



**WILKINSBURG BOROUGH SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

DECEMBER 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. Karen Payne, Board President
Wilkinsburg Borough School District
718 Wallace Avenue
Wilkinsburg, Pennsylvania 15221

Dear Governor Corbett and Ms. Payne:

We conducted a performance audit of the Wilkinsburg Borough School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period October 27, 2010 through April 23, 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 Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with relevant requirements, as detailed in the three (3) audit findings and one (1) observation within this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings, 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

December 6, 2013

cc: **WILKINSBURG BOROUGH 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 Wilkesburg Borough School District (District) in Allegheny County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 October 27, 2010 through April 23, 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 two (2) square miles. According to 2010 federal census data, it serves a resident population of 15,930. According to District officials, the District provided basic educational services to 1,078 pupils through the employment of 127 teachers, 35 full-time and part-time support personnel, and 21 administrators during the 2009-10 school year. Lastly, the District received \$11.4 million in state funding in the 2009-10 school year.

In July 2012, the General Assembly passed Act 141 of 2012, which required the Pennsylvania Department of Education (PDE) to develop and implement an early warning system for identifying financially declining school districts. PDE places those districts detected through the early warning system in Financial Watch Status, which permits them to receive additional technical assistance to improve their financial condition (see Observation on page 12).

Under Act 141 of 2012, PDE may also declare school districts to be in financial recovery status. This designation occurs when a school district's financial condition deteriorates to the point that it requires multiple advances on its annual state basic education subsidy and has numerous negative financial indicators. PDE can find school districts to be in moderate or severe financial recovery status. Such designations result in PDE appointing a chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the three (3) audit findings and one (1) observation within this report.

Finding No. 1: The District Lacks Sufficient Internal Controls Over Its Student Data. Our audit found that the Wilkinsburg Borough School District's (District) child accounting staff may have inaccurately entered its student enrollment data into the District's internal student information system (SIS). As a result, the District transferred inaccurate information from its SIS to the Pennsylvania Information Management System (see page 6).

Finding No. 2: Failure to Develop Memorandum of Understanding with Local Law Enforcement Agency. Our audit found that the Wilkinsburg Borough School District (District) failed to enter into a Memorandum of Understanding (MOU) with a local law enforcement agency. The last MOU between the District and this local law enforcement agency was signed December 7, 2007 (see page 8).

Finding No. 3: Failure to Have All School Bus Drivers' Qualifications on File. Our audit found that the Wilkinsburg Borough School District did not have all of the necessary bus drivers' qualifications on file for the 2011-12 school year (see page 10).

Observation: The District is Facing Serious Financial Challenges. Our review of the Wilkinsburg Borough School District's (District) annual financial reports, independent auditor's reports, and general fund budgets for the fiscal years ended June 30, 2011, 2010, 2009, 2008, and 2007, found that the District has a deteriorating general fund balance, with a \$1.56 million deficit for the fiscal year ended June 30, 2011. In addition, we found that the Pennsylvania Department of Education has placed the District in Financial Watch Status because of its poor fund balance ratio and several other negative financial indicators (see page 12).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Wilkinsburg Borough School District (District) from an audit released on May 9, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to children placed by the courts (see page 19). However, the District did not implement our recommendations pertaining to maintaining a Memorandum of Understanding between the District and a local law enforcement agency (see page 20).

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 Section 403 of The Fiscal Code, 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 October 27, 2010 through April 23, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through December 31, 2012.

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 certain relevant state laws, regulations, 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 independent 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.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant

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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

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

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 May 9, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

The District Lacks Sufficient Internal Controls Over Its Student Data

Criteria relevant to the finding:

According to the Pennsylvania Department of Education's (PDE) *2009-10 Pennsylvania Information Management Systems (PIMS) User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are:

- 1) District Code of Residence;
- 2) Funding District Code;
- 3) Residence Status Code; and
- 4) Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives through the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's PreK through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit found that the Wilkinsburg Borough School District's (District) child accounting staff inaccurately entered its student enrollment data into the District's internal student information system (SIS). As a result, the District transferred inaccurate information from its SIS to the Pennsylvania Information Management System for use in calculating its state education subsidies and reimbursements. Many of the errors were caused by District staff's failure to verify the registration information provided to them by parents and guardians prior to inputting it into the District's SIS. For example, in some cases, the parent or guardian's information did not match the information recorded on the child's birth certificate. Furthermore, when District personnel did verify the accuracy of the information, they corrected it in the SIS but not on the source documentation.

Additionally, our testing found that the District was not keeping complete student withdrawal information. Instead of tracking student withdrawals through its attendance records, District staff primarily relied on parents and

guardians to notify them when a student was withdrawn. Consequently, in some instances, the District did not know that a student had withdrawn until his or her new district requested the student's records. As a result of these weak internal controls, the District could not verify the accuracy of its membership days, which PDE uses to calculate its state subsidies and reimbursements.

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that student data is accurately collected and timely reported. Without these internal controls, the District is assured that it is reporting its data correctly to PDE or that it is receiving the proper subsidy reimbursement.

Recommendations

The *Wilkesburg Borough School District* should:

1. Document all corrections to student data information on both the original source documentation and in the SIS software.
2. Implement a system to remind parents on a recurring basis that the District must be notified prior to withdrawing any student from a District school.
3. Develop a process for tracking student absences so that it will be clear when a student has stopped coming to school and may have withdrawn.
4. Develop a policy and a written procedure for informing parents and guardians of prospective students about the specific information they will need to register at the District.
5. Develop a new registration form to ensure that includes all of the information that District staff need to complete a student's registration and for the student to be appropriately registered in the SIS and in PIMS.
6. Upon withdrawal, reconcile the student's attendance data in the SIS and PIMS for the actual time in attendance at a District school.

Management Response

Management agreed with the finding.

Finding No. 2

Failure to Develop Memorandum of Understanding with Local Law Enforcement Agency

Criteria relevant to the finding:

Section 1303-A(c) of the *Public School Code (PSC)*, 24 P.S. § 13-1303-A(c), amended November 17, 2010, with an effective date of February 15, 2011, provides, in part:

“ . . . each chief school administrator **shall enter** into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a Memorandum of Understanding (MOU) with local law enforcement and file such memorandum with the office on a biennial basis. The Memorandum of Understanding shall be signed by the chief school administrator, the chief of police of the police department with jurisdiction over the relevant school property and principals of each school building of the school entity. . . .”

The “office” refers to the Office for Safe Schools established within the Pennsylvania Department of Education through Section 1302-A(a) of the *PSC*, 24 P.S. § 13-1302-A(a). The term “biennially” means an event that occurs every two years.

Prior to the effective date of the above referenced enactment of the MOU requirements, all public schools were required to **develop** a memorandum of understanding with local law enforcement.

The effective date of this amended provision was February 15, 2011.

Our audit of the Wilkesburg Borough School District’s (District) records found that the District failed to enter into a Memorandum of Understanding (MOU) with a local law enforcement agency having jurisdiction. The last MOU between the District and the local law enforcement agency was signed on December 7, 2007.

The failure to enter into a MOU with pertinent law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to have a MOU could have an impact on law enforcement notification and response, and ultimately, the resolution of a problem situation.

Moreover, recently enacted amendments to the safe schools provisions of the Public School Code expanded the requirements to develop a MOU with the law enforcement agencies. Now, beginning with the first filing deadline of June 30, 2011, public schools must biennially update and re-execute these MOUs and file them with the Pennsylvania Department of Education’s (PDE) Office of Safe Schools on a biennial basis. Consequently, this failure to enter into a MOU with its local law enforcement agencies resulted in non-compliance with the additional MOU requirement that was enacted November 17, 2010.

Recommendations

The *Wilkesburg Borough School District* should:

1. Develop a MOU between the District and all local law enforcement agencies having jurisdiction over school property of the District pursuant to the terms prescribed by law.
2. In consultation with the District’s solicitor, review new requirements for a MOU and other school safety areas under the Public School Code to ensure compliance

with amended Safe Schools provisions enacted November 17, 2010.

3. Adopt an official Board policy requiring District administration to biennially update and re-execute all MOUs with local law enforcement agencies having jurisdiction over school property and file a copy with PDE's Office of Safe Schools on a biennial basis as required by law.

Management Response

Management agreed with the finding.

Finding No. 3

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

The Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's license and passing a physical examination.

Section 111 of the Public School Code 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, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Wilkinsburg Borough School District's (District) current bus driver qualifications for the 2011-12 school year found that not all records were on file at the time of the audit.

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

Our review of the 29 bus and van drivers' qualification records maintained by the District found that eight (8) drivers had either expired drivers licenses or expired certification cards on file with the District at the time of our review. We learned from District personnel that they do not use these documents and, instead, rely exclusively on the District's contractor to obtain updated qualification documents from the drivers. As a result, if the contractor fails to provide the documents to the District, the District does not have the current license or certification card in its possession.

Additionally, our review found that fourteen (14) of the drivers had criminal records. Fortunately for the District and the District's students, none of the crimes were so severe as to prohibit the drivers' employment. However, the District's failure to review and document the review of the drivers' criminal records could have placed the students' health and safety at risk. Again, this resulted from the District failing to perform its fiduciary responsibilities for the health and safety of the students and to maintain appropriate and complete documentation.

Our review of minutes and discussions with District personnel found that the Board of School Directors failed to approve the contractor's bus and van drivers in a public school board meeting. The State Board of Education Regulations requires the Board of School Directors to annually approve the drivers providing services to the District prior to the start of each school year.

*Criteria relevant to the finding
(continued):*

Additionally, Section 111 provides in Section 7(b) in part:

Administrations shall maintain a copy of the required information and shall require each applicant to produce the original document prior to employment.
Administrators shall require contractors to produce the original document for each prospective employee of such contractor prior to employment.

Finally, the District does not have documented policies and procedures related to the Districts responsibilities for the following:

- Selection and approval of eligible drivers.
- Review and maintenance of bus and van driver qualification documents.
- Requirements placed on the contractor to immediately notify the District if a driver is arrested or convicted of an offense that would prohibit him/her from operating a school bus or van.

Our discussions with District personnel indicated that the District was in the process of implementing a policy. However, it was not completed prior to the end of our fieldwork and, therefore, was not available for our review or the District's use during our audit.

Recommendations

The *Wilkesburg Borough School District* should:

1. Review all bus driver qualification documents to ensure compliance with all regulatory requirements. Additionally, the District should document this review either by a notation on the documents that they were reviewed, the date of review and by whom reviewed, or the preparation of a summary report on each driver based on the review of their documents.
2. Complete the implementation process for the policies and procedures related to student transportation. This process should include steps to ensure the policies and procedures comply with all regulatory requirements.

Management Response

Management agreed with the finding.

Observation

The District is Facing Serious Financial Challenges

Criteria relevant to the observation:

Section 6-611-A of the Public School Code (PSC) provides:

“(1) The department shall develop and implement an early warning system under which the department shall:

(i) Compile financial data and maintain accurate and current information and data on the financial conditions of school districts. Each school district shall provide its financial data and information to the department within 15 days of a request by the department.

(ii) Regularly analyze and assess school district budget reports, data and other information directly related to the financial conditions of school districts.

(iv) Notify any school district identified for financial watch status.

(v) Offer technical assistance to school districts in financial watch status to correct minor financial problems and to avoid a declaration of financial recovery status under Section 621-A.”

During our current audit of the Wilkesburg Borough School District (District), we reviewed annual financial reports, independent auditor’s reports, and general fund budgets, as well as several financial indicators, in an effort to assess the District’s financial stability. Our review found that the District is facing serious financial challenges.

In addition, we found that the Pennsylvania Department of Education (PDE) has placed the District in Financial Watch Status because of its poor fund balance ratio and several other negative financial indicators. This designation gives the District access to additional technical assistance from PDE, aimed at improving its fiscal condition. If the District’s financial position does not improve, it could be placed in financial recovery status. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the District and the development of a district-wide financial recovery plan.

As shown in the table below, the District’s general fund balance has deteriorated as expenditures have outpaced revenues:

Trend: Declining General Fund Balance				
Year End			Difference in	<i>General Fund</i>
<u>June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	Expenditures/ <u>Revenues</u>	<u>Surplus/ (Deficit)</u>
2007	\$28,197,837	\$27,797,941	\$ 399,896	<i>\$1,160,389</i>
2008	28,256,970	27,431,605	825,365	<i>1,985,754</i>
2009	28,504,100	27,709,755	794,345	<i>2,780,099</i>
2010	27,761,879	29,048,297	(1,286,418)	<i>1,493,681</i>
2011	27,076,441	30,130,417	(3,053,976)	<i>(1,560,295)</i>

As the table shows, the general fund balance was exhausted by two (2) consecutive years (2009-10, 2010-11) of high expenditure growth, coupled with declining revenues. This resulted in a swing of the general fund from a \$2.78 million surplus at the end of 2008-09, to a \$1.56 million deficit at the end of 2010-11.

As a result of the District’s general fund deficits and several other financial factors, on March 15, 2013, PDE placed the District on the Commonwealth’s financial watch

list (see report background for additional information). As previously discussed, the watch list was created by Act 141 of 2012, as part of an “early warning system” for identifying school districts that were struggling to maintain fiscal stability. By detecting these districts when they are initially beginning to deteriorate, the General Assembly hoped to provide them with assistance that would prevent them from experiencing severe fiscal problems, which could cause them to fall into financial recovery status.

As part of this effort, PDE offers all districts on the financial watch list technical assistance to help them improve. This work involves PDE employees and consultants evaluating the districts’ policies and procedures, assessing their programs, providing best practice recommendations, and serving as liaisons with PDE. However, these districts are not eligible for any additional funding under the financial watch status designation.

According to a letter from PDE dated March 15, 2013, the following financial indicators led to the District’s financial watch list designation:

Financial Indicators Leading to Financial Watch Status	
<i>Indicator</i>	<i>District Performance</i>
Fund Balance Ratio	-15.2% fund balance ratio (2011-12 AFR).
Basic Education Funding Advance	District was provided an advance of \$1,400,000 in April 2012; advance was recovered in June 2012.
Market Value/Personal Income Aid Ratio	For 2012-13, it was .6838.
Equalized Mills	For the 2010-11 school year, it was 37.2; the second highest of the state’s 500 school districts.
Debt	The District petitioned the Court of Common Pleas in January 2013 for permission to borrow \$3,000,000 to “ <i>fund unfunded debt.</i> ”
Delinquent Tax Rate	District had a high delinquent real estate tax rate of 23.9% in the 2011-12 fiscal year.
Uncollectable Real Estate Taxes	District has increased its allowance for uncollectable real estate taxes from \$9.8 million as of June 30, 2010, to \$16.2 million as of June 30, 2012.

During our audit, we reviewed 22 financial benchmarks based on best business practices established by several

Criteria relevant to the observation (continued):

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 two (2) to one (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 one (1) or less indicates a declining ability to cover obligations with the most liquid assets.
- A debt-to-asset ratio or trend of ratios increasing towards one (1) to one (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.

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.

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

- **Decreasing General Fund Current Ratio:** For the trend period 2007 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:

Trend: Decreasing Current Ratio			
<i>(Assets ÷ Liabilities)</i>			
Year End	Current	Current	<i>Current</i>
<u>June 30</u>	<u>Assets</u>	÷ <u>Liabilities</u>	= <u>Ratio</u>
2007	\$ 8,398,816	\$ 7,238,426	1.16
2008	8,010,226	6,024,472	1.33
2009	10,171,980	7,391,881	1.38
2010	9,887,793	8,394,112	1.18
2011	8,825,625	10,385,920	0.85

- **Decreasing General Fund Quick Ratio:** For the trend period 2007 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

Criteria relevant to the observation (continued):

- 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.

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:

Trend: Decreasing Quick Ratio (Cash + Investments) ÷ Liabilities			
Year End <u>June 30</u>	(Cash + <u>Investments)</u>	÷	Current <u>Liabilities</u> = <i>Quick Ratio</i>
2007	\$ 2,286,748		\$ 7,238,426 <i>0.32</i>
2008	1,724,323		6,024,472 <i>0.29</i>
2009	2,899,300		7,391,881 <i>0.39</i>
2010	1,715,281		8,394,112 <i>0.20</i>
2011	55,193		10,385,920 <i>0.01</i>

- **Increasing Debt-to-Asset Ratio:** For the trend period 2007 to 2011 the general fund debt-to-asset ratio (current liabilities ÷ current assets) is increasing. An increasing trend towards one-to-one 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:

Trend: Increasing Debt-to-Asset Ratio (Current Liabilities ÷ Current Assets)			
Year End <u>June 30</u>	Current <u>Liabilities</u>	÷	Current <u>Assets</u> = <i>Debt-to-Asset Ratio</i>
2007	\$ 7,238,426		\$ 8,398,816 <i>0.86</i>
2008	6,024,472		8,010,226 <i>0.75</i>
2009	7,391,881		10,171,980 <i>0.73</i>
2010	8,394,112		9,887,793 <i>0.85</i>
2011	10,385,920		8,825,625 <i>1.18</i>

- Increase in Charter School Students:** For the trend period 2007 to 2011, the number of District students attending charter schools is increasing, as is the cost to the District of those students attending charter schools. Consequently, the amount of District funds available for in-house educational services has been reduced.

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>
2007	175		1,656	10.6%
2008	164		1,526	10.8%
2009	172		1,567	11.0%
2010	205		1,562	13.1%
2011	240		1,465	16.4%

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>
2007	\$2,131,653		\$27,797,941	7.7%
2008	2,046,256		27,431,605	7.5%
2009	2,356,324		27,709,755	8.5%
2010	2,594,245		29,048,297	8.9%
2011	2,889,361		30,130,417	9.6%

Our discussions with the District’s business manager found that he believes the negative benchmark trends are the result of a declining enrollment, a decreasing local tax base, and a loss of federal and state revenue. He also indicated that one (1) elementary school has been closed and the corresponding 86 positions were eliminated due to the number of District students attending charter schools and the increasing costs associated with those students attending the charters.

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

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.*

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 *Wilkinsburg School District* should:

1. Provide the Board of School Directors with standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
2. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated.
3. Adopt budgets estimating beginning fund balances based on historical indicators and realistic expectations of the amount that will actually be available for the budgetary period.
4. Provide for systematic reduction of the general fund deficit.
5. Conduct a survey with parents sending their children to a charter school to determine the reason why the District is losing students.
6. Monitor the costs to the District related to charter schools on a continuous basis.
7. Open a dialogue with the community to keep stakeholders informed of the financial status and health of the District.
8. Seek out the technical assistance offered to the District by PDE in order to put best practices in place that would help the District with its financial challenges.

Management Response

Management agreed with the observation.

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 to ensure that expenditures do not exceed 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 trend. 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 Wilkesburg Borough School District (District) released on May 9, 2011, resulted in one (1) finding and one (1) observation. The finding pertained to children placed by the courts, and the observation pertained to the District's failure to obtain a Memorandum of Understanding. 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 finding and observation. As shown below, we found that the District implemented our finding recommendations but did not implement our observation recommendations.

Auditor General Performance Audit Report Released on May 9, 2011

Finding: **Inadequate Documentation to Support Tuition for Orphans and Children Placed by Court**

Finding Summary: Our prior audit found that the District did not maintain adequate documentation to support the students reported to the Pennsylvania Department of Education (PDE), as non-resident students placed in private homes for the 2007-08 and 2006-07 school years.

As a result, we were unable to verify the accuracy of the payments received by the District as tuition for orphans and children placed in private homes in the following amounts: \$469,235 and \$482,450, respectively.

Recommendations: Our audit finding recommended that the District:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data.
2. Develop procedures to ensure classification of students enrolling in the District as resident or non-resident students and document the district of residence of the natural parent or guardian.
3. Review reports submitted to PDE subsequent to the years audited and submit revised reports if errors are discovered.

Current Status: During our current audit, we found that the District did implement our recommendations.

Observation: Memorandum of Understanding Not Updated Timely

Observation
Summary:

Our prior audit revealed the Memorandum of Understanding (MOU), between the District and the local law enforcement agency had not been updated and was lost during a period when personnel changes occurred.

Recommendations: Our audit observation recommended that the District:

1. Review, update, and re-execute the current MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to renew and reevaluate the MOU every two (2) years.

Current Status: During our current audit, we found that the District did not implement our prior recommendations (see Finding No. 2, on page 8).

Distribution List

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

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