# PERFORMANCE AUDIT

# Carbondale Area School District

## Lackawanna County, Pennsylvania

June 2016

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Mr. Joseph Gorham, Superintendent
Carbondale Area School District
101 Brooklyn Street
Carbondale, Pennsylvania 18407

Dr. Gary Smedley, Board President
Carbondale Area School District
101 Brooklyn Street
Carbondale, Pennsylvania 18407

Dear Mr. Gorham and Dr. Smedley:

We have conducted a performance audit of the Carbondale Area School District (District) for the period July 1, 2011 through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. We evaluated the District's performance in the following areas:

- Financial Stability
- Contracting
- Hiring and Separations
- School Safety
- Bus Driver Requirements

The audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 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 $5.9 Million from June 30, 2011 through June 30, 2015

We appreciate the District's cooperation during the course of the audit.

Sincerely,

Eugene A. DePasquale
Auditor General

June 16, 2016

cc: **CARBONDALE AREA SCHOOL DISTRICT** Board of School Directors

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## Background Information[i]

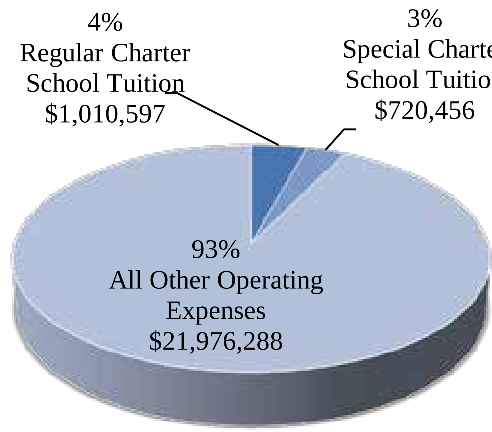
| School Characteristics 2015-16 School Year[ii] | |
|---|---|
| **County** | Lackawanna |
| **Total Square Miles** | 18.5 |
| **Resident Population[iii]** | 13,862 |
| **Number of School Buildings** | 2 |
| **Total Teachers** | 111 |
| **Total Full or Part-Time Support Staff** | 82 |
| **Total Administrators** | 4 |
| **Total Enrollment for Most Recent School Year** | 1,725 |
| **Intermediate Unit Number** | 19 |
| **District Vo-Tech School** | Career Technology Center of Lackawanna County |

**Mission Statement**

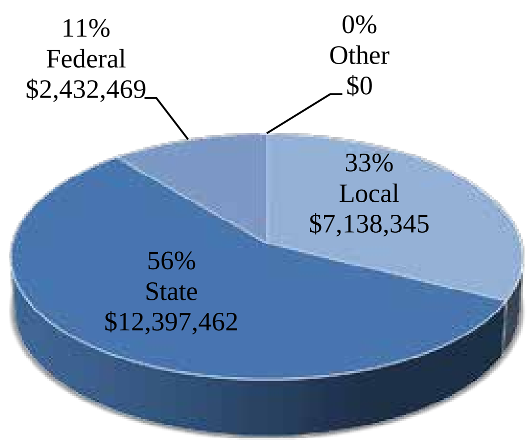
"The mission of the Carbondale Area School District is to prepare all students to be active and productive citizens of a changing global community by fostering lifelong, self-directed learning, independent, and collaborative decision-making though critical thinking and self-awareness."

## Financial Information

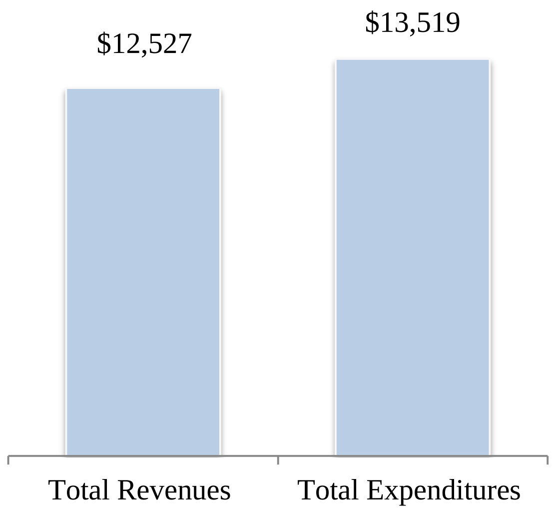
**Select Expenditures for 2014-15 School Year**




**Revenue by Source for 2014-15 School Year**

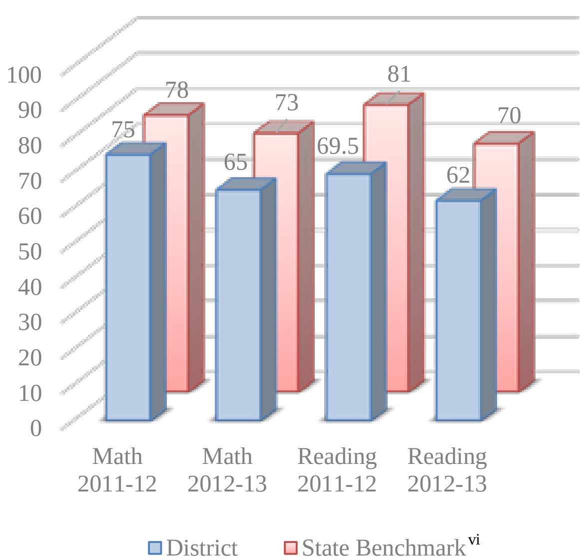


**Dollars Per Student**
**2014-15 School Year**




## Academic Information

**Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA[iv v]**




**District's 2012-13 SPP Score[vii]**

| A | B | C | D | F |
|---|---|---|---|---|
| 90-100 | 80-89.9 | 70-79.9 | 60-69.9 | <60 |

**62**

| Individual Building SPP and PSSA Scores[viii]<br>2012-13 School Year | | | | | | |
|---|---|---|---|---|---|---|
| **School Building** | **SPP Score** | **PSSA % School Proficient and Advanced in Math** | **PSSA % Statewide Benchmark of 73% Above or Below** | **PSSA % School Proficient and Advanced in Reading** | **PSSA % Statewide Benchmark of 70% Above or Below** | **Federal Title I Designation (Reward, Priority, Focus, No Designation)[ix]** |
| Carbondale Elementary | 58.5 | 65 | 8 | 56 | 14 | No Designation |
| Carbondale JR/SR HS | 68.5 | 67 | 6 | 70 | --- | Not Applicable |

# Finding

**The District's General Fund Balance Decreased by Over $5.9 Million from June 30, 2011 through June 30, 2015**

*Criteria relevant to the finding:*

The Pennsylvania School Boards Association (PASBO) in its *Annual Overview of Fiscal Health* for the 2009-10 school year provided the following information relevant to the following fiscal benchmarks:

- 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).

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

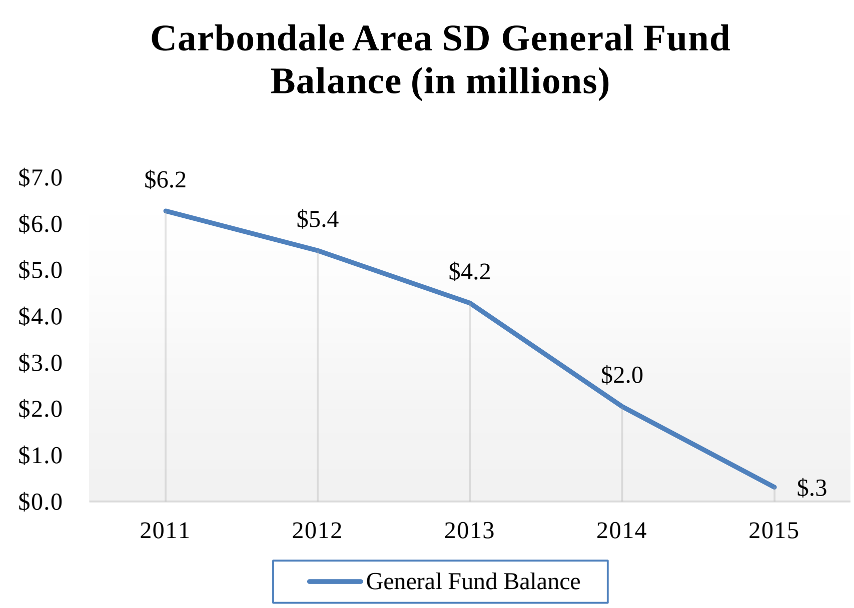
- A school district should maintain a trend of stable or increasing fund balances.
- Financial industry guidelines recommend that a fund balance should range between 5 and 10 percent of annual expenditures.

The benchmarks used as criteria for this objective were based also based on best business practices established by several entities/agencies, including PASBO, the Colorado State Auditor, and the National Forum on Education Statistics.

In order to assess the District's financial stability, we reviewed 22 financial benchmarks to evaluate changes in its financial position over a period of five years from fiscal year ending June 30, 2011 through fiscal year ending June 30, 2015. Three benchmarks reviewed indicated potential financial issues for the District. These three benchmarks are listed below and discussed in further detail:

- General Fund Balance
- General Fund Operations
- Current Ratio

**Decreasing Fund Balance:** The General Fund balance decreased from $6.2 million on June 30, 2011, to $307,288 on June 30, 2015. The following graph shows the District's decreasing fund balance for fiscal years ending June 30, 2011 through 2015:



*Criteria relevant to the finding (continued):*

The annual General Fund budget is addressed under Section 687 of the Public School Code (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 609 of the 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 or school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded."

**The Government Finance Officers Association (GFOA)** has developed Budgeting Best Practices for School Districts. Among the best practices are:

**General Fund Reserve**. School districts should establish a formal process on the level of unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk. The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their general fund of no less than 10% of regular general fund operating revenues or regular general operating expenditures and operating transfers out.

During this time period, the General Fund decreased by over $5.9 million, which was a 95 percent decline. The General Fund balance of $307,288, as of June 30, 2015, was 1.4 percent of the District's expenditures, significantly less than the 10 percent recommended by the GFOA.

According to the District's Business Manager, the decrease of over $5.9 million in the District's General Fund balance over the five year period was due, in part, to the following:

- Cash flow issues due to the loss of approximately $2.4 million in state charter school subsidies, which ceased beginning with the 2011-12 fiscal year.

- The loss of over $1 million in reimbursable state building projects that has not been received due to the lack of state funds. These revenues have not been included in the District's General Fund budgets, so it has not affected the yearly estimated fund balance. These cash flow problems were further exacerbated when state subsidies were delayed due to the lack of a state budget.

We found in our review of the District's financial reports that the District has consistently over-expended its budget in the area of special education by a total of approximately $6 million during the last five years. This also contributed to the decline in the fund balance. Although the District uses historical data and various methods of cost predictions, increases in specialized costs have been difficult to adequately project due to the District's rental and transient population.

The District further reduced its General Fund balance by making unbudgeted annual payments of approximately $630,000 on a 2010 bond issue that they intended (at the dates of budget preparation) to defer through a refinancing of the 2010 bond (scoop and toss). The District made these unbudgeted payments during fiscal years ending June 30, 2013, 2014, and 2015 because the funds were available. These payments caused a reduction in the fund balance over the three years of approximately $1,890,000. The District did budget all scheduled bond payments for fiscal year ending June 30, 2016.

*Criteria relevant to the finding (continued):*

District Board Policy 612, titled "Purchases Not Budgeted" states, in part: "The laws of the state and the interests of the community require fiscal responsibility by the Board in the operation of the school district. Appropriate fiscal controls shall be adopted to ensure that public funds are not disbursed in amounts in excess of the appropriations provided to the district."

According to the Wall Street Journal, the scoop-and-toss strategy might be a good strategy for a short-term solution, if you have a temporary economic recession.

The overall decrease of the General Fund balance is an indicator that the District's financial position is declining and without additional revenues or the reduction of expenditures, it may continue to decrease.

A 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. The decreasing General Fund balance was the result of operating deficits for every year reviewed. An operating deficit occurs when expenditures are greater than revenue. Without the generation of additional revenues or the reduction of expenditures, the fund balance will continue to decrease and further weaken the District's financial position.

**General Fund Operations:** For the period fiscal year ending June 30 2011 through fiscal year ending June 30, 2015, total expenditures exceeded total revenues, which resulted in an operational deficit in four of the five years reviewed.

The following chart shows a comparison of the District's operating position:

**Carbondale Area SD: Comparison of Operating Position[1]**

| Fiscal Year Ending June 30 | Total Revenues and Other Financing Sources | Total Expenditures and Other Financing Uses | Surplus/ (Deficit) |
|---|---|---|---|
| 2011 | $21,071,135 | $20,934,138 | $136,997 |
| 2012 | $20,190,549 | $21,041,654 | ($851,105) |
| 2013 | $20,332,454 | $21,466,053 | ($1,133,599) |
| 2014 | $21,381,794 | $23,623,349 | ($2,241,555) |
| 2015 | $21,968,277 | $23,707,341 | ($1,739,064) |
| Total | $104,944,209 | $110,772,535 | ($5,828,326) |

[1] Information obtained from the District's Independent Auditor's Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2011 through 2015. Information not audited by the Department of the Auditor General.

*Criteria relevant to the finding (continued):*

*Standard & Poor's* provides ratings on a broad range of financial institutions including banks; savings institutions; securities firms; mortgage institutions; finance companies; government-sponsored enterprises; asset managers; exchange and clearing corporations; and credit unions. *Standard & Poor's* provides credit ratings on financial institutions as well as the specific debt instruments they issue. To form their ratings opinions, Standard & Poor's credit analysts review a broad range of business and financial attributes that may influence a financial institution's creditworthiness. Their business risk profile analysis incorporates such factors as country risk, environment, company position, business and geographic diversification, and management strategy. Their financial risk profile analysis incorporates such factors as risk management, capitalization, earnings, funding and liquidity, accounting, and governance.

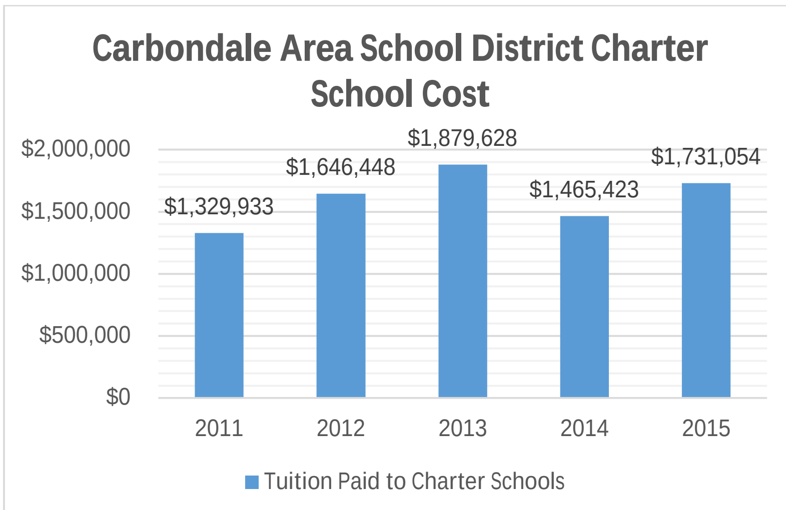
*Standard & Poor's* Definition states, in part:

"BBB+ - Credit worthiness - An obligor has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments." *See Bankersalmanac.com. 2010-09-20. Retrieved 2012-03-29.*

District administrators have advised the Board of School Directors (Board) to remain cautious in spending and capital expenditures. They have recommended the Board approve a wage-freeze at the conclusion of the 2015-16 school year.

We acknowledge the District's efforts to reduce expenses but encourage the District to develop a business model where expenditures are less than revenues. The trend in the District's General Fund balance has shown that it is not healthy enough to compensate for persistent operating deficits. A business model would be beneficial due to the Board's actions noted below.

**Increase in Charter School Costs:** Tuition costs to educate charter school students increased overall by $401,121 from 2011 to 2015 as noted in the chart below:[2]




The District cannot reduce its operating costs relating to charter schools. In fiscal year ending June 30, 2015, charter school cost was approximately 8 percent of the District's total expenditures. As noted above, District personnel partially attributed the decrease in the fund balance to the elimination of state funding related to these charter school costs starting with the 2011-12 school year. According to the District, this lost revenue was equal to approximately $2.4 million for the fiscal years ending

[2] Information obtained from the District's *Annual Financial Report*, fiscal years ending 2011 through 2015. Information not obtained or audited by the Department of the Auditor General.

June 30, 2012 through 2015. In fiscal year ending June 30, 2015, the loss was over $500,000.

### The Board Displayed Inadequate Fiscal Controls

**Building Purchase**

At the July 14, 2015 board meeting, all seven of the board members present at the meeting voted to enter into an agreement for the purchase of a school building in the amount of $200,000. According to District personnel, this purchase was not included in the District's budget for the fiscal year ending June 30, 2016. According to the May 12, 2015, board minutes, the Board's intent was to purchase the building to house their pre-kindergarten program that is currently in the elementary school. This decision was made despite an alternative plan presented to move the District's sixth grade to the high school to provide for additional space in the elementary school. District personnel stated the cost for the alternative plan would have been minimal.

According to a feasibility study, the District would have to pay an additional $2.3 million for facility upgrades to meet compliance and regulation mandates plus an approximated $1 million to make the facility fully functional. The District was trying to obtain a United Way Grant that may have funded up to 50 percent of the $3.3 million in upgrade costs, but this funding was not guaranteed at the time of purchase. As of March 2015, the District had not received approval for the grant. On February 17, 2016, the Business Manager stated that the Board no longer intends to borrow money for renovations to the building due to the lack of state funding. They are currently undecided on what to do with the building.

In addition to the cost of the feasibility study, closing costs and related legal fees since the settlement date of October 30, 2015, the District continues to pay for electricity, heating oil, water, and security for this unused building.

During these difficult financial times, the Board should be more prudent when making decisions involving the taxpayer's money. The Board's decision to purchase the property despite not budgeting for the purchase and without clear intent and thorough understanding of funding for related costs showed poor fiscal management.

Since the District estimated a $0 fund balance for fiscal year ending June 30, 2016, in a budget that was passed by the Board prior to the purchase of an unbudgeted building, the Board violated their Policy 612, titled "Purchases Not Budgeted" by disbursing funds in excess of the appropriations provided to the District.

**Tuition Waivers**

As noted in the status of our prior audit report for fiscal year ending June 30, 2012, the Board has approved tuition waivers for educating children of District employees living outside the District's boundaries. During fiscal years ending June 30, 2014, 2015 and 2016, the Board approved tuition waivers for these children resulting in a loss of potential revenue of $179,043.

The District's Professional Compensation Plan[3] (Act 93), effective March 19, 2014 through June 30, 2016, states the following provision will apply to all members of the Act 93 plan:

> "The District will permit the admission of non-resident students who are children of full time employees of the District as outlined in PDE child accounting regulations. Such admitted students will not be required to pay school district tuition."

The potential loss of tuition revenue relating to the education of children of one Act 93 employee was $89,938 for fiscal years ending June 30, 2014 through 2016. The remaining $89,105 was for educating children of teachers free of charge during the same period even though this allowance was not provided for in the teachers' contract. The number of teachers receiving free education for their children ranged between one and three. Since the District's administrators and teachers are paying taxes to the District in which they reside and the state does not provide subsidy for educating tuition-waived students, the District is forced to cover the cost of educating these students, which is comparable to the cost of the waivers since the cost of the

[3] 24 P.S. § 11-1164 (Act 93 of 1984).

waivers were determined using the District's instructional expense calculation per student. We consider waivers a potential loss because it is unknown if the District's employees would send their children to the District if tuition was charged.

**Decreasing General Fund Current Ratio.** Between fiscal year ending June 30, 2014 and June 30, 2015, the District's current ratio (current assets ÷ current liabilities) has decreased to 1.38. A decreasing trend towards 1-to-1 or even lower indicates 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 decreasing current ratio:

| Carbondale Area SD General Fund Current Ratio | | | |
|---|---|---|---|
| **Fiscal Year** | **Current Assets**[4] | **Current Liabilities**[5] | **Current Ratio** |
| **2011** | $7,575,961 | $1,303,350 | 5.81 to 1 |
| **2012** | $6,857,163 | $1,435,657 | 4.77 to 1 |
| **2013** | $6,324,780 | $2,036,873 | 3.11 to 1 |
| **2014** | [6]$3,749,088 | $1,207,347 | 3.11 to 1 |
| **2015** | $2,982,481 | $2,167,475[7] | 1.38 to 1 |

The District's Standard's and Poor's (S & P) credit rating was affected adversely by the inadequate fund balance and other financial risks. Their S & P rating was downgraded to BBB+, and they were placed on CreditWatch with

[4] Information obtained from the District's Independent Auditor's Report, fiscal years ending 2011 through 2015. Information not audited by the Department of the Auditor General.
[5] Information obtained from the District's Independent Auditor's Report, fiscal years ending 2011 through 2015. Information not audited by the Department of the Auditor General.
[6] Current assets decreased significantly due to the decrease in cash and cash equivalents by $2,677,838 from fiscal year ending 2013 to 2014.
[7] Current liabilities increased by over $960,000 between fiscal years ending 2014 and 2015 due to rising pensions, special education salaries, and charter school costs.

negative implications. Ratings play a critical role in determining how much companies and other entities that issue debt, including sovereign governments, have to pay to access credit markets, i.e., the amount of interest they pay on their issued debt. The threshold between investment-grade and speculative-grade ratings has important market implications for issuers' borrowing costs.

In this time of uncertain Commonwealth revenues, the District's declining financial status and projected fiscal year ending June 30, 2016 fund balance, the cost of borrowing is vital to the District and its taxpayers.

**Recommendations**

The *Carbondale Area School District* should:

1. Implement a multi-year plan (recommended 3-5) that is evaluated annually and adjusted accordingly to the most current actual revenue and expenditure data to reverse the historical trend of expenditures exceeding revenues.

2. In addition to an overall multi-year plan, develop a multi-year general fund plan, using historical data, to determine actual facility needs before making any future building purchases.

3. Implement written balanced budgeting procedures to better address and plan for projected future costs. These procedures should address, but not limited to, unfunded special education mandated costs and reduction of charter school funding.

4. Ensure funding is available to absorb the cost of large expenditures, including buildings, prior to approving such expenses.

5. Develop a policy to include criteria for tuition to be waived for nonresident students (ex. children of teachers and administrators).

**Management Response**

District management provided the following response:

"The District Administration agrees with the finding on an absolute basis, which was caused by reduced, delayed, or elimination of State funding, commencing during the 2011-12 school year.

The Carbondale Area School District's loss of Charter School subsidy, continued delay of PlanCon reimbursement on renovations of its Jr-Sr High School, the increase of the Employer Contribution Rate from 8.65% to 25.84% in 2015-16, and flat line or stagnant Special Education subsidy, which was $1,015,365 in 2011-12 and was $1,058,184 in 2014-15 while costs, most of them mandated, increased from $4.0 million to $5.7 million in 4 years, for an increase of 43%, while subsidy increased less than 4%.

The District has attritioned 10 positions, switched health care consortiums, and consolidated as many services as possible, but was unable to slow the deterioration of the fund balance. The Carbondale Area School District receives nearly 60% of its funding from the Commonwealth of Pennsylvania."

**Auditor Conclusion**

We are encouraged that management plans to address the issues noted in this finding. We appreciate their efforts noted in their response to correct the declining fund balance. We also urge the Board to ensure funding is available to absorb the cost of unbudgeted expenditures prior to approval and consider the effect on the District's taxpayers before entering into costly agreements. We will evaluate the effectiveness of any of their corrective actions during our next audit of the District.

## Status of Prior Audit Findings and Observations

Our prior audit of the District released on October 30, 2013, resulted in three findings and one observation. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

**Auditor General Performance Audit Report Released in October 10, 2013**

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**Prior Finding No. 1: Errors in Reporting Membership for Children Placed in Private Homes Resulted in an Underpayment of $80,067 (Resolved)**

Prior Finding Summary: Our prior audit of the District found that the District's pupil membership reports submitted to PDE by the District for the 2009-10 and 2010-11 school years found reporting errors for children placed in private homes and a lack of internal controls resulting in underpayments of $43,150 for the 2009-10 school year and $36,917 for the 2010-11 school year.

Prior Recommendations: We recommended that the District should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PDE's Pennsylvania Information Management System (PIMS) with the information in the District's student information system.

2. Request additional training from PDE to ensure that the personnel tasked with PIMS reporting thoroughly understand PDE's guidelines and instructions.

3. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.

4. Compare placing agency letters for children placed in private homes with District reports to ensure that student membership is properly classified.

5. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.

We also recommended that PDE should:

6. Adjust the District's allocations to resolve the underpayment of $80,067.

Current Status: The District did implement all our prior recommendations. The District established a system that reconciles data uploaded into PDE's PIMS system and performs internal reviews prior to submitting membership data to PDE. According to PDE personnel, PDE is scheduled to resolve the underpayment in June 2016.

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**Prior Finding No. 2: The District Educated Non-Resident Students for Free, Resulting in $150,571 in Lost Tuition Revenue (Unresolved)**

Prior Finding Summary: Our prior audit of the District's accounting records found the District educated seven students living outside the District's boundaries without requiring them to pay tuition from the 2008-09 through 2012-13 school years. The administration made this decision without the approval of the District's Board. The decision resulted in a loss of revenue of $150,571 for the 2008-09 through 2011-12 school years and an estimated loss of revenue of $60,159 for the 2012-13 school year.

Prior Recommendations: We recommended that the District should:

1. Strengthen internal control procedures for determining student residency.

2. Receive board approval for each tuition waiver prior to educating a non-resident student free of charge.

3. Implement a board policy to address tuition waivers, specifically, waivers for teachers' children.

4. Consult with the District solicitor to determine the teachers' and administrators' financial responsibility for past tuition of $150,571 and the projected 2012-13 tuition of approximately $60,159 not collected by the District.

Current Status: The District did implement our prior Recommendation Nos. 1 and 2. They strengthened internal controls over the verification of residency and now receive board approval for each tuition waiver. The District did not implement Recommendation No. 3. The District did provide some informal written tuition waiver procedures stating that all waivers will be determined on a case-by-case basis. The District did not develop a tuition waiver policy, specifically waivers for teachers' children. According to the District's corrective action plan submitted to PDE, the District has decided not to pursue collection of past tuition amounts noted in our prior finding.

The District continues to allow the children of teachers and administrators to attend the District free of charge resulting in a potential loss of tuition income of $179,043. The lack of policy and the cost of tuition waivers is again noted in the finding included in this report (see page 4).

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**Prior Finding No. 3: The Board of School Directors Violated the Public School Code by Prematurely Terminating the Former Superintendent's Contract (Resolved)**

Prior Finding Summary: Our prior audit of the District found that District's Board accepted the resignation of the former Superintendent in order to enter into a new Agreement. The new Agreement had a term of five years, from September 10, 2007 through September 9, 2012.

Although the resignation of the former Superintendent created a vacancy in the office, the vacancy was conditional upon the Superintendent receiving a new Agreement. Thus, the Board circumvented Section 1073 (a) of the PSC requiring the Board to enter into a contract with the Superintendent during the last year of the Agreement and to serve a term of three to five years.

Prior Recommendations: We recommended that the District should:

Only approve renewals of contracts or agreements entirely consistent with Section 1073 (a) of the PSC, which requires that an agreement only be extended during the last year of the term of the District's Superintendent and to serve a term of three to five years.

Current Status: The District did implement our prior recommendation and the current Superintendent's contract was consistent with Section 1073 (a) of the PSC and renewed during the last year of the term of his prior contract.

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**Prior Observation:** **Board Approved Generous Retirement Packages for a Former Superintendent and Two Former Principals Totaling at Least $690,466 (Resolved)**

Prior Observation Summary:

Our prior audit of the District found that in reviewing the Employment Agreement with its former Superintendent and the District's Act 93 Professional Compensation Plan, which outlines the benefits for all other District administrators, the Board approved contracts that provided administrative employees with excessive compensation and retirement benefits.

Excessive whole life insurance policies worth $200,000 each were provided to the former Superintendent and two former administrators with premiums that could cost the District up to $1.2 million.

Prior Recommendations:

We recommended that the District should:

1. Consider the taxpayers' expectation that their money will be used for the education of the District's children when negotiating employee agreements.

2. Ensure all of the District's employment agreements are transparent as possible, so that the District's taxpayers can evaluate their appropriateness.

3. Ensure that any future contractual obligations for a superintendent who terminates an employment contract early for any reason only receive partial benefits and that the Board not make any commitments that would obligate the Public School Employee' Retirement System, and insurer, or any other third party.

4. Require that the District's solicitor provide the Board with the detailed overview of the Section 1073 revisions of the PSC (Act 141 of 2012), effective September 10, 2012, regarding contracts for the employment of a district superintendent, as well as the explicit objective performance standards for district superintendents in Section 1073.1 of the PSC, added by Act 82 of 2012 and Act 141.

5. Ensure that the District's solicitor more closely review all future contracts to make certain that the District is not giving out benefits to top administrators that are in excess of fair and reasonable benefits and that the contracts are written in plain language in the areas pertaining to leave payouts and life insurance policies.

Current Status: The District did implement all our prior recommendations. Current contracts are transparent and written in plain language with no apparent excessive perks. The District had the $200,000 life insurances policies rewritten to have set yearly premiums, which cannot increase over time. This was done in cooperation with the former Superintendent and one of the two former administrators mentioned in the observation.

## Appendix: Audit Scope, Objectives, and Methodology

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

Our audit, conducted under authority of Section 403 of The Fiscal Code,[8] is not a substitute for the local annual financial audit required by the PSC of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

**Scope**

Overall, our audit covered the period July 1, 2012 through June 30, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls[9] to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

[8] 72 P.S. § 403.

[9] Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as: effectiveness and efficiency of operations; relevance and reliability of operational and financial information; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

## Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. 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
- Hiring and Separations
- School Safety
- Bus Driver Requirements

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

- Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?

    - To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2011 through 2015. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics.

- 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 selected the District's eight largest vendors in the following areas: goods, food service, general consulting, maintenance, transportation, special education and legal services during the 2014-15 fiscal year for detailed testing. Three of the eight vendors selected had contracts in the areas of transportation, special education services and special education consulting services. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the PSC 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.

- ü Did the LEA follow the PSC and best practices when hiring new staff?

  - o To address this objective, we obtained and reviewed the District's hiring policies and procedures. We randomly selected three of six employees hired by the District from July 1, 2015 through January 22, 2016, and reviewed documentation to determine if the District complied with the PSC, District policies and procedures, and best practices in hiring new employees. Employees tested included both certified and non-certified employees.

- ü Did the District take appropriate actions to ensure it provided a safe school environment?

  - o To address this objective, we reviewed a variety of documentation including, safety plans, anti-bullying policies, and any basic safety practices implemented since our prior review.

- ü Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outline in applicable laws?[10] Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

  - o To address this objective, we selected 5 of 63 total bus drivers hired by both the District and District bus contractors, from August 1, 2014 through September 1, 2015, and reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

[10] 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*.

## Distribution List

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

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This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

[i] Source: School district, PDE, and U.S. Census data.
[ii] Source: Information provided by the District administration.
[iii] Source: United States Census http://www.census.gov/2010census
[iv] PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the "All Students" group for the 2011-12 and 2012-13 school years.
[v] PSSA scores, which are Pennsylvania's mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a material weakness in internal controls over PDE's compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.
[vi] 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 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.
[vii] SPP stands for School Performance Profile, which is Pennsylvania's new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.
[viii] *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered "No Designation" schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.
[ix] Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE's CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a significant deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.