



**TRINITY AREA SCHOOL DISTRICT  
WASHINGTON COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**JUNE 2014**

**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. Jennifer D. Morgan, Board President  
Trinity Area School District  
231 Park Avenue  
Washington, Pennsylvania 15301

Dear Governor Corbett and Ms. Morgan:

We conducted a performance audit of the Trinity Area 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 September 16, 2010 through September 3, 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, 2009, 2010, 2011, and 2012. 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 that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

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

EUGENE A. DEPASQUALE  
Auditor General

June 19, 2014

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

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Trinity Area School District (District) in Washington 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.

Our audit scope covered the period September 16, 2010 through September 3, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

### **District Background**

The District encompasses approximately 81 square miles. According to 2010 federal census data, it serves a resident population of 26,055. According to District officials, the District provided basic educational services to 3,225 pupils through the employment of 251 teachers, 148 full-time and part-time support personnel, and sixteen (16) administrators during the 2011-12 school year. The District received \$18.4 million in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation.

**Finding: Inadequate Documentation Supporting \$39,005 in Tuition for Children Placed in Private Homes and a Lack of Sufficient Internal Controls Over its Student Record Data.** Our audit of the Trinity Area School District's (District) pupil membership records for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found that the District did not maintain adequate documentation to support the students reported to the Pennsylvania Department of Education as non-resident students placed in private homes (see page 6).

**Observation: The Trinity Area School District is in a Financially Declining Position Which May Lead to Distressed Status.** The Trinity Area School District (District) passed a budget with expenditures exceeding revenues for the 2012-13 school year. As a result, the District must use its fund balance to make the necessary appropriation measures required by Section 6-687(b) of the Public School Code. Continuing to budget in this manner will eventually cause the District to incur a deficit fund balance because expenditures could exceed revenues and available fund balance.

The passing of a budget with a deficit fund balance is an indicator of poor governance by the Board of School Directors and the administrative staff's inability to accurately prepare a valid budget (see page 9).

**Status of Prior Audit Findings and Observations.** There were no findings or observations in our prior audit report.

## Audit Scope, Objectives, and Methodology

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### 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 September 16, 2010 through September 3, 2013, except for the verification of professional employee certification, which was performed for the July 1, 2012 through July 25, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 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?
- ✓ 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?

## Methodology

### *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.

*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 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.

## Findings and Observations

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### Finding

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### **Inadequate Documentation Supporting \$39,005 in Tuition for Children Placed in Private Homes and a Lack of Sufficient Internal Controls Over Its Student Record Data**

*Criteria relevant to the finding:*

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and 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.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in 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 Pre-K 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 of the Trinity Area School District's (District) pupil membership records for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found that the District did not maintain adequate documentation to support the students reported to PDE as nonresident students placed in private homes (foster children). As a result, we were unable to verify the correctness of Commonwealth-paid tuition, which had declined from \$36,063 for the 2008-09 school year to \$1,661, \$1,281, to zero (0) funding being received for the 2011-12 school year, respectively.

The deficiencies occurred, in part, because the District experienced a change of personnel who were unaware of the need to obtain the supporting confirmation letters from child placement agencies to verify the residences of the natural parents and/or legal guardians of the students and to verify that these foster parents were being compensated.

*Criteria relevant to the finding  
(continued):*

Additionally, according to the Federal Information System Controls Audit 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.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is a management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. GAO. *Standards for Internal Control in the Federal Government* (November 1999), pg 1.

Our audit also found the following weaknesses:

The District's child accounting data is input by multiple sources and this data is not reviewed for consistency and accuracy. Five (5) students who were identified as non-resident or foster students but had residency coding that would classify the students as residents of the District evidenced this issue. Without the confirmation letters, we were not able to determine which classification was correct.

The District does not have documented procedures in place (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over PIMS data submission, in the event of personnel turnover. If the District had proper training procedures in place, the new personnel would have been aware of what documentation was needed to be obtained and retained for audit purposes.

Furthermore, in April of each year, PDE supplies the districts of the Commonwealth with a preliminary summary of child accounting report. This report is to be used by the districts to compare the data uploaded into PIMS to the data generated by the districts' student information systems.

This integral review process would enable the District to catch any reporting errors and make necessary adjustments prior to PDE's finalization of the District's membership data.

## **Recommendations**

The *Trinity Area School District* should:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate and complete records and the relationship of membership data to state subsidies and reimbursements.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or non-resident students and documents the district of residence of the natural parent or guardian.

Section 2503 (c) of the Public School Code, 24 P.S. § 25-2503 (c), states: “Each school district, regardless of classification, which accepts any non-resident child in its school under the provisions of section one thousand three hundred five or one thousand three hundred six . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per secondary pupil, as the case may be. . . .”

3. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit reviewed reports to PDE.
4. Consider centralizing the entry/withdrawal process to limit input errors and training requirements.

### **Management Response**

Management agreed with the finding and had no response.

### **Auditor Conclusion**

We are encouraged that the District agrees with our finding. We will follow up on the status of our recommendations during our next cyclical audit of the District.

## Observation

### The Trinity Area School District is in a Financially Declining Position Which May Lead to Distressed Status

*Criteria relevant to the observation:*

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

1. The total of budgeted expenditures plus other uses must be less than the total of revenues plus other resources plus fund balance in the General Fund. In other words, the budget must be balanced.
2. Total debt service is not to exceed ten (10) percent of the General Fund expenditures.

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

3. 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).

The Trinity Area School District (District) passed a budget with expenditures exceeding revenues for the 2012-13 school year. As a result, the District must use its fund balance to make the necessary appropriation measures required by Section 6-687(b) of the Public School Code. Continuing to budget in this manner will eventually cause the District to incur a deficit fund balance because expenditures could exceed revenues and the available fund balance. The passing of a budget with a deficit fund balance is an indicator of poor governance by the Board of School Directors and an inability of the administrative staff to accurately prepare a valid budget.

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

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

- **Debt Service:** The District's debt service payments for the most recent school year exceeded ten (10) percent of general fund expenditures. This is an indicator that the burden of debt service on the District's budget is high and could have a negative effect on the District's ability to continue providing educational services at the current level since over ten (10) percent of total expenditures are for debt service payments. The District should not look into taking on more debt.

Criteria relevant to the observation  
(continued):

Best Business Practices and/or general financial statement analysis tools require the following:

1. The trend of current ratios should be at least two (2) to one (1) or increasing. Anything less calls into questions the school district's ability to meet its current obligations with existing resources.
2. 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.
3. A debt-to-asset ratio or trend of ratios increasing towards one (1) indication that the school 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 adequately to function.
4. The cost for a school district student attending a charter school is paid out of the sending district's operating funds. These 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 reduces the number of staff employed by the District

| 2011-12 School Year Debt Service |                              |                   |
|----------------------------------|------------------------------|-------------------|
| Total<br><u>Debt Service</u>     | Total<br><u>Expenditures</u> | <u>Percentage</u> |
| \$6,105,221                      | \$45,882,795                 | 13.31%            |

- **Operating Position:** For the 2011-12 school year, the District over expended its revenues, thereby decreasing its operating position. This reduction in operating position could leave the District in a more vulnerable financial position. Each year when expenditures exceed revenues, a deficit is incurred. This deficit results in a decrease to the District's fund balance and could lead to a negative fund balance status, which could potentially affect the District's ability to continue providing educational services.

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

| Trend: Revenues v. Expenditures |                          |   |                              |                                  |
|---------------------------------|--------------------------|---|------------------------------|----------------------------------|
| Year End<br><u>June 30</u>      | Total<br><u>Revenues</u> | - | Total<br><u>Expenditures</u> | =<br><u>Excess<br/>(Deficit)</u> |
| 2009                            | \$ 44,171,416            |   | \$ 42,315,796                | \$ 1,855,620                     |
| 2010                            | 45,052,992               |   | 43,661,990                   | 1,391,002                        |
| 2011                            | 45,420,599               |   | 44,739,266                   | 681,333                          |
| 2012                            | 44,985,668               |   | 45,882,838                   | (897,170)                        |

- **General Fund Current Ratio:** For the trend period 2009 to 2012, the general fund current ratio (current assets ÷ current liabilities) was decreasing. A decreasing trend towards one-to-one 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:

| <b>Decreasing Current Ratio</b><br><i>(Assets ÷ Liabilities)</i> |               |                      |                |
|--|---------------|----------------------|----------------|
| Year End   | Current       | Current              | <i>Current</i> |
| <u>June 30</u>   | <u>Assets</u> | ÷ <u>Liabilities</u> | = <u>Ratio</u> |
| 2009   | \$ 11,981,794 | \$ 7,967,848         | <b>1.50</b>    |
| 2010   | 11,805,639    | 9,113,837            | <b>1.30</b>    |
| 2011   | 11,479,222    | 9,005,221            | <b>1.27</b>    |
| 2012   | 10,158,734    | 9,321,332            | <b>1.09</b>    |

- General Fund Quick Ratio:** For the trend period 2009 to 2012, the general fund quick ratio ((cash + investments) ÷ current liabilities) was decreasing. This test assesses an organization's short-term solvency. As a result, a decreasing trend can be an indicator of the District's inability to pay its current debts without the disposal of other current assets. As with the current ratio, potential creditors also use this ratio to measure a District's ability to pay its short-term debts. Therefore, a declining general fund quick ratio could also make it more difficult for the district to obtain a loan or other debt instrument at a reasonable interest rate.

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

| <b>Decreasing Quick Ratio</b><br><i>(Cash + Investments) ÷ Liabilities</i> |             |   |             |   |               |   |                    |   |              |
|--|-------------|---|-------------|---|---------------|---|--------------------|---|--------------|
| Year End   | Cash        | + | Investments | = | Quick         | ÷ | Current            | = | <i>Quick</i> |
| <u>June 30</u>   |             |   |             |   | <u>Assets</u> |   | <u>Liabilities</u> |   | <u>Ratio</u> |
| 2009   | \$9,010,380 |   | n/a         |   | \$9,010,380   |   | \$7,967,848        |   | <b>1.13</b>  |
| 2010   | 5,218,898   |   | \$3,429,174 |   | 8,648,072     |   | 9,113,837          |   | <b>0.95</b>  |
| 2011   | 5,243,232   |   | 3,430,922   |   | 8,674,154     |   | 9,005,221          |   | <b>0.96</b>  |
| 2012   | 5,203,101   |   | 2,231,861   |   | 7,434,962     |   | 9,321,332          |   | <b>0.80</b>  |

- Debt-to-Asset Ratio:** For the trend period 2009 to 2012, 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:

| <b>Increasing Debt-to-Asset Ratio</b><br><i>(Current Liabilities ÷ Current Assets)</i> |                               |   |  |
|--|-------------------------------|---|--|
| Year End<br><u>June 30</u>   | Current<br><u>Liabilities</u> | ÷ | Current<br><u>Assets</u> = <u><i>Debt-to-Asset Ratio</i></u> |
| 2009   | \$7,967,848                   |   | \$11,981,794 = <b>0.66</b>                                   |
| 2010   | 9,113,837                     |   | 11,805,639 = <b>0.77</b>                                     |
| 2011   | 9,005,221                     |   | 11,479,222 = <b>0.78</b>                                     |
| 2012   | 9,321,332                     |   | 10,158,734 = <b>0.92</b>                                     |

- Charter School Students:** For the trend period 2009 to 2012, the number of District students attending charter schools has increased by over ten (10) percent. At the same time, the cost of students attending charter schools is increasing. Consequently, the amount of District funds available for in-house educational services has been reduced. This could cause the District to reduce services to the students that remain in the District’s schools. Specifically, unless the number of students attending charter schools is significant enough to reduce the number of staff or the number of school buildings, the District cannot reduce its operating costs, even though it is receiving less money.

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

| <b>Trend: Charter School Membership Growth</b><br><i>(As a Percentage of Total District Membership)</i> |                        |   |                |                                     |
|---|------------------------|---|----------------|-------------------------------------|
| Year End  | Charter School         |   | Total District | <i>Charter School/ District ADM</i> |
| <u>June 30</u>  | <u>ADM<sup>1</sup></u> | ÷ | <u>ADM</u>     | = <u>District ADM</u>               |
| 2009  | *                      |   | *              | *                                   |
| 2010  | 72.987                 |   | 3,365.517      | <b>2.17%</b>                        |
| 2011  | 78.235                 |   | 3,282.354      | <b>2.38%</b>                        |
| 2012  | 94.422                 |   | 3,198.317      | <b>2.95%</b>                        |

*\*Data was unavailable at the time of the audit.*

| <b>Trend: Charter School Cost to District Growth</b><br><i>(As a Percentage of Total District Expenditures)</i> |                        |   |                     |                                   |
|---|------------------------|---|---------------------|-----------------------------------|
| Year End  | Tuition Paid to        |   | Total District      | <i>Charter Costs/ Total Costs</i> |
| <u>June 30</u>  | <u>Charter Schools</u> | ÷ | <u>Expenditures</u> | = <u>Total Costs</u>              |
| 2009  | \$ 635,511             |   | \$ 42,315,796       | <b>1.5%</b>                       |
| 2010  | 930,676                |   | 43,661,990          | <b>2.1%</b>                       |
| 2011  | 603,291                |   | 44,739,266          | <b>1.3%</b>                       |
| 2012  | 1,024,778              |   | 45,882,838          | <b>2.2%</b>                       |

In addition, the District is facing growing financial pressure as a result of the elimination of the state reimbursement paid to all districts for a portion of their charter costs. So while the District’s charter school costs have risen—over 61 percent over four (4) years—the issue is compounded by the fact that, since 2011, the Commonwealth has not funded the school district reimbursement for charter school tuition costs, as demonstrated in the chart below. If this reimbursement were still in place, the District would have received at least \$176,000 in additional revenue for 2010-11 and 2011-12.

<sup>1</sup> 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.*

| <b>Trend: State Reimbursement Paid to the District for Charter Costs</b> |                                 |                            |
|--|---------------------------------|----------------------------|
| <u>School Year</u>   | <u>Tuition Paid to Charters</u> | <u>State Reimbursement</u> |
| 2008-09  | \$ 635,511                      | \$ 140,382                 |
| 2009-10  | 930,676                         | 176,149                    |
| 2010-11  | 603,291                         | No funding                 |
| 2011-12  | 1,024,778                       | No funding                 |

## **Recommendations**

The *Trinity Area School District* should:

1. Pass balanced budgets in accordance with Section 6-687(b) of the Public School Code.
2. Provide the Board of School Directors standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
3. Maintain and monitor sensitive budgetary controls so that expenditures do not exceed revenues.
4. Open a dialogue with the District's community to keep stakeholders informed of the financial status and health of the District.
5. Conduct a survey of parents sending children to a charter school to determine the reason why the District is losing more students to charter schools.

## **Management Response**

Management stated the following:

“During the four year audit period, the District saw its General Fund balance grow from \$3,413,757 on July 1, 2008 to \$3,973,803 on June 30, 2012. During this time, the District instituted several new and innovative programs while growing its fund balance – all without a millage increase. More recently, however, for the 2012-13 school year, the District passed a balanced budget that relied upon monies from the General Fund to make up a short fall between current revenues and current expenditures. Additional hirings early in the school year increased the shortfall.

Its reliance on the General Fund in 2012-13 was of concern to the District and became a primary factor in the District's approach to its 2013-14 budget. Consequently, the budget for the current year has a millage increase, for the first time since 2005-06, and carefully managed cuts in expenditures. As a result, the current budget uses less than a third of the General Fund monies the previous year was projected to use after the additional hirings.

Well aware that the General Fund cannot be relied upon as a long-term funding source, the District recognizes that going forward its expenditures must not exceed current revenues. The District is exploring a variety of ways to accomplish that goal including. But not limited to, outreach to bring charter and cyber charter students back to the District, reducing the annual debt burden of the District to less than 10% of general fund expenditures, continued cost reduction, and annual millage increases up to the index.”

#### **Auditor Conclusion**

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

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

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**O**ur prior audit of the Trinity Area School District resulted in no findings or observations.

## **Distribution List**

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

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