

PERFORMANCE AUDIT

Blackhawk School District Beaver County, Pennsylvania

April 2017



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
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. Robert Postupac, Superintendent
Blackhawk School District
500 Blackhawk Road
Beaver Falls, Pennsylvania 15010

Mr. Perry Pander, Board President
Blackhawk School District
500 Blackhawk Road
Beaver Falls, Pennsylvania 15010

Dear Dr. Postupac and Mr. Pander:

Our performance audit of the Blackhawk School District (District) evaluated the application of best practices in the areas of finance, hiring practices, contracting, and school safety. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). This audit covered the period July 1, 2012, through June 30, 2015, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District complied, in all significant respects, with relevant requirements and applied best practices, except as detailed in our two findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings 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 relevant requirements. We appreciate the District's cooperation during the course of the audit.

Sincerely,

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

Eugene A. DePasquale
Auditor General

March 29, 2017

cc: **BLACKHAWK SCHOOL DISTRICT** Board of School Directors

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Executive Summary

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 and compliance with certain relevant state laws, regulations, contracts, 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 July 1, 2012, through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. (See Appendix) Compliance specific to state subsidies and reimbursements was determined for the 2011-12, 2012-13, 2013-14, and 2014-15 school years.

Audit Conclusion and Results

Our audit found that the District applied best practices and complied, in all significant respects, with certain relevant state laws, regulations, contracts, and administrative procedures, except as described in the two findings below.

Finding No. 1: The District's Operating Deficits Depleted the General Fund Balance to an Unhealthy Level. Our review of the District's financial position over a three-year period showed that the District's General Fund balance decreased by 86 percent to a level that is far below the recommended financial industry guidelines. The District experienced operating deficits in two of the three years reviewed and those

deficits were a primary factor in the decrease in the General Fund balance (see page 6).

Finding No. 2: The District's Failure to Report Charter School Students Transported Resulted in an Underpayment of \$55,055.

The District was underpaid \$55,055 in transportation reimbursement from the Pennsylvania Department of Education (PDE). This underpayment was due to the District not reporting the number of charter school students who were provided transportation by the District during the 2011-12 through 2014-15 school years (see page 15).

Status of Prior Audit Findings and Observations. We conducted procedures to determine the implementation status of our prior audit recommendations to the District from an audit released on September 17, 2013. We found that the District had taken appropriate corrective action in response to our recommendations pertaining to implementing internal controls over pupil membership reporting (see page 18).

Background Information

| School Characteristics 2015-16 School Year ^A | |
|--|---|
| County | Beaver |
| Total Square Miles | 65 |
| Resident Population^B | 17,763 |
| Number of School Buildings | 5 |
| Total Teachers | 166 |
| Total Full or Part-Time Support Staff | 146 |
| Total Administrators | 12 |
| Total Enrollment for Most Recent School Year | 2,445 |
| Intermediate Unit Number | 27 |
| District Vo-Tech School | Beaver County Career & Technical Center (BCCTC) |

A - Source: Information provided by the District administration and is unaudited.

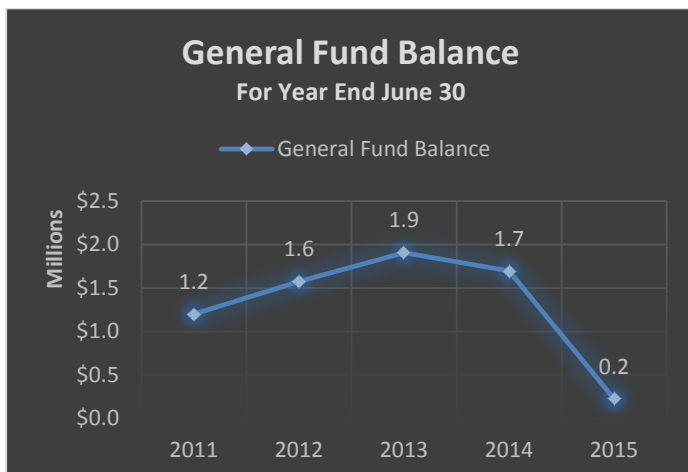
B - Source: United States Census
<http://www.census.gov/2010census>.

Mission Statement^A

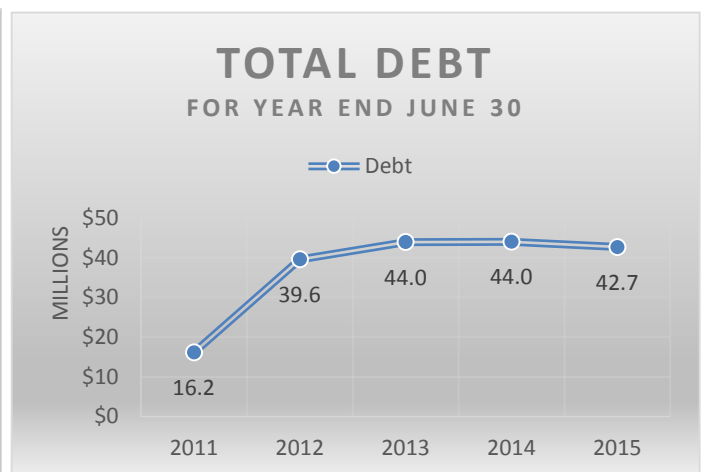
“Blackhawk School District is dedicated to providing a rigorous learning environment in order to be highly successful in the global community.”

Financial Information

The following pages contain financial information about the District obtained from annual financial data reported to PDE and available on PDE’s public website. This information was not audited and is presented for **informational purposes only**.

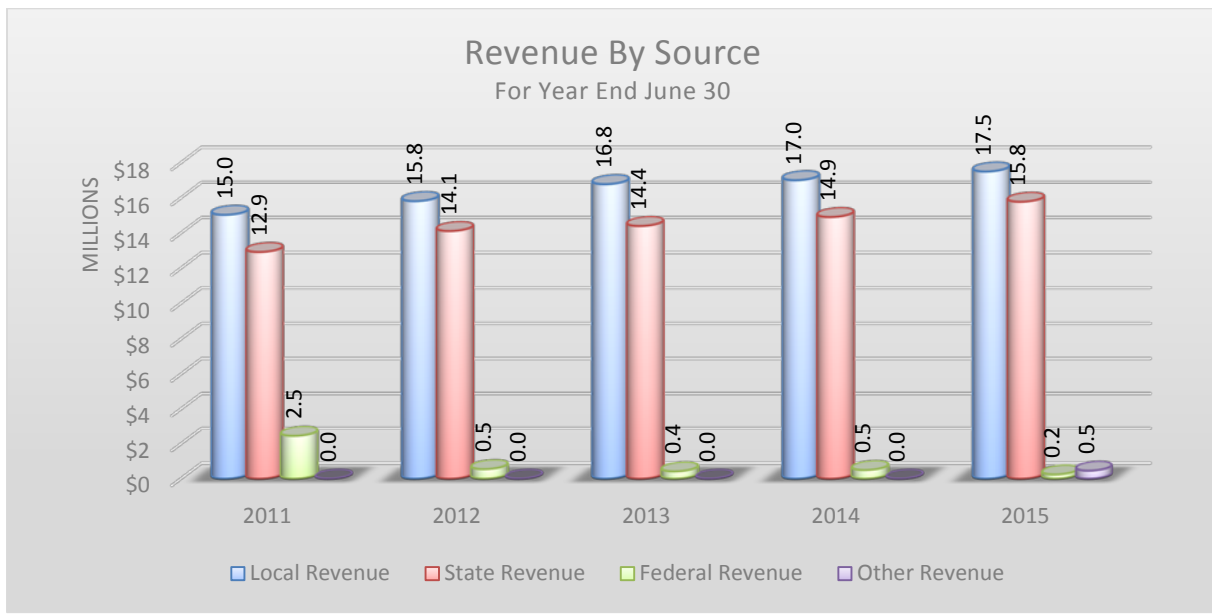
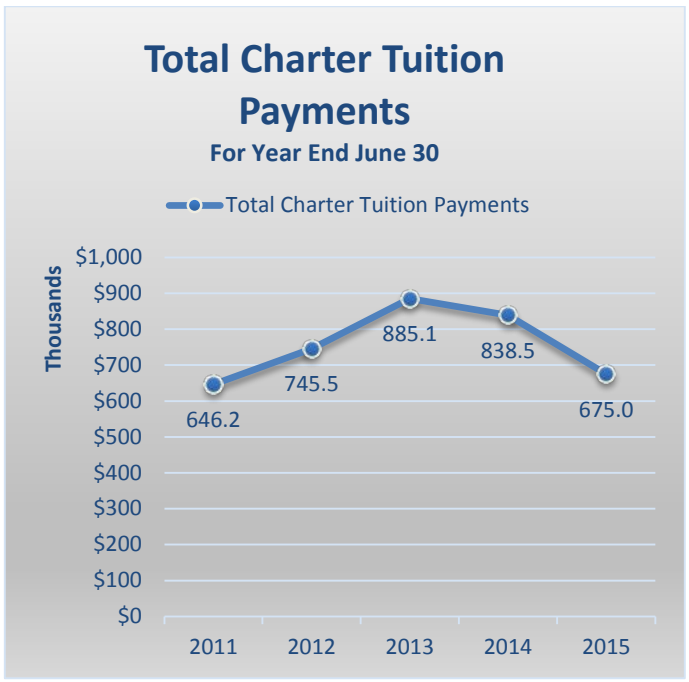
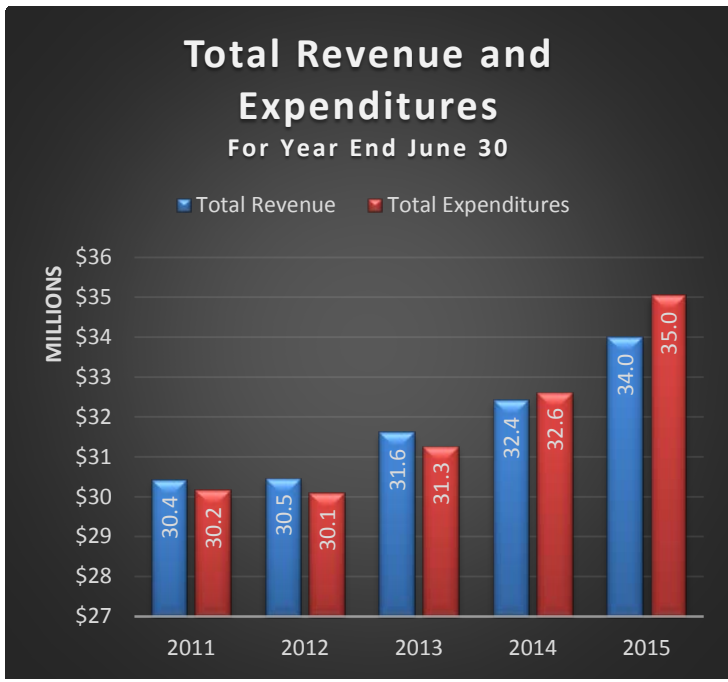


Note: General Fund Balance is comprised of the District’s Committed, Assigned and Unassigned Fund Balances.



Note: Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

Financial Information Continued



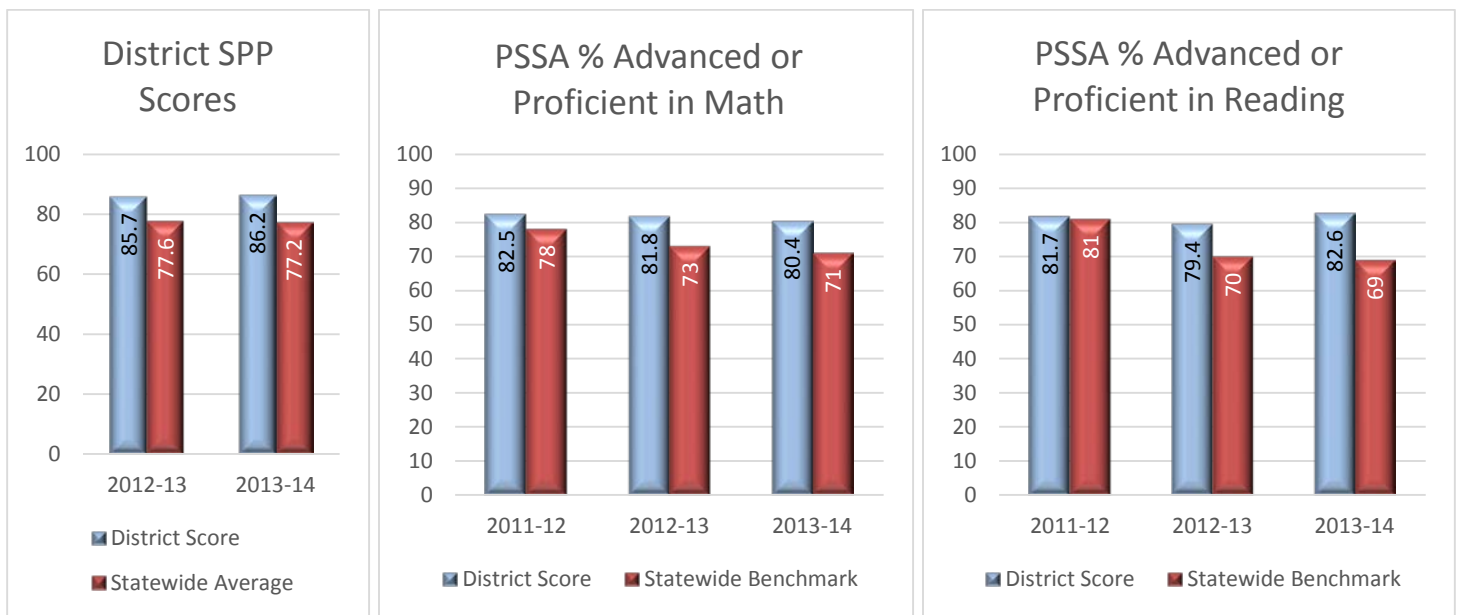
Academic Information

The following table and charts consist of School Performance Profile (SPP) scores and Pennsylvania System of School Assessment (PSSA) results for the entire District obtained from PDE's data files.¹ These scores are presented in the District's audit report for **informational purposes only**, and they were not audited by our Department.

SPP benchmarks represent the statewide average of all district school buildings in the Commonwealth.² PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.³ District SPP and PSSA scores were calculated using an average of all of the individual school buildings within the District. Scores below SPP statewide averages and PSSA benchmarks/goals are presented in red.

Districtwide SPP and PSSA Scores

| District | SPP Scores | | PSSA % Advanced or Proficient in Math | | | PSSA % Advanced or Proficient in Reading | | |
|------------------------------|------------|----------|---------------------------------------|---------|---------|--|---------|---------|
| | 2012-13 | 2013-14 | 2011-12 | 2012-13 | 2013-14 | 2011-12 | 2012-13 | 2013-14 |
| <i>Statewide Benchmark</i> | 77.6 | 77.2 | 78 | 73 | 71 | 81 | 70 | 69 |
| <i>Blackhawk SD</i> | 85.7 | 86.2 | 82.5 | 81.8 | 80.4 | 81.7 | 79.4 | 82.6 |
| <i>SPP Grade⁴</i> | B | B | | | | | | |



¹ PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publicly available website.

² Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

³ PSSA benchmarks apply to all district school buildings, charters, and cyber charters. In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 and 2013-14 school years, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

⁴ The following letter grades are based on a 0-100 point system: A (90-100), B (80-89), C (70-79), D (60-69), F (59 or below).

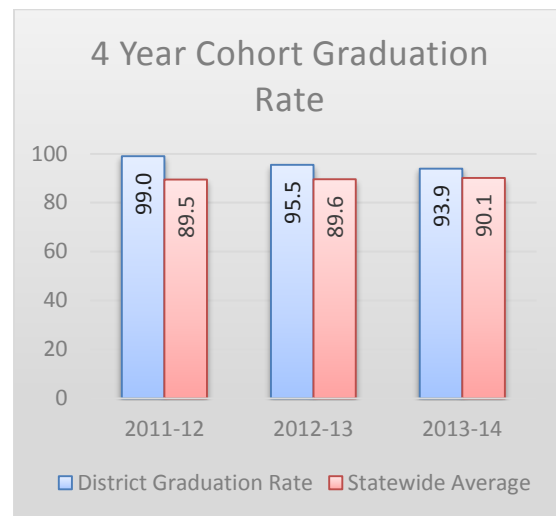
Individual School Building SPP and PSSA Scores

The following table consists of SPP scores and PSSA results for each of the District's school buildings. Any blanks in PSSA data means that PDE did not publish a score for that school for that particular year.⁵

| School Name | SPP Scores | | PSSA % Advanced or Proficient in Math | | | PSSA % Advanced or Proficient in Reading | | |
|--------------------------------------|------------|---------|---------------------------------------|---------|---------|--|---------|---------|
| | 2012-13 | 2013-14 | 2011-12 | 2012-13 | 2013-14 | 2011-12 | 2012-13 | 2013-14 |
| <i>Statewide Benchmark</i> | 77.6 | 77.2 | 78 | 73 | 71 | 81 | 70 | 69 |
| <i>Blackhawk High School</i> | 82.0 | 82.8 | 75.4 | 77.1 | 72.5 | 81.5 | 84.7 | 83.7 |
| <i>Blackhawk Intermediate School</i> | 81.9 | 84.7 | 84.9 | 81.5 | 77.2 | 78.8 | 75.9 | 77.5 |
| <i>Highland Middle School</i> | 86.3 | 84.2 | 87.2 | 86.7 | 82.8 | 84.9 | 77.7 | 82.3 |
| <i>Northwestern Primary School</i> | 89.2 | 89.7 | | | 84.7 | | | 84.7 |
| <i>Patterson Primary School</i> | 89.3 | 89.6 | | | 84.7 | | | 84.7 |

4 Year Cohort Graduation Rates

The cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year.⁶



⁵ PDE's data does not provide any further information regarding the reason a score was not published.

⁶ <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

Findings

Finding No. 1

The District's Operating Deficits Depleted the General Fund Balance to an Unhealthy Level

Criteria relevant to the finding:

The benchmarks used as criteria for this objective were based on best business practices established by several entities, including the Pennsylvania Association of School Business Officials (PASBO), the Colorado State Auditor, and the National Forum on Education Statistics. The following are some of the benchmarks used in our evaluation:

1. Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).
2. A school district should maintain a trend of stable fund balances.
3. The district's audit report should contain no instance of significant internal control weaknesses.

Our review of the District's financial position over a three-year period showed that the District's General Fund balance decreased by 86 percent to a level that is far below the recommended financial industry guidelines. The District experienced operating deficits in two of the three years reviewed and those deficits were a primary factor in the decrease in the General Fund balance.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of three years from July 1, 2012, through June 30, 2015. Our discussion of the District's financial position will focus on the following areas:

- General Fund Balance
- Operating Position
- Budgeted vs. Actual Expenditures

General Fund Balance⁷

As shown in Chart #1, the District's financial position was stable for the first two years of the period reviewed before decreasing significantly during the fiscal year ending June 30, 2015.

⁷ The District's entire General Fund balance is classified as "unassigned." This classification represents the spendable amount of the General Fund that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Criteria relevant to the finding
(continued):

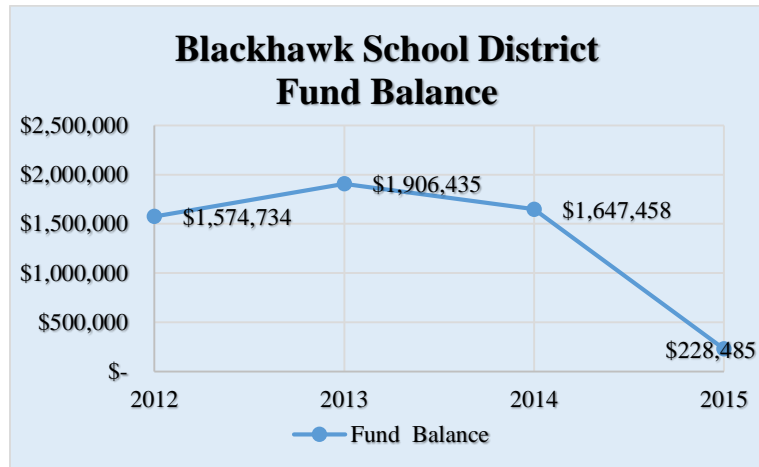
The Government Finance Officers Association (GFOA) has developed Budgeting Best Practices for School Districts. Among the best practices are:

General Fund Reserve. School districts should establish a formal process on the level of unrestricted/uncommitted/unassigned fund balance that should be maintained in the general fund as a reserve to hedge against risk. The GFOA recommends, at a minimum, an unrestricted fund balance in their general fund of no less than 10 percent of regular General Fund operating revenues or regular general operating expenditures.

The Pennsylvania School Boards Association (PSBA) in its Annual Overview of Fiscal Health for the 2013-14 school year provided the following information relevant to the following fiscal benchmarks:

- Financial industry guidelines recommend that fund balances be between 5 percent and 10 percent of annual expenditures.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

Chart #1



The significant decrease in the General Fund balance can be attributed to the District's operating deficit that occurred in the 2014-15 fiscal year. The District's failure to budget for certain personnel expenditures and inaccurate budgeting of maintenance and utilities led to actual expenditures exceeding budgeted expenditures by almost \$1 million in that year.

Specifically, we found that the District failed to budget for an early retirement incentive and the hiring of additional special education teachers and additional special education teacher's aides. The District also under-budgeted maintenance⁸ and utility⁹ expenditures during the three years reviewed. Most significantly, actual expenditures exceeded budgeted amounts by over \$500,000 for these line items in the 2014-15 fiscal year. We will discuss these expenditures in more detail later in this finding.

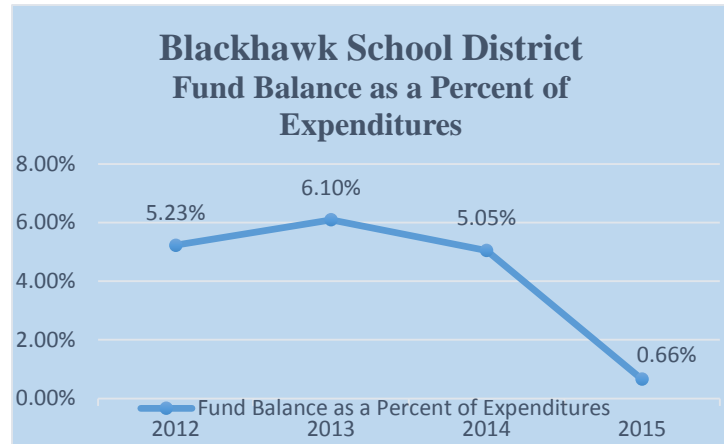
The District's failure to budget for certain personnel expenditures and budget accurately for maintenance and utilities caused the District to spend money that was not budgeted. Unbudgeted expenditures necessitated that the District use the General Fund balance to cover these expenditures. This is an unsustainable practice that nearly depleted the District's General Fund and led to the District's perilous financial condition.

⁸ Specific line items are "repairs and maintenance services of buildings" and "repair and maintenance services of equipment."

⁹ Specific lines items are "electricity" and "natural gas."

The District's General Fund balance as a percentage of total annual expenditures was within the range recommended by financial industry guidelines during the 2012-13 and 2013-14 fiscal years as shown in Chart #2. However, during the 2014-15 fiscal year the fund balance decreased by more than \$1.4 million, or 86 percent. When calculated as a percentage of total annual expenditures, the fund balance fell well below the recommended levels.

Chart #2



Just as individuals should have a “rainy day fund” to deal with emergencies or unforeseen needs, school districts should also have available reserve funds to deal with emergencies, unanticipated expenses, and disruptions to its revenues. The lack of available reserve funds could also lead to the District having no other options than borrowing money to maintain operations. District’s with low General Fund balances are considered higher risk borrowers and are more likely to be charged a higher interest rate when borrowing. Future borrowing costs could increase if the District’s General Fund balance doesn’t improve.

While more than \$1.0 million of the \$1.4 million General Fund decrease in 2014-15 can be attributed to the District’s operating deficit, the remaining almost \$370,000 decrease was the result of a District construction project, completed during the 2013-14 fiscal year, that went over budget.

The District appropriately used the Capital Projects Fund to account for this construction project. Resources accumulated through borrowing and payments made to complete this project were all accounted for in the Capital Projects Fund. As of June 30, 2014, the District’s Capital Projects Fund had a deficit balance of \$369,890. The

Criteria relevant to the finding (continued):

2014-15 Early Retirement Incentive Details

Teachers

Teachers age 55 years or older with at least 18 years of service to the District were offered a \$20,000 lump sum payment to their 403(b) account. In addition, the teachers were offered healthcare insurance for a maximum of ten years or until Medicare eligibility, whichever comes first. The teachers had to retire no later than June 30, 2015.

Support Personnel

Support personnel age 57 years or older with at least 10 years of service to the District were offered a lump sum payment to be deposited in their 403(b) account in one of the following amounts: custodial, maintenance, cafeteria, and support paraprofessionals - \$5,000; professional secretaries - \$7,200. In addition, the support personnel were offered healthcare insurance for a maximum of eight years or until Medicare eligibility, whichever comes first. The support staff had to retire by no later than August 15, 2015.

District’s General Fund was required to cover this deficit. As a result, the District’s beginning General Fund balance was restated¹⁰ as of July 1, 2014, and decreased by \$369,890.

Operating Position

A school district’s operating position can be determined by reviewing the total operating expenditures compared to total revenues. An operating deficit occurs when expenditures are greater than revenues. The following table shows the District’s operating position for the three years reviewed and the significant deficit that occurred during the 2014-15 fiscal year.

Table #1

| Blackhawk SD General Fund Operation Position | | | |
|---|------------------------------------|--|--------------------------|
| Year Ended June 30 | Total Revenues¹¹ | Total Expenditures¹² | Surplus/(Deficit) |
| 2013 | \$31,603,518 | \$31,271,817 | \$331,701 |
| 2014 | \$32,364,416 | \$32,623,393 | (\$258,977) |
| 2015 | \$33,568,647 | \$34,617,730 | (\$1,049,083) |
| Total: | \$97,536,581 | \$98,512,940 | (\$976,359) |

As previously mentioned, the District’s financial decline in the 2014-15 fiscal year can be primarily attributed to unbudgeted personnel expenses, as detailed below.

Early Retirement Incentive

In an effort to reduce future expenditures, the Board approved an early retirement incentive for employees of the District in April 2015. However, this incentive was not included as a budgeted expense in the 2014-15 fiscal year

¹⁰ The District uses Capital Project Funds to account for resources accumulated through issued debt and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the District. The District completed a major project during the year ended June 30, 2014, and during which the District spent the remaining bond proceeds. As of June 30, 2014, the District's Capital Project Fund balance had a deficit of \$369,890, requiring the General Fund to cover any remaining liabilities. There were no major projects nor debt issued for major projects during June 30, 2015; therefore, the District combined the General Fund and Capital Projects Fund for reporting purposes. Source: Note 2R of the District’s June 30, 2015 Independent Auditor’s Report. General Fund balance, June 30, 2014: \$1,647,458. Capital Projects Fund balance, June 30, 2014 (\$369,890). Beginning Fund Balance on June 30, 2015, \$1,277,568.

¹¹ Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2013 through 2015.

¹² Ibid.

because that budget was approved in July 2014. A total of 23 District employees took advantage of the early retirement incentive. As a result, the District paid \$437,780 during the 2014-15 fiscal year to meet this obligation. This expense was the most significant cause of the District's operating deficit for the 2014-15 fiscal year.

The expected cost of an incentive of this type should have been included in the budget and a detailed cost benefit analysis should have been performed to ensure that the early retirement incentive was in the best financial interest of the District. The District was unable to provide us with documentation of a cost benefit analysis of this incentive.

While the District anticipated cost savings due to the implementation of this incentive, without an accurate projection of savings prior to implementation of the incentive, the District cannot measure the extent of any actual cost savings. Furthermore, it would benefit the District to determine actual cost savings for the 2015-16 year and then evaluate those results if and when retirement incentives are considered in the future.

Special Education Increases

Another contributing factor to the District's operating deficit in the 2014-15 fiscal year was the District's increase in special education costs. We found that the actual special education expenses exceeded budgeted expenses by nearly \$247,000. According to District officials, the primary reason for the increase in special education costs was the Board approved hiring of two additional teachers and multiple special education aides in August 2014. However, the decision to hire additional staff was made after the 2014-15 budget was approved and, therefore, the budget did not include the salary and benefit expenses related to the addition of these positions.

While we recognize that special education costs can be difficult to budget accurately due to the variable nature of the services needed on a year-to-year basis, the District should carefully consider the financial impact to District operations when adding positions that were not budgeted.

Criteria relevant to the finding (continued):

Section 609 of the Public School Code (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 school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

Budgeted vs. Actual Expenditures

The District failed to consider the trend of increasing costs when budgeting for maintenance and utility costs. Our review of the comparison of budget-to-actual costs for the three cost categories disclosed that the District failed to account for the increased costs in the 2015 fiscal year budget.

Table #2

| Blackhawk SD Budgeted vs. Actual Expenditures Maintenance and Utilities¹³ | | | | |
|---|---------------------------------|----------------------------|--------------------------|---|
| Fiscal Year Ending June 30 | Expenditure Category | Budgeted Amount | Actual Amount | Difference (Over)/Under Budget |
| 2013 | Repairs ¹⁴ | \$180,000 | \$233,880 | (\$53,880) |
| | Electricity | \$352,800 | \$312,696 | \$40,104 |
| | Natural Gas | \$121,000 | \$152,489 | (\$31,489) |
| | Total | \$653,800 | \$699,065 | (\$45,265) |
| 2014 | Repairs | \$202,500 | \$227,232 | (\$24,732) |
| | Electricity | \$350,200 | \$364,445 | (\$14,245) |
| | Natural Gas | \$126,500 | \$250,618 | (\$124,118) |
| | Total | \$679,200 | \$842,295 | (\$163,095) |
| 2015 | Repairs | \$204,500 | \$390,722 | (\$186,222) |
| | Electricity | \$315,000 | \$416,662 | (\$101,662) |
| | Natural Gas | \$153,800 | \$231,384 | (\$77,584) |
| | Total | \$673,300 | \$1,038,768 | (\$365,468) |
| Overall Total | | \$2,006,300 | \$2,580,128 | (\$573,828) |

As shown in Table #2, the District under-budgeted these expenditure categories, in total, for each of the three years we reviewed. Actual amounts progressively exceeded budgeted amounts over the three years culminating in actual amounts exceeding budgeted by over \$365,000 in the 2014-15 fiscal year.

Based on the information presented above, it appears that historical trends and actual expenses were not considered when the District developed the budgeted expenses for maintenance and utility expenses.

A review of the “electricity” budget line item for the 2014-15 fiscal year provides a good example of not

¹³ Information obtained from the District’s accounting system’s *Budget Comparison Summary Report 2016-2017-Expenditures for the* fiscal years ending 2013 through 2015.

¹⁴ Contains both “repairs and maintenance services of buildings” and “repair and maintenance services of equipment” line items.

considering historical trends and actual expenses. In this year, the District budgeted less than the previous year, even though actual amounts significantly exceeded the budgeted amount for the previous year. It is difficult to understand why the District would reduce the 2014-15 budget to \$315,000 when actual expenses for 2013-14 were over \$364,000. The District also failed to budget accurately for repairs and natural gas.

While under-budgeting these costs aided the District in preparing a balanced budget, it underestimated actual costs and resulted in the District over-expending the total budget in two of the three years reviewed (see Table #3). Failure to appropriately budget for known costs only serves to provide a false sense of financial security and eventually can lead to deficit spending and financial distress for the District. In addition, over-expending the budget is a violation of Section 609 of the PSC.

Table #3

| Blackhawk SD Budget vs. Actual Expenditures¹⁵ | | | |
|---|----------------------------------|--------------------------------|--------------------------------|
| Fiscal Year Ending June 30 | Budgeted Expenditures | Actual Expenditures | (Over)/Under Budget |
| 2013 | \$31,289,454 | \$31,260,835 | \$28,619 |
| 2014 | \$31,927,118 | \$32,618,393 | (\$691,275) |
| 2015 | \$33,636,968 | \$34,605,955 | (\$968,987) |
| Total | \$96,853,540 | \$98,485,183 | (\$1,631,643) |

Conclusion

As discussed above, the District found itself in financial difficulties because the Board and the administration did not fully consider the impact of implementing unbudgeted programs during an operating fiscal year. Additionally, the District failed to appropriately budget for cost increases, when the trend of budget-to-actual cost comparisons showed actual costs increasing. The increase in total expenses that resulted from these unbudgeted and under-budgeted expenses led to a significant operating deficit during the 2014-15 fiscal year. This operating deficit resulted in the District depleting its General Fund balance and it reduced the General Fund to a level far below the recommended financial industry guidelines.

¹⁵ Information obtained from the District's Independent Auditor's Report, *Statement of Revenue, Expenditures and Changes in Fund Balance Budget and Actual-General Fund*, fiscal years ending 2013 through 2015.

Recommendations

The *Blackhawk School District* should:

1. Prepare a multi-year budget that adequately reflects annual commitments to help ensure the District is prepared to meet future obligations.
2. Develop and implement a long term strategic plan that will assist the District in replenishing and then stabilizing the General Fund.
3. Prepare a detailed cost-benefit analysis of all proposed retirement incentives to ensure that the District is making long term financially beneficial decisions.
4. Ensure that all District staffing decisions are identified and addressed during the budgetary process to avoid adding staff after the budget process.
5. Ensure that maintenance and utility yearly budgetary line item expenditures are based on actual historical costs, potentially adjusted for projected changes in utility prices.

Management Response

District management provided the following response:

“Management agrees with the findings of the Auditor General. The previous Superintendent and Business Manager failed to properly budget for an early retirement incentive and the hiring of additional Special Education teachers and staff. Additionally the previous administration under budgeted in both maintenance and utility expenditures.

1. The current Business Manager and Superintendent identified the problems, the business office and Board of Education halted all spending and stopped capital projects until the 3-5 year plan could be analyzed and re-developed.
2. Administration met with the association and other contracted employees to re-negotiate agreements in order to reduce expenses.

3. The District completed the Highland Middle School Project PlanCon Part J resulting in the district receiving \$1,269,634.
4. The Audit ending June 2016 demonstrated an increase of current fiscal year to \$905,599. The projected fund balance for June 2017 is 2.6 million.”

Auditor Conclusion

We are encouraged by the current administration’s implementation of some of our recommendations and both the actual and projected increases in the General Fund balance. Developing and adhering to a three-to-five year plan, with annual reviews and revisions, as needed, will help provide the District with a clear path to long term fiscal stability. We will review these and any other corrective actions taken during our next audit of the District.

Finding No. 2**The District's Failure to Report the Charter School Students it Transported Resulted in a Subsidy Underpayment of \$55,055***Criteria relevant to the finding:*

Section 1726-A(a) of the Charter School Law (CSL), 24 P.S. § 17-1726-A(a), addresses the transportation of charter school students by providing: "Students who attend a charter school located in their school district of residence, a regional charter school of which the school district is a part or a charter school located outside district boundaries at a distance not exceeding ten (10) miles by the nearest public highway shall be provided free transportation to the charter school by their school district of residence on such dates and periods that the charter school is in regular session whether or not transportation is provided on such dates and periods to students attending schools of the district. . . ."

Section 1726-A(a) further provides for districts to receive a state subsidy for transporting charter school students both within and outside district boundaries by providing: ". . . Districts providing transportation to a charter school outside the district and, for the 2007-2008 school year and each school year thereafter, districts providing transportation to a charter school within the district shall be eligible for payments under section 2509.3 for each public school student transported."

The District failed to report the transportation of its charter school students to PDE for the 2011-12 through 2014-15 school years resulting in the District not receiving \$55,055 in state transportation subsidies for which it was eligible.

Section 1726-A(a) of the CSL requires school districts to provide free transportation to their students attending a charter school located within the district or outside the district not exceeding ten miles by the nearest public highway. This provision also allows school districts to receive a supplemental, state transportation subsidy of \$385 per charter school student pursuant to Section 2509.3 of the PSC.

During our review of the District's transportation data reported to PDE for the 2011-12 through 2014-15 school years, we found that the District failed to report any of the charter school students transported by the District.

Due to employee turnover at the District, we were unable to determine the reason that the employee responsible for completing the transportation reports failed to include charter school students. However, when evaluating the District's process for reporting data to PDE, we identified weaknesses in that process.

Specifically, we found that the District did not have written procedures for the process of preparing and submitting transportation data to PDE. Further, we found that the District did not have a review process for the transportation data reports that are used to calculate state transportation subsidies. These reports were prepared by one employee and submitted directly to PDE. A second level review of this information would have increased the likelihood of the District identifying significant errors like failing to report any charter school students transported by the District.

Criteria relevant to the finding (continued):

Section 2509.3 of the Public School Code (PSC), 24 P.S. § 25-2509.3, provides that each school district shall receive a supplemental transportation payment of \$385 for each nonpublic school pupil transported. This payment is also applicable to charter school students through Section 1726-A(a) of the CSL.

Student transportation data is required to be submitted annually to the Pennsylvania Department of Education (PDE) on a standardized form called, "Summary of Students Transported" (PDE-2089 form). This form is used to report the total number of students transported during the school year, including the number of charter school students transported within and outside the district.

Since the accuracy of this data is key to ensuring that the District receives the appropriate transportation subsidies, the District should have written procedures and ensure compliance with those procedures.

We reviewed District documentation and determined that, cumulatively over the four-year period, the District failed to report 143 charter school students. With a \$385 payment per student, the District missed out on more than \$55,000.

The following chart summarizes the District's reported total compared to our audited total of charter school students and the resulting cumulative underpayment:

| BLACKHAWK SD Charter School Students Transported | | | |
|---|-----------------------------|----------------------|--------------------------------------|
| School Year | Reported by District | Audited Total | Subsidies Due to the District |
| 2011-12 | 0 | 27 | \$10,395 |
| 2012-13 | 0 | 38 | \$14,630 |
| 2013-14 | 0 | 39 | \$15,015 |
| 2014-15 | 0 | 39 | \$15,015 |
| Total | 0 | 143 | \$55,055 |

We provided PDE with reports detailing the discrepancies we identified for the 2011-12 through 2014-15 school years. PDE can use these reports to adjust the District's future transportation subsidies to include payment for the charter school students that were not reported previously.

Recommendations

The *Blackhawk School District* should:

1. Prepare written procedures for reporting all allowable student transportation costs, including the reporting of charter school students, on transportation data reports, such as the "Summary of Pupils Transported" (PDE-2089) form.
2. Ensure all transportation data reports are reviewed for accuracy and completeness by a school district staff member other than the preparer prior to submission to PDE. The review and approval of the reports should be documented.

3. Conduct a multi-year trend analysis of student transportation data annually to help identify unexpected fluctuations and investigate the results of the analysis to provide additional assurance of the accuracy of the data reported to PDE.

The *Pennsylvania Department of Education* should:

1. Adjust the District's transportation payments to reimburse the District \$55,055 for the transportation of charter school students not reported by the District for the 2011-12 through 2014-15 school years.

Management Response

District management provided the following response:

“Management agrees with the findings and conclusions of the Auditor General. The Administration will coordinate with McCarter Transit, Inc., the district bus contractor, to analyze transportation costs for brick and mortar charter schools. The district will file with PDE for reimbursement of charter school students from 2011-2012 through 2014-2015 for underpayment of \$55,055.”

Auditor Conclusion

We are pleased that the District is taking a proactive position in regard to reporting transportation costs for providing services to charter students. The District stated that they have implemented suggested internal controls regarding transportation cost reporting accuracy. During our next audit, we will determine the effectiveness of this and any other corrective actions taken by the District.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on September 17, 2013, resulted in one finding, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures as detailed in the status section below.

Auditor General Performance Audit Report Released on September 17, 2013

Prior Finding: **Errors in Reporting Pupil Membership Resulted in a Reimbursement Overpayment of \$72,779**

Prior Finding Summary: Our prior audit of the District's pupil membership reports submitted to PDE for the 2008-09 school year found reporting errors. District personnel inaccurately reported membership for children placed in private homes (foster children).

Prior Recommendations: We recommended that the District should:

1. Implement enhanced internal control procedures that require someone other than the person entering the enrollment data into the child accounting software to review the information entered.
2. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.

We also recommended that PDE should:

3. Adjust the District's allocations to recover the overpayment of \$72,779.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District has implemented internal controls to ensure someone, other than the person entering the data into the child accounting software, reviews the data. The District also now provides regular training to staff regarding the recording and reporting of student membership data. On June 1, 2016, PDE deducted \$72,779 from the District's Basic Education Funding to recover the overpayment reported in the prior audit.

Appendix: Audit Scope, Objectives, and Methodology

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 Sections 402 and 403 of The Fiscal Code,¹⁶ is not a substitute for the local annual financial audit required by the PSC of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2011, through June 30, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls¹⁷ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which 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.

¹⁶ 72 P.S. §§ 402 and 403.

¹⁷ 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; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2012, through June 30, 2015. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- ✓ Financial Stability
- ✓ Transportation Operations
- ✓ Contracting
- ✓ Hiring Practices
- ✓ Administrator Contract Buy-out
- ✓ School Safety
- ✓ Bus Driver Requirements

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ✓ Based on an assessment of financial benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - To address this objective, we reviewed the District's annual financial reports, budgets, independent auditor's reports, and summary of child accounting for fiscal years 2011-12 through 2014-15. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, debt ratio, and current ratio. These financial indicators were deemed appropriate for assessing the District's financial stability. The financial indicators are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. Finding No. 1 describes the results of our review of this objective.
- ✓ Did the District establish internal controls to ensure compliance with applicable laws and regulations governing transportation operations, and did the District receive the correct transportation reimbursement from the Commonwealth?¹⁸

¹⁸ See 24 P.S. §§ 3-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

- To address this objective, we conducted testing to verify the accuracy of the number of charter school students reported to PDE as being provided transportation by the District for the 2011-12, 2012-13, 2013-14, and 2014-15 school years. Since the District did not report any charter school students transported during these years, we reviewed bus rosters and other supporting documentation to determine if charter school students were transported. Finding No. 2 describes the results of our review of this objective.
- ✓ Did the District ensure that its contracts were current, properly obtained, approved, executed, and monitored?
 - To address this objective, we reviewed the District’s procurement and contract monitoring policies and procedures. We obtained a list of vendors and randomly selected for detailed testing, 12 out of 127 vendors exceeding \$2,000 for services purchased by the District during the period July 1, 2015, through August 31, 2016. Three additional contracts were selected for testing using our review of the board meeting minutes and based on indicators of high risk of noncompliance with the PSC and/or board policies. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the PSC and District policies. We also reviewed documents and interviewed District personnel to determine if the District monitored the selected contracts. Finally, we reviewed board meeting minutes to determine proper approvals, and we reviewed the Board’s Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts. Our review of this area did not disclose any reportable issues.
- ✓ Did the District follow the PSC¹⁹ and the District’s policy and procedures when hiring new staff?
 - To address this objective, we obtained and reviewed the District’s hiring policies and procedures. We selected the most recent 3 of 36 employees hired or internally promoted by the District during the period January 1, 2015, through June 30, 2016, and reviewed documentation to determine if the District complied with the PSC and the District’s policy and procedures in hiring new employees. Our review of this area did not disclose any reportable issues.
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the employment contract(s) comply with the PSC²⁰ and Public School Employees’ Retirement System guidelines?

¹⁹ 24 P.S. § 5-508, 24 P.S. § 11-1106, and 24 P.S. § 11-1111.

²⁰ 24 P.S. § 10-1073(e)(v).

- To address this objective, we reviewed the employment contract, settlement agreement(s), board meeting minutes, board policies, and payroll records for the two administrators who separated employment with the District during the period July 1, 2012, through August 31, 2016. Our review of this area did not disclose any reportable issues.
- ✓ Did the District take appropriate actions to ensure it provided a safe school environment?²¹
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. Due to the sensitive nature of school safety, the results for our review of this objective area are not described in our audit report. The results of our review of school safety are shared with District officials, and, if deemed necessary, with PDE.
- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?²² Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
 - To address this objective, we selected all five bus drivers hired by the District's bus contractor during the time period January 1, 2014, through June 30, 2016, and reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures ensure compliance with bus driver hiring requirements. Our review of this area did not disclose any reportable issues.

²¹ 24 P.S. § 13-1301-A *et seq.*

²² 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.*

Distribution List

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 Joe Torsella

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. Nathan Mains

Executive Director
Pennsylvania School Boards Association
400 Bent Creek Boulevard
Mechanicsburg, PA 17050

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