

PERFORMANCE AUDIT

School District of the City of Monessen Westmoreland County, Pennsylvania

August 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Donna Fantauzzi, Board President
School District of the City of Monessen
1275 Rostraver Street
Monessen, Pennsylvania 15062

Dear Governor Corbett and Ms. Fantauzzi:

We conducted a performance audit of the School District of the City of Monessen (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period March 10, 2011 through December 9, 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 two (2) findings noted in this report. In addition, we identified two (2) matters unrelated to compliance that are reported as observations. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings, observations, 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

August 21, 2014

cc: **SCHOOL DISTRICT OF THE CITY OF MONESSEN** 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 School District of the City of Monessen (District) in Westmoreland 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 March 10, 2011 through December 9, 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 two (2) square miles. According to 2010 federal census data, it serves a resident population of 7,720. According to District officials, the District provided basic educational services to 895 pupils through the employment of 87 teachers, 33 full-time and part-time support personnel, and eight (8) administrators during the 2011-12 school year. The District received \$8 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 two (2) compliance related matters reported as findings. In addition, we identified two (2) matters unrelated to compliance that are reported as observations.

Finding No. 1: Pupil Transportation Reporting Errors Resulted in a Net Underpayment of \$32,448. Our audit of the School District of the City of Monessen's transportation records for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found errors in data reported to the Pennsylvania Department of Education for all years of audit (see page 6).

Finding No. 2: Errors in Reporting Student Data Resulted in a \$31,472 State Subsidy Underpayment. Our audit of the School District of the City of Monessen's (District) nonresident pupil membership for the 2009-10 school year found errors in reports submitted by the District to the Pennsylvania Department of Education. These errors resulted in a \$31,472 state subsidy underpayment for children placed in private homes (foster children) for the 2009-10 school year (see page 10).

Observation No. 1: District is in a Financially Declining Position. Our analysis of the School District of the City of Monessen's (District) 22 financial benchmarks found that the District is in a financially declining position. These benchmarks indicate that if the District does not address these issues, the District may

need to reduce educational services and programs (see page 13).

Observation No. 2: The Amount Paid to Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Allowance. Our audit of the School District of the City of Monessen's (District) contracted pupil transportation costs for the school years ending June 30, 2009 through June 30, 2012, found that over the four years, the contracted costs paid to the District's main transportation contractor was substantially more than the Pennsylvania Department of Education's final formula allowance, which is used to determine reimbursement of pupil transportation services (see page 21).

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

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 March 10, 2011 through December 9, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through June 30, 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?
- ✓ 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 transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were 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

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

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.

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

Finding No. 1

Pupil Transportation Reporting Errors Resulted in a Net Underpayment of \$32,448

Criteria relevant to the finding:

The Pennsylvania Department of Education (PDE) instructions for completing the end-of-year summary report require any changes in the miles with and miles without pupils, total mileage, number of days the vehicle provided to and from school transportation and pupils transported to and from school be based on actual data using the districts; daily records and weighted or sample averaging of mileage and pupils.

PDE instructions provide that when a district provides transportation for its public pupils, it must provide transportation services to nonpublic pupils of the same grade level that it is providing for its own pupils.

PDE instructions for entering the number of nonpublic school pupils transported note:

“Any child your district is financially responsible to educate is a PUBLIC pupil.”

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.”

Our audit of the School District of the City of Monessen’s (District) transportation records for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found errors in the pupil transportation data reported to the Pennsylvania Department of Education (PDE) for all years of audit. These errors resulted in a net underpayment to the District of \$32,448. Our audit found consistent errors broken out by bus and detailed by each school year under review, as follows:

Reported Errors by Type					
School Year	Buses	Mileage	Pupils	School Days	(Over)/ Under Payment
2008-09	12	1	1	1	\$11,743
2009-10	12	No errors	6	No errors	(566)
2010-11	12	3	7	3	27,245
2011-12	11	3	6	3	13,661
Total:					<u>\$52,083</u>

Daily Mileage With and Without Pupils: In discussion with District personnel, we learned that the District’s mileage reports were prepared by the contractor and that District staff took no steps to verify them. Without appropriate internal reviews of the supporting documentation provided by the contractors, the District cannot be assured that the data reported is accurate and that the District is receiving the funding that it is entitled to receive.

Number of Pupils: We again found that the District relied on information provided by the contractors without any internal review. The errors found by the auditors were the result of District personnel not utilizing their own bus assignment totals for a sample average, but rather the District used a single month bus ridership total provided by the bus contractor. If the District had made a comparison of the contractor’s totals and the internal reports, they would have noticed the differences in the figures.

In addition, this guidebook states:

“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.”

U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg. 1.

Number of Days: We found that the failure to accurately compute the number of days was a clerical error, which again would have been noticed if a detailed internal review had been performed prior to the submission of the end-of-year reports to PDE.

Nonpublic Pupil Data: Regarding our audit of the District’s nonpublic pupil reporting, we found that the District included for reimbursement students who attended special needs schools. The education for these students is paid for by the District. Therefore, these students should not have been included in the nonpublic pupil count. As a result of this error, nonpublic pupils were over-reported by ten (10) pupils in 2008-09 school year, nineteen (19) pupils in 2009-10 school year, fourteen (14) pupils in 2010-11 school year, and eight (8) pupils in the 2011-12 school year.

Nonpublic Pupil Reporting Errors		
School Year	Pupils Over-reported	Subsidy Overpayment
2008-09	10	\$ 3,850
2009-10	19	7,315
2010-11	14	5,390
2011-12	8	<u>3,080</u>
		<i>\$19,635</i>

In addition to the special needs students, the District also included nonpublic preschool pupils in its nonpublic pupil counts. However, preschool children are considered non-school age pupils and cannot be included for transportation reimbursement.

Conclusion: Approved daily miles with and without pupils, the number of pupils transported, and the number of days transportation provided are all integral parts of the transportation reimbursement calculation. These factors must be reported accurately to PDE in order for the District to receive accurate reimbursement for pupil transportation.

It is the responsibility of District management to have appropriate policies and procedures in place to ensure that transportation data is properly collected and submitted. Without these internal controls, the District cannot be assured that the data it is submitting to PDE for transportation reimbursements is accurate.

We have provided PDE with a report detailing the errors for the 2008-09, 2009-10, 2010-11, and 2011-12 school years for use in recalculating the District's transportation reimbursement.

Recommendations

The *School District of the City of Monessen* should:

1. Develop internal control procedures to ensure that District personnel independently verify contractor mileage and pupil counts.
2. Develop and maintain internal policies and procedures to ensure that student transportation data is collected and reported accurately. For example, once the District's transportation data has been collected, a different member of the District's staff should review it for accuracy before it is reported to PDE.
3. Ensure summaries are prepared and reviewed to ensure accurate reporting of miles with/without pupils, number of pupils assigned to ride each bus, number of days that buses provide transportation, and number of nonpublic pupils transported.
4. Review transportation reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's subsidy to resolve the \$32,448 underpayment.

Management Response

Management stated the following:

“January 2008 I became the Business Manager for the school district. The previous business manager had left the district in December of 2007 therefore I received very little training. The majority of my job duties were self-taught by reviewing past reporting including the transportation reports. I did review the guidelines for this report but I also reviewed the previous 3 years (07/08, 06/07, 05/06) reports

that had been filed. My reports for the years stated mirrored the format reported in the years prior to my arrival. I have had 2 other state audits in this time frame and I have never received any indication that my reporting in this area was incorrect. Also, as with other reports I have submitted, if there were errors you are notified to make the corrections or explanations. I once again never received any notifications. Ignorance is not an excuse and ultimately it is my responsibility to file correct reports according to the state's guidelines but if you are not aware that the reporting has been incorrect how can changes be made. I now have a better working knowledge of this report and in the future will strive to follow the guidelines set forth from the PA Dept. of Education.”

Auditor Conclusion

We are encouraged that the District acknowledges its transportation reporting deficiencies and is working to address them. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Finding No. 2

Errors in Reporting Student Data Resulted in a \$31,472 State Subsidy Underpayment

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 the 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 School District of the City of Monessen's (District) nonresident pupil membership for the 2009-10 school year found coding errors in the child accounting data submitted by the District to PDE. These errors resulted in a \$31,472 state subsidy underpayment for children placed in private homes (foster children) for the 2009-10 school year.

We found that in the 2009-10 school year, the District used an incorrect residency code for foster students educated by the District. By using the incorrect code, PDE did not recognize the students as nonresident foster students and as a result, the District did not receive the correct funding that they were entitled to. As a result of the coding error, the membership days were understated as follows: 117 days for full-time kindergarten students, 394 days for elementary foster children, and 139 days for secondary foster children. This resulted in a total underpayment of \$31,472 in Commonwealth subsidies.

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.

Section 1305 of the Public School Code (PSC), 24 P.S. § 1305, provides for Commonwealth payment of tuition for nonresident children placed in private homes.

Section 2503 (c) of the PSC, 24 P.S. § 2503 (c), specifies the amount of Commonwealth-paid tuition on behalf of nonresident children placed in private homes by providing, in part:

“Each school district, regardless of classification, which accepts any nonresident child in its school under the provisions of section one thousand three hundred five . . . 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 . . .

We have provided PDE with a report detailing the nonresident membership errors for use in recalculating the District’s tuition for foster children.

It is the responsibility of District management to have internal policies and procedures in place to ensure that student data is accurately collected and submitted to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate subsidy.

We reviewed nonresident pupil membership for the 2010-11 and 2011-12 school years and found that District personnel correctly reported these children in PIMS.

Recommendations

The *School District of the City of Monessen* should:

1. Review the PIMS manual of reporting for instructions in the proper reporting of nonresident students.
2. Put into place policies and procedures for verifying student data reported to PDE through PIMS.

The *Pennsylvania Department of Education* should:

3. Adjust the District’s allocations to correct the underpayment of \$31,472.

Management Response

Management stated the following:

“The audit of the School District of the City of Monessen was not entered correctly for nonresident pupil membership for the 2009-10 school year in reports submitted to the Pennsylvania Department of Education (PIMS) due to clerical data entries. The district made changes to ensure data quality submissions are accurately entered by making changes in operation of data entry. All personnel have or will receive specific training of data entry offered through webinars through PDE/PIMS.

The district created a data entry team of staff to be responsible for specific reporting of data. Bi-monthly

meetings have been instituted to review updates and changes for the school year. Specific monthly meetings are held prior to upload deadlines using the PIMS Calendar as the guide. All personnel will be directed by the PIMS administrator to make corrections to data entry errors. ACS [accuracy certification statement] reports will be signed by all personnel responsible for data entry to maintain DQC [data quality control] of the district's reporting.

All data will be reviewed by each individual responsible for entering specific data prior to deadlines. Recurring data errors will be reviewed and handled by the district Superintendent, [superintendent].

Using the above action plan will ensure all data will be reported accurately to the Department of Education PIMS.”

Auditor Conclusion

We are encouraged that the District has taken steps to address this deficiency. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Observation No. 1 →

District is in a Financially Declining Position

Criteria relevant to the observation:

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 benchmark:

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). 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 school 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.*

Our analysis of 22 financial benchmarks found that the School District of the City of Monessen (District) is in a financially declining position. These benchmarks indicate that if the District does not address these issues, the District may need to reduce educational services and programs. Otherwise, the District may become a state-designated “distressed school district” and require state intervention.

The 22 financial benchmarks used in our analysis are 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. Our testing found the District had the following negative benchmarks:

Negative Operating Position: For the 2011-12 school year, the District over expended its revenues, thereby decreasing its operating position. A reduction in operating position could leave the District in a more vulnerable financial position and move it closer to distressed status. 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.

This revenue deficit led to a reduction of the General Fund and resulted in a negative General Fund balance at the end of the 2011-12 school year, as follows:

2011-12 School Year Operating Position			
<u>Revenues</u>	<u>Expenditures</u>	<u>Excess/ (Deficit)</u>	<u>General Fund Balance</u>
\$14,254,477	\$14,810,836	(\$556,359)	(\$391,819)

Inadequate General Fund Current Ratio: For the trend period 2006 to 2012, the general fund current ratio (current assets ÷ current liabilities) was inadequate. A trend lower than 2 to 1 or decreasing indicates that the District’s financial solvency is inadequate and may indicate the District may not be able to pay its current debts as they become due without an infusion of cash from the disposal of assets or receipt of revenues. Potential creditors use this ratio to measure a District’s ability to pay its short-term

debts. An inadequate or declining trend may prevent the District from obtaining any new debt or if obtainable, the debt may bear an inflated interest rate, thereby costing the District more for the borrowing.

The following chart documents the District’s inadequate current ratio over the trend period:

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>
2006	\$ 4,401,737		\$ 1,863,443	2.36
2007	4,098,793		1,684,017	2.43
2008	4,232,947		1,785,550	2.37
2009	3,857,649		1,981,431	1.95
2010	3,897,470		2,423,188	1.61
2011	2,233,270		2,055,230	1.09
2012	1,658,581		2,050,400	0.81

Inadequate General Fund Quick Ratio: For the trend period 2006 to 2012, the general fund quick ratio ((cash + investments) ÷ current liabilities) was inadequate. An inadequate or decreasing trend of this rigorous test of short-term solvency is an indicator that the District may not have the ability to pay its current assets. Potential creditors use this ratio to measure a District’s ability to pay its short-term debts. An inadequate or declining trend may prevent the District from obtaining any new debt or if obtainable, the debt may bear an inflated interest rate, thereby costing the District more for the borrowing.

The following chart documents the District’s inadequate quick ratio over the trend period:

Decreasing Quick Ratio <i>(Cash + Investments) ÷ Liabilities</i>									
Year End			Quick		Current	<i>Quick</i>			
<u>June 30</u>	<u>Cash</u>	+	<u>Investments</u>	=	<u>Assets</u>	÷	<u>Liabilities</u>	=	<u>Ratio</u>
2006	\$ 3,124,478		\$ 0		\$ 3,124,478		\$ 1,863,443		1.68
2007	2,570,480		750,000		3,320,480		1,684,017		1.97
2008	3,017,359		500,000		3,517,359		1,785,550		1.97
2009	2,644,340		494,000		3,138,340		1,981,431		1.58
2010	2,900,227		0		2,900,227		2,423,188		1.20
2011	1,274,698		0		1,274,698		2,055,230		0.62
2012	925,208		0		925,208		2,050,400		0.45

Criteria relevant to the observation (continued):

The cost for a school 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 reduces the number of staff employed by the district.

Increase in Charter School Students: For the trend period 2006 to 2012, the number of District students attending charter schools increased by over 132 percent. This enrollment growth has simultaneously increased the District's charter school costs. 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 remained 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 educating fewer students due to its students transferring to charter schools.

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

Trend: Charter School Enrollment			
<i>(As a Percentage of Total District Enrollment)</i>			
Year End	Charter School	Total District	<i>% of Charter School Enrollment to</i>
<u>June 30</u>	<u>ADM¹</u>	<u>ADM</u>	<u><i>District Enrollment</i></u>
2006	8.560	1,050.485	0.81%
2007	11.075	1,024.292	1.08%
2008	9.045	1,002.829	0.90%
2009	9.015	986.713	0.91%
2010	20.602	987.397	2.09%
2011	23.729	983.408	2.41%
2012	19.871	987.313	2.01%

Trend: Charter School Costs			
<i>(As a Percentage of Total District Expenditures)</i>			
Year End	Tuition Paid To	Total District	<i>% of Charter Costs to</i>
<u>June 30</u>	<u>Charter Schools</u>	<u>Expenditures</u>	<u><i>Total Costs</i></u>
2006	\$ 64,845	\$ 11,886,259	0.55%
2007	80,912	12,414,880	0.65%
2008	66,387	12,900,734	0.51%
2009	98,201	13,901,037	0.71%
2010	188,057	15,196,778	1.24%
2011	330,972	16,011,847	2.07%
2012	267,230	14,810,836	1.80%

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

Criteria relevant to the observation (continued):

The trend of effective tax rates as compared to levied tax rates should be stable or increasing to ensure the school district has sufficient tax revenues to maintain its educational services at an appropriate level.

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 costs have risen—over 300 percent over six (6) years—the issue is compounded by the fact that, since 2011, the Commonwealth has not funded the District reimbursement for charter school tuition costs. If this reimbursement were still in place, the District would have received at least \$50,000 in additional revenue for 2010-11 and 2011-12 school years.

Trend: State Reimbursement Paid to District For Charter Costs		
<u>Year End</u> <u>June 30</u>	<u>Charter Tuition Paid</u> <u>by District</u>	<u>State Reimbursement</u> <u>Paid to District</u>
2006	\$ 64,845	\$ 16,870
2007	80,912	32,298
2008	66,387	24,511
2009	98,201	23,912
2010	188,057	49,801
2011	330,972	No Funding
2012	267,230	No Funding

Declining Effective Tax Rates: For the trend period 2006 to 2012, the trend of effective tax rates (actual property tax revenue ÷ assessed taxable property value) compared to the levied tax rates is decreasing. A decreasing trend indicates that the rate of tax collections is decreasing even though the levied tax rate is increasing or staying the same. This is an indicator of the relative fiscal health of the taxpayers and the support available to the District. As a result of the decreasing trend, the District cannot expect an increase in property taxes to provide increases revenues to the District. Therefore, the District’s ability to generate additional resources is very slight and dependent on additional funding from the state.

The following chart documents the decreasing effective tax rates over the trend period:

Trend: Declining Effective Tax Rates					
<u>Year End June 30</u>	<u>Total Property Tax Revenue</u>	<u>Total Assessed Property Value</u>	<u>Effective Millage Rate²</u>	<u>Assessed Millage Rate</u>	<u>Tax Collection Percentage</u>
2006	\$ 3,155,487	\$ 60,471,560	52.18	60.20	86.68%
2007	3,144,366	60,268,730	52.17	60.20	86.67%
2008	3,142,855	60,119,620	52.28	60.20	86.84%
2009	2,727,196	59,993,510	45.46	62.20	73.08%
2010	2,856,039	59,562,600	47.95	65.20	73.54%
2011	2,804,994	58,965,070	47.57	65.20	72.96%
2012	3,015,321	58,653,300	51.41	66.50	77.31%

Our discussions with District administrative staff found that the negative benchmarks enumerated above are the result of the distressed nature of the community.

Based on the results of our analysis, the District may be forced to reduce educational services and programs in order to account for the reductions in its revenues. Moreover, the lack of a healthy local tax base increases the risk that the District may have to take such steps to reduce its expenditures.

Recommendations

The *School District of the City of Monessen* should:

1. Provide the Board of School Directors standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial situation worsens.
2. Maintain and monitor sensitive budgetary controls so that expenditures do not exceed revenues.
3. Open a dialogue with the District's community to keep stakeholders informed of the financial status and health of the District.

² *Effective Millage Rate* is equal to the Total Assessed Property Value divided by one thousand times the Total Property Tax Revenue.

4. 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:

“Revenue: I have to agree with the remarks submitted on Observation Number 1 to a degree. Yes, all the calculations are correct, but the majority of the declining revenues mainly fall within two areas. First, the years that the District received ARRA [American Recovery and Reinvestment Act] funds (2009/10 and 2010/11), which came with restrictive usage guidelines, our BEF [Basic Education Funding] funding was decreased back to the 2008/09 amount (2008/09 BEF \$5.6 million, 2009/10 \$5.0 million, 2010/11 \$4.3 million and 2011/12 \$5.6 million). As you can see when the ARRA funding was over our BEF went only back up to the amount in 2008/09. The District usually received an annual increase of around \$200,000.00 therefore considering for 2 years we did not receive any increases but decreases the District should have their BEF funding reflect an increase of over \$600,000.00. Through these mentioned years we still had salary and benefit increases (i.e. PSERS [Pennsylvania School Employees Retirement System] rate) and yet we had to fund these ‘buckets’ with a decreasing fund. This practice is still continuing which is clearly evident by our 2012-13 BEF total of \$5.6 million. Second, in June 2011, final month of the fiscal year, a deduction from my BEF payment of \$345,540.48 was made due to a recalculation of my rental subsidy dating back to 2003-04. When you consider the shortage in the BEF and this 12th hour’s rental deduction it is a direct factor in why our District had a ‘disappearing’ fund balance. We have a very aggressive grant writer and if there are funds out there to apply for this employee goes after them which in the ends helps to offset some expenditures.

The main revenue for our District is BEF which was discussed above and real estate taxes. The City of Monessen has a continual raise in vacate houses which ultimately produces delinquent taxes. (A recent article in the local newspaper stated that Monessen was listed as number 2 in the US for percentage of unoccupied houses).

Our tax collection rate has been going down but we seem to be holding steady on the collected amounts. Monessen will never have a growth in new construction due to the square miles of city limits. There is just not any land to develop into new housing thus increasing our revenue. Our community is now predominately made up of retired people who if the District wanted to increase taxes above the index it would never be adopted and as with most Boards they are always reluctant to continually raise taxes even to the index.

Expenditures: As with any budget you try to get as close as possible to what you feel will be your expenses for any fiscal year. You always base this in as much past data available but ultimately it is an “educated” guess. The majority of this District’s raise in expenses comes in the area of our special education area. We have a very high level of children with special needs or have IEP’s [Individual Education Plan]. You can budget with a percentage increase in this area based on past expenses but it appears our District seems to continually acquire these special needs students. Along with this our expense for Alternative Education is always on the increase. Placement for these students in these facilities is not cheap and this area is extremely difficult to budget for. Our last MEA [Monessen Education Association] contract reflected the financial condition of the District in so far as only being a 3 year term and keeping salary increases to an acceptable figure. We will start to negotiated new contracts for our teaching staff and custodial staff for 14-15. We are very confident we can come to an affordable agreement for both parties and at a savings to the District.

Future: The District is fully aware of where we might be headed financially and have taken several steps to combat this situation. In 2012-13 across the board wage freeze was taken. In 2013-14 seven teachers retired at top step salaries with the District only replacing five at a substantial savings. We also in 12-13 realigned our special needs transportation costs for a saving of over \$150,000.00. We have entered into agreements to purchase our electric at a substantial savings. The District has a policy of “Not what you want but what you need” for supply purchasing. All employees have got on board for their ordering request. They realize that we need to conserve if we want to keep our doors open. The District has always met their obligations, has

never not been able to meet payroll, and will continue to do so. As reflected in our 2013-14 budgets the District shows a positive cash flow. If the District can keep on track with this budget we should be able to place a sizable amount back into our fund balance. Once again it will totally rely on the major items listed above. I feel that the District is on the right track to become solvent once again.”

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 work to ensure that expenditures do not exceed revenues and 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.

Observation No. 2

The Amount Paid to Transportation Contractors Greatly Exceeds the Pennsylvania Department of Education Allowance

Criteria relevant to the observation:

Chapter 23 of the State Board of Education Regulations states that the Board of School Directors is responsible for the negotiation and execution of contracts or agreements with contractors, and approval of the drivers of the vehicles providing transportation.

Our audit of the School District of the City of Monessen’s (District) contracted pupil transportation costs for the school years ending June 30, 2009 through June 30, 2012, found that over the four-year period, the contracted costs paid to one (1) of the District’s pupil transportation contractors was substantially more than the Pennsylvania Department of Education’s (PDE) final formula allowance, which is used to determine reimbursement of pupil transportation services.

PDE’s final formula allowance provides for a per-vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District’s aid ratio.

The following chart details the fluctuation in the District’s contracted payments to the District’s main transportation contractor as compared to PDE’s final formula allowance:

Trend: Contractor Costs Exceeding Allowance				
<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Total Exceeding Allowance</u>	<u>Percentage Over Allowance</u>
2008-09	\$ 329,016	\$ 206,615	\$ 122,401	59.24%
2009-10	374,419	189,422	184,997	97.66%
2010-11	348,456	168,164	180,292	107.21%
2011-12	404,305	161,008	243,297	151.11%

The following chart details the total amount paid to the contractor each school year, the final formula allowance, the total reimbursement received by the District from PDE, and the actual local tax dollars required to operate the District's pupil transportation program.

Trend: Increasing Local Share of Transportation Costs				
<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2008-09	\$ 329,016	\$ 206,615	\$ 204,238	\$ 124,778
2009-10	374,419	189,422	226,019	148,400
2010-11	348,456	168,164	199,721	148,735
2011-12	<u>404,305</u>	<u>161,008</u>	<u>168,973</u>	<u>235,332</u>
Total	<u>\$1,456,196</u>	<u>\$ 725,209</u>	<u>\$ 798,951</u>	<u>\$ 657,245</u>

District personnel provided us with the current pupil transportation contract effective July 1, 2010 through June 30, 2014. The District's Board of School Directors (Board) did not seek competitive bids for the pupil transportation services. The District negotiates with the same local contractor that had been providing service for many years.

While the Public School Code does not require districts to bid pupil transportation, our work has found that those that choose to do so frequently obtain a better price, even from an existing contractor. This reduction in cost can result in substantial savings to the District, funds that would be better used for the education of the District's students.

Recommendations

The *School District of the City of Monessen* should:

1. Prior to negotiating a new contract, and in conjunction with the Board, be cognizant of the State's final formula allowance cost formula.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure that the local effort share is as minimal as possible by establishing a base rate and increases that are in line with PDE's final formula allowance for all pupil transportation costs.

4. Have District personnel continually monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

“The District has always utilized contracted busing services. The two major contracts are with [contractor A] and [contractor B]. [Contractor A] has been with the District for over 50 years and transports our students daily. They also transport all of our athletics and band events. [Contractor B] is utilized for our special needs and alternative education students. The [contractor A's] current contract was originally dated November 2007 and ending in fiscal year 13-14 but in December 2011 this contract was extended through fiscal year 2016-17 with price freeze based on the 13-14 expense. When the initial contract was established (2007) the enrollment in the District was at 1,002 and the majority of our students are bused mostly due to hazardous walking routes. By 2011-12 the enrollment had dropped to 899, which in essence would have decreased the need for several bus routes. The problem was the contract with [contractor A] reflected the fuel pricing in 2007 with a small increase from year to year. As we all are aware, the fuel costs from 2007 have skyrocketed and to renegotiate the contract would put the District at the current fuel costs and more than likely not produce any savings therefore the District did not seek a renegotiation. Secondly we have increased the number of our special needs students and alternative education students (bused by [contractor B]). Example, we have one student who is transported to the Children's Institute in Pittsburgh with an aide on the bus. This one student costs the District over \$2,000.00 per month. The District took steps in 12-13 and signed a contract with [contractor B] to transport to Westmoreland IU Clairview our special needs students at a savings of over \$136,000.00. Prior to this change the IU#7 supplied the transportation. The District when negotiating the new contract in 2017 with [contractor A] will strongly look at combining several bus trips therefore producing a decreasing in the busing costs.

The problem that I have seen over these past 5 years is the increase in transporting special needs students and students that have been expelled to various educational facilities.

Currently we have 4 students that require individualized transportation to our school buildings alone. I believe that the District in the future can and will address the cost of transporting our students but we will never have the funds to operate our own in house busing and will always have to rely on contracting these services. I have priced other companies to look at a comparison and always found that even though it appears our current contractors at high they these other companies were always higher.”

Auditor Conclusion

We are encouraged that the District is aware of the factors driving the transportation costs and committed to negotiating better contracts for its taxpayers. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the School District of the City of Monessen resulted in no findings or observations.

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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