

PERFORMANCE AUDIT

Frazier School District Fayette County, Pennsylvania

October 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. William R. Henderson, III, Superintendent
Frazier School District
142 Constitution Street
Perryopolis, Pennsylvania 15473

Mr. Thomas Shetterly, Board President
Frazier School District
142 Constitution Street
Perryopolis, Pennsylvania 15473

Dear Mr. Henderson and Mr. Shetterly:

We have conducted a performance audit of the Frazier School District (District) for the period July 1, 2012 through June 30, 2015, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in the appendix of this report:

- Financial Stability
- Administrative Contract Buy-Out
- Bus Driver Requirements
- School Safety

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 performed adequately in the areas listed above, except as noted in the following finding:

- District Operating Deficits Have Resulted in a Negative General Fund Balance of \$139,997 as of June 30, 2015

Mr. William R. Henderson, III
Mr. Thomas Shetterly
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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

October 20, 2016

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

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Background Information

School Characteristics 2015-16 School Year ^A	
County	Fayette
Total Square Miles	83
Resident Population ^B	8,015
Number of School Buildings	2 ¹
Total Teachers	80
Total Full or Part-Time Support Staff	56
Total Administrators	6
Total Enrollment for Most Recent School Year	1,251
Intermediate Unit Number	1
District Vo-Tech School	Central Westmoreland CTC

Mission Statement^A

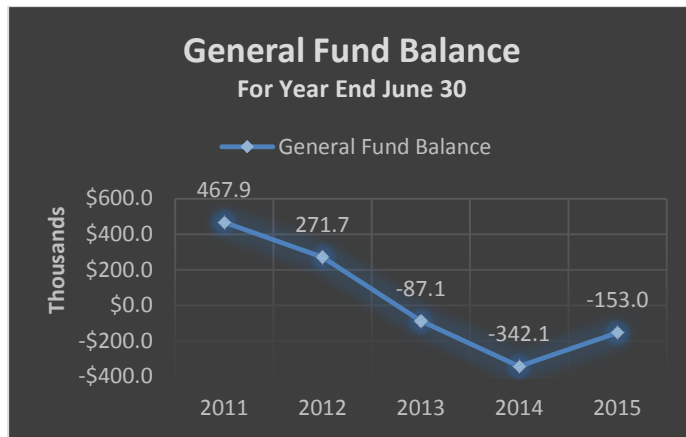
“The mission of the Frazier School District is to empower students to take ownership of their learning. We will emphasize the responsible use of technology, utilize data driven decision, and incorporate varied instructional strategies while providing a safe, nurturing environment.”

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

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

Financial Information

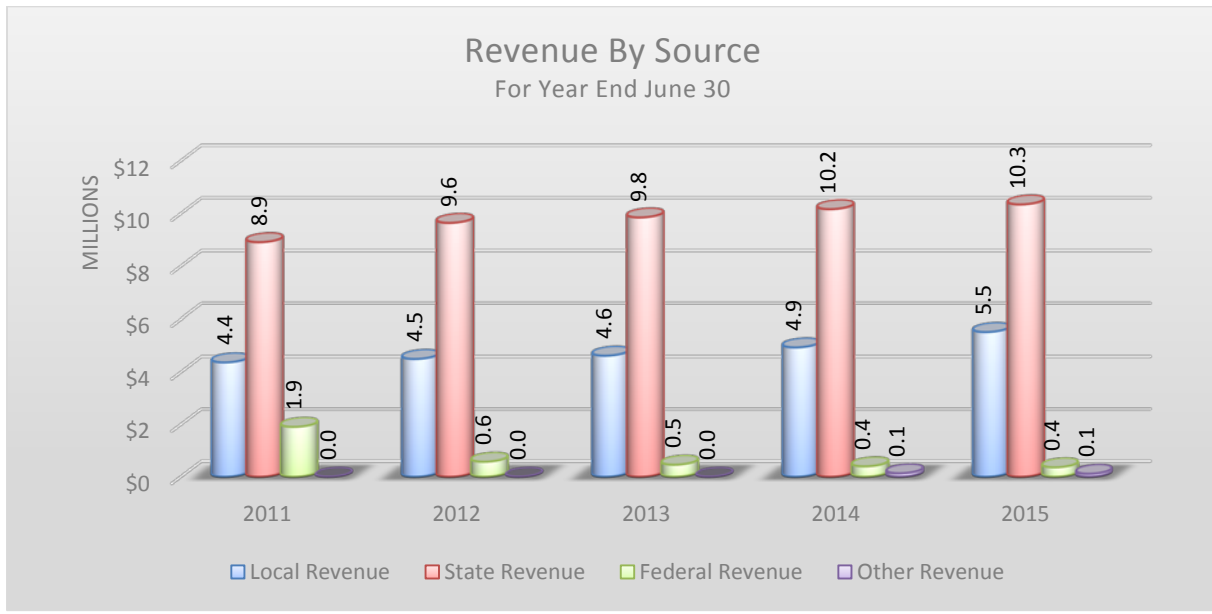
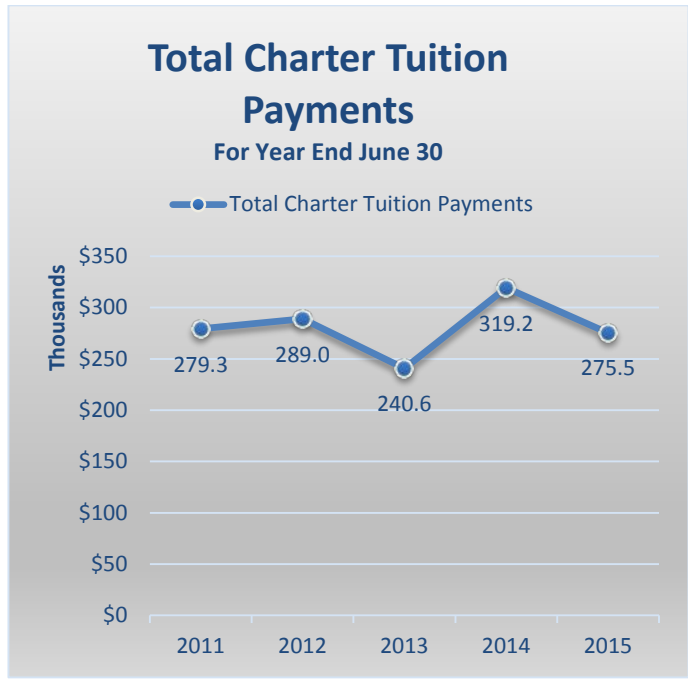
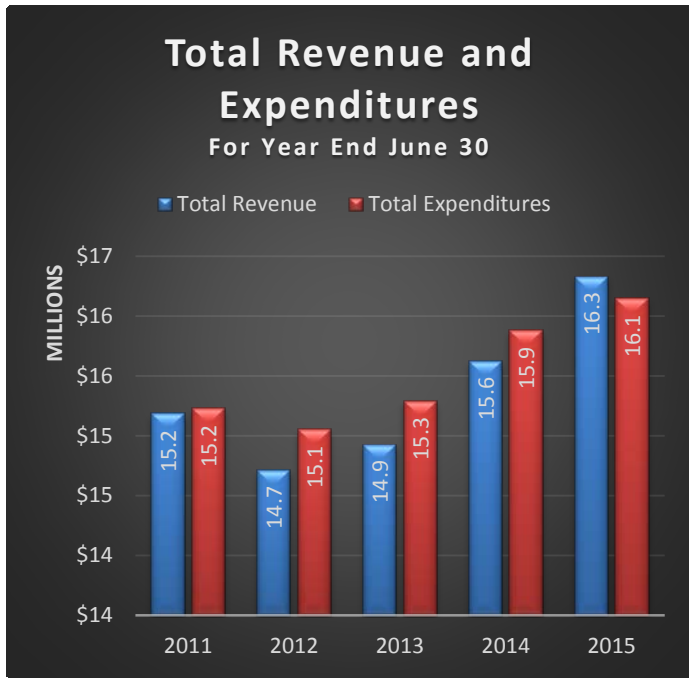
The following pages contain financial information about the District obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE’s public website. This information was not audited and is presented for **informational purposes only**.



¹ As of the 2015-16 school year, the only two buildings in the District are the newly-constructed Elementary/Middle School and the old High School. One of the two old elementary schools was razed for the construction of the Elementary/Middle School and the other elementary school is in the process of being razed or sold.

² 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



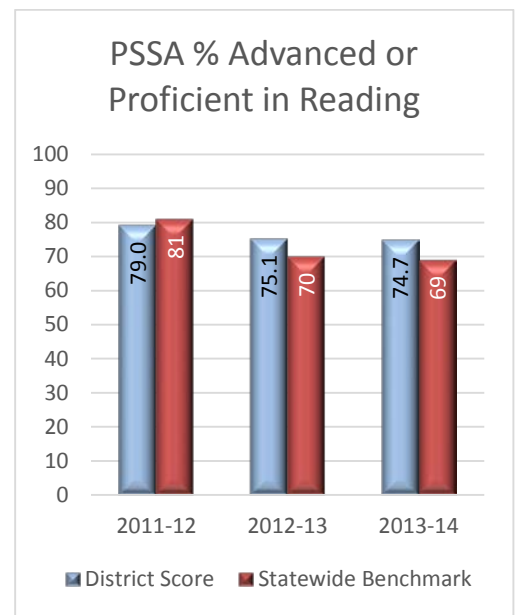
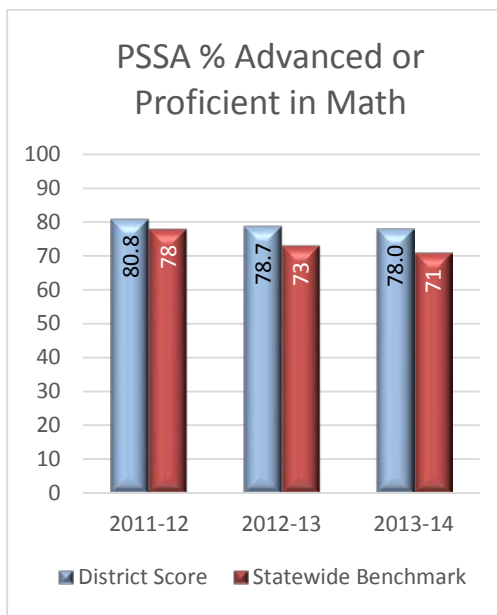
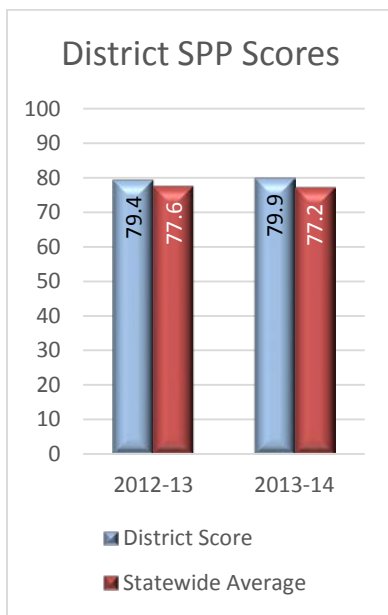
Academic Information

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.³ 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.⁴ PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.⁵ 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>Frazier SD</i>	79.4	79.9	80.8	78.7	78.0	79.0	75.1	74.7
<i>SPP Grade⁶</i>	C	C						



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

⁴ Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

⁵ 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.

⁶ 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).

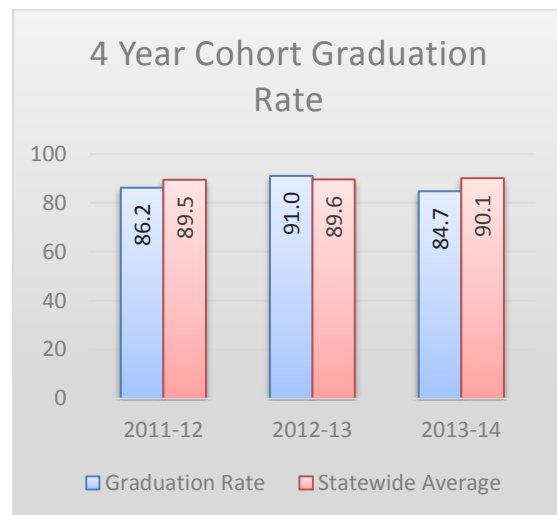
Individual School Building SPP and PSSA Scores

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.⁷

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>Central Elementary School</i>	78.1	78.4	88.7	81.1	72.8	76.8	69.4	62.5
<i>Frazier High School</i>	73.4	82.6	61.7	70.0	79.3	79.0	85.7	80.5
<i>Frazier Middle School</i>	83.2	82.6	91.1	84.6	83.5	84.3	72.7	82.8
<i>Perry Elementary School</i>	82.7	75.9	81.6	79.2	76.5	75.9	72.7	73.0

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.⁸



⁷ PDE’s data does not provide any further information regarding the reason a score was not published.

⁸ <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx#.V1BFCDTD-JA>.

Finding

Finding

District Operating Deficits Have Resulted in a Negative General Fund Balance of \$139,997 as of June 30, 2015

Criteria relevant to the finding:

Section 609 of the Public School Code (PSC), Section 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.

The benchmarks used as criteria for this objective were based on best business practices established by several agencies, 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 trend of current ratios should be at least two to one or increasing. Anything less calls into question the school district's ability to meet its current obligations with existing resources.

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 fiscal year ending June 30, 2011 through June 30, 2015. Those benchmarks are discussed below and include the following:

- General Fund Balance
- General Fund Operations
- Budgeted vs. Actual Expenditures
- Current Ratio

Decreasing General Fund Balance

Between fiscal years ending 2011 through 2015, the District's General Fund decreased by over \$746,000, as shown in the chart below. In addition, for the years ending 2013 through 2015, the District had a negative fund balance. Financial industry guidelines recommend that a fund balance should range between 5 percent and 10 percent of annual expenditures. Obviously, a negative fund balance puts the District well below these guidelines.

Act 141 of 2012, permits PDE and the Secretary of Education to place up to nine school districts at a time in Financial Recovery Status.⁹ Frazier School District's negative General Fund balance could result in the District being placed in financial recovery status.

School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the District and the development of a district-wide financial recovery plan. If placed in financial recovery status, the District will lose local oversight of District operations and will be forced to make operational changes.

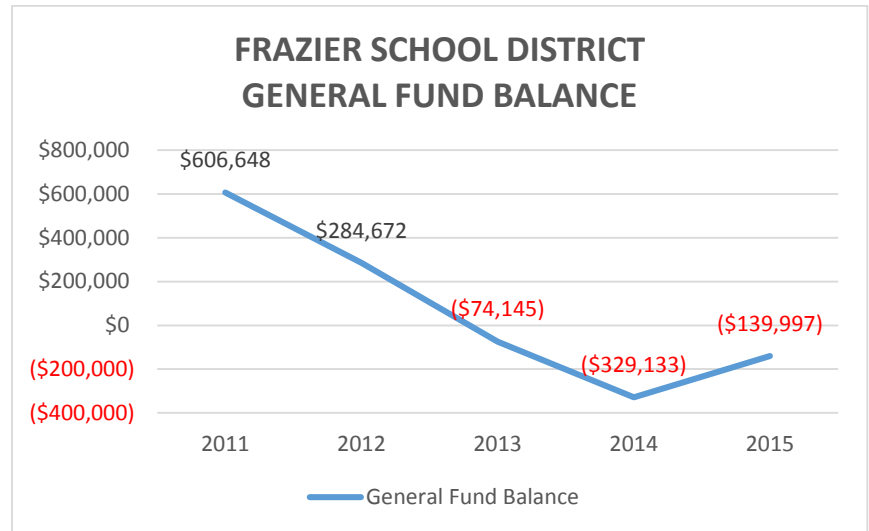
⁹ 24 P.S. § 6-601-A *et seq.*

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 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 transfers out.

Chart 1¹⁰



In addition, when a school district’s fund balance is too low, or non-existent, it may not be able to pay for costs incurred in emergency situations or to cover unexpected interruptions in revenues. In addition, the District’s credit rating could be affected adversely by an inadequate fund balance, which could increase the cost of borrowing.

Table 1

Frazier School District General Fund Operating Position ¹¹			
Fiscal Year Ended June 30	Total Revenues and Sources	Total Expenditures and Uses	Operating Surplus/ <u>(Deficit)</u>
2011	\$15,185,470	\$15,229,058	(\$ 43,588)
2012	14,720,379	15,060,480	(\$340,101)
2013	14,977,779	15,336,596	(\$358,817)
2014	15,625,537	15,880,525	(\$254,988)
2015	16,335,004	16,145,868	\$189,136
Total:	\$76,844,169	\$77,652,527	(\$808,358)

¹⁰ Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2010 through 2015.

¹¹ Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Uses and Changes in Fund Balance*, fiscal years ending 2011 through 2015.

General Fund Operations

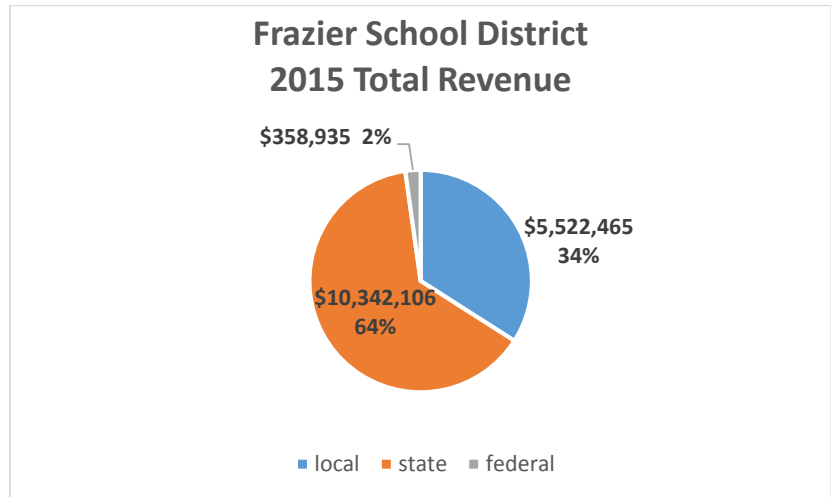
For the fiscal years reviewed from 2011 through 2015, total expenditures exceeded total revenues (operational deficit) for four of the five years reviewed. When expenditures are greater than revenues, a deficit occurs and the General Fund decreases. Only the last year reviewed, 2015, had an excess of revenue over expenditures (operational surplus). The operational surplus in 2015 was due to an increase in millage¹² and debt restructuring.

Some of the reasons given by District administration for the deficits include the Board of School Director's (Board) resistance to raising real estate taxes until the 2013-14 school year, rising health care costs, rising District share of pension contributions, and a reluctance to make program cuts.

Revenue

The District's total revenue is comprised of three sources: local, state, and federal sources. State and federal sources are known as subsidies and are provided at the discretion of state and federal governments and, therefore, can significantly vary from year-to-year. Local revenue is comprised primarily of local property taxes. The following chart shows the composition of "Total Revenues" for the fiscal year ended 2015.

Chart 2¹³



¹² The millage rate is the amount per \$1,000 used to calculate taxes on property. Millage rates are most often found in personal property taxes, where the expressed millage rate is multiplied by the total taxable value of the property to arrive at the property taxes due.

¹³ Information obtained from the District's fiscal year ending 2015 Independent Auditor's Report.

Table 1 shows that the District’s revenue increased from 2012 to 2015. However, while state revenue increased by \$1.4 million dollars, the District’s federal revenue decreased \$1.5 million dollars. The significant decrease in federal revenue can be attributed to the District’s loss of ARRA funds.¹⁴ Over this same period, local revenue has increased \$1.1 million dollars; however, the local revenue did not increase enough to make up for the decline in federal revenue and the increase in expenditures.

Table 2¹⁵

Frazier School District Millage Rate			
<u>Year Ending June 30</u>	<u>Millage at Start of Year</u>	<u>Change in Millage</u>	<u>Ending Millage</u>
2013	13.330	0.000	13.330
2014	13.330	0.980	14.310
2015	14.310	0.867	15.177
2016	15.177	0.972	16.149

Table 2 shows that the District began to raise local taxes in the 2013-14 school year. However, it is important to note that with every tax increase, there is a risk that the overall collection rate may decrease. While the District has made efforts to try to increase revenue, currently, local revenue sources currently comprise 34 percent of total revenues. Unless local sources comprise a bigger percentage of total revenues, the District will be reliant on subsidies, specifically state subsidies, to fund operations or the District will need to make cuts to educational programs.

Expenditures

Although revenues for the District have increased, expenditures have increased at a greater rate. In order to increase the General Fund balance, the District’s revenues must increase as much as or more than their expenditures. Some expenditure areas of concern are the rising costs of special education, health care costs, and pension contribution costs. While special education and health care costs can be unpredictable, the largest concern for school districts is the looming burden of pension plan

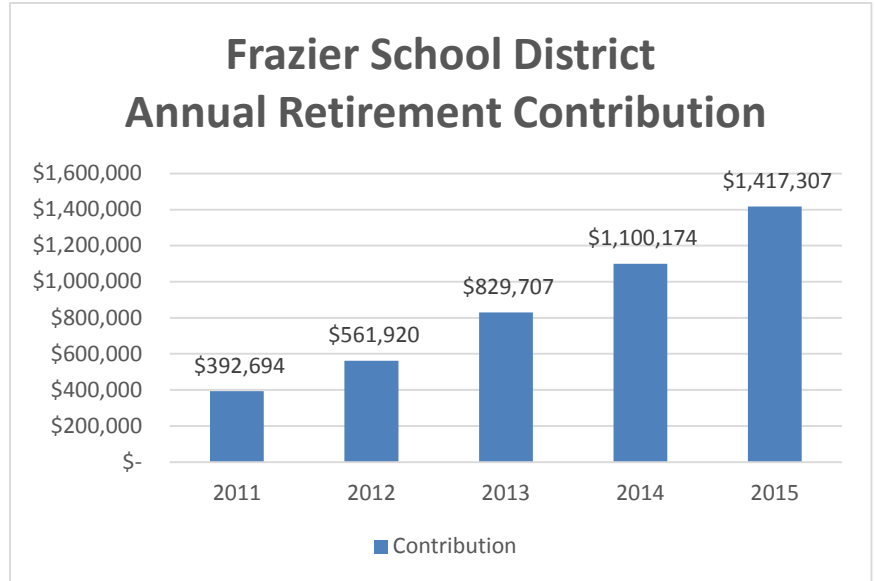
¹⁴ American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5), commonly referred to as “The Stimulus Act” or “The Recovery Act.”

¹⁵ Information obtained from the District’s Independent Auditor’s Report’s, fiscal years ending 2012 through 2015.

contributions by the school districts. This is the District's share of the contribution made to the employees' pension fund (Public School Employees' Retirement System [PSERS]), in addition to the employees' share.

The following chart indicates the trend in this area and illustrates how significantly these expenditures alone have increased:

Chart 3¹⁶



The District's rate paid to PSERS increased from 5.64 percent in 2011 to 21.40 percent in 2015. The Commonwealth communicated these increases well in advance in order to give school districts the opportunity to prepare for them, but the school board was still reluctant to raise taxes until the 2013-14 school year.

¹⁶ Information obtained from the District's fiscal year ending 2015 Independent Auditor's Report.

Table 3¹⁷

Frazier Area School District Actual vs. Budgeted Expenditures			
Year ending <u>June 30</u>	<u>Actual Expenditures</u>	<u>Budgeted Expenditures</u>	<u>(Under)/Over Budget</u>
2011	\$15,229,058	\$14,771,851	\$ 457,207
2012	15,060,480	14,516,939	\$ 543,541
2013	15,336,596	14,350,502	\$ 986,094
2014	15,880,525	15,232,810	\$ 647,715
2015	15,733,714	15,472,981	\$ 260,733
Total	\$77,240,373	\$74,345,083	\$2,895,290

According to District officials, the variance between the actual expenditures and budgeted expenditures was primarily due to the difficulties of budgeting special education costs. 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 even within the same school year as students' needs change. The projections made during the budget process have been exceeded by actual expenditures in each year under review even though the District's special education budgets from 2011 to 2015 have increased over 30 percent and nearly \$500,000.

Also, there were other one-time, unanticipated transactions during this period which contributed to the District's budget deficits. In 2013, there were two transactions related to borrowing funds for the construction of the new elementary/middle school, which were over \$300,000 each. In 2014, a one-time payment of almost \$450,000 was mistakenly made from the General Fund instead of the Capital Reserve Account. Transferring funds to cover this payment was not permitted and, therefore, the General Fund was not reimbursed. In 2015, there was a one-time cost of almost \$150,000 for expenses and supplies necessary to move into and set-up the newly constructed elementary/middle school. None of these items are expected to recur.

The District's inability to establish budgets that reflect accurately the financial needs of the District has resulted in a violation of the PSC and has added to the District's need

¹⁷ Information obtained from the District's Independent Auditor's Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2010 through 2015.

to use the fund balance to fund the education programs, a process that has resulted in the District falling into a deficit.

Table 4¹⁸

Frazier School District				
Decreasing General Fund Current Ratio (Current Assets ÷ Current Liabilities)				
Fiscal Year ended June 30	Current Assets	÷	Current Liabilities	= Current Ratio
2011	\$1,844,674		\$1,238,026	1.49 to 1
2012	\$1,653,011		1,368,339	1.21 to 1
2013	\$1,714,929		1,789,074	0.96 to 1
2014	\$1,560,450		1,889,583	0.83 to 1
2015	\$1,791,144		1,916,676	0.93 to 1

Decreasing Current Ratio

One of the key measures of a school district’s financial condition is known as the current ratio (current assets/current liabilities), which is used to gauge a school district’s ability to meet its current obligations. A decreasing trend towards 1-to-1 or even lower, as with the District, indicates that the District’s financial solvency is decreasing to a point where the District may not be able to pay its short-term, or current, debts. A declining trend may also prevent the District from obtaining any new debt, such as loans, or increase the interest rate on the debt it can obtain.

District administrators stated that, as a result of historically low interest rates, the District decided to build the new elementary/middle school which opened for the 2015-16 school year. They anticipate having operational savings by combining all students into two buildings on one campus instead of three buildings in two locations. Operational savings can also be derived with the new building by eliminating two older elementary schools which needed repairs. One elementary school was razed to make room for the new building and the future of the other building is currently being debated by the Board. If the District can

¹⁸ Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2010 through 2015.

sell the vacant building and the 18-acres of land, it would result in additional revenue for the District.

Conclusion

Over the course of the audit period, the District's financial position significantly deteriorated. As of the fiscal year ending 2015, the District has a negative General Fund balance which could lead to the District being placed in financial recovery status. If placed in financial recovery status, the District will lose local oversight of District operations and will be forced to make operational changes that result in lower expenditures and/or increased revenue.

Similar to other districts, the District was experiencing increasing fixed costs related to retirement contributions. The District's actual expenditures exceeded budgeted revenues for each year reviewed, which is a violation of the PSC. As a result of overspending budgeted expenditures, the District has experienced an operating deficit for four of the five fiscal years directly leading to the negative General Fund balance.

Recommendations

The *Frazier School District* should:

1. Prepare a long-range financial plan to address its negative fund balance, operating deficits, and declining liquidity.
2. Establish a minimum required General Fund balance.
3. Continue the process of monitoring and evaluating expenditures on a monthly basis and ensure that actual expenditures are kept within budgetary limits, as well as not exceed total revenue at year-end.

Management Response

District management provided the following response:

Recommendations:

Increase taxes over the next 3-5 years to offset PSERS, health care, special education, and debt service.

Continue to strictly monitor controllable expenses.

Develop a 5 year financial plan that addresses deficiencies and increases the district's fund balance.

In review of the findings, the Frazier School District agrees with the financial assessment in the audit. However, the district is not in agreement with some of the statements contained within. The following are issues that are not within our control or oversight, specifically the cost to the district for PSERS contributions which have increased 4 times over the period reviewed, and account for 1.93 mils in local tax revenue. The cost to the district has increased from \$153,000 to over \$501,000 during the period reviewed. Without considerable federal and state funding, the limited size of the district's tax base prohibits our ability to generate local revenues to offset the increase in non-controllable expenditures such as PSERS, special education, and health care.

The district has maintained its employee costs over the last 5 years as the district's salaries have actually decreased by 1.08%. Additionally benefit costs, net of retirement contributions, have risen on average just 2.2% per year over the same period.

Total expenditures for the period reviewed have increased a total of \$878,000 or 1.14% on average, while basic education and special education funding has remained relatively flat over this same period reviewed. This increase also includes new debt incurred by the district to construct a new learning facility without any PLANCON reimbursement anticipated in the near future.

In light of the nine month stalemate without any state funding, the district was able to operate while keeping all payments current while only utilizing \$500,000 of borrowed funds which were re-paid in full in January 2016. This reflects the administration's commitment to operating the district with limited resources. I will also highlight that during the review window; the district ran a surplus of \$189,136 in the 2015 year end audit and anticipates a surplus of revenue during the 2016 audit. This in and of itself reflects the district's pledge to recovery and sustainability.

The district is dedicated to controlling and containing discretionary expenditures and negotiating union contracts that reflect the district's commitment to fiscal responsibility. However, without the ability to increase revenues, even as controllable expenses are maintained in a strict, no growth fashion, and without a more reasonable state funding formula, Frazier will continue to struggle to provide the quality education for which its known.

Auditor Conclusion

We are pleased that the District has implemented steps to address our finding and recognizes the significance of its fiscal situation. Given limited ability to control the District's revenues and expenditures, positive steps have been taken to bring the District's fund balance into a positive state. During our next audit, we will determine the effectiveness of the District's corrective actions.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on June 25, 2013, resulted in three findings 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 PDE, interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on June 25, 2013

Prior Finding No. 1: Errors in Reporting Nonresident Pupil Membership Resulted in a \$27,993 Tuition Underpayment

Prior Finding Summary: Our prior audit of the District's nonresident pupil membership for the 2009-10 school year found discrepancies in the reports submitted to PDE. These errors resulted in a reimbursement underpayment of \$27,993.

Prior Recommendations: We recommended that the District should:

1. Review the Pennsylvania Information Management System (PIMS) manual of reporting for instructions in the proper reporting of nonresident students.
2. Review membership reports submitted to PDE for years subsequent to the audit and submit revised reports to PDE if similar errors are found.

We also recommended that PDE should:

3. Adjust the District's allocations to correct the underpayment of \$27,993.

Current Status: The District did implement our prior recommendations. The District established the position of PIMS Coordinator to work in conjunction with the Information Technology Director in the reviewing of classification of nonresident students. As of August 31, 2016, the District has not received the \$27,993 underpayment we cited in our prior audit report.

Prior Finding No. 2 Memorandum of Understanding Not Updated Timely

Prior Finding Summary: Our prior audit of the District’s records found that its existing Memorandum of Understanding (MOU) with local law enforcement agencies had been signed on March 23, 2010, and had not been updated. The PSC requires MOUs with local law enforcement to be updated and re-executed every two years.

Prior Recommendations: We recommended that the District should:

1. In consultation with the District’s solicitor, review, update, and re-execute the existing MOU between the District and all the local law enforcement agencies having jurisdiction over school property.
2. In consultation with the District’s solicitor, review new requirements for MOUs and other school safety areas under the PSC to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
3. Adopt an official board policy requiring District administrators to biennially update and re-execute all MOUs with local law enforcement agencies having jurisdiction over school property and file a copy with PDE’s Office of Safe Schools on a biennial basis, as required by law.

Current Status: The District partially implemented our prior recommendations. The District did update the MOU in consultation with the District solicitor to ensure compliance with the PSC. However, an official board policy to update and re-execute all MOUs has not been adopted as these specific board policies are currently under review by District personnel.

Prior Finding No. 3 Possible Violation of the Retirement Code

Prior Finding Summary: On March 24, 2011, the District approved an agreement with its former Superintendent to serve as Acting Superintendent at a salary of \$110,000 per year. His return to service may have violated the Public School Employees’ Retirement Code.

Prior Recommendations: We recommended that the District should:

1. Follow the Public School Employees’ Retirement Code by submitting the required documentation to PSERS for its review as to whether an employment company or personnel shortage exists that would necessitate a retiree returning to service.

2. Meet with its solicitor to verify that the administration and the Board fully understand the requirements of the Retirement Code.

We also recommended that PSERS should:

3. Review the employment of the retiree for compliance and render an opinion on the appropriateness of the return to service.
4. If annuity payments are determined to be improper, PSERS should make the necessary corrections to pension benefits.

Current Status:

The District did implement our prior recommendations. On August 29, 2014, PSERS made the determination that the contributions were not improper and no adjustments to the pension benefits were necessary.

Prior Observation

The District Lacks Sufficient Internal Controls Over Its Student Data

Prior Observation Summary:

Our prior review of the District's data integrity controls over student data reporting to PDE through PIMS found that the District's internal controls need to be improved.

Prior Recommendations: We recommended that the District should:

1. Print out Student Information System membership reports and PIMS reports after the PIMS upload is completed and perform reconciliations between the District's child accounting software data and the PIMS reports, and retain all documentation for audit purposes.
2. Review calendar fact templates for accuracy to ensure that they reflect the correct days in session and days of enrollment.
3. Reference the PIMS manual of reporting for instructions in the proper reporting of the home portion of area vocational-technical school rotation patterns.
4. Develop documented procedures (e.g., procedure manuals, policies or other written instructions) to ensure continuity over PIMS data submission if District personnel were to leave the District suddenly or otherwise be unable to upload PIMS data to PDE.

5. Review membership reports submitted to PDE for years subsequent to the audit and submit revised reports to PDE if similar errors are found.

Current Status:

The District did implement our prior recommendations.

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,¹⁹ 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, 2012 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 controls²⁰ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

¹⁹ 72 P.S. §§ 402 and 403.

²⁰ 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, grant requirements, 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, 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 ending June 30, 2011 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
- Administrator Contract Buy-out
- 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 fiscal 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, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2011 through 2015. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks 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. Additionally, since the District had a negative fund balance, additional benchmarks were analyzed to determine the potential for the District to be placed on the Financial Watch List or in Financial Recovery Status by PDE. See the finding for the results of our review of this objective.
- ✓ 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 current employment contract contain adequate termination provisions?
 - To address this objective, we reviewed the contract, settlement agreement, board meeting minutes, board policies, and payroll records for the one administrator who separated employment from the District during the period July 1, 2012 through June 30, 2015. Our review of this objective did not disclose any reportable issues.

- ✓ 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?²¹ Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we randomly selected 5 of the 13 bus drivers hired by both the District and District bus contractor(s), during the school year July 1, 2015 through June 30, 2016, and reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District take appropriate actions to ensure it provided a safe school environment?²²
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at one out of the District's two school buildings to assess whether the District had implemented basic safety practices. Due to the sensitivity of school safety, the results of our review of this objective area are not described in our report. The results of our review of school safety are shared with District officials and, if necessary, PDE.

²¹ 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.*

²² 24 P.S. § 13-1301-A *et seq.*

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