            |
| Series A Note of 2011 | February 1, 2011/<br>January 15, 2032 | <i>Refund on an advance basis a portion of the August 2011 debt service of the 2003 issue totaling \$1,500,000.</i>                                                                                     | The District will be paying off the \$1,500,000, which should have been paid during the fiscal year ending June 30, 2012, over a 20 year period, including additional interest on the debt, and essentially paying interest on interest. As stated above, interest costs on the \$2,552,475 (\$1,052,475 + \$1,500,000) refunded debt service costs, plus issuance costs of \$112,525, totals \$2,766,837. |



| <b>Bond Issue</b>     | <b>Date of Issue/Maturity Date</b>    | <b>Stated Purpose</b>                                                                                                                  | <b>Effect</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Series B Note of 2011 | February 1, 2011/<br>January 15, 2014 | Additional funds to complete on-going construction projects in the amount of \$6,000,000.                                              | A reasonable use of the bond proceeds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Series B Note of 2011 | February 1, 2011/<br>January 15, 2014 | <i>Pay the interest obligation of \$2,046,262 of the 2009, bond issue for the April 1, 2011 and October 1, 2011 interest payments.</i> | The District will be paying off the \$2,046,262, which should have been paid during the fiscal years ending June 30, 2011 and 2012, over a 22 year period, including additional interest on the debt, and essentially, paying interest on interest, due to the refunding of the Series B Note of 2011 through the issuance of the Series of 2012 and Series of 2013 bond issues.                                                                                                                                                                                                                                                                                                                                                                                 |
| Series of 2012        | November 29, 2012/<br>April 15, 2033  | <i>To currently refund the 2002 B issue and a portion of the 2011 B issue.</i>                                                         | The refunding for the 2002 B issue was at a lower interest rate than the original issue. The bond principal payments through 2022 were set up to cover the required principal payments of the original bond issue to essentially retire the bond in its original maturity period. This refinancing resulted in a cost savings of \$78,816 to the District. The intent of the District, when the 2011 B Notes were issued was to refinance the notes at a later date with the intent of issuing bonds with lower interest rate. While the refunding for the 2011 B Notes issue was at a lower interest rate than the original issue, the results in an extension of the repayment period by 19 years and the incurrence of additional interest costs \$3,610,138. |
| Series of 2013        | February 26, 2013/<br>April 15, 2034  | <i>To currently refund a portion of the 2011 B Notes.</i>                                                                              | The intent of the District, when the 2011 B Notes were issued, was to refinance the notes at a later date with the intent of issuing bonds with lower interest rate. While the refunding for the 2011 B Notes issue was at a lower interest rate than the original issue, the payment term was extended by 19 years. Because the issue requires two balloon payments at the end of the bond term, the District will be paying a large amount of interest on the refunded portion of the 2011 B Notes. The refunding is costing the District an additional \$2,794,892 in interest costs.                                                                                                                                                                         |
| Series of 2013        | February 26, 2013/<br>April 15, 2034  | <i>To provide funds for various capital improvements in the amount of \$3,000,000.</i>                                                 | A reasonable use of the bond proceeds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## Management Response

Management stated the following:

“The school district disagrees specifically with the terms ‘excess’ and ‘unnecessary burdens’ in the title of the Observation. The technique of Debt Financing is a proper methodology, was used judiciously, and was simply a part of a much larger plan to solve economic issues facing the school district.

To address a myriad of financial events and issues relating to the economic downturn begun in the last decade, a five point plan was developed and first presented in the district's Financial Audit MD&A for the 2010/2011 fiscal year. Here is the text from page 5 of the report. ‘First, to address rising Tuition costs, the district created an In-house Cyber School, which saves about \$200,000 per year. Second, a Pension Escrow Fund to address future PSERS' rates was established and funded beginning in 2009. Third, staffing was decreased and programs downsized in the 2010/2011 General Fund Budget in an effort to equate revenues and expenditures for current and future years, in effect eliminating 23 positions while fully staffing the district's Special Education program and eliminated the Intermediate Unit as a service provider. Fourth, the district executed a plan (capitalized interest and scoop financing) to restructure debt service and ultimately raise fund balance. Fifth, a total of 50 more positions were eliminated during the 2011/2012 budget process.’

Debt financing was just one of many strategies employed then. Since 2010/2011, **personnel and programmatic downsizing and debt financing** have been used to combat revenue losses\* while pension and health insurance costs rise dramatically. With district staffing 25% less than that in 2009, an Elementary Building closed and a number of targeted programmatic efforts disbanded, it is difficult for the school district to understand why the Auditor General uses terms such as ‘excessive’ and ‘unnecessary burdens.’ Simply put, all avenues to right size the organization have been exhausted and all options discussed and utilized. Debt financing was merely one piece of a larger puzzle to control costs and ensure a quality education for the students residing in this community.

In a sense, the Board of School Directors spared taxpayers additional costs during the period from 2009 to 2014. In the midst of the economic downturn, revenue losses, increasing costs and an added debt service payments for a building project approved earlier, the Board resisted using Tax Levies to fund current operations. Only in 2014 when the levy became imperative, did the Board raise taxes to address revenue inadequacies.

\*For instance, the assessed valuation of a large regional mall (Century III Mall) has fallen from \$112 million in 2007 to \$10 million today, a difference of \$2.5 million every year. In 2010, General Motors closed an automotive plant employing 564 individuals.”

### **Auditor Conclusion**

We acknowledge the difficult financial situation the District was in and realize that there were no easy solutions available. However, we believe that sparing the taxpayers an increase in the tax rate between 2009 and 2014 will result in the District’s taxpayers expending more taxes over the lives of these bond issues than if the currently due interest payments were made and bond payment schedules were more balanced.

While wrap-around financing reduces annual cash flow needs, it results in greater costs through the required annual payment of interest, on a majority of the bond principal, over the life of the issues. This is because the interest rate on the two groups of bonds that mature at the end of the maturity period carry the largest interest rate and must have this interest paid over the entire life of the bonds. As noted in the chart above, there are additional interest costs on the various bonds issued, over the costs for the original issues, had they been paid when due.

## Observation No. 2

### School District Lacked Written Policy Relating to Meals Purchased on District Credit Cards

*Criteria relevant to the observation:*

**Board Policy Number 625, Procurement Cards, states, in relevant part:**

“Procurement cards shall be used only for authorized district purchases and shall not be used for personal purchases, or other use that is contrary to laws, regulations or internal policies.

The following list includes, but is not limited to items authorized for purchase, without obtaining bids or quotes, by employees using procurement cards:

1. Stationary, office supplies.
2. Minor repair items.
3. Computer equipment, parts and accessories.
4. Food for use in curriculum.
5. Food and specialty items for cafeteria.
6. Recurring utility bills.
7. Items for annual musical.
8. Special Education ‘shopping trips.’”

**Purchasing Card Acceptance Form, states, in part:**

“Use – Employee agrees to use the West Mifflin Area School District Purchasing Card solely for legitimate school business purchases and shall adhere to the Purchasing Policies and Procedures as set forth by the West Mifflin Area School District.”

Our audit of the District’s procurement card policy and procedures found that the District had 44 active credit cards assigned to District personnel. Eight of these cards were used by the administrators of the District.

We conducted a detailed review of the transactions for the eight administrators for the period covering November 2013 through October 2014. Our review found that the eight administrators incurred expenses totaling \$25,554 for the 12 month period. We also noted that seven of the administrators charged a total of \$5,863 for food purchases,<sup>9</sup> including restaurant meals.

When we inquired about these meal expenses, District officials responded that employees were permitted to use the District’s procurement card to purchase meals when required to attend school meetings or events in the evenings as these meals were considered “job related” expenses. District officials further explained that the meal expense was permitted in lieu of the employee requesting mileage reimbursement from the District.

We reviewed the District’s job related expense policy and determined that the policy did not explicitly provide for meal expenses in lieu of mileage reimbursement. Furthermore, the policy did not provide a limit for meal expenses.

The District acknowledged that the practice of allowing meal expense in lieu of mileage reimbursement was a long standing, albeit unwritten, policy of the District. In January 2015, the Board adopted a revised job expense policy. The revised policy added provisions that clearly provides that administrators have a choice of reimbursement for mileage or a meal when they are required to attend an evening meeting or event. The revised policy also placed a limit on meals at \$25 and prohibits employees from charging other employees’ expenses on their procurement cards—a practice which we identified during our review.

<sup>9</sup> Other food purchases included pizza or catering services for various school events.

The District should ensure that it implements sufficient procedures to confirm compliance with the revised policy.

### **Recommendations**

The *West Mifflin Area School District* should:

Monitor compliance with the revised policy to ensure that purchases are for authorized business use only and are a prudent use of District funds.

### **Management Response**

Management stated the following:

“The Board of School Directors, on its own accord, approved policy updates in 2015 that correct all of the concerns listed in this observation. The policy documents the District’s long standing unwritten policy and practice. Prior to this observation, there has never an issue relating to job related expenses from any internal or external auditor, including the Pennsylvania Auditor General. To the contrary, the charges were always permitted by practice and policy of the District because they are legitimate reimbursable business expenses.

The Administration has followed long established School District practices relating to job related expenses incurred in the course of performing services for the District. In January 2015, policy #331, *Job Related Expenses*, was updated to incorporate those practices into formal Board policy. The District acknowledges that the written policy in existence prior to January, 2015 did not mirror the utilized practice. However, it is important to note that all Board Members were fully aware of the practice that was in place at that time. Since early in 2011, the board established a practice of mailing all credit cards statements home to Board Members each month two (2) days before the work session meeting (which occurs a week before the voting meeting). There is also a line item under invoices on every agenda for Board Members to approve the credit card statements monthly. Thus, Board Members receive the card statements nine (9) days before the voting meeting every month. The vote passes every month since the inception of the practice. Moreover, these are five (5)

levels of control that are in place to ensure that all credit cards are used appropriately. Spending limits are also set on each card. It appears that this observation is based solely upon the Auditor General's concern that the District did not implement a formal policy relating to the reimbursement which exactly reflected the practice used by the District. As noted, the District has already taken the proper steps to adopt a written policy which is identical to the long standing practice that has been in place for many years."

### **Auditor Conclusion**

We feel that the District's policy change on job related expenses is a positive step that shows transparency and accountability.

We will determine the effectiveness of the District's monitoring of those expenses during our next audit.

## Status of Prior Audit Findings and Observations

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Our prior audit of the District released on July 26, 2012, resulted in two findings and one observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to PDE, performed audit procedures, and interviewed District personnel regarding the prior findings and observation.

### Auditor General Performance Audit Report Released on July 26, 2012

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**Prior Finding No. 1: The District Incurred Additional Costs Totaling \$33,543 as a Result of the Superintendent's Resignation from the District (Resolved)**

Prior Finding Summary:

Our prior audit found that the former Superintendent was paid \$33,543 in excess of what was required by the contract. The excess payments included the \$30,000 lump sum payment and \$3,543 for unused vacation days.

Prior Recommendations:

Our prior audit finding recommended that the District should:

Adhere to the provision of the contract when a person retires or is terminated by the District.

Current Status:

During our current audit, we found that the District did implement our recommendation. The former Superintendent received compensation for 22 vacation days as stated in the contract dated November 25, 2009.

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**Prior Finding No. 2: Pupil Transportation Discrepancies (Resolved)**

Prior Finding Summary:

Our prior audit of the District found that District personnel overstated 46 nonpublic and charter schools students for the 2006-07 school year and understated 51 for the 2007-08 school year. These errors resulted in an overpayment of \$17,710 for the 2006-07 school year and an underpayment of \$19,635 for the 2007-08 school year, resulting in a net underpayment of \$1,925.

Prior  
Recommendations:

Our prior audit finding recommended the District should:

1. Require District personnel responsible for pupil transportation reports to adopt procedures to properly count all nonpublic school pupils transported.
2. Require District personnel to perform an internal review to ensure accuracy of data prior to submission of reports to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to reimburse the District for the \$1,925 underpayment of nonpublic school transportation.

Current Status:

During our current audit, we found that the District did implement our recommendations.

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**Prior Observation:**

**Unmonitored Vendor System Access and Logical Access Control Weaknesses (Resolved)**

Prior Observation  
Summary:

Our prior audit of the District noted several areas of weakness from unauthorized changes by the vendor to the District's membership data. Unauthorized changes to the District's membership information could result in the District not receiving the funds to which it was entitled from the state.

Prior  
Recommendations:

Our prior audit observation recommended that the District should:

1. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Require all users, including the vendor, to change their passwords every 30 days, to use passwords that are a minimum length of eight characters, and to use passwords that include alpha, numeric, and special characters. The District's system parameter settings should lock out users after three unsuccessful access attempts and



maintain a password history to prevent the use of a repetitive password.

4. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
6. Ensure that upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
7. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and install fire extinguishers in the computer room.

Current Status:

During our current audit, we found that the District implemented all recommendations.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

**The Honorable Tom W. Wolf**

Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

**The Honorable Pedro A. Rivera**

Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

**The Honorable Timothy Reese**

State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

**Mrs. Danielle Mariano**

Director  
Bureau of Budget and Fiscal Management  
Pennsylvania Department of Education  
4th Floor, 333 Market Street  
Harrisburg, PA 17126

**Dr. David Wazeter**

Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

**Mr. Lin Carpenter**

Assistant Executive Director for Member Services  
School Board and Management Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).