

PERFORMANCE AUDIT

Coatesville Area School District Chester County, Pennsylvania

September 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Dr. Cathy L. Taschner, Superintendent
Coatesville Area School District
3030 CG Zinn Road
Thorndale, Pennsylvania 19372

Mr. Dean A. Snyder, Board President
Coatesville Area School District
3030 CG Zinn Road
Thorndale, Pennsylvania 19372

Dear Dr. Taschner and Mr. Snyder:

Our performance audit of the Coatesville Area School District (District) evaluated the application of best practices in the areas of finance 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, 2016, 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 applied best practices in the area of finance and complied, in all significant respects, with relevant requirements, except as detailed in our two findings noted in this audit report. Our audit also contains one observation. A summary of the results is presented in the Executive Summary section of the audit report.

We did not include the results of our review of the District's procedures related to certain areas of school safety in this report due to the sensitive nature of this issue and the potential malicious use of our findings. However, we communicated the results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate agencies we deemed necessary.

Dr. Cathy L. Taschner

Mr. Dean A. Snyder

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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 legal and 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". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale

Auditor General

August 6, 2018

cc: **COATESVILLE AREA 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 Coatesville Area School District (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, 2016, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. (See Appendix).

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 for two findings. Our audit also contains one observation.

Finding No. 1: After Increasing During the First Four Years of Our Review, the District's General Fund Balance Decreased by More Than \$9.1 Million Dollars During the 2016-17 Fiscal Year.

Our review of the District's financial position over a five-year period revealed that the District's General Fund balance increased for four consecutive fiscal years

before decreasing by more than \$9 million or 76 percent during the July 1, 2016 through June 30, 2017 fiscal year. (See page 13).

Finding No. 2: While the District Struggled to Manage Resources, the Former Superintendent Received Excessive, Unauthorized Salary Increases that Were in Noncompliance with the Public School Code and May Have Been in Violation of the Ethics Act.

At a time when the District had to borrow funds to meet operating expenses, the former Superintendent received three consecutive, excessive salary increases, none of which were authorized by the Board of School Directors.¹ The salary increases, ranging between 8 and 10 percent, violated the Public School Code, which requires board authorization of officers' and all employees' compensation.² These excessive unauthorized raises also occurred during a time when the District received downgrades to its credit rating and a criminal investigation had been launched into the conduct of the former Superintendent and others in the District. The salary increases also far exceeded the 3 percent annual increase stipulated in the former Superintendent's original contract. (See page 25).

¹ The District's former Superintendent resigned on August 29, 2013.

² 24 P.S. § 5-508. Section 508 of the PSC requires the "affirmative vote of a majority of all the members of the board of school directors" for, among others, the appointment or dismissal and the fixing of salaries or compensation of a superintendent.

Observation: The District Improved Its Governance and Internal Accounting Controls After Criminal and Internal Investigations into Three Former Officials. Our review focused on corrective actions taken by the District on the 39 recommendations made in an internal investigative report. We grouped the 39 recommendations into 7 different categories and highlighted some of the recommendations and corrective actions in the sections that follow. Finally, we concluded on the efforts by the District to improve its internal accounting controls and governance policies and procedures. We observed that the District appears to have taken seriously the conditions identified in the investigative report and the corresponding recommendations to correct them. (See page 30).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations, we found the District implemented some, but not all, of our recommendations pertaining to the District's financial challenge. (See page 35). We found that the District implemented our recommendations pertaining to the transparency of eligible retirement benefits for employees. (See page 36).

Background Information

School Characteristics 2016-17 School Year ^A	
County	Chester
Total Square Miles	75.82
Number of School Buildings	11 ^B
Total Teachers	468
Total Full or Part-Time Support Staff	247
Total Administrators	23
Total Enrollment for Most Recent School Year	6,420
Intermediate Unit Number	24
District Vo-Tech School	Chester County Technical College High School

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

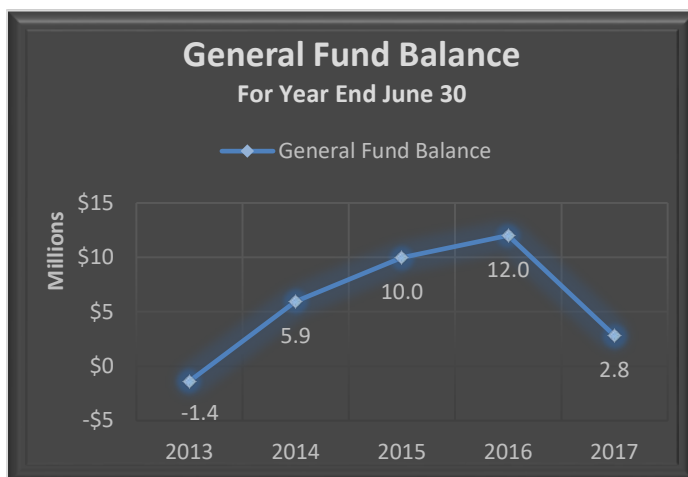
B – Gordon Early Literacy Center is a Pre-School that the District operates and does not participate in academic testing.

Mission Statement^A

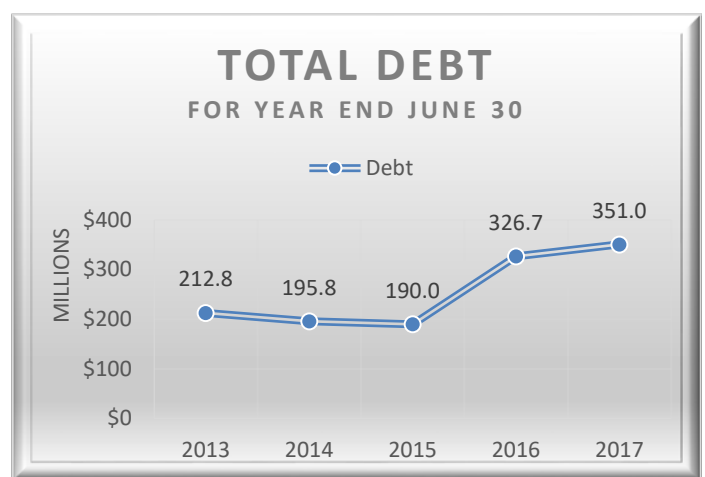
The mission of the Coatesville Area School District, rich in diversity and committed to excellence, is to create innovative educational experiences which are funded by the taxpayers, supported by the community, delivered by dedicated teachers and administrators, to ensure all students will become responsible, contributing global citizens.

Financial Information

The following pages contain financial information about the Coatesville Area School District (District) obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE's public website. This information was not audited and is presented for **informational purposes only**.

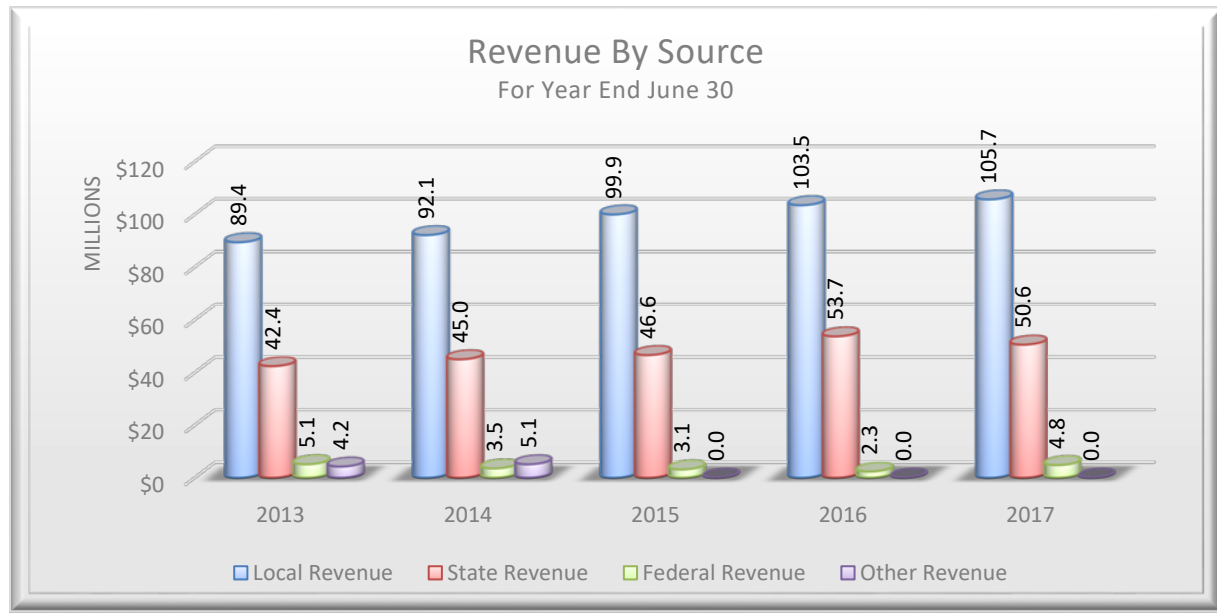
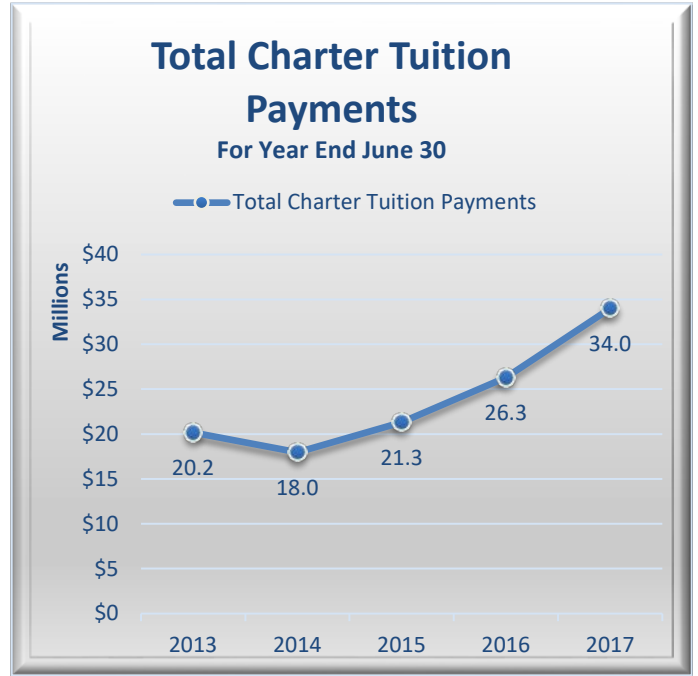
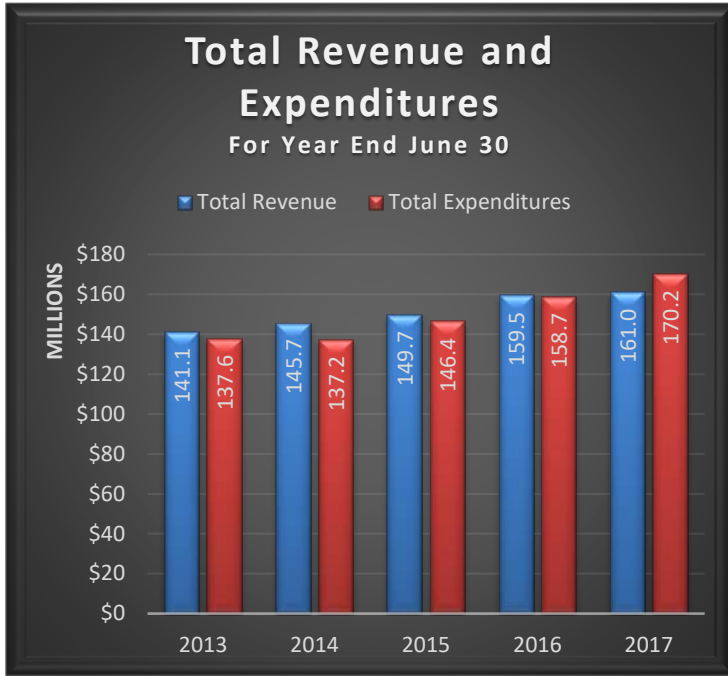


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15, 2015-16 and 2016-17 school years.³ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding graph.⁴ Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.⁵

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e., PSSA and Keystone exam scores), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁶ PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until the 2020-21 school year.⁷ In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

³ PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

⁴ PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

⁵ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁶ According to PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of the PSSA exams to align with PA Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

⁷ Act 39 of 2018, effective July 1, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement for an additional year until the 2020-21 school year. *See* 24 P.S. § 1-121(b)(1).

What is the PSSA?

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁸ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

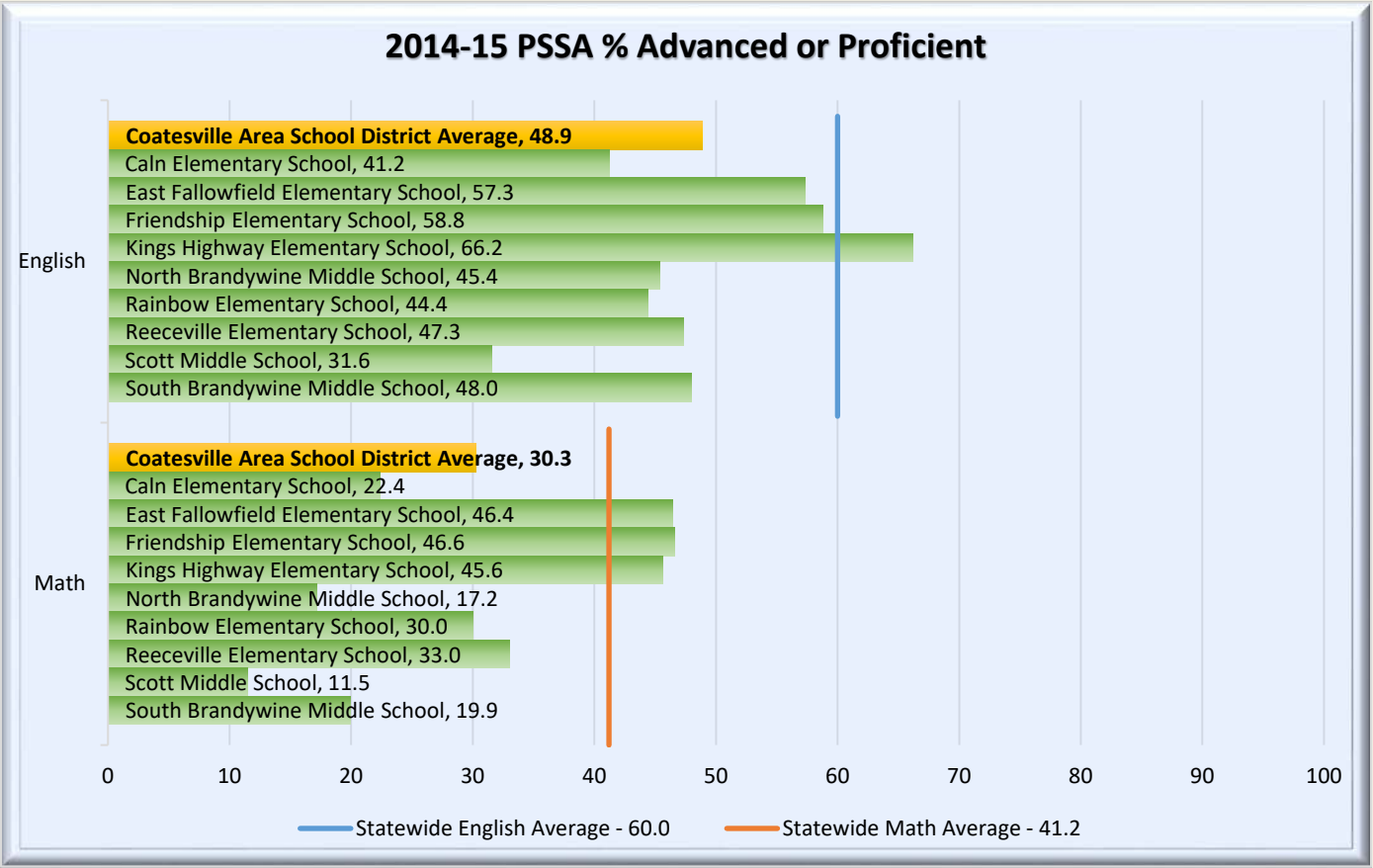
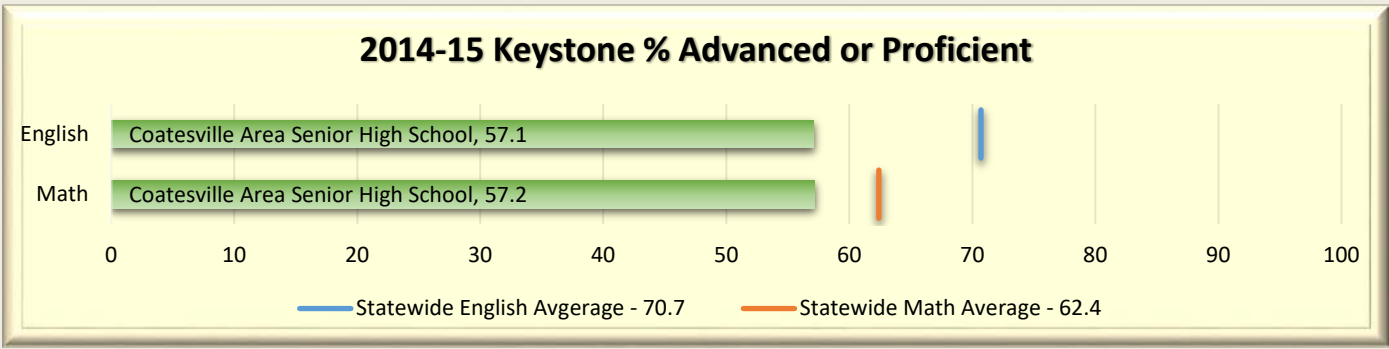
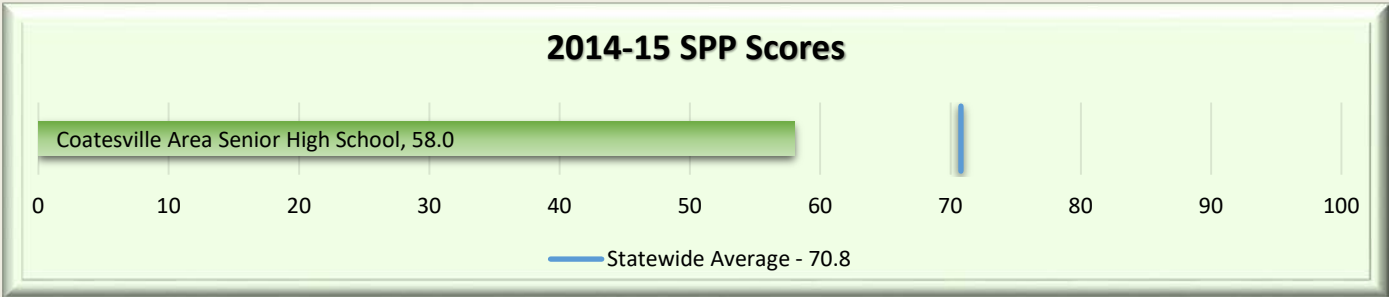
What is a 4-Year Cohort Graduation Rate?

PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. 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. Data specific to the 4-year cohort graduation rate is presented in the graph.⁹

⁸ PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam.

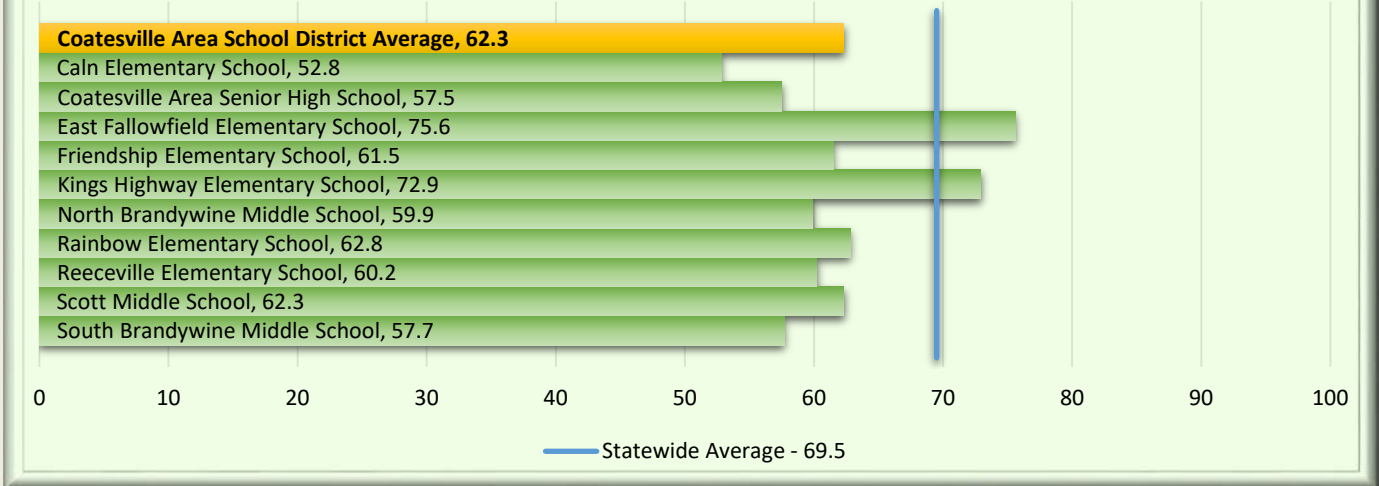
⁹ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

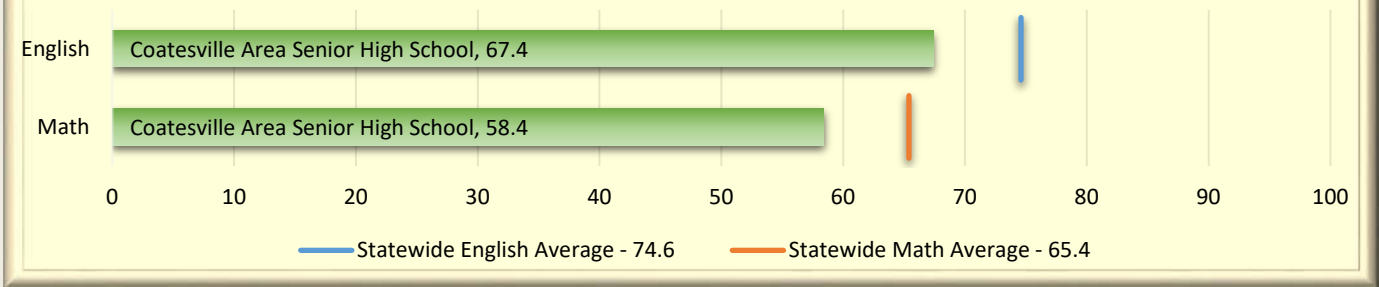


2015-16 Academic Data
School Scores Compared to Statewide Averages

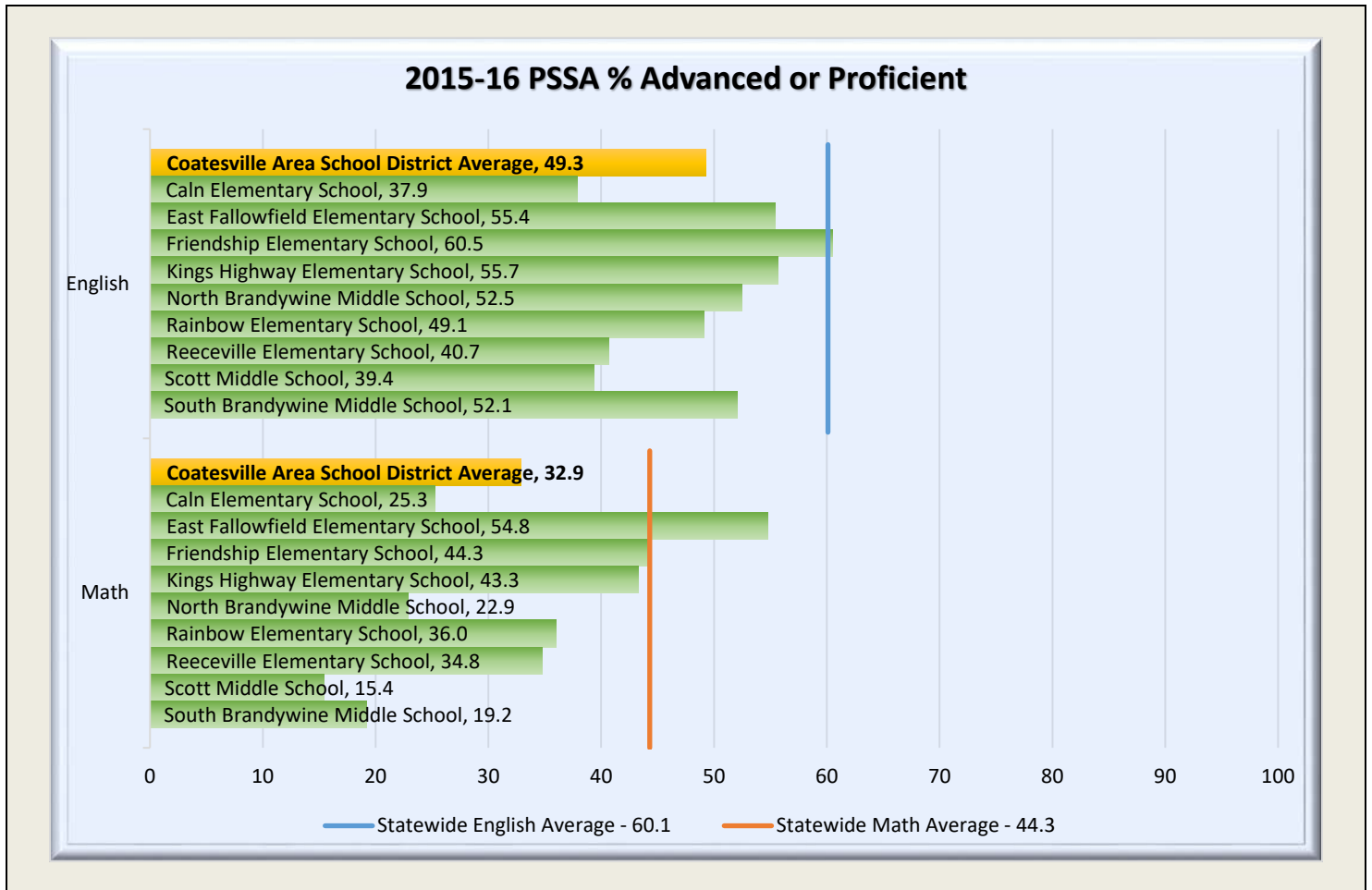
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

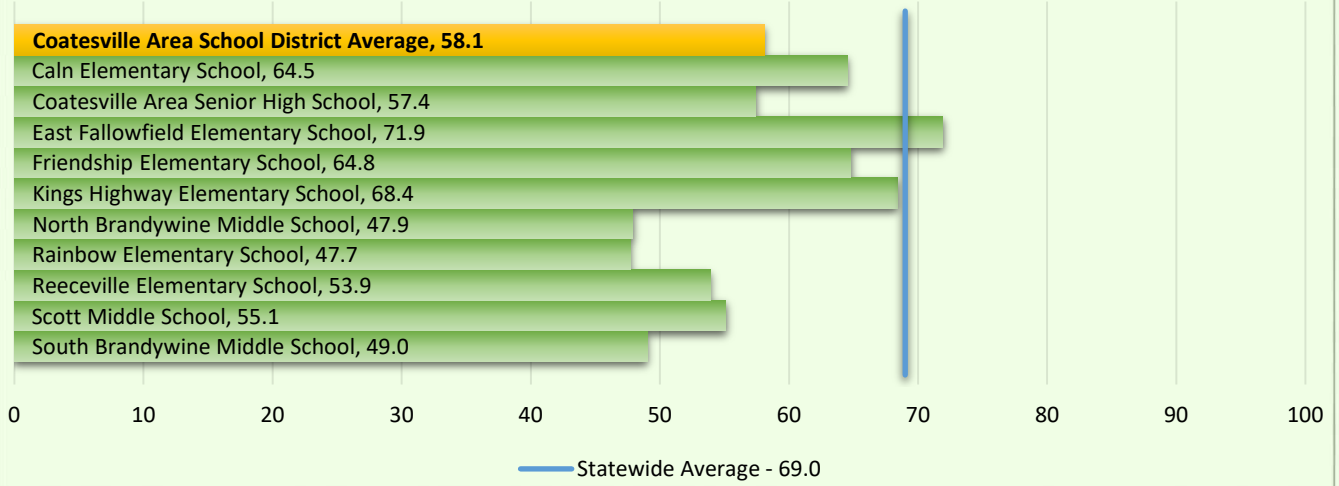


2015-16 Academic Data
School Scores Compared to Statewide Averages (continued)

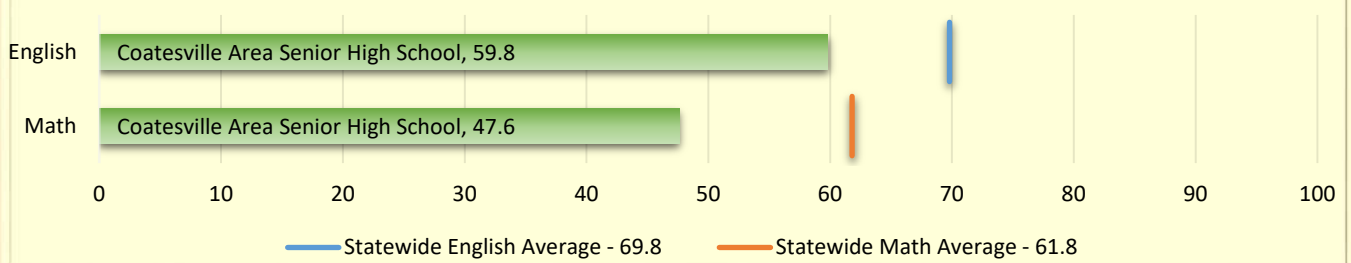


2016-17 Academic Data
School Scores Compared to Statewide Averages

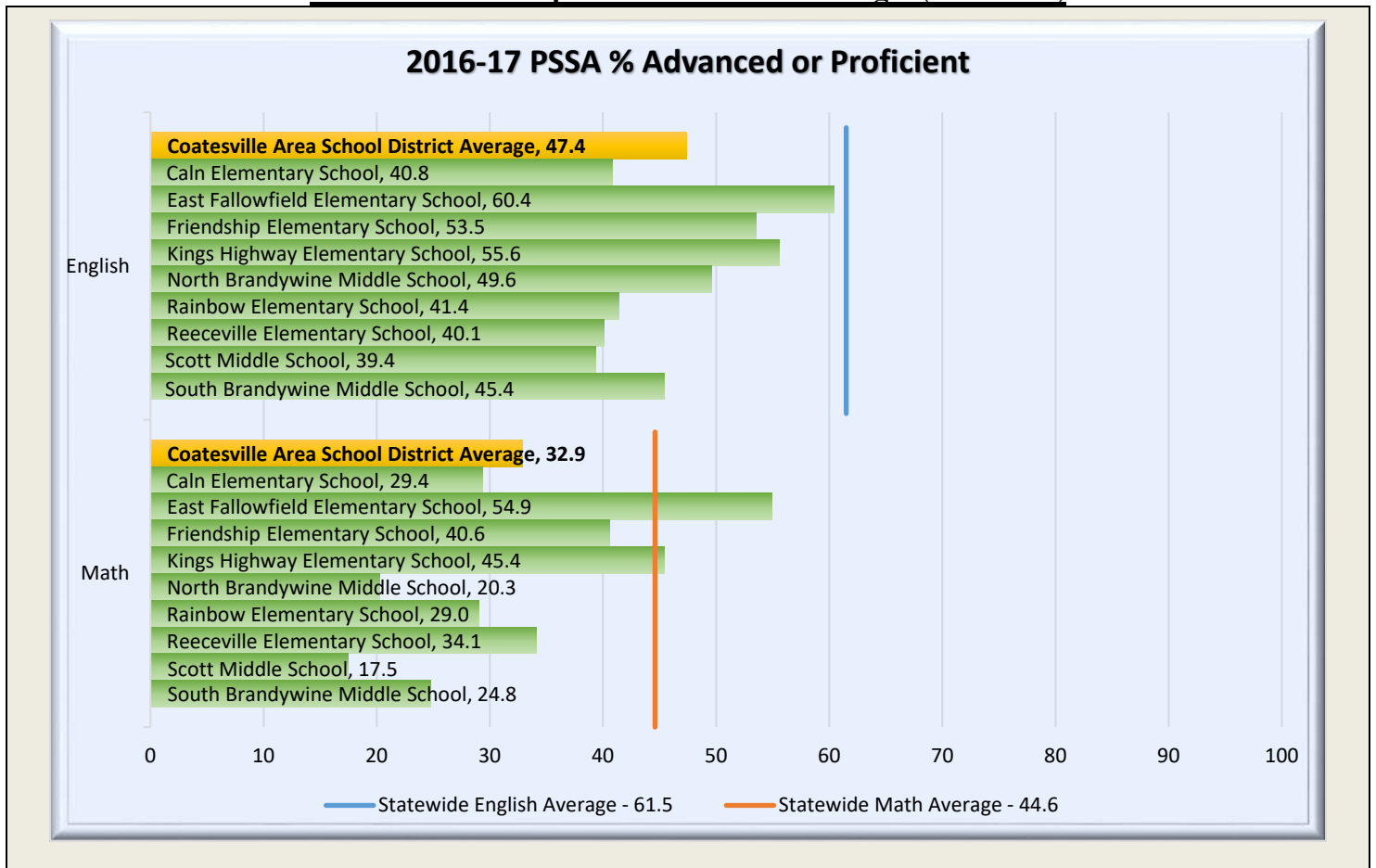
2016-17 SPP Scores



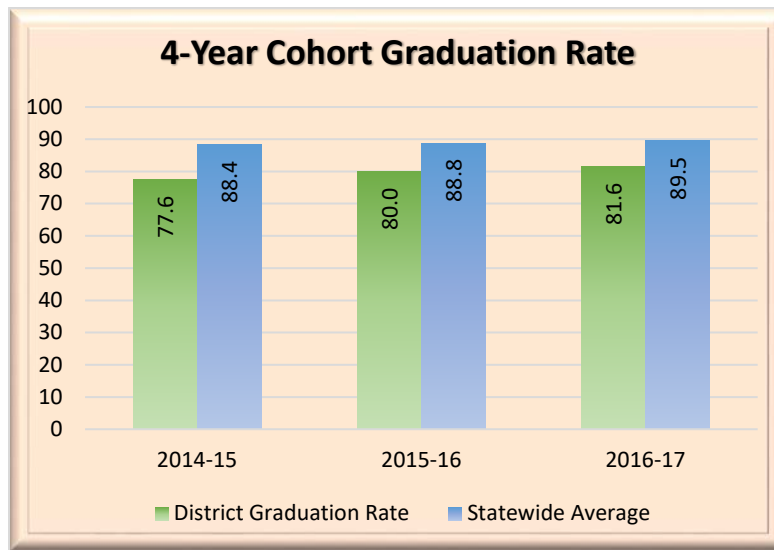
2016-17 Keystone % Advanced or Proficient



2016-17 Academic Data
School Scores Compared to Statewide Averages (continued)



Graduation Data
District Graduation Rates Compared to Statewide Average



Finding

Finding No. 1

After Increasing During the First Four Years of Our Review, the District's General Fund Balance Decreased by More Than \$9.1 Million Dollars During the 2016-17 Fiscal Year

Criteria relevant to the finding:

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 the unrestricted fund balance that should be maintained in the General Fund as a reserve to hedge against risk.

The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their General Fund of no less than 10 percent of regular General Fund operating expenditures and operating transfer out.

Budgeting and maintaining adequate fund balances allow school boards and superintendents to maintain their educational programs and services with level tax adjustments. They also provide financial stability in emergency situations so that it is certain that employees and vendors are paid on time. Fund balances reduce interest expense or interim borrowing. In addition, stable fund balance history appeals more to underwriters and other creditors when construction projects are undertaken and the school district must enter the bond market.

Our review of the Coatesville Area School District's (District) financial position over a five-year period revealed that the District's General Fund balance increased for four consecutive fiscal years before decreasing by more than \$9 million or 76 percent during the July 1, 2016 through June 30, 2017 fiscal year.

After four consecutive operating surpluses, the District experienced an operating deficit of more than \$9 million during the 2016-17 fiscal year. This operating deficit was the result of increasing expenditures and reduced the District's General Fund balance to \$2.8 million. The District's General Fund balance of \$2.8 million, as of June 30, 2017, is significantly less than recommended and violates the District's board policy regarding its General Fund balance. The sizable operating deficit experienced by the District during the 2016-17 fiscal year is concerning, and continued increasing expenditures and operating deficits could deplete its General Fund further.

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 five years from July 1, 2012 through June 30, 2017. The following benchmarks raised concerns related to the District's finances and will be discussed in the remainder of the finding:

- General Fund
- Operating Position
- Revenues and Expenditures
- Budgeted Expenditures

General Fund

As illustrated in Chart 1, the District's General Fund balance was negative **\$4.9 million** as of July 1, 2012. Over

Criteria relevant to the finding (continued):

The Pennsylvania School Boards Association in its Overview of Fiscal Health for the 2013-14 school year provided the following fiscal benchmarks.

- Financial industry guidelines recommend that fund balances be between five percent and ten 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)

Section 609 of the Public School Code 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.” See 24 P.S. § 6-609.

The Coatesville Area SD Board Policy No. 620 states, in part:

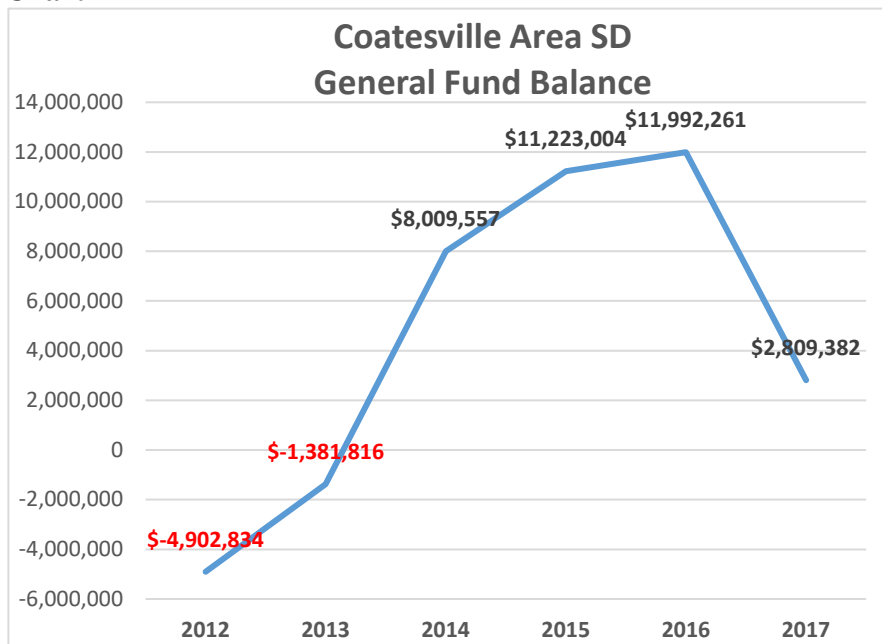
The school district will strive to maintain an unassigned general fund balance of not less than five percent and not more than eight percent (8%) of budgeted expenditures for that fiscal year.

If the unassigned portion of the fund balance falls below the threshold of five percent (5%) of budgeted expenditures, the Board will pursue options for increasing revenue and decreasing expenditures, or a combination of both until five percent (5%) is attained.

the next four fiscal years, the District’s General Fund balance steadily increased. As of July 1, 2016, the District’s General Fund balance was \$11,992,261. This amount was 7.5 percent of District budgeted expenditures during the 2015-16 fiscal year. This General Fund balance, as a percentage of budgeted expenditures, complied with the District’s board policy of maintaining a balance of between 5 and 8 percent of budgeted expenditures.

During the 2016-17 fiscal year, the District’s fund balanced decreased by over \$9 million due to a sizeable operating deficit. As of June 30, 2017, the District’s General Fund balance was \$2,809,382. This amount was 1.7 percent of budgeted expenditures, significantly lower than the 5 percent stipulated in the District’s board policy and less than the fund balance recommended by the Government Finance Officers Association (i.e., 10 percent of regular General Fund operating revenues or expenditures). A fund balance decrease of this magnitude is concerning and the District’s low fund balance leaves the District in a precarious financial position.

Chart 1



First, districts, like individuals, should have a “rainy day fund” to deal with emergencies or unforeseen needs, unanticipated expenses, and disruptions to revenue. The lack of available reserve funds could force the District to borrow funds to meet unforeseen needs and/or

unanticipated expenses. In addition, borrowing costs will increase as a result of a lack of available reserve funds.

Second, if the District’s fund balance continues to decrease, it is in danger of being placed on *financial watch status* by the Pennsylvania Department of Education (PDE).¹⁰ Financial watch status is a precursor to being placed in *financial recovery status* for districts that don’t improve financially.¹¹ A district placed in financial recovery status loses local control of district operations. In these instances, the district’s Board of School Directors (Board) no longer has the authority to provide oversight of district operations. 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.

Operating Position

A school district’s operating position is determined by reviewing the total operating revenues compared to total operating expenditures. An operating deficit occurs when expenditures are greater than revenues. The following table illustrates the District’s operating position for the five years reviewed.

Table 1

Coatesville Area School District General Fund Operating Position				
Fiscal Year Ended June 30	Total Revenues ¹²	Total Expenditures ¹³	Other Financing Sources (Uses) ¹⁴	Operating Surplus/(Deficit)
2013	\$136,877,676	\$137,573,974	\$4,217,316	\$3,521,018
2014	\$141,478,698	\$137,172,325	\$5,085,000	\$9,391,373
2015	\$149,645,193	\$146,431,746	\$0	\$3,213,447
2016	\$159,452,698	\$158,683,441	\$0	\$769,257
2017	\$160,977,674	\$169,160,553	(\$1,000,000)	(\$9,182,879)
Total:	\$748,431,939	\$749,022,039	\$8,302,316	\$7,712,216

As illustrated in the table above, the District experienced significant operating surpluses during the 2012-13 and 2013-14 fiscal years, which directly correlated to the

¹⁰ 24 P.S. § 6-611-A; see also 22 Pa. Code § 731.2 (“Early Warning System – Statement of Policy”).

¹¹ 24 P.S. § 6-601-A *et seq.*

¹² Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2013 through 2017.

¹³ *Ibid.*

¹⁴ *Ibid.*

increases in the General Fund balance. These operating surpluses were primarily driven by the District's other financing sources, specifically external borrowing. Other financing sources are generally referred to as one-time revenue sources and are more variable in nature than revenues. The District did not have any other financing sources during our period reviewed after the 2013-14 fiscal year.

The District also experienced operating surpluses during the 2014-15 and 2015-16 fiscal years. These operating surpluses can be attributed to the District generating revenue that exceeded increasing expenditures.

The District's fund balance decreased significantly during the 2016-17 fiscal year due to an operating deficit. The District was unable to generate enough revenue to cover the increasing expenditures. The District was forced to close the operating deficit with reserve funds from the General Fund. While this was an option for the District during the 2016-17 fiscal year, the General Fund balance as of June 30, 2017, makes this practice unsustainable moving forward.

Our review disclosed budgeted and actual amounts for revenues, expenditures, and other financing sources (uses) varied throughout the audit period reviewed. These variances had a direct effect on the District's General Fund balance and overall financial position.

Revenues

The District relies on revenue from local sources for the majority of its total revenue. Revenue from local sources comprised 66 percent of the District's total revenues in the 2016-17 fiscal year. Thirty-one percent of total revenues was derived from the Commonwealth while federal revenue was the source of the remaining three percent.

The District was able to achieve operating surpluses and generate more revenue than expenditures during the 2014-15 and 2015-16 fiscal years primarily due to the increasing local revenue during those years. The District increased millage rates by at least 2.1 percent during each fiscal year of the period we reviewed. Additionally, the District's local revenues increased over \$20 million from July 1, 2013 to June 30, 2016. The increase in local revenue

allowed the District to combat rising expenditures and a decrease in federal revenues until the 2016-17 fiscal year. As illustrated in Table 1 above, the District's total revenue increased by \$1.5 million from the 2015-16 fiscal year to the 2016-17 fiscal year. During the same period, the District's expenditures increased by over \$10 million and the District paid \$1 million in other financing uses. These factors led to an over \$9 million operating deficit and the significant decrease in the General Fund balance.

Expenditures

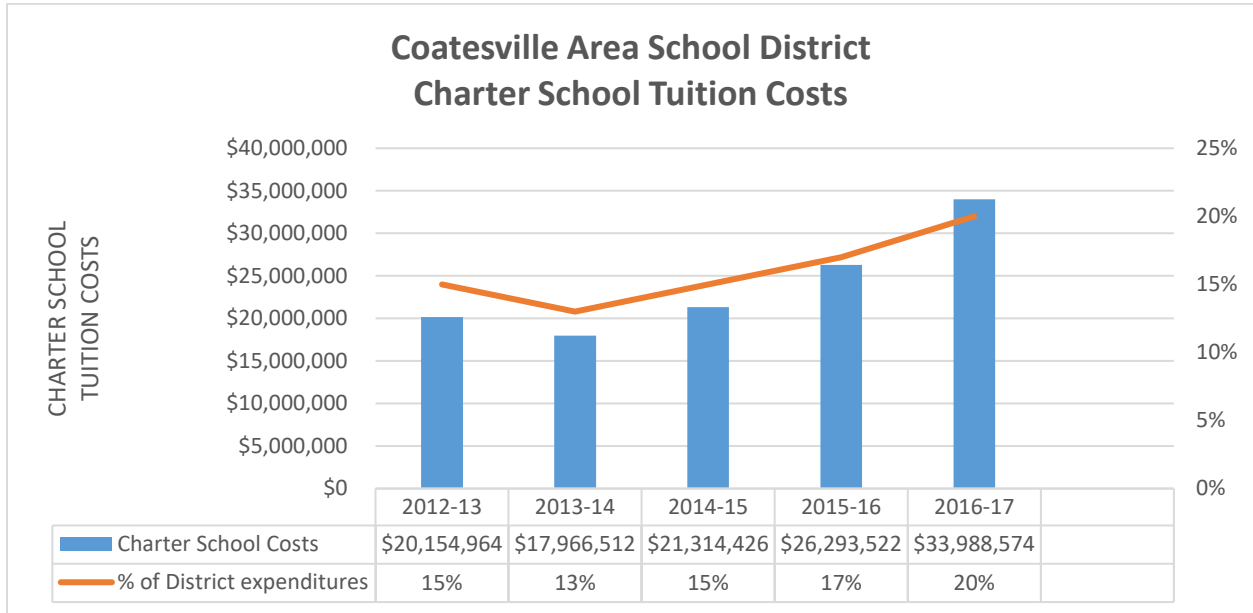
District expenditures increased twenty-four percent over the audit period reviewed. The majority of the increase in the expenditures occurred in the 2015-16 and 2016-17 fiscal years. As previously stated, the District was unable to generate sufficient revenue to meet expenditures during the 2016-17 fiscal year. Instructional expenditures comprise the majority of the District's expenditures, which increased by thirty-eight percent during the period reviewed.

Similar to other school districts in the Commonwealth, the Coatesville Area School District is facing an increase in mandated expenditures. Retirement contributions and health benefits have increased over the audit period reviewed. The District also experienced a steady and concerning increase in charter school expenditures and special education costs. The increase in these expenditures was the primary factor in the District's operating deficit during the 2016-17 fiscal year.

Increased Charter School Costs

The District's charter school tuition costs were a significant expenditure for each year of the audit period. Charter school tuition costs increased by almost seventy percent from the 2012-13 through 2016-17 fiscal years. The financial burden to the District grew from \$20.2 million in the 2012-13 fiscal year to \$34 million in the 2016-17 fiscal year. Charter school tuition costs adversely affected the District's financial status and also reduced funds available to support academic programs for the District. The chart below illustrates the charter school costs as a percentage of total expenditures during the audit period reviewed.

Chart 2



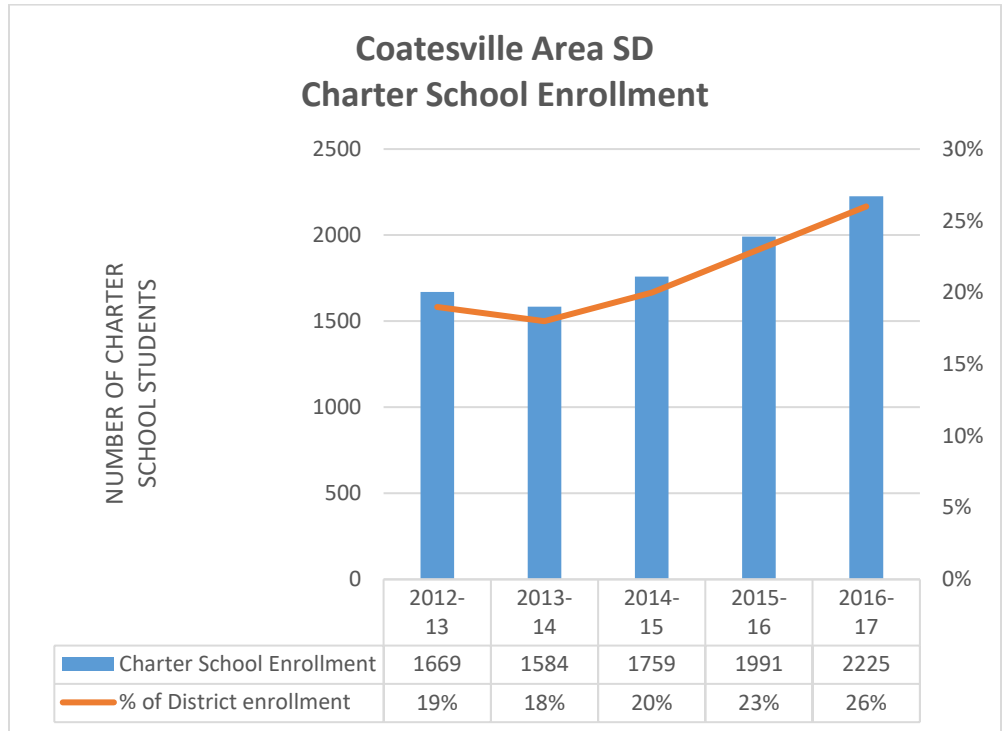
Increasing charter school enrollment produced an increase in the District’s financial obligation each fiscal year from 2014-15 through 2016-17. Charter school costs increased most significantly during the 2016-17 fiscal year. Rising charter school costs were a major contributing factor to the District’s operating deficit during the 2016-17 fiscal year and the subsequent decrease to the District’s General Fund balance. Charter school growth in this District has created a negative feedback loop, wherein the diversion of limited resources to charter schools threatens the quality of District schools, further driving students to charter schools and thereby exerting more financial pressure on the District.

The District is cognizant of increasing charter school tuition costs and the financial strain these costs place on the District. District personnel surveyed students who transferred from the District to charter schools. These surveys administered by the District revealed that the major contributing factors for charter school enrollment growth were turmoil under the previous administration (discussed further in the observation in this report), deteriorating condition of the District’s school buildings, and smaller class sizes offered at charter schools.

District enrollment in charter schools increased by 33 percent from 2012-13 to 2016-17 to 2,225 students; whereas the District’s overall enrollment decreased by 11 percent to 6,363 students during the same period. As a

result, charter school enrollment, as a percentage of District enrollment, increased from 19 percent in the 2012-13 fiscal year to 26 percent in the 2016-17 fiscal year. The following chart illustrates the growth in charter school enrollment and its relationship to the District’s enrollment.

Chart 3



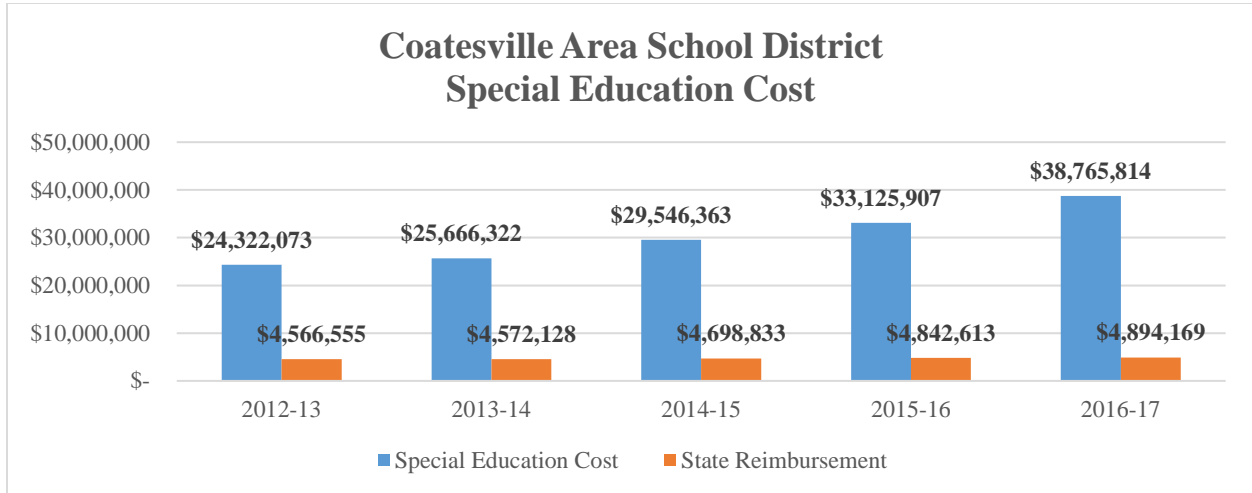
Increased Special Education Costs

The District experienced a rapid increase in special education costs over the five-year period reviewed. The District special instructional expenditures increased from \$24,322,073 in the 2012-13 fiscal year to \$38,765,814 in the 2016-17 fiscal year. The number of special education students and types of services and/or institutions attended, based on each individual student’s level of need, fluctuates from year-to-year and may even fluctuate significantly within the same school year as students’ needs change.

While the District’s special education costs increased during this time period, Commonwealth reimbursements for special education costs were stagnant. Without a healthy General Fund balance to absorb these increasing costs, it is imperative for the District to reduce other operational costs or generate additional revenue to offset this increasing expenditure.

Chart 4 below illustrates the District’s special education costs and the amount of reimbursement received by the District during the five years reviewed.

Chart 4



Budgeted Expenditures

The Public School Code (PSC) requires that all school districts develop a balanced General Fund budget each year. In addition, the PSC prohibits districts from spending more than the amount budgeted. The District developed a balanced General Fund balance for each year of our audit period. The District’s actual expenditures were less than the budgeted amounts during the 2012-13, 2013-14, and 2014-15 fiscal years. This period of time corresponds to the time period when the District experienced operating surpluses and its General Fund balance increased.

In the 2015-16 and 2016-17 fiscal years, the District’s actual expenditures exceeded the budgeted amounts. During the 2015-16 fiscal year, the District spent over \$9 million more than the budgeted amount and in the 2016-17 fiscal year the District spent over \$16 million more than the budgeted amount.

The table below illustrates the District’s actual expenditures compared to the District’s budget expenditures for the period reviewed.

Table 2

Coatesville Area SD Comparison of Budget vs. Actual General Fund Expenditures			
Fiscal Year Ended June 30	Budgeted Expenditures	Actual Expenditures	(Under)/Over Budget
2013	\$137,805,181	\$137,573,974	(\$231,207)
2014	\$145,795,364	\$137,172,325	(\$8,623,039)
2015	\$148,802,429	\$146,431,746	(\$2,370,683)
2016	\$149,420,401	\$158,683,441	\$9,263,040
2017	\$152,187,522	\$169,160,553	\$16,973,031
Total:	\$734,010,897	\$749,022,039	\$15,011,142

It is important for the District to accurately budget expenditures since this has a direct effect on the budgeted General Fund balance. Since the budgeted General Fund balance is integral to the discussion of millage rate modifications and operational changes, it is essential that this number is as accurate as possible.

We found that the primary reason expenditures exceeded budgeted amounts in the 2015-16 and 2016-17 fiscal years was due to the larger than anticipated expenditures associated with special and regular education costs.

Budgeted Regular and Special Programs Instructional Expenditures

The District overspent its budgeted amounts during the 2015-16 and 2016-17 fiscal years, primarily due to exceeding the budgetary amounts in the regular and special program instructional expenditures. The District attributed the increases in these categories to the increase in charter school enrollment. This is part of the negative feedback loop discussed earlier in the charter school costs section of this finding. Charter school tuition rates are significantly higher for special education students and, as more students with special needs transfer to charter schools, the District’s instructional regular and special education expenditures increase.

As illustrated in the table below, the District’s budgets for regular and special education instructional expenditures were relatively accurate for the first three fiscal years of our review. However, during the 2015-16 and 2016-17 fiscal years, the expenditures significantly exceeded budgetary amounts. In the 2016-17 fiscal year, actual expenditures exceeded the budgetary amounts by over \$16 million.

It should be noted that actual regular instructional expenses were more than \$67 million for the 2015-16 fiscal year, and yet the District budgeted for only \$64 million in the following year. By not accurately budgeting these instructional expenditures, the District’s impending fiscal challenges were not reflected in the budget and, therefore, not communicated to those who analyzed the District’s budgets. If the District had accurately budgeted its instructional expenditures, the District’s financial challenges would have become apparent at the beginning of the budget process and the Board would have had more reliable data to make informed decisions.

Table 3
Coatesville Area School District
Regular and Special Programs Instruction Expenditures (Budget vs. Actual)

Fiscal Year Ending June 30	Budgeted Regular Instructional Expenditures	Actual Regular Instructional Expenditures	(Under)/Over Budgeted	Budgeted Special Instructional Expenditures	Actual Special Instructional Expenditures	(Under)/Over Budgeted
2013	\$52,837,777	\$53,592,674	(\$754,897)	\$25,421,032	\$24,322,073	\$1,098,959
2014	\$54,985,123	\$53,727,215	\$1,257,908	\$27,292,339	\$25,666,322	\$1,626,017
2015	\$56,568,058	\$59,958,217	(\$3,390,159)	\$26,834,095	\$29,546,363	(\$2,712,268)
2016	\$62,066,649	\$67,772,988	(\$5,706,339)	\$27,884,949	\$33,125,907	(\$5,240,958)
2017	\$64,753,962	\$70,855,616	(\$6,101,654)	\$28,627,520	\$38,765,814	(\$10,138,294)
Total	\$291,211,569	\$305,906,710	(\$14,695,141)	\$136,059,935	\$151,436,479	(\$15,366,544)

Similar questionable budgeting occurred within the special instructional category. Actual special instructional expenditures were over \$33 million during the 2015-16 fiscal year. This actual amount exceeded the budgeted amount by more than \$5 million. Despite this information, the District budgeted only \$28,627,520 in special instructional expenditures for the 2016-17 fiscal year,

which turned out to be more than \$10 million less than the actual expenditures.

Conclusion

The District's financial position improved during the first four years of our review. The District's General Fund balance increased in these years due to operating surpluses that resulted from increased local revenue and other financing sources. The District's General Fund balance deteriorated during the 2016-17 fiscal year. The General Fund balance decreased by more than \$9 million or 76 percent this year due to a significant operating deficit. This operating deficit was the result of increasing instructional expenditures and an increase in charter school costs. The District's increasing expenditures and limited General Fund balance as of June 30, 2017, are concerning financial indicators for the District. It will be imperative for the District to make operational changes to reverse the financial downturn that occurred during the 2016-17 fiscal year.

Recommendations

The *Coatesville Area School District* should:

1. Prepare a multi-year budget that adequately reflects annual commitments to help ensure that the District is prepared to meet future financial obligations.
2. Review the process for budgeting regular and special education expenditures and take a more conservative budgetary approach to this line item in the future.
3. Continue to identify the reasons District students are transferring to charter schools and make operational changes to retain District students.

Management Response

District management provided the following response:

“The District has had an increase in Charter School enrollment and special education costs that lead to the Fund Balance decrease. The District has undertaken a borrowing to provide liquidity and has raised taxes and reduced expenses in non-Charter School related areas for the

2018-19 School Year. The District has also changed the estimation methodology for Charter School and special education expenses to reflect recent trends. This more conservative approach should lead to not spending more than is budgeted. The District is in the midst of a multi-year undertaking to bring revenue and expenses back to being equal. While for 2018-19, there will still be a deficit, it will be smaller than in recent years, with the hope of having a balanced budget by 2019-20.

There have been recent changes to the method in which Charter School tuition rates are calculated at the State level. That change allows for more certainty about the rate. The District will continue its effort to identify why students leave for Charter Schools and reach out to parents to promote the positive aspects of the District.”

Auditor Conclusion

We are encouraged that the District is taking measures to increase the General Fund balance and will continue to identify why charter school students are leaving the District. We continue to emphasize the District’s need to use a more conservative approach when budgeting its special and regular instructional expenditures. We will determine the effectiveness of the District’s corrective actions during our next audit of the District.

Finding No. 2

While the District Struggled to Manage Resources, the Former Superintendent Received Excessive, Unauthorized Salary Increases that Were in Noncompliance with the Public School Code and May Have Been in Violation of the Ethics Act

Criteria relevant to the finding:

Section 508 of the PSC states, in part:

Majority Vote Required; Recording.--The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects: . . .
Appointing or dismissing district superintendents, assistant district superintendents, associate superintendents, principals, and teachers Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors
Failure to comply with the provisions of this section shall render such acts of the board of school directors void and unenforceable. *See* 24 P.S. § 5-508.

At a time when the District had to borrow funds to meet operating expenses, the former Superintendent received three consecutive, excessive salary increases, none of which were authorized by the Board.¹⁵ The salary increases, ranging between 8 and 10 percent, violated the PSC, which requires board authorization of officers’ and all employees’ compensation.¹⁶ These excessive unauthorized raises also occurred during a time when the District received downgrades to its credit rating and a criminal investigation had been launched into the conduct of the former Superintendent and others in the District. The salary increases also far exceeded the 3 percent annual increase stipulated in the former Superintendent’s original contract.

Below is a table showing the former Superintendent’s annual salary and the percentage increase from the previous year’s salary. In each of the five years prior to the 8 percent increase in the 2011-12 fiscal year, the Board had approved salary increases averaging 4.47 percent.

¹⁵ The District’s former Superintendent resigned on August 29, 2013.

¹⁶ 24 P.S. § 5-508. As noted in the Criteria box, Section 508 of the PSC requires the “affirmative vote of a majority of all the members of the board of school directors” for, among others, the appointment or dismissal and the fixing of salaries or compensation of a superintendent.

Figure 1

Coatesville Area School District Former Superintendent’s Unauthorized Salary Increases			
Fiscal Year	Annual Salary ¹⁷	Increase from Prior Year	Highlights of Significant Financial Events ¹⁸
2010-11	\$192,897	---	April 2011: early retirement incentive offered
2011-12	\$208,329	8%	January 2012: Moody’s downgrade of debt
2012-13	\$224,995	8%	June 2013: Moody’s downgrade of debt External borrowing to cover expenditures
2013-14	\$247,494	10%	Criminal & internal investigations of Superintendent underway

Criteria relevant to the finding (continued):

Section 1102 of the Public Official and Employee Ethics Act (Ethics Act) defines the following term:

A “Conflict” and “conflict of interest” is defined, in part, as: “Use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated...” [Emphases added.] See 65 Pa.C.S. § 1102.

Section 1103(a) of the Ethics Act states:

“No public official or public employee shall engage in conduct that constitutes a conflict of interest.” See 65 Pa.C.S. § 1103(a).

The former Superintendent’s original contract was signed in November 2005 and provided for 3 percent annual salary increases through the 2009-10 fiscal year. The Board subsequently approved three contract addendums and a contract extension; however, the addendums did not stipulate any changes in compensation terms. Then on May 29, 2013, the Board approved a 5-year contract extension, again without modifying the compensation terms. In fact, the motion to approve specified “That the Board of School Directors modify/amend the employment contract of the District Superintendent **with no change in salary or benefits.**”¹⁹ Thus, the subsequent 10 percent increase in salary for the 2013-14 fiscal year was clearly not authorized by the Board, was in noncompliance with the PSC, and may have been in violation of the Public Official and Employee Ethics Act (Ethics Act).

The three unauthorized, excessive salary increases could have been prevented or timely detected if the Board had provided an appropriate check on the power of the District’s longtime former Superintendent. Instead, the Board failed to govern, and the public paid the price. In a mere three fiscal years, the former Superintendent received unauthorized salary increases totaling about \$54,600. In addition, these salary increases significantly boosted his final payout for unused vacation and personal time.

¹⁷ Source: District payroll records, which were not audited by the Department, although deemed reliable based on analytical reviews comparing original contract terms with annual authorized salary increases.

¹⁸ Sources are the District’s audited financial statements, board minutes, and two investigative reports discussed in the Observation included in this report; the January 2012 and June 2013 Moody’s downgrades were referred to in the Chester County “18th Investigating Grand Jury Report Re: Coatesville Area School District,” issued on December 3, 2014. We verified the downgrades by obtaining the corresponding rating actions taken by Moody’s. <https://www.moodys.com/credit-ratings/Coatesville-Area-SD-Chester-Co-PA-credit-rating-800007450>, accessed on June 26, 2018.

¹⁹ [Emphasis added]; see Coatesville Area School District, “School Board Meeting Minutes,” “I. Human Resources,” “5. Addendum to Superintendent’s Contract,” page 9 of 11, May 29, 2013, <https://www.casdschools.org/cms/lib/PA01916452/Centricity/Domain/41/05-29-2013%20School%20Board%20Minutes.pdf>, accessed on June 25, 2018.

We asked the District how the salary increases could have occurred without Board approval. Officials stated that the human resources department provided “salary sheets” to the payroll department, which were used to input data into the payroll system. According to an internal investigative report and a county grand jury report, the former Superintendent exercised significant control over the human resources department and its former director. As explained further below, the former Superintendent may have violated the Ethics Act when he obtained excessive salary increases as a result of his close association with the former director of the District’s human resources department and his failure to get Board authorization.

The Ethics Act

The Ethics Act provides that board members and administrators, as public officials, are subject to all of the obligations specified under this important law. Additionally, the Ethics Act defines conflicts of interest and prohibits public officials and public employees from engaging in such conflicts of interest.²⁰

The former Superintendent, as a public official, may have used his public position to obtain excessive salary increases through his close association with the former director of the District’s human resources department and by failing to obtain Board approval.

Conclusion

The former Superintendent’s excessive and unauthorized salary increases represent an abuse of power, a misuse of public funds, and a possible violation of the Ethics Act. In addition, the District’s Board exhibited a failure to govern because it did not provide appropriate oversight of the former Superintendent, allowing repeated increases in salary to go unnoticed by the Board and the public.

If the Board had instead periodically required new contracts with the former Superintendent to specify compensation terms, the District could have held its former Superintendent accountable. It could have monitored the former Superintendent’s employment contract by comparing the contract terms to payroll records, or

²⁰ 65 Pa.C.S. §§ 1102 and 1103(a).

alternately, required business office staff to attest in writing to such a reconciliation.

Recommendations

The *Coatesville Area School District* should:

1. Seek reimbursement of the entire amount of the unauthorized salary increases from the former Superintendent for the 2011-12 through the 2013-14 fiscal years. It should also seek reimbursement of the increased compensation for unused vacation and personal days, which were calculated based upon the improper higher salaries.
2. Require its administration to provide an accounting to the Board of the internal control procedures that will, going forward, prevent senior administrators or any other employees from obtaining compensation or any changes in compensation that have not been authorized by the Board. These control procedures should include a clear separation of duties between authorization, custody, and accounting for payroll transactions. They should also include a requirement that no payrolls can be added or adjusted without accompanying documentation of the appropriate Board authorization.

Management Response

District management provided the following response:

“The former Superintendent received salary increases that were not authorized by the Board of Directors. The current management was not here during that time period but has since instituted internal controls to ensure that there is no reoccurrence.

The District will seek reimbursement of the entire amount of the unauthorized salary increases from the former Superintendent for the 2011-2012 through 2013-2014 fiscal years as recommended. The District will also seek reimbursement of the increased compensation for unused vacation and personal days, which were calculated based upon the improper higher salaries.

In 2014, the District instituted internal control procedures that prevent any senior administrator or any other employee

from obtaining compensation or any change in compensation that have not been authorized by the Board. All salary increases are provided to the Board for review and all salary increases are made in accordance with the corresponding employment agreement(s). The Board reviews the recommendations and the recommendations are voted on at a regularly scheduled, public meeting. There is now a clear separation of duties between the recommendation, authorization of the increase and custody and accounting for payroll transactions. Board minutes are used to verify the authorization prior to the institution of any salary increase.”

Auditor Conclusion

We are pleased that the District implemented internal controls to address compensation or any changes in compensation to employees’ salaries. We are also encouraged that the District will try to recoup the former Superintendent’s unauthorized salary increases and extra per diem rate paid on the former Superintendent’s unused vacation and sick days. We will evaluate the District’s corrective actions during our next audit of the District.

Observation**The District Improved Its Governance and Internal Accounting Controls After Criminal and Internal Investigations into Three Former Officials**

In October 2013, a law firm was retained by the District’s Board to serve as a liaison between the District and the county’s district attorney (DA) regarding a criminal investigation into a range of actions by three former officials: the Superintendent, the Director of Activities, Athletics & Compliance (Athletic Director), and the Solicitor. The law firm was also hired to conduct a separate internal investigation into the alleged criminal and other improper activities of the three former officials. The scope of the internal investigation included interviews of 93 individuals and an extensive document review. The law firm also retained experts in both accounting and computer forensics to assist with its investigation.²¹

The internal investigation resulted in the release of two reports to the public that were issued simultaneously on February 9, 2015: a 183-page investigative report and a 59-page supplemental report. The reports included a total of 39 recommendations.²² Since these reports were issued to the public on the same day by the same investigating law firm, they are hereafter referred to as one report for the rest of this observation.

Among other issues, the internal investigative report found the following broadly summarized issues related to the three former District officials. The report then delved into the details of each of the issues, which were supported by testimony and documentary evidence.

- **The former Superintendent:** alleged patterns of nepotism, favoritism, misuse, and misappropriation of public funds.
- **The former Athletic Director:** alleged theft of school funds and improper purchases.
- **The former Solicitor:** alleged overbilling; alleged coordination with board members to reduce transparency related to offensive and improper texting; and alleged retaliation against whistleblowers.

The law firm also investigated a plethora of racist and sexist text messages exchanged between the former Superintendent and the former Athletic Director. These text messages also came under the scrutiny of a grand jury empaneled by the DA. While the grand jury ultimately concluded that the text messages did not violate criminal statutes, it determined that “the attempt to cover-up the texting incident by the Board and [former Solicitor] was a disturbing exercise in poor decision-making and lack of transparency.”²³ The grand jury also found that the texts between the former Superintendent and the former Athletic Director “made explicit references to misappropriating funds” from the District.²⁴

²¹ The District’s internal investigative reports were publicly released on February 9, 2015, two months after a grand jury report was issued on December 3, 2014.

²² The grand jury report also provided recommendations to the District, which were similar to, although less numerous than, those in the investigative report.

²³ Chester County, “18th Investigating Grand Jury Report Re: Coatesville Area School District,” December 3, 2014, page 12.

²⁴ *Ibid.*

Other conclusions reached by the internal investigation included the following concerns related to the District's management and board governance stating, in part:

- There was a concerted effort by the [former Solicitor] and the Board to initially conceal the text messages from public disclosure.
- The [former Solicitor] and the Board missed the opportunity to investigate and uncover the alleged theft of school funds.
- [The District] lacked sufficient internal financial controls to prevent the misuse, misappropriation, and theft of school funds by school administrators.²⁵

As a result of the law firm's internal investigation and the DA's criminal investigation, the District filed lawsuits in civil court against the former Superintendent and the former Solicitor to recover public funds, which is discussed further below. Further, it obtained court-ordered restitution from the former Athletic Director, which is also discussed below.²⁶ In addition, in June 2016, the former Athletic Director pled guilty to felony theft and conflict of interest charges; in January 2018, the former Superintendent was found guilty of multiple counts of felony theft. The former Solicitor was never criminally charged, although he settled a civil lawsuit with the District, which is discussed later in this observation.

The criminal investigation and grand jury report, the law firm's internal investigation and report, and the criminal indictments all occurred during our audit period. We reviewed the grand jury report as well as the internal investigative report. Our review focused on corrective actions taken by the District on the 39 recommendations made in the internal investigative report. We grouped the 39 recommendations into 7 different categories and highlighted some of the recommendations and corrective actions in the sections that follow. Finally, we concluded on the efforts by the District to improve its internal accounting controls and governance policies and procedures.

Pursuit of Reimbursement of Public Funds

The investigative report recommended the District pursue reimbursement of allegedly stolen and misused public funds, and the District did so. The District filed lawsuits in civil court against the former Superintendent and the former Athletic Director. While the District received restitution of \$15,000 from the former Athletic Director, the resolution of the lawsuit against the former Superintendent was still pending as of July 2018.

Another recommendation was to obtain reimbursement from 25 adults (not students) who improperly received football championship rings and pendants paid for by the District. The rings cost approximately \$225 each and the pendants \$195 each, therefore unnecessarily costing the District about \$5,000. Alternately, these adults were allowed to return the rings and pendants. The District was able to recoup some of the funds improperly used to purchase the rings and pendants.

²⁵ Law Firm, "Investigative Report to the Board of School Directors for the Coatesville Area School District," Table of Contents, V (A), (B), (G), February 9, 2015, page vi.

²⁶ See <http://www.pottsmmerc.com/article/MP/20160623/NEWS/160629849>, Accessed July 31, 2018.

Solicitor Issues

One of the more significant concerns addressed in the investigative report pertained to legal costs associated with the District's long-time former Solicitor. The report found that the District paid the former Solicitor nearly \$8 million over a ten-year period. However, the invoices submitted by the former Solicitor to the District were vague; for instance, containing descriptions such as "legal research" with no descriptive details.²⁷ The report recommended issuing a *Request for Proposal* (RFP) for legal services. The District did so and obtained new legal counsel before the investigative report was issued. The District also instituted standard procedures to restrict communications with legal advisers and to eventually reduce overall legal costs.

The report also found that the District had issued a cell phone and iPad to its former Solicitor, who was not a District employee. The District also paid for his cell phone and data plans, which were used to do business with other clients. The report recommended that the District immediately seek return of the equipment. It also found that the former Solicitor incurred over \$5,000 in phone and data overage and roaming charges during a vacation in France. Other international and overage charges were incurred when the former Solicitor took other trips abroad.

In November 2016, the District's Board unanimously approved the settlement of a lawsuit against the former Solicitor. The District confirmed that it received the full settlement amount of \$420,000. The lawsuit alleged that the former Solicitor had provided flawed legal advice and overbilled the District.

External Auditors

The investigative report found that the District used the same accounting firm for the last ten years to provide the independent audits of the District's financial statements. The report recommended changing auditors at least once every five years to ensure independence and objectivity and to limit potential pressure from the District to ignore errors or internal control risks and weaknesses. The District had actually complied with the recommendation prior to the issuance of the investigative report by issuing an RFP and selecting new auditors in August 2014.

Leadership Training

The report found that the Board failed to supervise the former Superintendent and the District's former Solicitor. It recommended board members get annual training on their governance duties and obligations, including their duty to comply with the Sunshine Act. Officials indicated that training for board members was occurring annually. The report also recommended ongoing training for the Superintendent and other senior administrators. The District implemented increased training programs for administrators.

As mentioned earlier, the report also recommended the establishment of procedures restricting contact with the Solicitor so that senior administrators are actually in charge of making

²⁷ Ibid., page 107.

management decisions and contact with the Solicitor is limited to legal matters. The District established such standard procedures, and according to the current Superintendent, “legal fees have been significantly reduced since 2014.”²⁸

Hiring Practices

Seven of the recommendations pertained to various aspects of the hiring process. They addressed hiring practices at all levels of administrators and educators; they also addressed issues ranging from preventing nepotism to adding checks and balances to hiring policies and procedures. The District responded by overhauling its hiring policies and procedures. It implemented three separate rounds of screening with hiring rubrics used to evaluate applicants. The District also established procedures to identify related parties and potential conflicts of interest. It eliminated the previous practice of allowing the Superintendent to hire employees without first obtaining board approval. It also implemented criminal history clearance procedures and background checks. Finally, to attract the most qualified applicants and to achieve cost efficiencies, the District improved transparency by posting all employment opportunities online and requiring online applications to be submitted to the District.

The District also reviewed all current employees’ certifications and qualifications and adjusted employee job assignments, as necessary. This included termination of employees who lacked qualifications but were hired by previous officials because of nepotism or favoritism.

Finally, the report recognized that the District itself was comprised of 50 percent minority students, but only 10 percent minority professional staff. It recommended the District improve efforts to diversify its professional staff. The District set up a series of community meetings with the Pennsylvania Human Relations Commission, the National Association for the Advancement of Colored People – PA, and the Center for Safe Schools/Mid-Atlantic Center. Together they created a detailed plan of action to address a range of issues including the texting scandal, improving communications about equal opportunity laws, and transparency. The District also expanded its publication of job openings to specific nonprofit websites whose organizations advocate for equal opportunities for minorities.

IT Equipment & Cell Phones

The investigative report found that Title III funds for English as a Second Language (ESL) students were used to purchase 12 iPads for administrators rather than students. It also found the District had issued more than 100 cell phones, many of which were issued by the former Superintendent to friends and family members who were employees of the District. The report estimated the annual cost of the cell phones ranged between \$70,000 and \$80,000. The report recommended an audit of the ESL program and elimination of District-issued cell phones.

The District reviewed the entire ESL program, hired qualified staff, collected all of the iPads, and redistributed them accordingly. Regarding cell phones, the District significantly reduced the number of cell phones issued, conducted surprise audits to monitor cell phone usage, and eliminated texting features.

²⁸ Per verbal and written testimony from the Superintendent received on February 15, 2018.

Other Internal Accounting Controls

The report also recommended the District implement an array of internal accounting controls governing the following:

- Cash collection and deposit policies and procedures.
- Procurement through competitive bidding.
- Facility rental policy and procedures.
- Document retention and “litigation hold” policy and procedures.
- Extra duty pay policy and procedures.
- Concession stand policy and procedures.
- Purchase of a backup server and access to the server room.
- Whistleblower policy and complaint procedures.
- Travel reimbursement policy and procedures.

In response to these recommendations and after a new Superintendent was hired in June 2014, the District established a policy committee to “systematically review and rewrite all policies and administrative regulations,” including those policies governing the areas highlighted above.²⁹ Our review of board meeting minutes verified that the District updated its policies. At one meeting, for instance, in March 2015, the Board adopted nine policies and approved three policies for a 30-day review, which allowed time for public input prior to formal adoption by the Board. We observed that numerous meeting minutes documented the Board’s review and adoption of a wide range of policies. This process not only helped to formalize specific governance and administrative duties, but also provided transparency by allowing the public to participate in the policy development process.

Conclusion

By the time the investigative report was issued in February 2015, the law firm had recognized in its transmittal letter that it had “seen the majority of the recommendations in the reports either fully or partially implemented . . . with the goal of restoring the public trust and preventing any future misuse or abuse of authority at the school district.” Furthermore, we observed that the District appears to have taken seriously the conditions identified in the investigative report and the corresponding recommendations to correct them. We commend the District for its continued efforts to improve governance and internal accounting controls of the District’s operations.

²⁹ Per written testimony provided on an internal control questionnaire received from the District on February 1, 2018.

Status of Prior Audit Findings and Observations

Our prior audit of the Coatesville Area School District (District) released on March 7, 2014, resulted in one finding and one observation, 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 reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on March 7, 2014

Prior Finding: **The District Is Facing Serious Financial Challenges, including a \$4.9 Million General Fund Deficit**

Prior Finding Summary: During our prior audit of the District, we found that the District had a deteriorating General Fund Balance, culminating in a \$4.9 million deficit for the fiscal year ended in June 30, 2012. Specifically, from 2006 through 2012, the District had a dramatic \$31.1 million drop in its General Fund Balance, putting it in an unstable financial position. Moreover, the District violated the Public School Code (PSC) by authorizing expenditures that exceeded its budget and led to a deficit in the District's General Fund.

Prior Recommendations: We recommended that the District should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the PSC.
2. Provide the Board with standard monthly updates on key financial benchmarks. If the District has presented this information, the Board should ensure it reviews it in detail and makes policy changes before the District's financial condition worsens.
3. Use monthly budget status reports to assess whether expenditures for the current operations are appropriate and aligned with the District's revenues. If the District has already gathered this information and identified potential concerns, it should discuss options with the Board for addressing them immediately.
4. Adopt budgets that accurately estimate beginning fund balances based through a review of information from prior fiscal years and set realistic expectations for available revenues in the budgetary period.

5. Develop a feasible and realistic plan to systematically reduce the deficit with a definite deadline to return to a positive fund balance.
6. Survey parents about why they have sent or would consider sending their children to a charter school. Use that data to develop an action plan for reducing the number of its students who are choosing to go to charter schools.
7. Monitor the costs to the District related to charter schools on a continuous basis.
8. Open a dialogue with the community to keep stakeholders informed of the financial status and health of the school district.

Current Status:

During our current review, we found that the District implemented some of our prior audit recommendations. The District's General Fund balance increased during the 2012-13 through 2015-16 fiscal years. The District's actual expenditures were less than the budgeted amounts for the 2012-13 through 2014-15 fiscal years. Additionally, the District did survey parents in an effort to stem the flow of students to charter schools. However, as noted Finding No. 1, the District's General Fund balance decreased by \$9.1 million during the 2016-17 fiscal year. Please see Finding No. 1 in this report for the complete results of our review of the District's financial position during the 2012-13 through 2016-17 fiscal years.

Prior Observation:

The District Paid Its Former Director of Business Administration \$21,873 in Retirement Benefits He Was Not Eligible For and Did Not Conduct This Transaction Transparently

Prior Observation Summary:

During our prior audit of the District, we found that the former Director of Business Administration received \$21,873 in retirement benefits that he was not entitled to receive. Furthermore, the retirement benefits were paid and not discussed at a public meeting to adequately inform the taxpayers of the District.

Prior Recommendations: We recommended that the District should:

1. Ensure that future employment agreements contain adequate provisions that address the compensation and benefits payable to, or on behalf of, an administrator in the event of an early retirement or termination.
2. Upon retirement of any employee, follow the provisions of the employment agreement and pay only what is due to the employee.

The *Coatesville Area School District Board of School Directors* should:

3. Consider the taxpayers' expectation that their money will be used to educate the District's children when negotiating employee agreements.
4. Ensure that all the District's employment agreements are as transparent as possible, so that taxpayers can evaluate their appropriateness.

Current Status:

During our current review, we found that the District has implemented our corrective actions. As evidenced by the observation in this report, the District has taken steps to be more transparent in regard to hiring and employment contracts. Currently, all contracts are available for public inspection on the District's website. The District has also implemented internal controls that, when followed, ensure that only appropriate benefits are paid to administrators who separate employment from the District.

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, Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,³⁰ is not a substitute for the local annual financial audit required by the Public School Code 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, 2012 through June 30, 2016. In addition, the scope of each individual audit objective is detailed on the next page.

The Coatesville Area School District's (District) 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, and administrative procedures (relevant requirements).³¹ 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.

³⁰ 72 P.S. §§ 402 and 403.

³¹ 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, 2016. 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
- ✓ Administrator Contract Buyout
- ✓ Contracting
- ✓ Bus Driver Requirements
- ✓ School Safety

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 indicators, 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, General Fund budgets, and independent auditor's reports for the 2012-13 through 2016-17 fiscal years. 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 the Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. The results of our review of this objective can be found in Finding No. 1 of this report (see page 13).
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buyout, what were the reasons for the termination/settlement, and did the employment contract(s) comply with the Public School Code³² and the Public School Employees' Retirement System (PSERS) guidelines?

³² 24 P.S. § 10-1073(e)(2)(v).

- To address this objective, we reviewed the contracts, settlement agreements, board meeting minutes, board policies, and payroll records for 10 of the 27 administrators who separated employment from the District during the period July 1, 2012 through January 5, 2018.³³ We verified the reasons for the separation and whether the total cost of the separation was made public during board meetings. We reviewed payroll records to ensure that these payments were correctly reported to PSERS. The results of our review of this objective can be found in Finding No. 2 of this report (see page 25).
- ✓ Did the District take appropriate corrective actions to address recommendations made by an independent legal firm’s investigative reports issued February 9, 2015, into the criminal complaints regarding previous administrators?
 - To address the objective, we reviewed the investigative reports and the 39 recommendations made by the law firm to the District. We interviewed District officials, reviewed the official board meeting minutes, and the District’s corrective actions to determine if the actions taken by the District appropriately addressed the concerns in the investigative reports. Our review of this objective can be found in the observation in this report (see page 30). See Observation beginning on page 30 for the results of our review of this objective.
- ✓ 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?³⁴ 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 randomly selected 10 of the 67 bus drivers hired between July 1, 2012 and February 22, 2018, by the District bus contractors to transport District students.³⁵ We 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, when followed, ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any issues.

³³ The administrators were selected because we considered them to have a higher risk of non-compliance due to their relationships with the former Superintendent (please see Finding No. 2). Therefore, the selection is not representative of the population of administrators who separated employment with the District during our audit period, and the results should not be projected to that population.

³⁴ 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*.

³⁵ While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

- ✓ Did the District take actions to ensure it provided a safe school environment?³⁶
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, fire drill reports and after action reports. In addition, we conducted on-site reviews at three out of the District's eleven school buildings (one from each education level)³⁷ to assess whether the District had implemented basic safety practices.³⁸ Due to the sensitive nature of school safety, the results of our review for this objective area are not described in our audit report. The results of our school safety review were shared with District officials, PDE and other appropriate agencies deemed necessary.

³⁶ 24 P.S. § 13-1301-A *et seq.*

³⁷ While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

³⁸ Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

Distribution List

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

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