



**STO-ROX SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

SEPTEMBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Elizabeth Smith, Board President
Sto-Rox School District
600 Russellwood Avenue
McKees Rocks, Pennsylvania 15136

Dear Governor Corbett and Ms. Smith:

We conducted a performance audit of the Sto-Rox School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 5, 2010 through April 22, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

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

EUGENE A. DEPASQUALE
Auditor General

September 13, 2013

cc: **STO-ROX 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 Sto-Rox School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period November 5, 2010 through April 22, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 3 square miles. According to 2010 local census data, it serves a resident population of 12,466. According to District officials, the District provided basic educational services to 1,375 pupils through the employment of 177 teachers, 22 full-time and part-time support personnel, and 12 administrators during the 2009-10 school year. Lastly, the District received \$13.2 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding. In addition, we identified one matter unrelated to compliance that is reported as an observation.

Finding: The District Did Not Have Certain School Bus Drivers' Qualifications on File for the Third Consecutive Audit. Our review of bus drivers' qualifications at the Sto-Rox School District (District) found that federal criminal history records were missing for three bus drivers. In addition, the District did not have a written policy in place to ensure administration was informed if a current employee had been charged with a crime since their hire date (see page 6). This is the District's third consecutive audit with a finding and/or observation on these issues (see pages 20 and 22).

Observation: The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges. During our current audit of the Sto-Rox School District (District), we reviewed several financial indicators to assess its financial stability. Our review found that the District is in a financially declining position (see page 10).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District from an audit released on September 19, 2011, we found that the

District had not taken appropriate corrective action in implementing our recommendations pertaining to bus drivers' qualifications (see pages 20 and 22). However, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding (see page 20) and unmonitored vendor system access (see page 21).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual 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.

Our audit covered the period November 5, 2010 through April 22, 2013.

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

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

Objectives

What is the difference between a finding and an observation?

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

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

- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g., basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

What are internal controls?

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

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

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures 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 control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 19, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

The District Did Not Have Certain School Bus Drivers' Qualifications on File for the Third Consecutive Audit

Criteria relevant to the finding:

The Public School Code, 24 P.S. § 1-111, requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that would prohibit the individual from being hired.

Additionally, 24 P.S. § 1-111(a.1)(7)(c.1) provides, in part:

“Administrators shall maintain a copy of the required information and shall require each applicant to secure a Federal criminal history record information report that may not be more than one (1) year old at the time of employment.”

Our audit of the Sto-Rox School District's (District) school bus drivers' qualifications for the 2011-12 school year found that federal criminal history records were missing for three bus drivers. This is the third consecutive time that the District has had a finding and/or an observation on its failure to have all school bus drivers' qualifications on file and its lack of policies and procedures for addressing the current bus drivers' potential criminal convictions since their hire date (see pages 20 and 22).

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to ensure the safety and welfare of the students transported in school buses.

We reviewed the personnel records of 22 bus drivers currently employed by the District's pupil transportation contractor. On January 10, 2013, we informed the District's management staff that 3 of the 22 drivers were missing criminal history clearances from the Federal Bureau of Investigation (FBI) and instructed them to immediately obtain these documents. On February 4, 2013, District personnel provided us with the necessary documentation.

Of the three drivers lacking the FBI clearances, one had their fingerprints rejected by the FBI. Rejection implies that the FBI could not view, classify, or process the driver's fingerprint. We also found that one driver was charged with harassment, and one driver was charged with disorderly conduct. These are crimes that, while not disqualifying the drivers for employment under state law, should have been considered for the purposes of determining the individuals' continued suitability to be in direct contact with children.

By not having all required bus drivers' qualification documents on file at the District, the District was not able to review the documents to determine whether all drivers were qualified to transport students.

If unqualified drivers transport students, there is an increased risk to the safety and welfare of students. According to District personnel, the FBI clearances were not available for all drivers at the time of our review because they were unaware that the clearances are deleted from the online system after one year.

In addition, we found that neither the District nor the District's transportation contractor had written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses, which should be considered for the purposes of determining an individual's continued suitability to be in direct contact with children.

Recommendations

The *Sto-Rox School District* should:

1. Immediately amend the job description of the District's transportation coordinator to reflect a mandatory, periodic review of all drivers' qualifications prior to that person transporting students.
2. Immediately establish policies and procedures requiring the transportation coordinator to maintain files, separate from the transportation contractor's, for all District drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.
3. Implement written policies and procedures to ensure the District is notified when drivers are charged with, or convicted of, a crime.
4. Upon execution of its next transportation contract, require the contractor to inform the District of any driver that is charged with, or convicted of, a crime, and institute a financial penalty for failure to comply.
5. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

The *Sto-Rox School District Board of School Directors* should:

6. Establish a process for ensuring that it monitors District Management's compliance with the recommendations above.

Management Response

Management stated the following:

“The Sto-Rox School District agrees with the finding that not all bus driver information was on hand at the time of the audit. The Sto-Rox School District contracts transportation services

The district has on file information for more than 40 bus drivers and 13 van and monitors for a total of 53 transportation personnel.

The first report provided by the auditors indicated deficiencies in approximately eight (8) people. Five of those identified were van drivers and monitors that were not required to have the information requested.

The final three (3) persons were lacking clearances. Within 24 hours of notification the information for two of the three drivers was on-hand. The third driver has been removed pending receipt.

A procedure has been established to ensure all transportation personnel documentation is on hand prior to service. This is the responsibility of the business manager and their staff.”

Auditor's Conclusion

We are pleased that the District's management agrees with our finding, and relieved that they were able to obtain the necessary clearances so quickly. However, we maintain that it is management's responsibility to ensure that all bus driver qualifications information is maintained at the District, as is required for all staff that have direct contact with children. If our audit had not identified the three missing clearances, it is possible that the District would never have obtained them.

This is the third consecutive time the District has had a finding and/or observation on the issue of bus drivers' qualification. We find it troubling that the District is not

vigilant in complying with background requirements for those in direct contact with children. Moreover, we find it equally concerning that the District appears to still be unaware of how to comply with these requirements.

We will evaluate the District's new process for monitoring these issues during our next cyclical audit. The finding will stand as written.

Observation

The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges

Criteria relevant to the observation:

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

- The Annual Financial Report is filed within one month of its filing deadline.
- Financial industry guidelines recommend that the district operating position always be positive (greater than zero). Operating position is the difference between actual revenues and actual expenditures.

Best business practices and/or general financial statement analysis tools require the following:

- The trend of current ratios should be at least 2 to 1 or increasing. Anything less calls into question the district's ability to meet its current obligations with existing resources.
- A quick asset ratio or trend of ratios approaching 1 or less indicates a declining ability to cover obligations with the most liquid assets.

During our current audit of the Sto-Rox School District (District), we reviewed several financial indicators in an effort to assess the District's financial stability. Our review found that the District is potentially in a financially declining position.

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

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

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

- **Late AFR:** The District failed to file its Annual Financial Report (AFR) with the Pennsylvania Department of Education within one month of its due date during the 2011 school year. Late filing can be a warning sign of financial issues or operational inefficiencies, which could negatively impact the District's overall financial position. According to District personnel, the late filing was the result of it not having a business manager during that time period.

Criteria relevant to the observation (continued):

- A debt-to-asset ratio or trend of ratios increasing towards 1 to 1 or greater is an indication that the district's liabilities are approaching the level of the district's assets. This indicates the district has a debt level that may be too great for the District to adequately function.
- The cost for a district student attending a charter school is paid out of the sending district's operating funds. This results in a reduction of the funds available for use in providing educational services to the district's students that remained in the traditional public school. This scenario continues until the number of students attending charter schools is so large that the district can reduce costs by closing a school building and reduce the number of staff employed by the district.
- A school district's taxable property value per student is driven by new building construction, the quality of the school district, and the district's student population as well as other factors. To maintain student services, the taxable property value per student must continue to increase.
- To maintain its current level of educational services, the district's total local tax revenues per student must be stable or increasing.

- **Decreasing Operating Position:** During the trend period 2006 to 2011, the District over expended its revenues, thereby decreasing its operating position. This reduction in operating position could leave the district in a more vulnerable financial position and move it closer to being placed on the financial watch list or declared to be in financial recovery status. Each year that the District's expenditures exceed its revenues a deficit is incurred. This deficit results in a decrease to the district's fund balance, and could lead to a negative fund balance status, which could potentially impact the district's ability to continue providing educational services.

The following chart documents the District's decreasing operating position:

Trend: Revenues v. Expenditures				
Year End	Total		Total	Excess
<u>June 30</u>	<u>Revenues</u>	-	<u>Expenditures</u>	= <u>(Deficit)</u>
2006	\$21,097,540		\$20,641,458	\$456,082
2007	21,735,736		21,935,726	(199,990)
2008	22,572,393		24,271,882	(1,699,489)
2009	22,847,178		24,452,467	(1,605,289)
2010	23,677,326		23,837,225	(159,899)
<u>2011</u>	<u>24,076,919</u>		<u>23,459,874</u>	<u>617,045</u>
Total	\$136,007,092		\$138,598,632	(\$2,591,540)

- **Decreasing General Fund Current Ratio:** For the trend period 2006 to 2011, the general fund current ratio (current assets ÷ current liabilities) was decreasing. A decreasing trend towards 1-to-1 or even lower may indicate that the District's financial solvency is decreasing toward a point where the District may not be able to pay its current debts without an infusion of cash. Potential creditors use this ratio to measure a District's ability to pay its short-term debts. A declining trend may also prevent the District from obtaining any new debt, such as loans, or increase the interest rate on the debt it can obtain, thereby costing the District more money.

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

Decreasing Current Ratio (Assets ÷ Liabilities)			
Year End	Current	Current	<i>Current</i>
<u>June 30</u>	<u>Assets</u>	÷ <u>Liabilities</u>	= <u>Ratio</u>
2006	\$7,778,240	\$3,507,969	2.22
2007	7,793,432	3,427,390	2.27
2008	6,677,064	3,726,493	1.79
2009	7,277,879	3,845,587	1.89
2010	8,699,745	6,557,147	1.33
2011	8,281,422	5,482,373	1.51

- Decreasing General Fund Quick Ratio:** For the trend period 2006 to 2011, the general fund quick ratio ((cash + investments) ÷ current liabilities) was decreasing. This test assesses an organization's short-term solvency. As a result, a decreasing trend can be an indicator of the District's inability to pay its current debts without the disposal of other current assets. As with the current ratio, potential creditors also use this ratio to measure a District's ability to pay its short-term debts. Therefore, a declining general fund quick ratio could also make it more difficult for the district to obtain a loan or other debt instrument at a reasonable interest rate.

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

Decreasing Quick Ratio (Cash + Investments) ÷ Liabilities							
Year End	Cash	+	Investments	=	Quick	Current	<i>Quick</i>
<u>June 30</u>	<u>Cash</u>		<u>Investments</u>		<u>Assets</u>	÷ <u>Liabilities</u>	= <u>Ratio</u>
2006	\$218,354		\$3,891,480		\$4,109,834	\$3,507,969	1.17
2007	992,324		2,731,612		3,723,936	3,427,390	1.09
2008	608,520		1,300,070		1,908,590	3,726,493	0.51
2009	574,989		3,252,379		3,827,368	3,845,587	1.00
2010	88,997		2,638,142		2,727,139	6,557,147	0.42
2011	283,491		1,766,449		2,049,940	5,482,373	0.37

- Increasing Debt-to-Asset Ratio:** For the trend period 2006 to 2011 the general fund debt-to-asset ratio (current liabilities ÷ current assets) is increasing. An increasing trend towards 1-to-1 or more is an indication that the District may not be able to pay its current

liabilities with the current assets on hand. This trend could require the District to liquidate non-current assets or wait for an inflow of revenues. As a result, the District might have to increase the time it holds invoices prior to making payment. This activity could impede the District's ability to obtain a loan or other debt instrument. It could also result in a higher cost for any new debt that is obtained.

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

Increasing Debt-to-Asset Ratio			
<i>(Current Liabilities ÷ Current Assets)</i>			
<u>Year End</u> <u>June 30</u>	<u>Current</u> <u>Liabilities</u>	<u>÷</u>	<u>Current</u> <u>Assets</u> = <u>Debt-to-</u> <u>Asset Ratio</u>
2006	\$3,507,969		\$7,778,240 = 0.45
2007	3,427,390		7,793,432 = 0.44
2008	3,726,493		6,677,064 = 0.56
2009	3,845,587		7,277,879 = 0.53
2010	6,557,147		8,699,745 = 0.75
2011	5,482,373		8,281,422 = 0.66

- Increase in Charter School Students:*** For the trend period 2006 to 2011, the number of District students attending charter schools has increased by over 10 percent. At the same time, the cost of students attending charter schools is increasing. Consequently, the amount of District funds available for in-house educational services has been reduced. This could cause the District to reduce services to the students that remain in the District's schools. Specifically, unless the number of students attending charter schools is significant enough to reduce the number of staff or the number of school buildings, the District cannot reduce its operating costs, even though it is receiving less money.

The following charts document the District's increasing charter school attendance and increasing charter school costs over the trend period, respectively:

Trend: Charter School Membership Growth <i>(As a Percentage of Total District Membership)</i>			
Year End	Charter School	Total District	<i>Charter School/</i>
<u>June 30</u>	<u>ADM¹</u>	<u>ADM</u>	<u><i>District ADM</i></u>
2006	26.167	1,550.730	1.69%
2007	37.070	1,635.131	2.27%
2008	84.645	1,642.310	5.15%
2009	117.664	1,620.524	7.26%
2010	181.060	1,608.605	11.26%
2011	206.898	1,675.394	12.35%

Trend: Charter School Cost to District Growth <i>(As a Percentage of Total District Expenditures)</i>			
Year End	Tuition Paid To	Total District	<i>Charter Costs</i>
<u>June 30</u>	<u>Charter Schools</u>	<u>Expenditures</u>	<u><i>Total Costs</i></u>
2006	\$ 294,079	\$20,641,458	1.42%
2007	404,825	21,935,726	1.85%
2008	1,527,722	24,271,882	6.29%
2009	1,722,793	24,452,467	7.05%
2010	2,041,508	23,837,225	8.56%
2011	1,772,801	23,459,874	7.56%

- Decreasing Taxable Property Value Per Student:** For the trend period 2006 to 2011, the taxable property value per student decreased or remained the same. As a result, the District may be unable to generate more resources for the education of its students. Furthermore, a decreasing trend in this area could make it difficult for the District to absorb reductions in state appropriations without a significant increase in local property taxes, which may not be possible due to regulatory limits.

¹ ADM (Average Daily Membership) is the average number of students in membership during the reporting period (aggregate days membership divided by days in session). *Glossary of Child Accounting Terms, Pennsylvania Department of Education*, pg. 1-8, September 2004.

The following chart documents the District’s decreasing taxable property value per student over the trend period:

Trend: Decreasing Taxable Property <i>(Per District Student)</i>				
Year End	Total Assessed		Total District	<i>Property Value</i>
<u>June 30</u>	<u>Property Value</u>	÷	<u>Population ADM</u>	= <u>Per ADM</u>
2006	\$319,066,497		1,550.730	\$ 205,752.45
2007	319,066,497		1,635.131	195,132.07
2008	321,318,082		1,642.310	195,650.08
2009	283,764,753		1,620.524	175,106.79
2010	283,268,216		1,608.605	176,095.57
2011	281,048,563		1,675.394	167,750.73

- **Decreasing Local Tax Revenues Per Student:** For the trend period 2006 to 2011, the total local tax revenues per student were decreasing. This indicator measures the effect the total local tax revenues have on providing services to the District’s students. A decreasing trend indicates that there is a risk that the District may have to reduce its educational services. In addition, the District may become more reliant on its state appropriations.

The following chart documents the decreasing local tax revenues per student over the trend period:

Trend: Decreasing Local Tax Revenues <i>(Per District Student)</i>				
Year End	Total Tax		Total District	<i>Tax Revenue</i>
<u>June 30</u>	<u>Revenues</u>	÷	<u>Population ADM</u>	= <u>Per ADM</u>
2006	\$8,596,351		1,550.730	\$ 5,543.42
2007	8,530,219		1,635.131	5,216.84
2008	8,646,134		1,642.310	5,264.62
2009	7,620,640		1,620.524	4,702.58
2010	7,314,181		1,608.605	4,546.91
2011	7,200,848		1,675.394	4,298.00

Our discussions with District administrative staff found that the negative benchmarks enumerated above are the result of the following:

- The District’s administration indicated the AFR was filed late because the District did not have a business manager during that period of time.

- The District's administration indicated the poor tax base leads to the lack of revenue and the District's Board of School Directors are deliberately drawing down the fund balance rather than raising property taxes.

Based on the results of our analysis, the District may be forced to reduce educational services and programs in order to account for the reductions in its revenues. Moreover, the lack of a healthy local tax base increases the risk that the District may have to take such steps to reduce its expenditures. If the District's financial situation continues to degrade it is also possible that PDE may place it on the financial watch list or even declare it to be in financial recovery status. Both of these scenarios will result in increased state intervention.

Recommendations

The *Sto-Rox School District* should:

1. Provide the Board of School Directors standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
2. Maintain and monitor sensitive budgetary controls so that expenditures do not exceed revenues.
3. Open a dialogue with the District's communities, Stowe Township and McKees Rocks Borough, to keep stakeholders informed of the financial status and health of the school district.
4. Amend the job description of the District's business manager to tie the accurate and timely reporting of financial information and reports to job performance.
5. Conduct a survey of parents sending children to a charter school to determine the reason why the District is losing more students to charter schools.

Management Response

Management stated the following:

“During the course of the audit exit meeting, the observation stated above was relayed to the district. This is a newly designed observation by the Office of the Auditor General and the district had no previous knowledge this was a criteria prior to the start of the audit.

In short, in the opinion of the Office of the Auditor General, the Sto-Rox School District has experienced a negative financial effect between revenues and expenditures.

While many factors may contribute to this observation, the auditors specifically cited the increase in students attending Charter Schools between 2006 and 2011 as a prime reason for this effect.

This trend is not unexpected. The number of Charter and Cyber Charter schools has increased dramatically in the past seven years. It is no surprise that the increase in options for parents [has] had this effect on the district.

Unfortunately, at the same time, the state has had little oversight on cyber and charter schools. A look at the web site of the auditor general indicates few audits have been completed of the charter and cyber schools attended by Sto-Rox students. One cyber school is currently under investigation by the Federal Bureau of Investigation and the Internal Revenue Service.

Also, the formula used to pay for charter and cyber schools has been found to be prejudiced against the home districts. Home districts must include the ‘double-dip’ pension costs in the calculation for tuition reimbursement. Also, transportation costs are included in calculations for cyber schools. Current legislation is attempting to address these issues. The system created by the state is currently costing tax payers more than \$350 million more than needed (memorandum of Representative James Roebuck, February 25, 2013).

Also, there is no academic oversight on charter or cyber schools. In the 2011-2012 [school year] not one cyber school made AYP [adequate yearly progress], but parents could still choose cyber schools as an option using public funds. Although not one cyber school made AYP, not one school was identified as persistently failing under the formula used by the Department of Education. The same is true for the failing ‘brick and mortar’ charter schools.

The next area of concern is funding for special education. The state and federal government were to be responsible for 40 percent of all costs related to special education. This has not happened. In fact, Sto-Rox receives less than 17 percent of the costs to operate our special education programs.

The funding for special education is based not on the actual number of students we serve, but rather on a formula that believes all school districts have a special education population of 16 percent. School Districts that have a student population of less than 16 percent special education benefit from this formula and use the extra funds to offset increasing costs.

Sto-Rox has a special education population of 24 percent. The local tax payer must absorb the amount not funded. The results are higher taxes and program cuts for the regular education student. There is currently legislation to address this issue.

Finally, the state and federal government used to provide additional assistance to poor school districts. Again, this funding has been cut, leaving the local districts to cut services to those with the greatest need.

The audit continues to demonstrate that the district has not raised taxes in nearly 10 years. What the audit does not present is that in 2012 Sto-Rox had the 16th highest tax rate among the 43 school districts in Allegheny County. Sto-Rox is home for four large housing projects with a declining business community. The community is comprised of nearly 50 percent rental units with many properties abandoned and in disrepair.

In closing, the district respectfully requests this response, in its entirety, becomes a part of the final audit document. Based on an increase in charter/cyber schools, the lack of identification of failing cyber/charter schools, a flawed reimbursement formula for cyber/charter schools, a flawed reimbursement system for special education to assist our most at-risk students, a reduction in support for poor school districts and the reduction of a tax base this observation is no surprise.”

Auditor Conclusion

The purpose of this observation is to provide the District with information about its potential financial instability and to give it the opportunity to integrate these issues into its financial planning. The District should develop more realistic budgets and then adhere to them so that its expenditures do not exceed its revenues. Furthermore, the District’s management should continue to monitor these financial benchmarks in order to track how the District is performing in the areas where we noted a negative outcome. Finally, the District must work to develop possible solutions to improve its overall financial position.

Status of Prior Audit Findings and Observations

Our prior audit of the Sto-Rox School District (District) released on September 19, 2011, resulted in two findings and two observations. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We performed audit procedures and interviewed District personnel regarding the prior findings and observations. As shown below, we found that the District did implement our recommendations related to a Memorandum of Understanding and unmonitored vendor system access. The District did not implement our recommendations related to bus drivers' qualifications or bus driver policies.

Auditor General Performance Audit Report Released on September 19, 2011

Finding No. 1: School Bus Drivers' Qualification Deficiencies

Finding Summary: Our prior audit of the District found that some documentation was missing for bus drivers for the 2009-10 school year. This was a repeat finding.

Recommendations: Our audit finding recommended that the District should:

1. Immediately obtain, from the transportation contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the transportation contractors, for all District drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.

Current Status: For a third consecutive audit, we found that the District did not implement our recommendations (see the current finding, page 6).

Finding No. 2: Memorandum of Understanding Not Updated Timely

Finding Summary: Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and its two local law enforcement agencies was not updated timely. A third local law enforcement agency did not sign an MOU.

- Recommendations: Our audit finding recommended that the District should:
1. Review, update, and re-execute the MOUs between the District and the three local law enforcement agencies.
 2. Adhere to the MOU provisions and adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Current Status: During our current audit, we found that the District implemented our recommendations and as of October 2011 had fully executed MOUs with all three local law enforcement agencies.

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that was adequately monitoring all vendor activity in its system. The District did not have manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, so the risk of unauthorized changes was increased.

- Recommendations: Our audit observation recommended that the District should:
1. Require all employees to sign the information technology (IT) security policy.
 2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
 3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
 4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
 5. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (e.g., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (e.g., last ten passwords).

6. Allow access to its system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed work. This procedure would also enable the monitoring of vendor changes.
7. Back up applications before placing program changes into production to ensure it could recover if problems are encountered.
8. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.
9. Store back-up tapes in a secure, off-site location.
10. Mitigate IT control weaknesses through compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status: During our current audit, we found that the District has implemented recommendations 2 through 4, 6, 7, 9, and 10. The District has plans to implement recommendations 1, 5, and 8. During our next audit, we will follow up on the recommendations not yet implemented.

Observation No. 2: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation Summary:

Our prior audit found that neither the District, nor the transportation contractor, had written policies or procedures in place to ensure that they are notified if current employees were charged with or convicted of serious criminal offenses that should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This was a repeat finding.

Recommendations: Our audit observation recommended that the District should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractor have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.

2. Implement written policies and procedures to ensure that the District is notified when current employees of the District's transportation contractor are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children, and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Current Status:

For a third consecutive audit, we found that the District did not implement our recommendations (see the current finding, page 6).

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

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