

PERFORMANCE AUDIT

Monessen City School District Westmoreland County, Pennsylvania

August 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Dr. Leanne Spazak, Superintendent
Monessen City School District
1275 Rostraver Street
Monessen, Pennsylvania 15062

Mrs. Donna Fantauzzi, Board President
Monessen City School District
1275 Rostraver Street
Monessen, Pennsylvania 15062

Dear Dr. Spazak and Mrs. Fantauzzi:

Our performance audit of the Monessen City School District (District) evaluated the application of best practices in the area of finance. 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 listed above and complied, in all significant respects, with relevant requirements, except as detailed in our two findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report.

We also reviewed the District's procedures related to certain areas of school safety. Due to the sensitive nature of this issue and the potential for malicious use of the results of our review, we did not include the results of our review in this report. 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. Leanne Spazak
Mrs. Donna Fantauzzi
Page 2

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 1, 2018

cc: **MONESSEN CITY 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 Monessen City 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). Compliance specific to state subsidies and reimbursements was determined for the 2012-13 through 2015-16 school years.

Audit Conclusion and Results

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

Finding No. 1: The District Persistently Failed to Obtain Timely Audits of Its Financial Statements Putting Its Own Financing and Credit Ratings at Risk.

The District's audited financial statements were not issued on time for each year of the three-year audit period. Specifically, the audited financial statements for fiscal year 2015 were issued 535 days late, and the financial statements for fiscal years 2016 and 2017 still had not been issued as of June 1, 2018. These financial statements were so late that decision-makers and the public were deprived of important financial information pertinent to the decision-making process (see page 10).

Finding No. 2: The District Incorrectly Reported Transportation Data to PDE Resulting in a \$447,338 Overpayment.

The District was overpaid \$447,338 in transportation reimbursements from the Pennsylvania Department of Education (PDE) due to multiple reporting errors made by the District. The District reported students not eligible for reimbursement during the 2012-13 through 2015-16 school years. Also, the District incorrectly reported to PDE the number of students transported during the 2013-14 and 2014-15 school years. These reporting errors resulted in a \$449,648 regular transportation overpayment. Additionally, the District incorrectly reported the number of nonpublic students transported by the District during the 2015-16 school year, which resulted in a \$2,310 supplemental transportation underpayment (see page 17).

Status of Prior Audit Findings and Observations. Our prior audit report of the District was released on August 21, 2014. This report contained two findings and two observations.

With regard to the status of our prior audit recommendations, we found that the District implemented our recommendations addressing the student data reporting errors finding (see page 23). However, the District did not implement the recommendations addressing the transporting reporting errors finding (see page 22).

Additionally, we found that the District did not implement our recommendations addressing the fiscal and transportation cost observations (see page 24).

Background Information

School Characteristics 2015-16 School Year ^A	
County	Westmoreland
Total Square Miles	2
Number of School Buildings	3
Total Teachers	82
Total Full or Part-Time Support Staff	38
Total Administrators	7
Total Enrollment for Most Recent School Year	823
Intermediate Unit Number	7
District Vo-Tech School	Mon Valley CTC

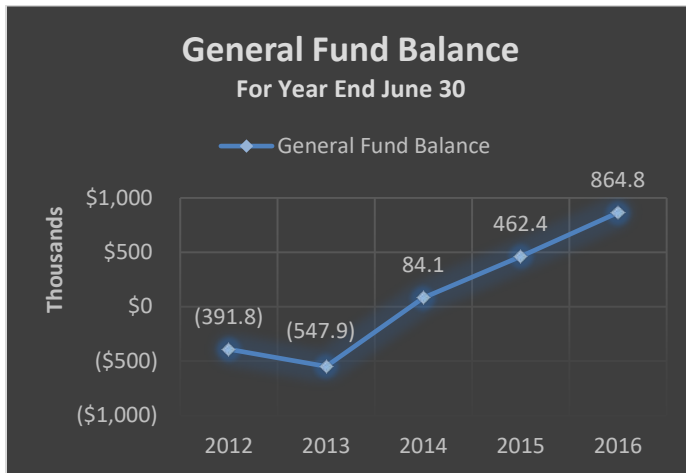
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

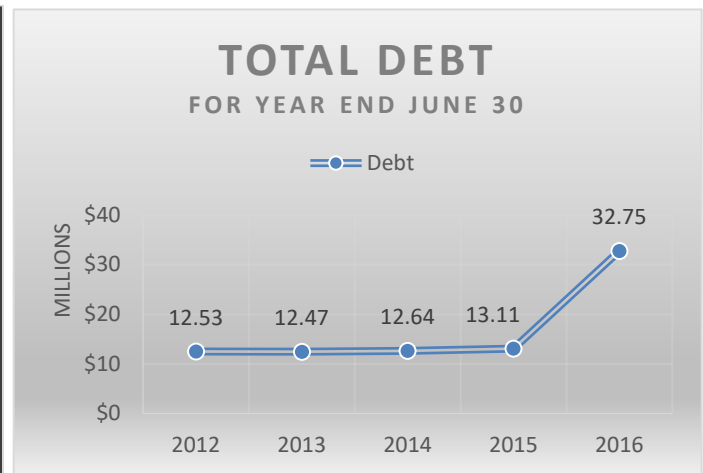
To embrace our small size, to provide a nurturing educational environment that maximizes student learning, seeks high academic standards, increases student achievement, and creates life-long learners who celebrate diversity and are active in the community.

Financial Information

The following pages contain financial information about the Monessen City 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**.

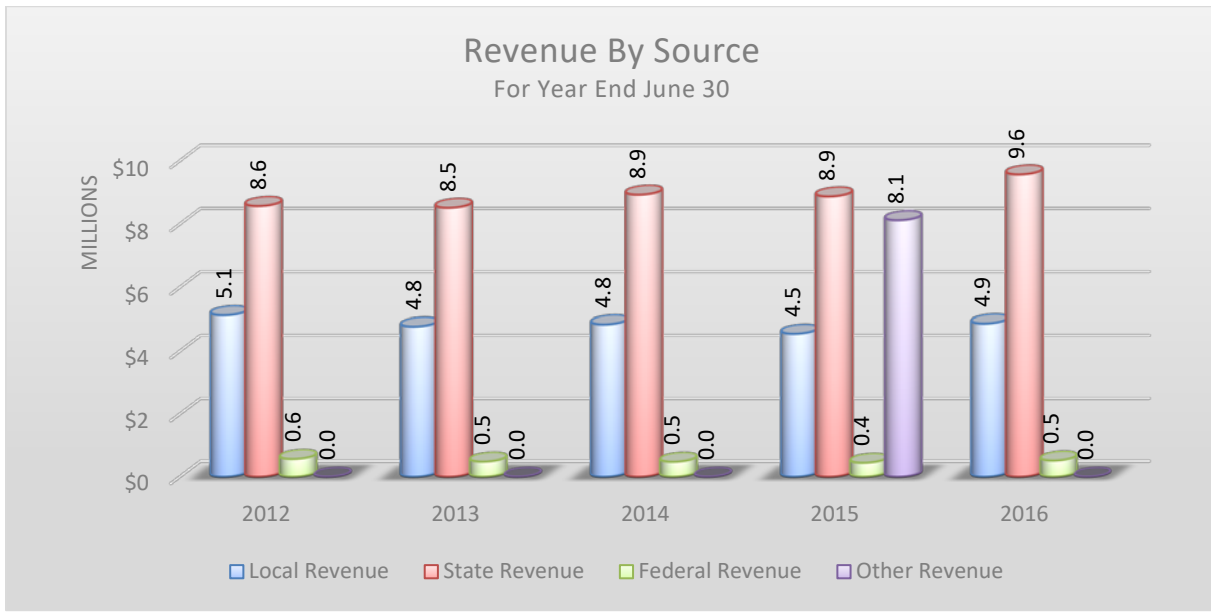
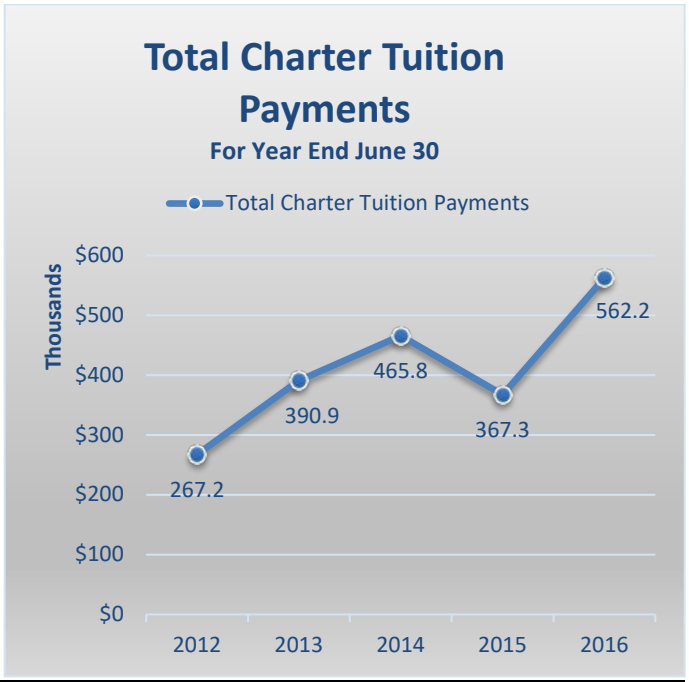
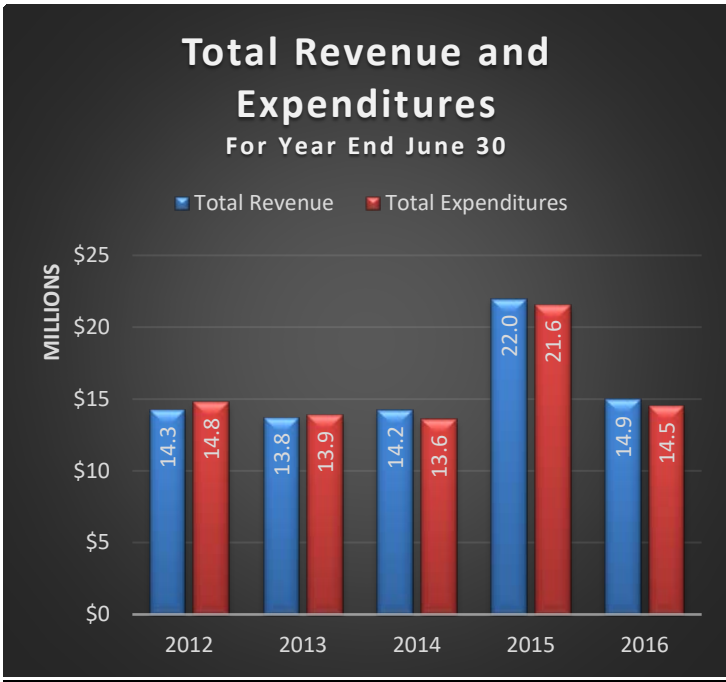


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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 and 2015-16 school years.¹ 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 chart.² 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.³

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 exams 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.⁴ PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

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.

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

² 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.

³ 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.

⁴ 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 state Common 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.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁵ 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 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 at least 2020. 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.

What is a 4-Year Cohort Graduation Rate?

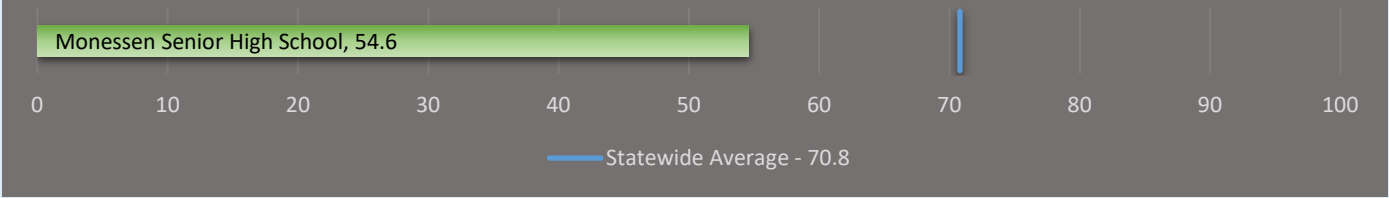
PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student 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.⁶

⁵ 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.

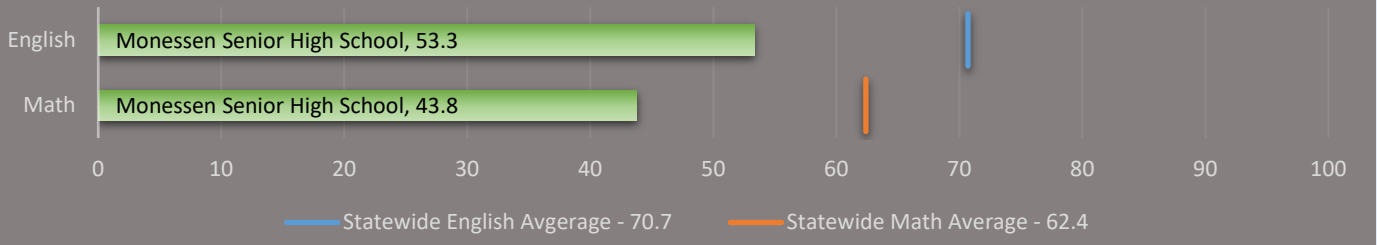
⁶ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

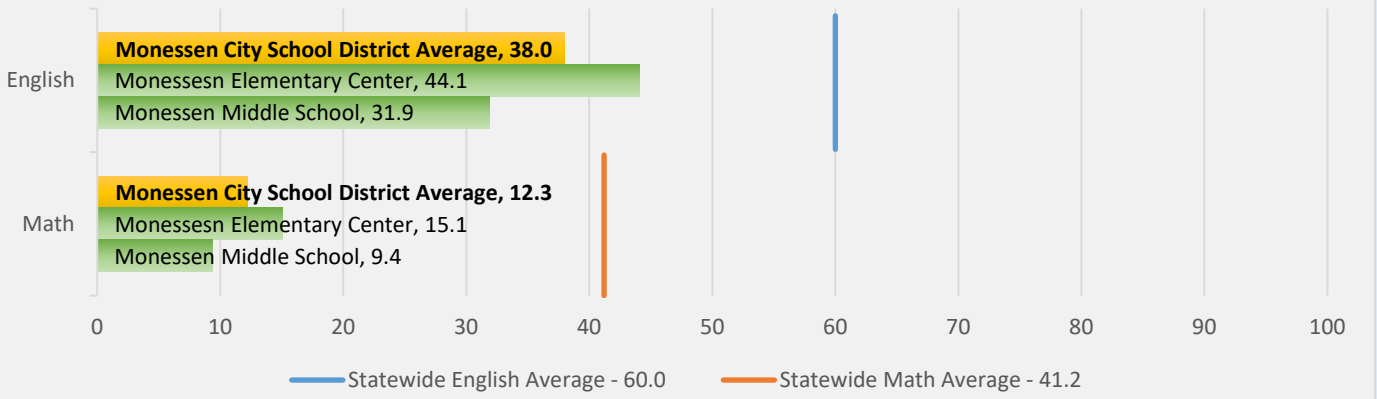
2014-15 SPP Scores



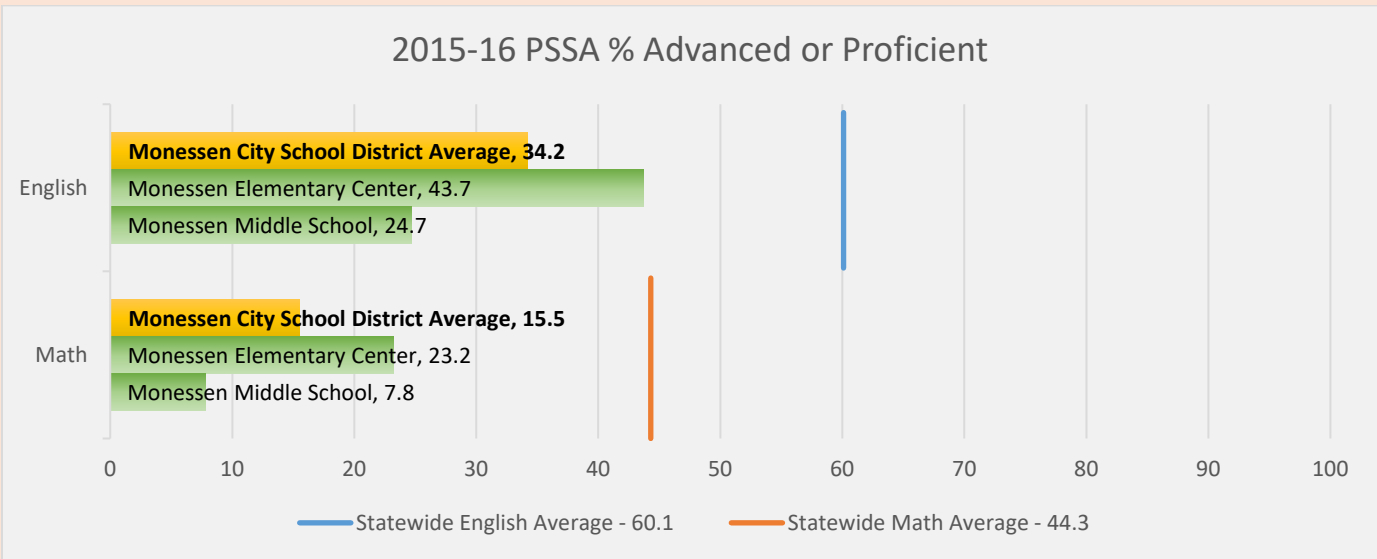
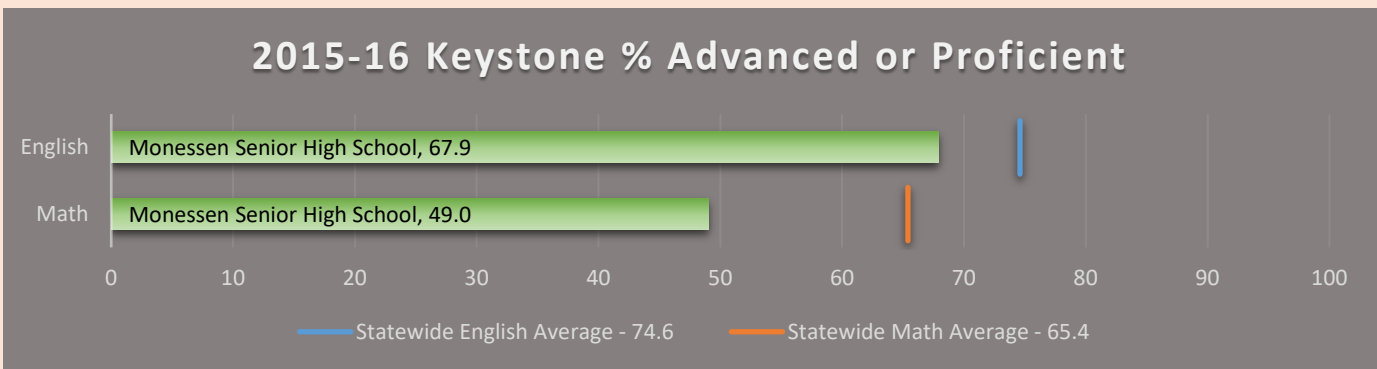
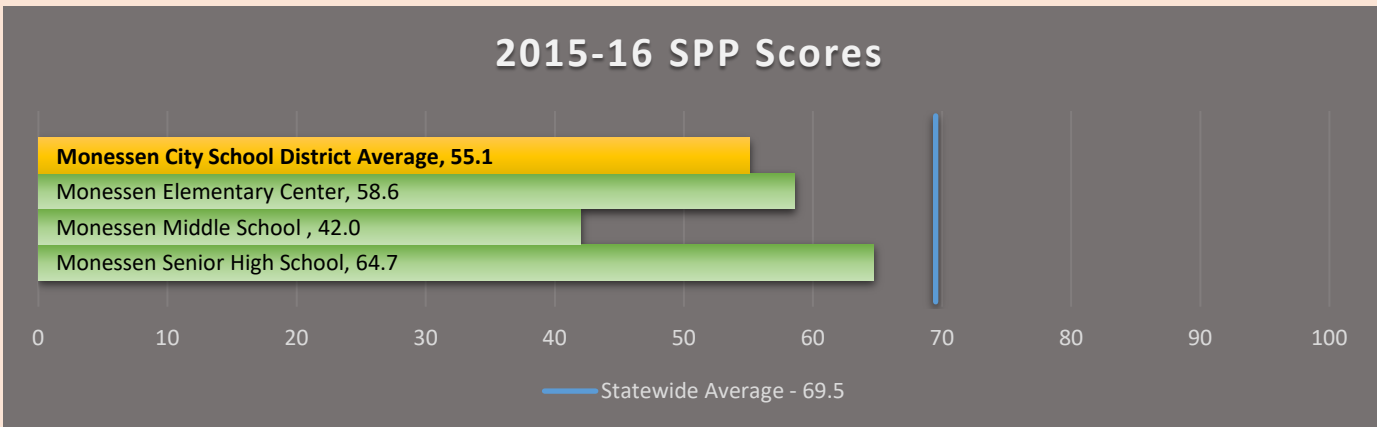
2014-15 Keystone % Advanced or Proficient



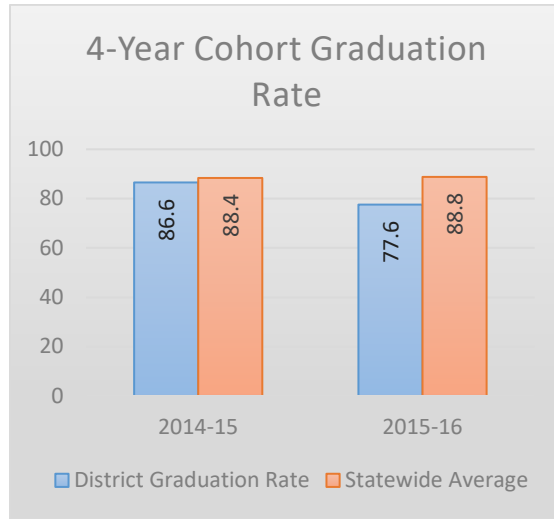
2014-15 PSSA % Advanced or Proficient



2015-16 Academic Data
School Scores Compared to Statewide Averages



4-Year Cohort Graduation Rate



Findings

Finding No. 1

The District Persistently Failed to Obtain Timely Audits of Its Financial Statements Putting Its Own Financing and Credit Ratings at Risk

Criteria relevant to the finding:

Section 218 of the Public School Code (PSC) states, in part:

(a) An annual financial report shall be submitted to the Secretary of Education by each school district, charter school, cyber charter school and area vocational-technical school not later than the 31st day of October. All financial accounting and reporting by school districts, charter schools, cyber charter schools and area vocational-technical schools to the Department of Education shall be in accordance with generally accepted accounting and reporting standards, except that management discussion and analysis and related notes and the following financial statements shall not be required components of the annual financial report: entity-wide financial statements, including the statement of activities and the statement of net assets; the reconciliation of the balance sheet - governmental funds to statement of net assets; and the reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to statement of activities. The Department of Education shall establish a reporting standard for the annual financial report.

The Monessen City School District's (District) audited financial statements were not issued on time for each year of the three year audit period. Specifically, the audited financial statements for fiscal year 2015 were issued 535 days late, and the financial statements for fiscal years 2016 and 2017 still had not been issued as of June 1, 2018. These financial statements were so late that decision-makers and the public were deprived of important financial information pertinent to the decision-making process, such as the effects of operations on the District's General Fund balance and comparisons of budgeted versus actual revenues and expenditures. Further, the District's failure to ensure it issued timely audited financial statements not only resulted in noncompliance with the Public School Code (PSC), but also may have put the District's financing and credit ratings at risk.

Missed Audit Deadlines

At its regular board meeting on March 10, 2015, the District approved a three-year contract with an accounting firm to provide the annual independent audits of the District's financial statements. The contract stipulated when the auditors would begin their audit work and when the audited financial statements would be issued, but none of the deadlines were met. Figure 1 compares the agreed-upon report deadline dates to the actual dates.

Figure 1

Monessen City School District Comparison of Contracted Report Dates to Actual Report Dates			
Fiscal Year	Report Due Date Per Contract ⁷	Actual Report Issuance Date	Number of Days Late
2015	October 31, 2015	April 18, 2017 ⁸	535
2016	October 31, 2016	Not issued @ June 1, 2018	578 & counting
2017	October 31, 2017	Not issued @ June 1, 2018	213 & counting

Criteria relevant to the finding (continued):

(b) The chief school administrator and board secretary of a school district, charter school, cyber charter school or area vocational-technical school shall submit a signed statement to the Department of Education not later than the 31st day of December of each year certifying that: the audited financial statements of the school district, charter school, cyber charter school or area vocational-technical school have been properly audited pursuant to Article XXIV and that in the independent auditor's professional opinion, the financial information submitted in the annual financial report was materially consistent with the audited financial statements.

(c) If the financial information submitted in the annual financial report was not materially consistent with the audited financial statements, the school district, charter school, cyber charter school or area vocational-technical school shall submit a revised annual financial report to the Department of Education not later than the 31st day of December. See 24 P.S. § 2-218(a)-(c).

One reason for the delay in the issuance of the audited financial statements is that during each year of the audit period, the audit work itself was started long after the contract's specified start dates. The effects of issuing audited financial statements in such a delinquent fashion are discussed later in this finding.

Delayed Start of Audit Work

Two months after the contract for audit services was authorized by the Board of School Directors (Board), the contracted accounting firm was acquired by another accounting firm. The original contract for audited financial statements for the three fiscal years 2015 through 2017 remained in place; however, an October 5, 2015, engagement letter signed by both the District and the new accounting firm amended the date for the beginning of audit work related to the 2015 financial statements, as well as the report issuance date. For fiscal years 2016 and 2017, there were no engagement letters; instead, audit work start dates for those years were disclosed by the new accounting firm via email communications after the District inquired when the auditors would be starting their work. For fiscal years 2016 and 2017, no revised report issuance dates were discussed and agreed upon between the accounting firm and the District. Figure 2 illustrates the revised dates.

⁷ Sarp & Company, "Proposal for Audit Services," February 5, 2015, p. 1. The District's Board approved the proposal at the aforementioned March 10, 2015, regular meeting.

⁸ Zelenkofske Axelrod, LLC, "Independent Auditor's Report," included with the School District of the City of Monessen "Financial Statements, Year Ended June 30, 2015," April 18, 2017, p. 2.

Figure 2

Monessen City School District Comparison of Contracted Audit Start/Report Dates to Revised Dates			
Fiscal Year	Audit Start Date Per Contract	Revised Audit Start Date	Revised Report Due Date
2015	Early August 2015	October 5, 2015 ⁹	December 15, 2015 ¹⁰
2016	Early August 2016	October 19, 2016 ¹¹	N/A
2017	Early August 2017	Per November 2017 email from auditor: “As soon as 6/30/16 can be wrapped up.”	N/A

Criteria relevant to the finding (continued):

Section 2552.1 of the PSC addresses the effect of failure to file reports and states, in part:

“(a.1)(1) The Department of Education shall order the following forfeitures against a school district . . . that does not submit its annual financial report to the Department of Education within thirty (30) days of the submittal date established under sections 218 and 921-A:(i) Three hundred dollars (\$300) per day for the first violation. . . .” See 24 P.S. § 25-2552.1(a.1)(1)(i).

Section 2401 of the PSC states, in part:

“The finances of every school district and of every joint school board, in every department thereof, together with the accounts of all school treasurers, school depositories, teachers' retirement funds, teachers' institute funds, directors' association funds, sinking funds, and other funds belonging to or controlled by the district, shall be properly audited as follows . . .

When we asked about the reason for the delays, we received conflicting responses from the District and the new accounting firm. While we recognize that there would be some delays due to the original accounting firm being acquired by the new firm, the District had a duty to more closely monitor and follow up with the new firm to ensure that it honored the original contract terms. However, we are concerned about the Board and the administration’s apparent lack of involvement.

The board meeting minutes documented motions and votes, but did not document discussions that may have occurred before or after votes, or on other matters brought before the Board. For instance, the Board approved the 2015 audited financial statements at its November 14, 2017, regular meeting—after we inquired as to why the statements (issued in April 2017) had not been approved by the Board in accordance with the PSC. The Superintendent and the Business Manager were also present at this board meeting. There was no record of a discussion about the lateness of these statements or the status of the 2016 audit; instead there was only a record of the Board’s unanimous vote to accept the financial statements almost two years after they should have been issued. This governance failure is twofold: the District and the administration failed to: 1) monitor an important District contract; and 2) ensure that financial reports were being issued to the public in a timely manner.

The late issuance of the fiscal year 2015 audited financial statements and the as yet unissued audited financial statements for fiscal years 2016 and 2017 may have negative consequences for the District. For instance, in a

⁹ Zelenkofske Axelrod, LLC, Letter to Board of Directors and Management, October 5, 2015.

¹⁰ Ibid.

¹¹ Jared Ewing, Zelenkofske Axelrod, LLC, “FW: Budget to Actual,” email message, October 17, 2016.

*Criteria relevant to the finding
(continued):*

(4) Any school district of the second, third or fourth class and any joint school board may employ an independent auditor who shall be a certified public accountant or competent public accountant prior to the end of the fiscal year, and when so employed, such independent auditor shall audit the finances of such school district or such joint school board for such fiscal year instead of the controller or auditors hereinbefore referred to, and shall have all the powers and duties of such auditors, except that the audits shall be made in accordance with generally accepted auditing standards. The compensation of the independent auditor shall be fixed by the employing board of directors and shall be paid from the funds of the school district or of the joint school board, as the case may be.” See 24 P.S. § 24-2401(4).

Additional criteria:

The Government Accounting Standards Board (GASB) issued Statement No. 34 (GASB 34), which provides financial reporting requirements for state and local governments, including school districts. GASB Concepts Statement No. 1 preceded the issuance of GASB 34 and defined the objectives of financial reporting by state and local governments. It identifies three primary users of financial reports: “the citizenry, legislative and oversight bodies, and investors and creditors.” In addition, it states the following:

Financial reports are used primarily to compare actual financial results with the legally adopted budget; to assess financial condition and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations; and to assist in evaluating efficiency and effectiveness. See GASB Concepts Statement No. 1, Summary.

November 2017 email, one District official contacted the new accounting firm to ask when the fiscal year 2016 audit would be completed. The official states that the Pennsylvania Department of Education (PDE) asked about a completion date. The official also states that the District received requests for the financial statements from Standard & Poors, Moody’s, and bond holders, and that the District had not been able to refinance its bonds.¹²

Improper Certification of Reconciliation Between PDE Reports & Audited Financial Statements

The October 31 audit report deadline date set forth in the contract between the District and its auditors was not arbitrary. According to the contract, the accounting firm stated, “We will complete the audit on a timely basis . . . to meet the annual financial report filing deadline of October 31. . . .”¹³ The deadline referred to in the contract is a PSC-mandated deadline for school districts to file annual financial reports with PDE.¹⁴ These reports contain financial information that is similar to the financial information provided in the independently audited financial statements. PDE requires districts to certify their reconciliation of the data in the two different reports by December 31 and to revise the PDE report if there are any material differences from the audited financial statements.¹⁵

While the PSC does not explicitly require school districts to have their audited financial statements issued by December 31, it’s a best practice for Districts to do so in order to provide a valid certification that the two reports are materially consistent.

On December 21, 2015, the District certified that its 2014-15 fiscal year annual financial report was materially consistent with its audited financial statements. Although the certification was made prior to the PSC deadline of December 31, 2015, the audited financial statements were not issued until 17 months later, on April 18, 2017. Therefore, the District’s certification appears to have been premature and improper.

¹² Jeff Festor, “2016 Audit,” email message, November 2, 2017.

¹³ Sarp & Company, p. 1.

¹⁴ 24 P.S. § 2-218(a).

¹⁵ 24 P.S. § 2-218(b) and (c).

Criteria relevant to the finding (continued):

The Government Finance Officers Association’s (GFOA) “Best Practice: Timely Financial Reporting” states, in part, “. . . financial reports should be published as soon as possible after the end of the reporting period.”

The Government Finance Officers Association’s “Best Practice: GAAP Financial Reporting as the Baseline for State and Local Governments” states, in part:

GFOA urges individual state and local governments to fulfill their financial reporting responsibilities by . . . **issuing timely financial statements** for the entire financial reporting entity in conformity with GAAP [generally accepted accounting principles]. . . . (Emphasis added.)

For fiscal year 2016, the District did not comply with the PSC because it never certified its annual financial report. For fiscal year 2017, the District improperly certified its annual financial report in March 2018, even though **the audit work had not yet started**. Although the annual financial reports for 2015 and 2016 were filed with PDE by their respective October 31 deadline, the report for 2017 was not filed until February 2018, resulting in another instance of noncompliance with the PSC. This noncompliance may have put the District at risk of penalties of \$300 per day, pursuant to the PSC.¹⁶

By June 2016, the District had fully paid for the audit of the fiscal year 2015 financial statements—even though the accounting firm had not completed the audit work or issued the report. Then in December 2016, the District paid \$7,500 toward the audit of the fiscal year 2016 financial statements—ten months before the accounting firm started to work on the 2016 audit. District officials said that they paid the invoices submitted by the accounting firm even though the contract itself stated, “The fees will be payable in progress billings with the billings being submitted based upon the percentage of work completed.”¹⁷ Paying for services that were not yet rendered was not a good business practice and may have contributed to the vendor not providing service in a timely manner. The District indicated that it was withholding further payments to the new accounting firm until after more progress was made on the 2016 and 2017 audits.

Figure 3

Monessen City School District Analysis of Timing of Payments for Auditing Services				
Fiscal Year	Total Fee Per Contract	Paid by District	Payment Dates	Comments
2015	\$ 15,500	\$ 15,500	November 2015 April 2016 June 2016	Full payment made by June 2016 but final report not issued until April 2017
2016	15,900	7,500	December 2016	Payment made 10 months BEFORE audit work began
2017	16,300	0	N/A	Not issued yet

¹⁶ 24 P.S. § 25-2552.1(a.1)(1).

¹⁷ Sarp & Company, Section V, “Compensation and Hours,” p. 12.

Conclusion

The District persistently failed to issue timely audited financial statements. The many users of such reports—e.g., members of the public, lenders, and credit rating agencies—were deprived of important financial information such as the effects of operations on major funds, and the required supplementary information applicable in budgetary comparisons and management’s discussion and analysis. Equally important, the District’s own decision-makers did not have timely financial statements for purposes of making informed decisions about using public funds for educational uses. Further, the District may have put its financial standing at unnecessary risk, since refinancing efforts may have been delayed and the District’s credit rating might be affected.

Recommendations

The *Monessen City School District* should:

1. Require its Board to promptly review the terms of the contract with the accounting firm. It should also require both the District’s administration and the vendor to account for the delays in the audit work and the issuance of the audited financial statements. Finally, the District should work with the accounting firm to establish firm deadlines for the completion of audit work and the issuance of the audited financial statements for fiscal years 2016 and 2017.
2. Consider soliciting proposals for auditing services to optimize its chance to obtain the best quality service at the best price. One component of quality service should explicitly be identified as timeliness. The request for proposal should establish a minimum standard for timeliness that would allow the District to comply with all PSC deadlines related to the filing of the annual financial report and the certification of material consistency with the audited financial statements.
3. Require its Board to routinely monitor contracts for audit services, including payments, which should be based upon a percentage of completion accounted for by the vendor and verified by school officials.

Management Response

District management provided the following response:

The cause of the lateness of the District Financial Statements was the amount of time it has taken for the accounting firm to complete the work and issue the reports. The District continues to work with the accounting firm to have the 2016 financial statements issued and to determine a deadline to complete the 2017 audit work so the financial statements can be issued.

The District is in the process of soliciting proposals for auditing services in order to obtain the best quality service at the best price and in a timely manner. The RFP stipulates that the audit must be completed by September 30 each year.

The Board will monitor the contract for auditing services for timeliness and ensure that payments made are based on percentage of completion through the finance committee and will receive continuous updates on the progress of the audit.

Auditor Conclusion

We continue to stress the importance of the District setting deadlines with its accounting firm to issue the 2015-16 and 2016-17 audited financial statements. We are encouraged that the District is actively seeking proposals for new auditing services in an effort to obtain the best quality services at an acceptable rate, and that the District will monitor all contracted services. It is imperative for the District to ensure that timely audited financial statements are issued so the District's own decision makers have the ability to make informed decisions about using public funds.

Finding No. 2

The District Incorrectly Reported Transportation Data to PDE Resulting in a \$447,338 Overpayment

Criteria relevant to the finding:

Student Transportation Subsidy

The PSC provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 (relating to Payments on account of pupil transportation) of the PSC specifies the transportation formula and criteria. See 24 P.S. § 25-2541.

Total Students Transported

Section 2541(a) of the PSC states, in part: "School districts shall be paid by the commonwealth for every school year on account of pupil transportation which, and the means and contracts providing for which, have been approved by the Department of Education, in the cases hereinafter enumerated, an amount to be determined by multiplying the cost of approved reimbursable pupils transportation incurred by the district by the district's aid ratio. In determining the formula for the cost of approved reimbursable transportation, the Secretary of Education may prescribe the methods of determining approved mileages and the utilized passenger capacity of vehicles for reimbursement purposes . . ." See 24 P.S. § 25-2541(a).

We found that the District was overpaid \$447,338 in transportation reimbursements from PDE as a result of multiple reporting errors made by the District. The District reported students not eligible for reimbursement during the 2012-13 through 2015-16 school years. Also, the District incorrectly reported to PDE the number of students transported during the 2013-14 and 2014-15 school years. These reporting errors resulted in a \$449,648 regular transportation overpayment. Additionally, the District incorrectly reported the number of nonpublic students transported by the District during the 2015-16 school year, which resulted in a \$2,310 supplemental transportation underpayment.

School districts receive two separate transportation reimbursement payments from PDE. One reimbursement is based upon the number of students transported and the number of miles vehicles were in service both with and without students (regular transportation reimbursement). The other reimbursement is based upon the number of charter school and nonpublic students transported by the District (supplemental transportation reimbursement).

Incorrect Regular Transportation Reimbursement Received

Non-reimbursable students are defined as elementary students residing less than 1.5 miles from school and secondary students residing less than 2 miles from school.¹⁸ Districts can choose to transport these students, but if transported, the District must report these students as non-reimbursable to PDE. The District failed to report any students as non-reimbursable during the 2012-13 through 2015-16 school years. However, as the table below shows, the District had between 693 and 790 students who met the definition of a non-reimbursable student during this time period. Current District officials stated that they were unaware of the reporting requirements of non-reimbursable

¹⁸ Excluding special education and vocational students, as well as students who live on a Pennsylvania Department of Transportation (PennDot) defined hazardous route.

Criteria relevant to the finding (continued):

Non-reimbursable students

Non-reimbursable students are elementary students who reside within 1 ½ miles of their elementary school and secondary students who reside within 2 miles of their secondary school. Non-reimbursable students do not include special education students or students who reside on routes determined by PennDot to be hazardous. *See* 24 P.S. § 25-2541(b)(1).

Record Retention Requirement

Section 518 of the PSC requires that financial records of a district be retained by the district for a period of not less than six years. *See* 24 P.S. § 5-518.

Annual Filing Requirement

Section 2543 of the PSC sets forth the requirement for school districts to annually file a sworn statement of student transportation data for the prior and current school year with PDE in order to be eligible for the transportation subsidies. *See* 24 P.S. § 25-2543.

Section 2543 of the PSC, which is entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” of the PSC states, in part: “Annually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to pupil transportation for the prior and current school year. . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied **with the law or regulations** of the State Board of Education.” (Emphasis added.)

students. Our review covered four school years where multiple different District officials were responsible for reporting transportation data and the District failed to accurately report non-reimbursable students during all years reviewed.

Monessen City School District	
Transportation Reporting	
School Year	Non-Reimbursable Students Incorrectly Reported as Reimbursable
2012-13	790
2013-14	745
2014-15	766
2015-16	693
Total	2,994

In addition to failing to correctly report non-reimbursable students, the District incorrectly reported the number of students transported during the 2013-14 and 2014-15 school years. Specifically, the District underreported 68 students transported during the 2013-14 school year and underreported 17 students during the 2014-15 school year. The District maintained accurate bus rosters for these school years, yet incorrectly reported students transported to PDE. An internal second level review of this information prior to submission to PDE would have been helpful to identify these clerical reporting errors. The District correctly reported the number of students transported during the 2012-13 school year.

The net monetary effect of incorrectly reporting non-reimbursable students who are ineligible for reimbursement during the 2012-13 through 2015-16 school years and underreporting total students transported during the 2013-14 and 2014-15 school years was the District being overpaid \$449,648 in transportation reimbursement from PDE.

Lack of Documentation for 2015-16 Transportation Reimbursement

The District failed to retain supporting documentation for the number of students transported during the 2015-16. The District’s failure to retain this documentation precluded us from verifying the accuracy of the \$318,829 in

Criteria relevant to the finding
(continued):

<http://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE%201049.pdf> (accessed on May 30, 2018)

Pupils Assigned

Report the greatest number of pupils assigned to ride this vehicle at any one time during the day. Report the number of pupils assigned to the nearest tenth. The number cannot exceed the seating capacity. If the number of pupils assigned changed during the year, calculate a weighted average or a sample average.

Supplemental Transportation Subsidy for Nonpublic Students

Section 2509.3 of the PSC provides that each school district shall receive a supplemental transportation payment of \$385 for each nonpublic school student transported. *See* 24 P.S. § 25-2509.3.

transportation reimbursement received by the District for this year. It is absolutely essential that records related to the District’s transportation reimbursement be retained for the required time period in compliance with the PSC and that the records be readily available for audit.

Supplemental Transportation Subsidy

According to the PSC, a nonpublic school is defined, in part, as a nonprofit school other than a public school within the Commonwealth of Pennsylvania. If school districts provide transportation services to students who reside in the district, the PSC requires school districts to also provide transportation services to students who reside in its district and who attend nonpublic schools. Further, the PSC requires that the Commonwealth provide school districts with a reimbursement of \$385 for each nonpublic school student transported by the District.

For the 2015-16 school year, we found that the District underreported the number of nonpublic students transported by six students, which resulted in an underpayment of \$2,310. For the 2012-13, 2013-14, and 2014-15 school years, nonpublic students were reported accurately to PDE. Similarly to the errors in reporting total students transported during the 2013-14 and 2014-15 school years, the District had accurate source documents for nonpublic students transported, but reported this number incorrectly for the 2015-16 school year.

Conclusion

The current District official responsible for reporting transportation data to PDE for the 2014-15 and 2015-16 school years was hired in 2015. It was at this time the District failed to review the data provided by the District’s transportation contractor prior to submitting reports to PDE. In addition, for the 2015-16 school year, the District failed to retain supporting documentation showing the students reported for regular transportation reimbursement in accordance with the PSC. Transportation reimbursement is a significant part of the District’s budget, and it is imperative that the District retain documentation as outlined in the PSC, as well as accurately report transportation data to PDE.

Recommendations

The *Monessen City School District* should:

1. Annually identify all students transported by the District who are defined as non-reimbursable by PDE and the PSC. Ensure that these students are reported to PDE as non-reimbursable.
2. Perform a reconciliation of all student bus rosters to requests for transportation for all nonpublic school students.
3. Maintain all source documents supporting transportation data reports submitted for reimbursement in accordance with the PSC and PDE instructions.
4. Institute a second level review of all transportation data prior to submitting this data to PDE to ensure that all transportation data submitted to PDE is supported by source documents.
5. Conduct annual multi-year trend analyses of student transportation data and transportation subsidies to help identify unexpected fluctuations and investigate the results of the analyses to provide additional assurance that data is accurately reported to PDE.

The *Pennsylvania Department of Education* should:

6. Adjust the District future transportation subsidy to correct the \$447,338 overpayment.

Management Response

District management provided the following response:

The district believes that the causes of the reporting errors are as follows:

During this time frame the district was transitioning a new Business Manager. Neither the Business Manager, nor the Superintendent was made aware by the prior Business Manager that she was told to apply for the hazardous walking route study. It was the assumption by the new Business Manager that all the routes were considered hazardous; therefore it was reported that way. The district had switched to a different software vendor during that

year, and did not realize until after the fact that the required documentation was not available in the new system.

Corrective action by the district will be as follows:

The district has already applied for the Hazardous Walking Route Study in November of 2017. Moving forward, the district will ensure that any student determined to be non-reimbursable by the study from PennDot will be reported as non-reimbursable.

The district will annually perform a reconciliation of all bus rosters for non-public students to ensure accuracy of reporting.

The district will ensure that all source documentation and data is available and maintained in accordance with the PSC and PDE.

The district will implement a second level review prior to submitting data to PDE to ensure data submitted is supported by source documents.

The district will conduct multi-year trend analyses of student transportation data and transportation subsidies to help identify unexpected fluctuations and investigate the result of the analyses to provide additional assurance that data is accurately reported to PDE.

The district will work with outside transportation vendors to provide more detailed, consistent and accurate data that will comply with required reporting documentation.

The district will require annual training on transportation or updates to transportation reporting.

Auditor Conclusion

While we are encouraged that the District has begun to implement corrective actions that address our recommendations, we will review these and any other corrective actions implemented by the District during our next audit of the District. It is imperative that the District does not assume accuracy of submitted information when reporting transportation data and requires proper documentation prior to reporting this data.

Status of Prior Audit Findings and Observations

Our prior audit of the Monessen City School District (District) released on August 21, 2014, resulted in two findings and two observations, 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 August 21, 2014

Prior Finding No. 1: **Pupil Transportation Reporting Errors Resulted in a Net Underpayment of \$32,448**

Prior Finding Summary: Our prior audit found that for the period July 1, 2008 through June 30, 2012, the District submitted incorrect transportation reports to PDE. The incorrect mileage, students and days transported resulted in a net underpayment to the District of \$32,448.

Prior Recommendations: We recommended that the District should:

1. Develop internal control procedures to ensure that District personnel independently verify contractor mileage and pupil counts.
2. Develop and maintain internal policies and procedures to ensure that student transportation data is collected and reported accurately. For example, once the District's transportation data has been collected, a different member of the District's staff should review it for accuracy before it is reported to PDE.
3. Ensure summaries are prepared and reviewed to ensure accurate reporting of miles with/without pupils, number of pupils assigned to ride each bus, number of days that buses provide transportation, and number of nonpublic pupils transported.
4. Review transportation reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.

We also recommended that PDE should:

5. Adjust the District's subsidy to resolve the \$32,448 underpayment.

Current Status:

The District did not implement our recommendations made in the prior audit. Our current reports contains a finding regarding the District's transportation reporting errors (see Finding No. 2).

As of June 26, 2018, PDE has not adjusted the District's subsidy to resolve the net \$32,448 underpayment.

Prior Finding No. 2:

Errors in Reporting Student Data Resulted in a \$31,472 State Subsidy Underpayment

Prior Finding Summary:

During our prior audit of the District's nonresident pupil membership for the 2009-10 school year, we found coding errors in the child accounting data submitted by the District to PDE. These errors resulted in a \$31,472 state subsidy underpayment for children placed in private homes (foster children) for the 2009-10 school year.

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. Put into place policies and procedures for verifying student data reported to PDE through PIMS.

We also recommended that PDE should:

3. Adjust the District's allocations to correct the underpayment of \$31,472.

Current Status:

During our current audit, we found that the District did implement all of our prior audit recommendations. District staff responsible for performing child accounting functions receive in-house training. Part of that training is reviewing the PIMS manual. In addition, the District has implemented procedures to help ensure child accounting data is accurately reported to PDE. In June 2017, PDE adjusted the District's allocations and corrected the underpayment of \$31,472.

Prior Observation No. 1: District is in a Financially Declining Position

Prior Observation Summary: During our prior audit, we analyzed 22 financial benchmarks and found that the District is in a financially declining position. For the 2011-12 school year, the District over expended its revenues. For the trend period 2006 to 2012, the General Fund current ratio was inadequate, the number of District students attending charter schools increased by over 132 percent, and the effective tax rates compared to the levied tax rates was decreasing.

Prior Recommendations: We recommended that the District should:

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

Current Status: The District has not specifically implemented our prior audit recommendations. As discussed in Finding No. 1 of the current report, the District failed to ensure that its annual independent audits were being conducted timely. Without timely, independently verified financial information, the District is unable to make sound financial decisions and deprives the many external users of such reports important financial information.

Prior Observation No. 2: The Amount Paid to Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Allowance

Prior Observation Summary: During our prior audit, we found that the District's contracted pupil transportation costs for the school years ending June 30, 2009 through 2012 were substantially more than PDE's final formula allowance, which is used to determine reimbursement of pupil transportation services.

Prior Recommendations:

We recommended that the District should:

1. Prior to negotiating a new contract, and in conjunction with the Board, be cognizant of the State's final formula allowance cost formula.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure that the local effort share is as minimal as possible by establishing a base rate and increases that are in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continually monitor and justify any increase in the District's pupil transportation costs.

Current Status:

We found that the District did not address our recommendations. The District had an opportunity to seek competitive bids for student transportation services; however, the District extended its contract with its primary transportation provider on January 10, 2017. The District did not seek competitive bids for this contract that extends through the 2021-22 school year.

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 (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 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 Monessen City School District's (District) 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, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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, 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
- ✓ Transportation Operations
- ✓ Data Integrity
- ✓ 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 requested the District's annual financial reports, budgets, and independent auditor's reports for fiscal years 2012-13 through 2016-17. We attempted to obtain from these reports financial and statistical data 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 Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. However, the District did not have some of these integral reports completed; therefore, we were unable to complete our review of this objective (see Finding No. 1).
- ✓ Did the District ensure compliance with applicable laws and regulations governing transportation operations, and did the District receive the correct transportation reimbursement from the Commonwealth?²¹
 - To address this objective, we randomly selected 5 out of 18 total vehicles operated by the District's two primary transportation contractors during the

²¹ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

2015-16 school year.²² We obtained information that supported data reported to PDE during the 2015-16 school year to ensure that the District reported the correct information and received the appropriate transportation subsidies from PDE. The information obtained included: odometer readings, daily mileage sheets, student rosters, and weighted calculations. Due to errors found in our initial testing, we expanded our testing and reviewed all vehicles that transported students to District schools in the 2012-13 through 2014-15 school years.²³

- Additionally, we reviewed all nonpublic school students reported to PDE as transported by the District during the 2012-13 through 2015-16 school years.²⁴ We ensured that each nonpublic school student had the appropriate request for the school year transported.
 - Finally, the District did not report any students transported as non-reimbursable during the 2012-13 through 2015-16 school years. We reviewed bus rosters, student home addresses, as well as any hazardous walking route documentation obtained by the District to determine if the District accurately reported zero non-reimbursable students. The results of our review of this objective can be found in Finding No. 2.
- ✓ Did the District accurately report nonresident students to PDE? Did the District receive the correct reimbursement for these nonresident students?²⁵
- To address this objective, we reviewed all ten of the nonresident students reported by the District to PDE for the 2012-13 through 2015-16 school years. We verified that these ten students were correctly classified and reported to PDE as nonresident students. We also verified the number of days these nonresident students were enrolled at the District and compared this information to the PDE reports. We also verified that the District had a policy in place addressing the admission of tuition waiver of nonresident employees' children to the District. 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?²⁶ 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?

²² 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.

²³ Eight vehicles in 2012-13, seven vehicles in 2013-14, and six vehicles in the 2014-15 school year.

²⁴ The District reported to PDE 38 nonpublic school students transported during the 2012-13 school year, 33 nonpublic student transported during 2013-14 school year, 31 nonpublic school students transported during the 2014-15 school year, and 27 nonpublic school students transported during the 2015-16 school year.

²⁵ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

²⁶ 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.

- To address this objective, we selected all eight of the District’s bus drivers that transported District students from August 1, 2013 through November 21, 2017, by the District and/or District contractor. 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 reportable issues.

- ✓ Did the District take actions to ensure it provided a safe school environment?²⁷
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, and anti-bullying policies. Due to the sensitive nature of school safety, the results for our review of this objective area are not described in this report. The results of our review of school safety are shared with District officials, PDE, and other appropriate agencies deemed necessary.

²⁷ 24 P.S. § 13-1301-A *et seq.*

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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