

# PERFORMANCE AUDIT

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## Wilkes-Barre Area School District Luzerne County, Pennsylvania

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December 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Brian Costello, Superintendent  
Wilkes-Barre Area School District  
730 South Main Street  
Wilkes-Barre, Pennsylvania 18711

Ms. Denise T. Thomas, Board President  
Wilkes-Barre Area School District  
730 South Main Street  
Wilkes-Barre, Pennsylvania 18711

Dear Mr. Costello and Ms. Thomas:

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

- Financial Stability
- Contracting
- Transportation Operations
- Administrator Contract Buy-Out
- Professional Certification
- Bus Driver Requirements
- School Safety

The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District performed adequately in the areas listed above, except as noted in the following finding:

- The District's General Fund Balance Decreased by Over \$10.1 Million from July 1, 2012 through June 30, 2015, with the Majority of the Decrease Occurring from July 1, 2014 to June 30, 2015.

Mr. Brian Costello  
Ms. Denise T. Thomas  
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We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale  
Auditor General

November 30, 2016

cc: **WILKES-BARRE AREA SCHOOL DISTRICT** Board of School Directors

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## Background Information

School Characteristics 2015-16 School Year <sup>A</sup>	
County	Luzerne
Total Square Miles	123
Resident Population <sup>B</sup>	59,879
Number of School Buildings	9
Total Teachers	560
Total Full or Part-Time Support Staff	428
Total Administrators	57
Total Enrollment for Most Recent School Year	6,904
Intermediate Unit Number	18
District Vo-Tech School	Wilke-Barre Area Career & Technical Center

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

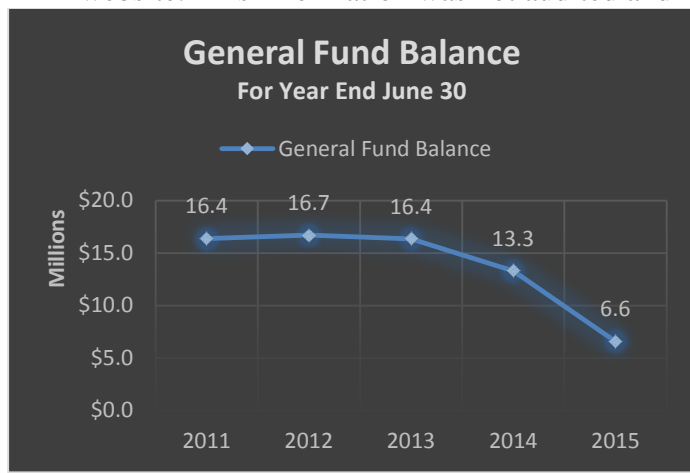
B - Source: United States Census  
<http://www.census.gov/2010census>

## Mission Statement<sup>A</sup>

“The mission of the Wilkes-Barre Area School District, a diverse and progressive educational system, is to educate, enlighten and inspire each student to grow as a responsible and productive citizen. This mission is accomplished through a dynamic, comprehensive curriculum and collaboration among school, family and community.”

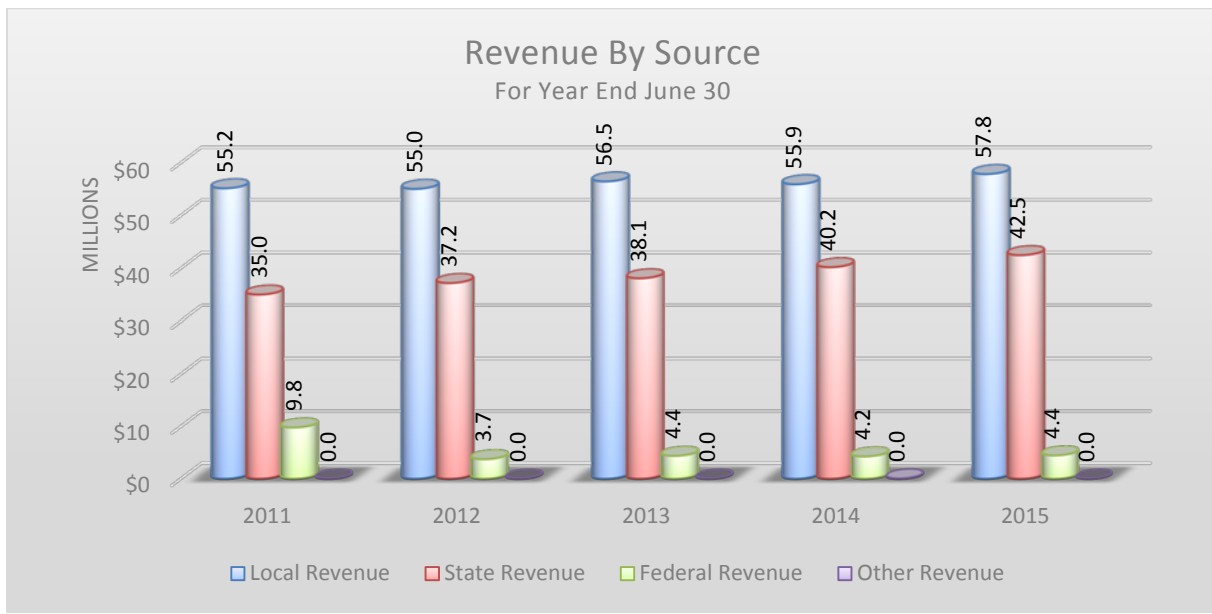
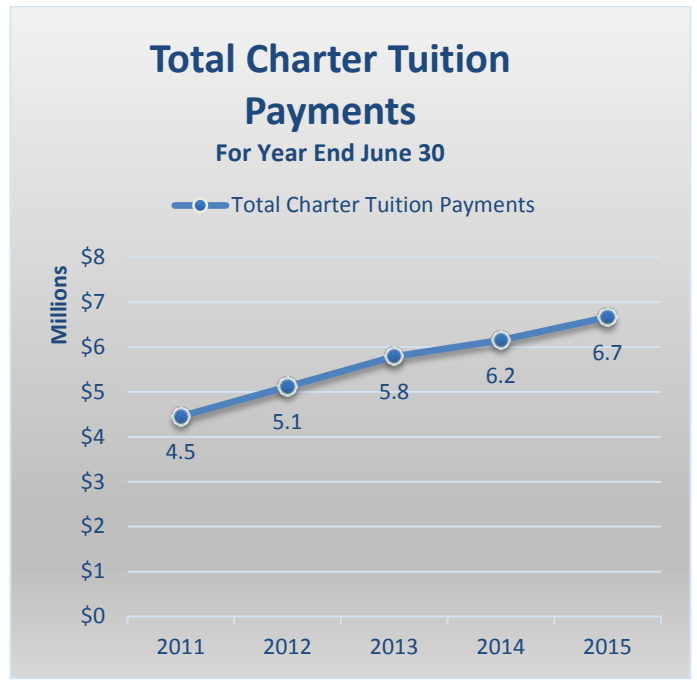
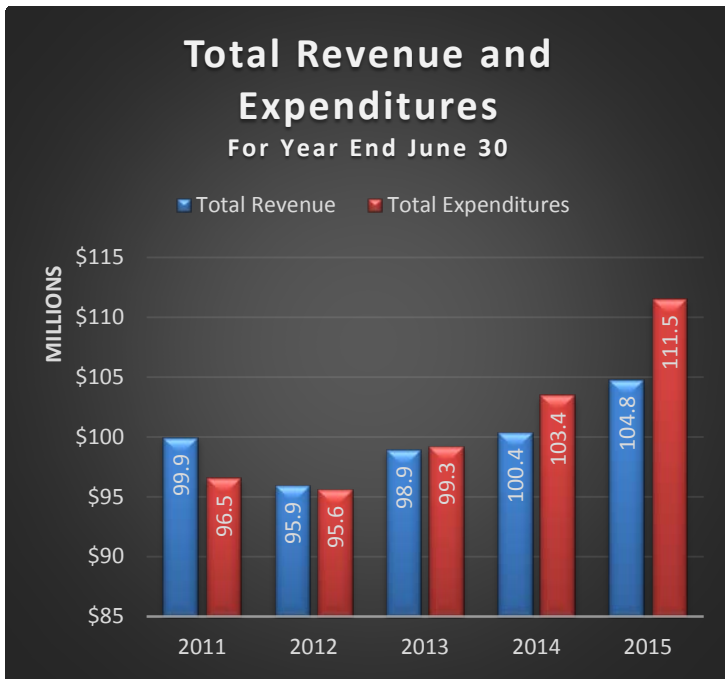
## Financial Information

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



<sup>1</sup> Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

## Financial Information Continued



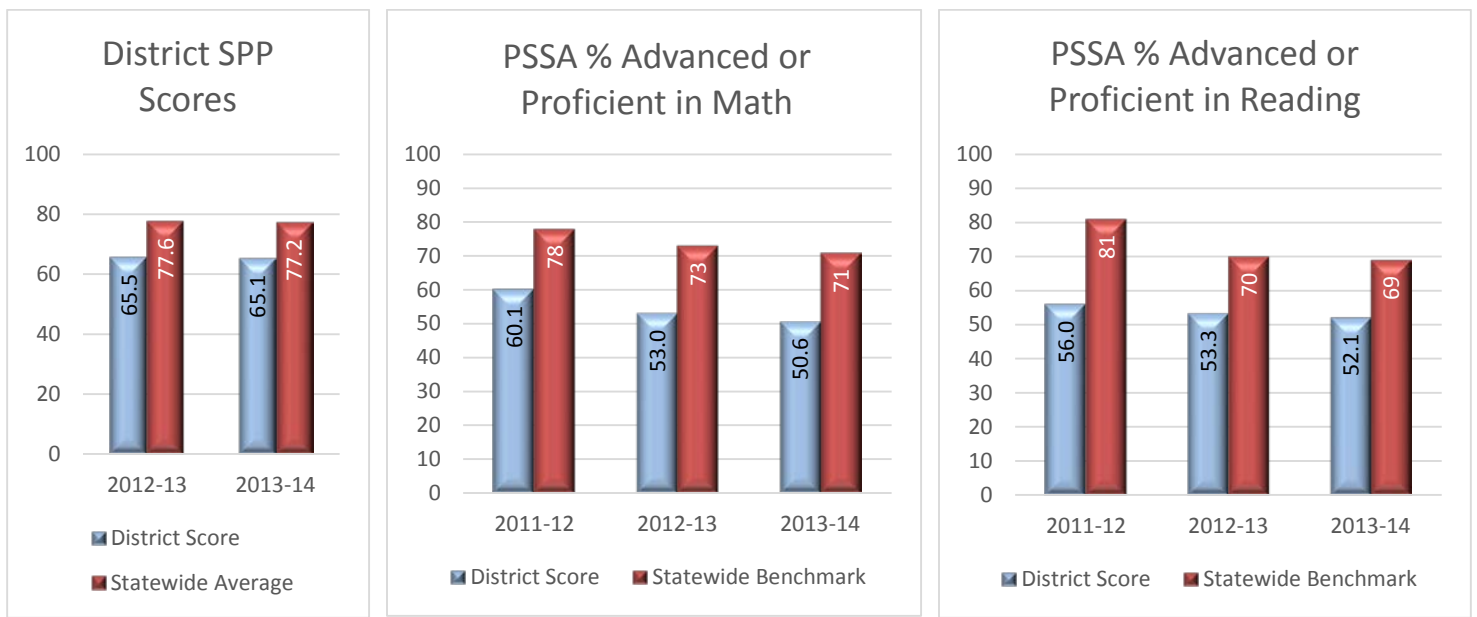
## Academic Information

The following table and charts consist of School Performance Profile (SPP) scores and Pennsylvania System of School Assessment (PSSA) results for the entire District obtained from PDE's data files.<sup>2</sup> These scores are presented in the District's audit report for **informational purposes only**, and they were not audited by our Department.

SPP benchmarks represent the statewide average of all district school buildings in the Commonwealth.<sup>3</sup> PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.<sup>4</sup> District SPP and PSSA scores were calculated using an average of all of the individual school buildings within the District. Scores below SPP statewide averages and PSSA benchmarks/goals are presented in red.

### Districtwide SPP and PSSA Scores

District	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
<i>Statewide Benchmark</i>	77.6	77.2	78	73	71	81	70	69
<i>Wilkes-Barre Area SD</i>	65.5	65.1	60.1	53.0	50.6	56.0	53.3	52.1
<i>SPP Grade<sup>5</sup></i>	D	D						



<sup>2</sup> PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

<sup>3</sup> Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

<sup>4</sup> PSSA benchmarks apply to all district school buildings, charters, and cyber charters. In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 and 2013-14 school years, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

<sup>5</sup> The following letter grades are based on a 0-100 point system: A (90-100), B (80-89), C (70-79), D (60-69), F (59 or below).

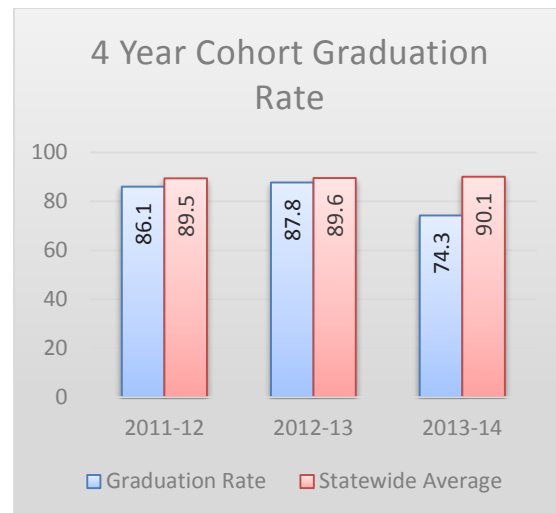
## Individual School Building SPP and PSSA Scores

The following table consists of SPP scores and PSSA results for each of the District's school buildings. Any blanks in PSSA data means that PDE did not publish a score for that school for that particular year.<sup>6</sup>

School Name	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
<b>Statewide Benchmark</b>	<b>77.6</b>	<b>77.2</b>	<b>78</b>	<b>73</b>	<b>71</b>	<b>81</b>	<b>70</b>	<b>69</b>
<i>Daniel J Flood Elementary School</i>	<b>60.3</b>	<b>65.3</b>	<b>65.9</b>	<b>49.1</b>	<b>51.1</b>	<b>51.6</b>	<b>41.7</b>	<b>40.0</b>
<i>Dodson Elementary School</i>	<b>71.1</b>	<b>68.1</b>	<b>60.4</b>	<b>45.7</b>	<b>46.2</b>	<b>46.0</b>	<b>41.7</b>	<b>41.3</b>
<i>Dr David W Kistler Elementary School</i>	<b>66.9</b>	<b>76.8</b>	<b>57.9</b>	<b>50.0</b>	<b>53.6</b>	<b>50.9</b>	<b>49.3</b>	<b>46.8</b>
<i>Elmer L Meyers Junior Senior High School</i>	<b>60.5</b>	<b>59.5</b>	<b>51.7</b>	<b>45.4</b>	<b>42.6</b>	<b>61.3</b>	<b>53.8</b>	<b>54.4</b>
<i>G A R Memorial Junior Senior High School</i>	<b>56.5</b>	<b>50.9</b>	<b>54.5</b>	<b>45.0</b>	<b>40.0</b>	<b>52.9</b>	<b>49.9</b>	<b>46.7</b>
<i>Heights/Murray Elementary School</i>	<b>55.7</b>	<b>53.0</b>	<b>51.6</b>	<b>53.4</b>	<b>47.6</b>	<b>39.8</b>	<b>37.7</b>	<b>32.1</b>
<i>James M Coughlin Junior Senior High School</i>	<b>70.9</b>	<b>66.2</b>	<b>58.0</b>	<b>51.5</b>	<b>33.0</b>	<b>63.7</b>	<b>74.8</b>	<b>76.5</b>
<i>Solomon/Plains Elementary School</i>	<b>79.2</b>	<b>80.3</b>	<b>79.9</b>	<b>72.5</b>	<b>77.5</b>	<b>68.7</b>	<b>66.4</b>	<b>67.2</b>
<i>Solomon/Plains Junior High School</i>	<b>68.7</b>	<b>66.1</b>	<b>60.6</b>	<b>64.6</b>	<b>63.5</b>	<b>69.4</b>	<b>64.4</b>	<b>63.6</b>

## 4 Year Cohort Graduation Rates

The cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year.<sup>7</sup>



<sup>6</sup> PDE's data does not provide any further information regarding the reason a score was not published.

<sup>7</sup> <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx#.V1BFcdTD-JA>.



## Finding

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### Finding

### The District's General Fund Balance Decreased by Over \$10.1 Million from July 1, 2012 through June 30, 2015, with the Majority of the Decrease Occurring from July 1, 2014 to June 30, 2015

*Criteria relevant to the finding:*

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

1. Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).
2. A school district should maintain a trend of stable fund balances.

Colorado Office of State Auditor General, Fiscal Health Analysis of Colorado School Districts, July 2014 states, in part:

- “In general, a school district that has sustainable operations will have more operating revenue than expenditures at any given time.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of four fiscal years beginning July 1, 2011 through the year ending June 30, 2015. We found that the District is in a declining financial position. Our discussion of the District's declining financial position will cover the following areas:

- General Fund Balance
- Budgetary Operational Deficits
- Operating Position
- Budgeted vs. Actual Expenditures and Revenues

In addition, we found that the District's administration failed to submit and the Board failed to require monthly treasurer's reports for the Board's review and approval from December 2013 to December 2014. In addition, we found that the majority of the treasurer's reports that the Board did receive during the audit period were incomplete and untimely. The lack of complete and timely treasurer's reports limits the Board's ability to make informed financial decisions.

**General Fund Balance:** The General Fund balance decreased from \$16.8 million on July 1, 2012 to \$6.7 million on June 30, 2015. The decrease during the 2014-15 fiscal year was over \$6.7 million.

Criteria relevant to the finding (continued):

There are numerous reasons why a school district would have more expenditures than revenues for a given year, but if the school district continually has more expenditures than revenue, it might be financing its expenditures with long-term debt or fund balance, which is not a sustainable operational model.<sup>8</sup>

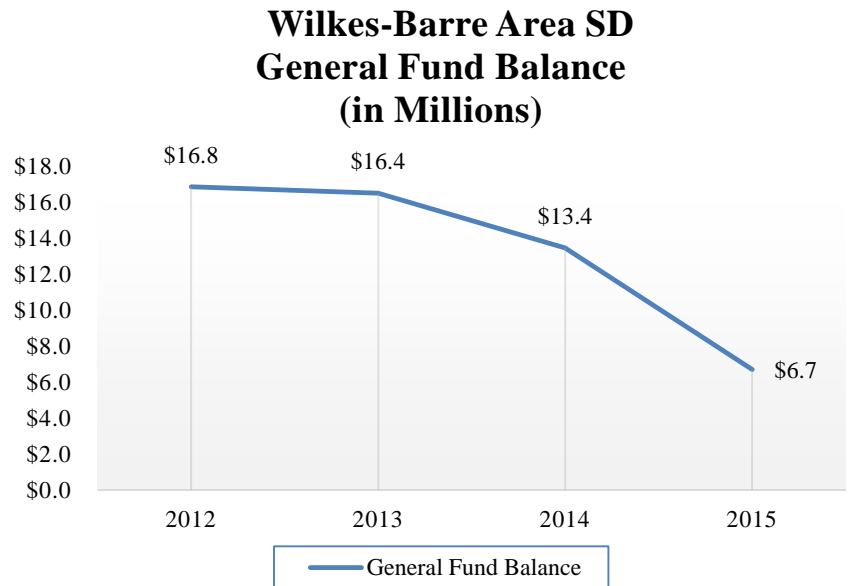
Best business practices and/or general financial statement analysis tools require a school district to maintain a trend of stable or increasing fund balances.

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

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

The following chart shows the District’s fund balance decreased each of the fiscal years ending June 30, 2012 through June 30, 2015:

**Chart 1**



**Note:** Information obtained from the District’s Independent Auditor’s Reports’ *Statements of Revenue, Expenditures and Changes in Fund Balance* for the fiscal years ending 2012 through 2015.

Since July 1, 2012, the General Fund balance has decreased by over \$10.1 million, a 60 percent decline. The General Fund balance of \$6,691,283, as of June 30, 2015, was six percent of District expenditures. While this percentage does not fall below the recommended fund balance as cited by PDE in our criteria box, the one-year \$6.7 million decrease during the 2014-15 fiscal year is concerning, as the District’s fund balance decreased significantly in the last fiscal year we reviewed.

Of the \$6.7 million General Fund balance as of June 30, 2015, only \$917,283 was unassigned.<sup>8</sup> The unassigned fund balance decreased by approximately \$4.2 million or 82 percent from June 30, 2014 to June 30, 2015.

<sup>8</sup> Unassigned fund balance as defined in the District’s Independent Auditor Report is the portion of the fund balance which represents the residual classification of the government’s General Fund and could report a surplus or deficit.

*Criteria relevant to the finding  
(continued):*

Section 609 of the Public School Code (PSC), 24 P.S. § 6-609, provides, in part:

“No work shall be hired to be done, no materials purchased and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

The annual General Fund budget is addressed under Section 687 of the PSC, 24 P.S. § 6-687, and specifically subsection (b), which provides, in part:

“The Board of School Directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation, available for school purposes in that district . . . .”

Section 440 of the PSC, 24 P.S. § 4-440, provides, in part:

“Deposit of Funds; Monthly Reports.—The treasurer of each school district shall deposit the funds belonging to the school district in the school depository, if any, as directed by the board of school directors, and shall at the end of each month make a report to the school controller, if any, and to the secretary of the board of school directors, of the amount of funds received and disbursed by him during the month. All deposits of school funds by any school treasurer shall be made in the name of the school district.”

The decrease of the General Fund balance over the last three fiscal years noted above, as well as the decrease in the unassigned fund balance at June 30, 2015, is an indicator that the District’s financial position is declining and, without additional revenues or the reduction of expenditures, the General Fund will continue to decrease.

The General Fund balance is a necessary component of a fiscally healthy district. Just as individuals should maintain a savings account to deal with emergencies or other unforeseen events, districts should also have funds in reserve to pay for emergency repairs or interruptions to revenues. A decreasing fund balance also reduces the District’s ability to generate investment income.

We identified three areas which contributed to the decreasing General Fund balance:

- Budgeted expenditures exceeded budgeted revenues (budgetary deficit) for the 2011-12, 2012-13, 2013-14, and 2014-15 fiscal years.
- Actual expenditures exceeded actual revenues (operating deficit) for the 2012-13, 2013-14, and 2014-15 fiscal years.
- Actual expenditures exceeded budgeted expenditures for the 2013-14 and 2014-15 fiscal years.

**Budgetary Operational Deficits:** The Board approved budgetary operational deficits for all four fiscal years we reviewed. As noted in Table 1, the District’s board approved budgets with operational deficits exceeding \$13.2 million over the four-year period, with the intent to use the District’s General Fund balance to cover the shortfall.

**Table 1**

Wilkes-Barre Area SD: Comparison of Budgeted Revenues <sup>9</sup> vs. Budgeted Expenditures and Other Financing Uses <sup>10</sup>			
Fiscal Year Ending June 30	Budgeted Revenues	Budgeted Expenditures	Budgeted Surplus/ (Deficit)
2012	\$95,236,453	\$97,613,550	\$(2,377,097)
2013	\$98,078,445	\$100,224,100	\$(2,145,655)
2014	\$100,061,200	\$101,883,700	\$(1,822,500)
2015	\$104,209,175	\$111,101,875	\$(6,892,700)
<b>Total</b>	<b>\$397,510,273</b>	<b>\$410,748,225</b>	<b>\$(13,237,952)</b>

In addition, our review of the General Fund budget approved for the fiscal year ending June 30, 2016,<sup>11</sup> found the District budgeted for an operational deficit of \$6,012,248.

Our review of the Board’s approved policies found the District lacks formal policies to address the budgeting process. As shown in Table 1, budgeted revenues verses expenditures varied significantly during our audit period. Budgeting policies and written procedures are necessary to ensure the budget is designed to carry out the District’s and Board’s short and long-term plans in a thorough and efficient manner.

**Operating Position:** An operating deficit occurs when expenditures are greater than revenue. For the fiscal years ending June 30, 2013 through June 30, 2015, total expenditures exceeded total revenues, which resulted in operational deficits.

<sup>9</sup> Information obtained from the District’s Final General Fund Budget, PDE-2028, *Total Estimated Revenues and Other Financing Sources*.

<sup>10</sup> Information obtained from the District’s Final General Fund Budget, PDE-2028, *Total Estimated Expenditures and Other Financing Uses*.

<sup>11</sup> Fiscal year ending June 30, 2016, the General Fund budget was completed during our review period; therefore, it was reviewed and included in this finding.

Table 2 shows the District’s operating position:

**Table 2**

Wilkes-Barre Area SD: Comparison of Operating Position <sup>12</sup>			
Fiscal Year Ending June 30	Total Revenues and Other Financing Sources	Total Expenditures and Other Uses	(Deficit)
2013	\$98,894,946	\$99,254,021	\$(359,075)
2014	\$100,399,769	\$103,445,532	\$(3,045,763)
2015	\$104,762,179	\$111,501,133	\$(6,738,954)
<b>Total</b>	<b>\$304,056,894</b>	<b>\$314,200,687</b>	<b>\$(10,143,792)</b>

**Budgeted vs. Actual Expenditures and Revenues:** As shown in Table 3 below, the District’s actual expenditures exceeded its board approved budgeted expenditures in both the 2013-14 and 2014-15 fiscal years. Exceeding budgetary expenditures is a violation of Section 609 of the Public School Code.

**Table 3**

Wilkes-Barre Area SD: Comparison of Budget vs. Actual Expenditures <sup>13</sup>			
Fiscal Year Ending June 30	Budgeted Amount	Actual Amount	(Over) Budget
2014	\$101,858,700	\$103,398,165	\$(1,539,465)
2015	\$111,076,875	\$111,501,133	\$(424,258)
<b>Total</b>	<b>\$212,935,575</b>	<b>\$214,899,298</b>	<b>\$(1,963,723)</b>

The District’s actual expenditures exceeded the budgeted amount by over \$1.5 million for the 2013-14 fiscal year. Over one third of this \$1.5 million can be attributed to the District exceeding the budgeted amount in the area of

<sup>12</sup> Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2012 through 2015. Although this information was audited by other auditors, we didn’t audit the information or review the work of the other auditors. The dollar amount of expenditures are of undetermined reliability. However, this data is the best information available and we performed certain test of the reasonableness of this data. Although this determination may affect the precision of the numbers presented, there is sufficient evidence in total to support our finding, conclusions, and recommendations. Our tests of the reasonableness of the data included a reconciliation of expenditures in the Independent Auditor’s Report to expenditures reported to PDE in the Annual Financial Report for each fiscal year in the audit period. We also performed a trend analysis of expenditures during our audit period compared to expenditures prior to our audit period.

<sup>13</sup> Budgeted and actual expenditures and revenues in Tables 3 and 4 included adjustments made on the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance* to include other financing sources when determining if the District over-expended its budget. Therefore, the figures may differ slightly from the budgeted and actual expenditure figures noted in Tables 1 and 2.

Special Education Instruction. Similarly, the District’s actual expenditures exceeded the budgeted amount by over \$400,000 in the 2014-15 fiscal year. Almost half of this amount can be attributed to the District exceeding the budgeted amount in the area of Special Education Instruction. District officials cited the transient nature of the student population and the need to hire additional teachers that were not included in the final budget as the reason for this expenditure exceeding the budgetary amount.

As displayed in Table 4 below, the District has recently budgeted revenue conservatively which has helped to offset the District’s problem of historically budgeting operational deficits as noted earlier in the finding and in Table 1.

**Table 4**

<b>Wilkes-Barre Area SD: Comparison of Budget vs. Actual Revenues and Other Financing Sources<sup>14</sup></b>			
<b>Fiscal Year Ending June 30</b>	<b>Budgeted Amount</b>	<b>Actual Amount</b>	<b>Under Budget</b>
<b>2013</b>	\$98,078,445	\$98,892,391	\$813,946
<b>2014</b>	\$100,036,200	\$100,352,401	\$316,201
<b>2015</b>	\$104,184,175	\$104,762,179	\$578,004
<b>Total</b>	<b>\$302,298,820</b>	<b>\$304,006,971</b>	<b>\$1,708,151</b>

**Monthly Treasurer’s Reports:** Our review of 30 board meeting minutes revealed that the Board did not receive 11 monthly treasurer’s reports and, of the remaining 19, the Board received only 1 in a timely manner. The untimely reports were presented to the Board anywhere from 66 to 105 days late.

The District stated that the lack of treasurer’s reports was due to a problem with the District’s new financial software. The Board can’t effectively govern the District’s fiscal operations without accurate and timely financial reports.

As noted in the criteria, the Public School Code requires the District to submit a monthly report regarding the District’s finances.

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<sup>14</sup> This table includes budgeted and actual revenue from local, state, federal, and other financing sources.

The administration's failure to produce and provide monthly treasurer's reports to the Board and the Board's failure to require the administration to provide the required reports lessened the District's financial transparency. Furthermore, it did not provide assurance to the public that the Board maintained adequate oversight over the District's financial position. In addition, this lack of information made it more difficult for the Board to hold the District's administration accountable for its performance and for its implementation of the Board's fiscal policies.

**Additional fiscal concerns:** The Board approved a General Fund budget for fiscal year ending June 30, 2016, which would reduce the District's General Fund balance to \$0.

The District is in the process of entering into a new high school project and elementary renovation projects. On May 23, 2016, the Board approved a resolution to authorize the creation of debt, not to exceed \$150 million, to meet these building obligations. The Board must ensure revenues are available to meet the current financial needs of the District as well as provide for the additional payments needed to pay for the increased future debt payments required for these projects.

On April 11, 2016, the Board adopted "Pathway to the Future" plan (Plan), effective July 1, 2016 through June 30, 2020, proposed by the District's Budget Finance Committee to improve the District's financial position.

On May 23, 2016, the Board authorized the reduction of staff by eliminating 37 teaching positions through the closing of the following services and educational programs beginning with the 2016-17 school year:

- The suspension of elementary and secondary library services.
- The suspension of family and consumer science services.
- The suspension of technology education.
- The suspension of elementary and secondary art.

The District's General Fund balance has decreased to the point where the District can't sustain persistent operating deficits. We feel it is imperative that the District and the Board continue to evaluate the effectiveness of the plan and make any necessary adjustments to ensure expenditures are less than revenues and remain within budgetary guidelines.

### **Recommendations**

The *Wilkes-Barre Area School District* should:

1. Annually evaluate the adopted four-year plan and modify the plan accordingly to the most current actual revenue and expenditure data to reverse the current trend of operational deficits.
2. Implement written balanced budgeting procedures to plan and address projected future costs.
3. Develop and approve written budgeting policies and procedures to ensure compliance with Section 609 of the Public School Code.
4. Ensure treasurer's reports are provided to the Board every month, as required by the Public School Code, for review, analysis, and approval.
5. Ensure treasurer's reports are submitted timely with the required details (beginning cash balances, receipts, and disbursements) for the Board to maintain adequate oversight.

### **Management Response**

District management provided the following response:

1. The district has experienced a negative impact on its fund balance due to increases in mandated expenditures. The district has adopted and will continue to update, on an annual basis, a 4 year plan that will address estimated future revenues and expenditures which will ensure that the district return to a structural balanced budget.
2. The district will develop and approve written balanced budgeting policies that will ensure future costs are taken into consideration and will be used in conjunction



with the 4 year plan to enable the district to get to a structural balanced budget.

3. The district will develop and approve written budgeting policies and procedures that will be in compliance with the Public School Code.
4. The district changed its finance software and experienced difficulties in converting data from the old software to the new software. During this time period treasurer reports were not approved by the school board due to the fact that they were not prepared in a timely manner. Since that time period all treasurer's reports have been prepared and approved by the board. The administration of the district will ensure that the treasurer's reports will be prepared each month for board review and approval.
5. In conjunction with number 4 above the administration will ensure that the treasurer's reports are prepared for board review and approval in a timely manner.

#### **Auditor Conclusion**

We are encouraged that management plans to address the issues noted in this finding. We appreciate their current efforts noted in their response to correct the causes of the declining fund balance, develop budgeting policies, and to ensure treasurer's reports are submitted to the Board in a timely manner. We will review their progress and evaluate the effectiveness of their corrective actions during our next audit of the District.

## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the District released on April 15, 2014, resulted in one finding as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to PDE, interviewed District personnel, and performed audit procedures as detailed in each status section below.

### **Auditor General Performance Audit Report Released on April 15, 2014**

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**Prior Finding:**                    **Incorrect Student Data Reporting Errors Resulted in a Subsidy Overpayment of \$164,424**

Prior Finding Summary: Our review of the District's district-operated vocational education membership data found the District incorrectly reported vocational education membership data for the 2008-09 and 2010-11 school years to PDE. This incorrect reporting resulted in an overpayment to the District of its vocational education subsidy (VES) totaling \$164,424.

Prior Recommendations: We recommended that the District should:

Review program guidelines for any future VES and only apply for subsidy to which it is eligible.

We also recommended that PDE should:

Adjust the District's allocations to recover the VES overpayment of \$164,424.

Current Status:                    The District did implement our prior recommendations. The District has not applied for or received VES subsidy beginning with the 2011-12 school year. As of September 29, 2016, PDE had not adjusted the District's subsidy to recover the overpayment. Therefore, we again recommend PDE adjust the District's allocations to recover the \$164,424 VES overpayment.

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## **Appendix: Audit Scope, Objectives, and Methodology**

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

Our audit, conducted under authority of Section 402 and 403 of The Fiscal Code,<sup>15</sup> 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, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls<sup>16</sup> 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.

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<sup>15</sup> 72 P.S. §§ 402 and 403.

<sup>16</sup> 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, financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years ending June 30, 2012 through June 30, 2015. We also determined if the District had key personnel or software vendor changes since the prior audit.

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

- Financial Stability
- Contracting
- Transportation Operations
- Administrator Contract Buy-Out
- Professional Certification
- Bus Driver Requirements
- School Safety

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

- ✓ Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
  - To address this objective, we reviewed the District's annual financial reports, budgets, independent auditor's reports, summary of child accounting, and general ledger for fiscal years beginning July 1, 2011 through June 30, 2015. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. See the Finding beginning on page 5 for the results of our review of this objective.
- ✓ Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
  - To address this objective, we reviewed the District's procurement and contract monitoring policies and procedures. We obtained a list of vendors paid during the 2014-15 school year. For detailed testing, we selectively reviewed 5 of the 199 vendors receiving significant payments (payments greater than \$1,000) from the District. The vendors selected were based on the largest amounts paid by the

District for services in the following areas: food service, transportation, construction, and legal services. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the Public School Code and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board's Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts. Our review in this area did not disclose any reportable issues.

- ✓ Did the District correctly report students who were provided to and from school transportation, and did the District receive the correct amount of state reimbursement for students who were transported to and from District school buildings?<sup>17</sup>
  - To address this objective, we reviewed 5 of the 96 students enrolled in a before and after school program at three of the District's five elementary schools during the 2015-16 school year. We reviewed student lists to identify which students were provided District transportation for the program and if the District correctly reported these students for reimbursement. Our review in this area did not disclose any reportable issues.
  
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract contain adequate termination provisions?
  - To address this objective, we reviewed the employment contract and payroll documentation for the only administrator who had an individual contract and left the District during the period of July 1, 2012 through June 30, 2015. We reviewed payments made to the individual at the time of his retirement to determine if they were paid in accordance with the board approved contract, the Public School Code, and the Pennsylvania Public School Employees' Retirement System. Our review in this area did not disclose any reportable issues.
  
- ✓ Did the District ensure that professional staff hold valid Pennsylvania Teaching Certificates and are currently assigned within the scope of their respective certification?<sup>18</sup>
  - To address this objective, we reviewed all five individuals who were hired as dean of students and the only individual hired as a home school visitor during the school years beginning July 1, 2013 through June 30, 2015. We reviewed documentation to ensure all six professional employees held the proper certification for their assignments. Our review in this area did not disclose any reportable issues.

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<sup>17</sup> 24 P.S. §§ 13-1361, 1362; 22 Pa. Code Chapter 23.

<sup>18</sup> 24 P.S. §§ 12-1201, 1202.

- ✓ 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?<sup>19</sup> Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
  - To address this objective, we randomly selected 5 of the 11 bus drivers hired by the District's bus contractor during the period of July 1, 2013 through June 30, 2016. We reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements. Our review in this area did not disclose any reportable issues.
  
- ✓ Did the District take appropriate actions to ensure it provided a safe school environment?<sup>20</sup>
  - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at three out of the District's nine school buildings (one high school and two elementary schools) to assess whether the District had implemented basic safety practices. Due to the sensitive nature of school safety, the results of our review of this objective area are not described in our audit report. The results of our review of school safety are shared with District officials and, if necessary, PDE.

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<sup>19</sup> 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*.

<sup>20</sup> 24 P.S. § 13-1301-A *et seq.*

## **Distribution List**

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

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Harrisburg, PA 17120

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