

PERFORMANCE AUDIT

Chartiers-Houston School District Washington County, Pennsylvania

January 2015



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

Mr. Richard M. Hall, Board President
Chartiers-Houston School District
2020 Pike Street
Houston, Pennsylvania 15342

Dear Governor Corbett and Mr. Hall:

We conducted a performance audit of the Chartiers-Houston 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 May 6, 2011 through September 15, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 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 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 finding, 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

January 8, 2015

cc: **CHARTIERS-HOUSTON SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Chartiers-Houston 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 May 6, 2011 through September 15, 2014, 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 2010-11 and 2011-12 school years.

District Background

The District encompasses approximately 25 square miles. According to 2010 federal census data, it serves a resident population of 9,114. According to District officials, the District provided basic educational services to 1,172 pupils through the employment of 88 teachers, 51 full-time and part-time support personnel, and seven (7) administrators during the 2011-12 school year. The District received \$6,715,049 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 two (2) matters unrelated to compliance that are reported as observations.

Finding: Failure to Have All School Bus Drivers' Qualifications on File. Our audit of the Chartiers-Houston School District bus drivers' qualifications for the 2013-14 school year found that not all records were on file at the time of the audit (see page 6).

Observation No. 1: The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges.

During the current audit of the Chartiers-Houston School District (District), we reviewed several financial indicators in an effort to assess the District's financial stability. Our review found that the District is potentially in a financially declining position (see page 9).

Observation No. 2: The Amount Paid to Transportation Contractor Greatly Exceeds the Pennsylvania Department of Education Allowance. Our audit of the Chartiers-Houston School District's (District) contracted pupil transportation costs found that over a three-year period, the contracted costs paid to the District's main pupil transportation contractor were substantially more than the Pennsylvania Department of Education's final formula allowance (see page 20).

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 May 6, 2011 through September 15, 2014.

Regarding state subsidies and reimbursements, our audit covered the 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:

- ✓ 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, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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, financial stability.
- 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

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Pennsylvania Department of Transportation's regulations require bus drivers to possess a valid driver's license, obtain certification of safety training, and pass a physical examination.

Section 111 of the Public School Code, 24 P.S. § 1-111, requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 list convictions for certain criminal offenses that would prohibit individuals from being hired and provides that convictions for other felonies and misdemeanors would disqualify individuals for employment if they occurred within ten (10) or five (5) years, respectively . . .

Section 111 also requires a Federal Bureau of Investigations fingerprint record check for all employees hired on or after April 1, 2007.

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

Our audit of the Chartiers-Houston School District (District) bus drivers' qualifications for the 2013-14 school year found that not all records were on file at the time of the audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six (6) requirements:

1. Possession of a valid driver's license.
2. Completion of a school bus driver skills and safety training.
3. Passing a physical examination.
4. Lack of convictions for certain criminal offenses.
5. Federal criminal history record.
6. Official child abuse clearance statement.

The first three (3) requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained further in the box to the left, the fourth and fifth requirements were set by the Public School Code (PSC) of 1949, as amended, and the sixth requirement was set by the Child Protective Services Law (CPSL).

We reviewed the personnel records of all 24 bus drivers currently employed by the District's pupil transportation contractors. The District's records were incomplete, and it was determined that each of the 24 drivers was lacking one (1) or more qualification documents.

The failure to have complete bus driver records on file at the District was the result of not having a board policy specifying the responsibility to verify qualifications. The District placed reliance and trust in the contractors to comply with the provisions of the PSC, Pennsylvania Department of Transportation, and the CPSL. This is in contradiction to the PSC, which specifically places this responsibility with the District.

It is the responsibility of District management to have internal policies and procedures in place to ensure that all employees or contracted employees who have contact with children have the proper qualification documents. By not having the required bus drivers' qualification documents on file at the District, the District was not able to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

On April 4, 2014, we informed District management of the missing documentation and instructed them to obtain the necessary documents, so that they can prove that the drivers were still properly qualified to have direct contact with children. As of the end of our audit fieldwork, September 15, 2014, District management had not provided us with the information for one (1) driver, and we therefore could not verify that driver was properly qualified.

Recommendations

The *Chartiers-Houston School District* should:

1. Ensure that District's personnel are familiar with Pennsylvania's school bus driver's requirements.
2. Establish procedures to ensure those drivers' credentials, provided by the contractor, are reviewed prior to Board of School Director's approval to ensure completeness and appropriateness.
3. Establish policies and procedures to ensure that the contractor does not allow any bus driver to transport students prior to obtaining all required credentials and provide a copy to the District for review and Board of School Director's approval.

Management Response

Management stated the following:

“Due to a change in personnel within the business office, it was determined during the course of the audit that not all proper documentation was on file for the school district’s pupil transportation contractors. Of the 24 school bus/vans drivers, each one was lacking one (1) or more qualifications documents. As of May 23, 2014, the business office had obtained all the required documentation with the exception of one van driver.

Corrective Action Plan

With the Auditor’s assistance, the school district has created a check list of what is required from each bus/van driver. This will assist the office personnel in assuring all proper documentation has been collected from the bus contractor.

The business office has made it clear to all transportation contractors that all credentials must be obtained and copies be made available to the school district business office prior to the beginning of the school year for review prior to Board approval.

If any changes occur during the school year, the transportation contractors have been informed to contact the business office with any changes so that they may be reviewed before being approved by the Board.”

Auditor Conclusion

We are pleased that the District has taken the concerns regarding the bus drivers’ credentials seriously and has taken steps to correct the weaknesses. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Observation No. 1

The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges

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:

- Total debt service is not to exceed 10% 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:

- 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:

- A school district should maintain a trend of stable or increasing fund balances.
- A quick asset ratio or trend of ratios approaching 1 or less indicates a declining ability to cover obligations with the most liquid asset.

During the current audit of the Chartiers-Houston School District (District), we reviewed several financial indicators in an effort to assess the District's financial stability. Our review found that the District is potentially in a financially declining position.

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 – 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.

Act 141 of 2012 permits the Pennsylvania Department of Education (PDE) to place a school district with serious financial problems on a financial watch list. This designation gives the District access to additional technical assistance from PDE. Likewise, if a school districts' financial condition deteriorates to the point that it has to request an advance on its annual basic education subsidy, PDE may declare it to be in financial recovery status. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the District and the development of a district-wide financial recovery plan.

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

- **Excessive Debt Service:** The District's debt service payments for the most recent school year exceeded ten (10) percent of the general fund expenditures. This is an indicator that the budgetary burden of debt service is high and could have a negative effect on the District's ability to continue providing educational services at the

Criteria relevant to the observation (continued):

- A debt-to-asset ratio or trend of ratios increasing towards 1-to-1 or greater is an 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 to adequately function.
- The cost for a school district student attending a charter school is paid out of the sending districts 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.
- A school district's taxable property value per student is driven by new building construction, the quality of the school district, and the district's student population as well as other factors. To maintain student services, the taxable property value per student must continue to increase.
- To maintain its current level of educational services, the school district's total local tax revenues per student must be stable or increasing.

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.

The following chart documents the District's excessive debt service:

Excessive Debt Service		
Year End June 30	Total Debt Service	<i>Percentage of General Fund Expenditures</i>
2013	\$1,849,561	11.3%

Our discussions with the District's business manager indicated the District's debt service payments exceeded ten (10) percent of the general fund expenditures due to the junior/senior high school construction project. The project included an addition to the existing building and renovations and was completed at the end of the 2011-12 school year. The total cost of this project, \$18 million, was slightly less than projected.

Decreasing Operating Position: During the trend period, the 2008-09 to 2012-13 school years, 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 and move it closer to being placed on the financial watch list or declared to be in financial recovery status. Each year the District's expenditures exceed its 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				
<i>(Revenues - Expenditures)</i>				
Year End June 30	Total Revenues	-	Total Expenditures	= Excess/ (Deficit)
2009	\$ 14,271,109		\$ 13,322,988	\$ 948,121
2010	14,367,201		13,981,663	385,538
2011	14,953,497		15,152,056	(198,559)
2012	14,623,306		15,757,469	(1,134,163)
2013	15,125,717		16,241,912	(1,116,195)

- The District’s business manager stated that the deficits are the result of the District’s reduced revenues and increased costs for the following reasons:
 - **Basic education revenue** is at the same level that it was in 2008-09. An annual increase of two (2) percent would have provided the District with nearly \$250,000 in additional revenue over the five-year trend period, taking into consideration the total basic education funding and federal stimulus money during the same period. Starting with the 2013-14 school year, the District has increased unfunded basic education costs of more than \$450,000 per year.
 - **Special education costs** have also increased over the five-year trend period. According to PDE’s calculations for the Referendum Exception for special education, the District’s costs increased more than \$266,000 from 2011-12 to 2012-13 with no increase in funding. This trend is expected to continue.
 - **Rental reimbursement** for completed construction projects is being withheld by PDE. Beginning with the 2013-14 school year, the District was anticipating over \$300,000 per year in reimbursement. This allocation is for the junior/senior high school addition and the renovation project which was completed in 2011-12. Normally, after completion of construction projects, application for reimbursement, known as PlanCon H, is sent to PDE and reimbursement to the District can begin. The District has completed the necessary application for reimbursement. However, PDE has put a hold on all PlanCon H approvals statewide and will not indicate if, or even when, this money will be distributed.
 - The last area of significance is that of **mandated pension contributions**. The contribution rate for all school districts in Pennsylvania is increasing and creating a financial burden. In 2009-10, the rate was 4.78 percent and is steadily rising. From 2013-14 to 2014-15, the rate increased from 16.93 percent to 21.4 percent. For 2014-15, the District anticipates an increased retirement

expenditure of \$300,000. It is estimated that these increases will add over \$1 million to the District's budget within three (3) years.

- Decreasing Fund Balance:** During the trend period 2009 to 2013, the general fund-fund balance is decreasing. A decreasing trend indicates the District's expenditures are exceeding its revenues. This reduction of the fund balance is an indicator that the District's financial position is declining and could possibly send the District into financial recovery status.

The following chart documents the District's decreasing fund balance:

Trend: Fund Balance	
<u>Year End</u>	<u>Fund</u>
<u>June 30</u>	<u>Balance</u>
2009	\$ 6,146,618
2010	6,502,606
2011	6,340,420
2012	5,085,274
2013	4,139,764

- Decreasing General Fund Current Ratio:** For the trend period 2009 to 2013, the general fund current ratio (current assets ÷ current liabilities) was decreasing. 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:

Decreasing General Fund Current Ratio			
<i>(Current Assets ÷ Current Liabilities)</i>			
Year End	Current	Current	<i>Current</i>
<u>June 30</u>	<u>Assets</u>	÷ <u>Liabilities</u>	= <u>Ratio</u>
2009	\$ 6,811,302	\$ 664,684	10.25
2010	7,123,271	620,665	11.48
2011	7,122,456	782,036	9.11
2012	5,825,619	740,345	7.87
2013	5,104,813	965,049	5.29

- Decreasing General Fund Quick Ratio:** For the trend period 2009 to 2013, 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 instruments at a reasonable interest rate.

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

Decreasing Quick Ratio			
<i>((Cash + Investments) ÷ Current Liabilities)</i>			
Year End	Total Cash +	Current	<i>Quick</i>
<u>June 30</u>	<u>Investments</u>	÷ <u>Liabilities</u>	= <u>Ratio</u>
2009	\$ 6,611,317	\$ 664,684	9.95
2010	6,554,541	620,665	10.56
2011	6,783,985	782,036	8.67
2012	5,550,070	740,345	7.50
2013	4,786,742	965,049	4.96

- Increasing Debt-To-Asset Ratio:** For the trend period 2009 to 2013, the general fund debt-to-asset ratio (current liabilities ÷ current assets) is increasing. An increasing trend towards 1-to-1 or more is an indication that the District may not be able to pay its current liabilities with 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 action 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:

Increasing Debt-to-Asset Ratio			
(Current Liabilities ÷ Current Assets)			
Year End	Current	Current	Current
<u>June 30</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Ratio</u>
2009	\$ 664,684	\$ 6,811,302	0.10
2010	620,665	7,123,271	0.09
2011	782,036	7,122,456	0.11
2012	740,345	5,825,619	0.13
2013	965,049	5,104,813	0.19

Discussions with the District's business manager, in regard to the decreasing General Fund Current Ratio and General Fund Quick Ratio, and increasing Debt-to-Asset Ratio, found that the District attributes the District's worsening trends to the reduction of state appropriations over the trend period.

- Increase in Charter School Costs:*** During the trend period 2009 to 2013, the cost of students attending charter schools increased. At the same time, the charter school costs as a percentage of revenues increased. 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 receiving less money.

The following charts document the District’s increasing charter school costs as a percentage of total expenditures and increasing charter school costs as a percentage of total revenues over the trend period, respectively:

Trend: Charter School Cost Growth			
<i>(As a Percentage of Total District Expenditures)</i>			
Year End	Tuition Paid To	Total District	Charter Costs/ Total Costs
<u>June 30</u>	<u>Charter Schools</u>	<u>Expenditures</u>	<u>Costs</u>
2009	\$ 163,401	\$ 13,322,988	1.23%
2010	208,327	13,981,663	1.49%
2011	157,843	15,152,056	1.04%
2012	179,185	15,757,469	1.14%
2013	280,448	16,241,912	1.73%

Trend: Charter School Cost Growth			
<i>(As a Percentage of Total District Revenues)</i>			
Year End	Tuition Paid To	Total District	Charter Costs/ Total Costs
<u>June 30</u>	<u>Charter Schools</u>	<u>Revenues</u>	<u>Costs</u>
2009	\$ 163,401	\$ 14,271,109	1.14%
2010	208,327	14,367,201	1.45%
2011	157,843	14,953,497	1.06%
2012	179,185	14,623,306	1.23%
2013	280,448	15,125,717	1.85%

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 seventy-one 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. If this reimbursement were still in place, the District would have received at least \$145,000 in additional revenue for 2010-11, 2011-12, and 2012-13.

Trend: State Reimbursement Paid to District For Charter Costs		
Year End <u>June 30</u>	Charter Tuition Paid <u>by District</u>	State Reimbursement <u>to District</u>
2008-09	\$163,401	\$ 53,508
2009-10	208,327	43,248
2010-11	157,843	No Funding
2011-12	179,185	No Funding
2012-13	280,448	No Funding

- Decreasing Taxable Property Value Per Student:** For the trend period 2009 to 2012, the taxable property value per student increased for the first three (3) years but decreased in the most recent year. As a result, the District may be unable to generate more resources for the education of its students. Furthermore, a decreasing trend in this area may make it difficult for the District to absorb reductions in state appropriations without significant increase in local property taxes, which may not be possible due to regulatory limits.

The District’s business manager indicated that the cost of students attending charter schools is increasing, and the charter school costs as a percentage of revenues are increasing. Beginning with the 2011-12 school year, PDE ended all reimbursement to school districts for charter school tuition. In the 2012-13 school year alone, the District incurred unfunded charter school tuition costs in excess of \$280,000, and this number is expected to increase.

The following chart documents the District’s increasing and then decreasing taxable property value per student over the trend period:

Trend: Decreasing Property Value (Per District Student)					
Year End	Total Assessed Property Value	÷	Total District Population ADM	=	Property Value Per ADM
<u>June 30</u>					
2009	\$ 58,139,44		1,154.149		\$ 50,374.30
2010	60,642,52		1,169.843		51,838.18
2011	62,023,84		1,156.378		53,636.31
2012	63,393,90		1,210.352		52,376.42

- Decreasing Local Tax Revenues Per Student:** For the trend period 2009 to 2012, the total local tax revenues per student were increasing for the first three (3) years but decreased in the most recent year. This indicator measures the effect the total local tax revenues have on the provision of services to the District’s students. A decreasing trend indicates that there is a risk that the District may have to reduce its educational services. In addition, the District may become more reliant on its state appropriations.

The District’s business manager stated that the trend of local tax revenues per student was decreasing in the last year of the trend period, 2011 to 2012. No explanation was readily available to explain this decrease when the prior two (2) years in the trend period showed increasing tax revenues per student. One reason is that the economy was stagnant during this period. Another reason may be that local contractors are planning to begin a large housing development within the District.

If this comes to fruition, it could mean 200-500 additional households in the area with additional District students and additional tax revenue.

The following chart documents the increasing and then decreasing local tax revenue per student over the trend period:

Trend: Decreasing Local Tax Revenue			
(Per District Student)			
Year End June 30	Total Local Tax Revenue	Total District Population ÷ ADM	Total Local Tax Revenue Per ADM =
2009	\$5,280,197	1,154.149	\$4,574.97
2010	5,614,982	1,169.843	4,799.77
2011	6,003,587	1,156.378	5,191.72
2012	6,186,782	1,210.352	5,111.56

Recommendations

The *Chartiers-Houston School District* should:

1. Provide the Board of School Directors with standard monthly updates on key financial benchmarks so that

policy changes can be made before the District's financial condition worsens.

2. 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.
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:

“Due to the financial restraints placed on school districts across the State of Pennsylvania, it has become more important than ever to monitor all key financial indicators so that the district can remain financially stable. There are many contributing factors which have led to this problem and I would like to list a few at this time:

- No significant increase in State funding since 2008-2009.
- The lack of reimbursement from PlanCon on recent construction projects.
- The continuing increase in Special Education costs with no increase in reimbursement from PDE.
- The staggering increase in the pension contribution required by school districts.
- Funding for school district's for Charter/Cyber Schools has been completely eliminated.

Corrective Action Plan

The budgetary process plays a key role in managing the financial status of the school district. Administration works hand in hand with the School Board of Directors during this process to assure that all key financial benchmarks are discussed in detail and all possible actions are taken to keep the school district as financially stable as possible.

For the 2014-2015 school year, here are some of the actions that were taken by the Administration with the approval of

the school board to try to curtail costs due to the lack of State funding:

- Furloughing of non-essential teaching personnel.
- Raising millage in excess of the index by applying for “exceptions” through PDE.
- Re-financing of bonds to lower our debt service payments.
- Elimination of some extracurricular activities.

This is an example of what the district is doing to monitor the sensitive budgetary controls so that in the future expenditures do not exceed revenues. Even with all these reductions in expenses, the school district will have to rely on using approximately \$750,000.00 from its fund balance in order to balance the budget for the 2014-2015 school year. The school district will continue to monitor the financial stability on a monthly basis.

Several news articles have been run in the local newspapers with respect to the financial hardships all school districts in this area are experiencing. We make every attempt to keep an open dialogue with the community as far as the financial status of the school district. . . .”

[Note: the District provided additional information regarding communication to the District’s stakeholders, see attachment A]

Auditor Conclusion

We are encouraged that the District is taking action to address its financial situation. The purpose of this observation is to provide the District with information about its financial instability and to give it the opportunity to consider our recommendations in its financial planning. 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 implement its corrective action steps, in order to improve its overall financial position.

Observation No. 2

The Amount Paid to Transportation Contractor 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 Chartiers-Houston School District's (District) contracted pupil transportation costs for the school years ending June 30, 2011 through June 30, 2013, found that over the three-year period, the contracted costs paid to the District's main pupil transportation contractor were 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:

School Year	Contractor Cost	Final Formula Allowance	Contractor Costs Over Final Formula Allowance	Cost Percentage of Allowance
2010-11	\$ 668,225	\$ 351,815	\$ 316,410	189.94 %
2011-12	701,118	368,679	332,439	190.17 %
2012-13	726,697	364,826	361,871	199.19 %

The chart below 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.

School Year	Contractor Cost	Final Formula Allowance	Reimbursement Received	Local Share
2010-11	\$ 668,225	\$ 351,815	\$ 279,761	\$ 388,464
2012-13	726,697	364,826	269,996	456,701
2011-12	701,118	368,679	273,224	427,894
Total	\$ 2,096,040	\$ 1,085,320	\$ 822,981	\$ 1,273,059

The District's business manager stated one (1) mill of real estate tax generated approximately \$58,645 and \$59,281 for the 2011-12 and 2012-13 school years, respectively. For the 2011-12 school year, 7.3 mills were expended on pupil transportation services. As a result of the 2012-13 school year local share amount, approximately 7.7 mills were expended on pupil transportation services.

District personnel provided us with the current primary pupil transportation contract effective July 1, 2013 through June 30, 2018. A review of the contract and discussions with District administration indicate that a possible reason for the disparity between the amounts paid the contractor and PDE's formula allowance is that the main transportation provider's contract includes a minimum increase of 4 percent per year. This minimum annual increase exceeds the final formula allowance's annual adjustment by an inflationary cost index. Each year, the difference becomes greater, requiring a greater portion of real estate mills to be used for pupil transportation.

The District's Board of School Directors does not seek competitive bids for the main provider of pupil transportation services. The District negotiates with the same local contractor that has been providing service for many years because they are satisfied with the level of service being provided.

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.

Recommendations

The *Chartiers-Houston School District* should:

1. Prior to negotiating a new contract, and in conjunction with the Board of School Directors, should 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 School District does not seek competitive bids for the main provider of pupil transportation services. The current transportation contractor resides within the school district and has provided transportation for the school district as far back as anyone currently employed remembers. The current bus contractor provides daily bus runs as well as transportation for all extra-curricular activities and field trips.

Corrective Action Plan

During the course of the audit, the office staff was made aware of the State's final formula allowance cost formula. This had never been brought to the attention of the office personnel in previous audits. When negotiating transportation contracts in the future, the school district will use this formula basis as a tool to help establish rates.

Although the school district has not solicited for competitive bids in the past, we have always negotiated with the transportation contractor in good faith to get the

best cost possible for the school district. Upon recommendation of the Auditor, the school district will consider the bidding process once this contract has expired at the end of June 30, 2018. By doing this, it will ensure that the school district is getting a fair and reasonable rate for transporting our students.”

Auditor Conclusion

We are pleased that the District will consider putting the transportation services out for bid after the completion of the current contract.

Status of Prior Audit Findings and Observations

Our prior audit of the Chartiers-Houston School District resulted in no findings or observations.

Attachment A

Chartiers-Houston School District

Management Reply (Observation No. 1)

Date: September 17, 2014

Observation Title: The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges

Due to the financial restraints placed on school districts across the State of Pennsylvania, it has become more important than ever to monitor all key financial indicators so that the district can remain financially stable. There are many contributing factors which have led to this problem and I would like to list a few at this time:

- o No significant increase in State funding since 2008-2009.
- o The lack of reimbursement from PlanCon on recent construction projects.
- o The continuing increase in Special Education costs with no increase in reimbursement from POE.
- o The staggering increase in the pension contribution required by school districts.
- o Funding for school district's for Charter/Cyber Schools has been completely eliminated.

Corrective Action Plan:

The budgetary process plays a key role in managing the financial status of the school district. Administration works hand in hand with the School Board of Directors during this process to assure that all key financial benchmarks are discussed in detail and all possible actions are taken to keep the school district as financially stable as possible.

For the 2014-2015 school year, here are some of the actions that were taken by the Administration with the approval of the school board to try and curtail costs due to the lack of State funding:

- o Furloughing of non-essential teaching personnel.
- o Raising millage in excess of the index by applying for "exceptions" through PDE.
- o Re-financing of bonds to lower our debt service payments.
- o Elimination of some extracurricular activities.

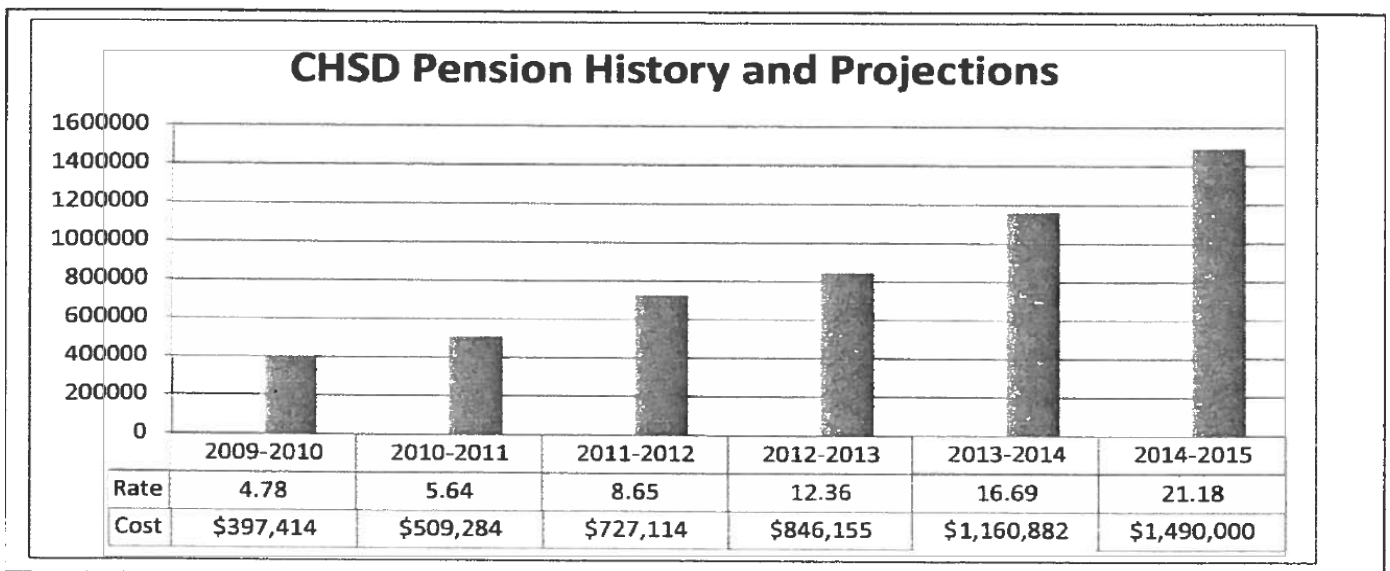
This is an example of what the district is doing to monitor the sensitive budgetary controls so that in the future expenditures do not exceed revenues. Even with all these reductions in expenses, the school district will have to rely on using approximately \$750,000.00 from its fund balance in order to balance the budget for the 2014-2015 school year. The school district will continue to monitor the financial stability on a monthly basis.

Several news articles have been ran in the local newspapers with respect to the financial hardships all school districts in this area are experiencing. We make every attempt to keep an open dialogue with the community as far as the financial status of the school district. Attached for your review is a copy of a letter that was sent out to all parents, guardians, and stakeholders in our school district during the preparation of the 2014-2015 budget.

Dear Parents, Guardians and Stakeholders,

The Chartiers-Houston School District is facing challenging budget circumstances that require difficult decisions to be made for the 2014-2015 school year. As a result of growing state-mandated pension contributions and leveled funding, the Chartiers-Houston School District has experienced budget deficits of over \$1 million per year for each of the past two years. The district has drawn on its Reserve Fund – in essence our savings account - to offset these deficits without raising taxes beyond the state-mandated cap per year. However, this approach has depleted more than half of our fund balance. Due to these factors, the school district will be seeking exceptions above the state mandated cap of 2.7% which equals (3) mills. The two exceptions for which the district is seeking relief through state guidelines are the following:

1. Increased Pension Costs- The school district's contribution to the Pennsylvania School Employees Retirement System (PSERS) is mandated by the state and has been one of the biggest factors driving the budget deficits. In 2009-2010, the district was required to contribute 4.8% (\$397,000) in pension costs. Due to the states chronic underfunding of PSERS, the 2014-2015 estimated pension costs will be 21.18% (\$1.49 Million). These rates are expected to increase over the next couple of years to an estimated 26.96% (\$2.0 million) by the year 2017. The following chart illustrates the recent history and the upcoming contributions for the 2014-2015 Budget.



2. Increases in Special Education Costs- The cost of Special Education Services has risen by \$267,000 (18%) over the past year. These costs will continue to increase in the future.

In addition to the two tax exceptions, here is a brief look at other financial factors that will affect the district's 2014-2015 budget:

- a. No additional funding in the Basic Education Subsidy
- b. Cyber I Charter School costs of \$243,000

- c. The Pennsylvania Department of Education owes about \$1 billion to about 350 state-approved renovation and construction projects. The Chartiers-Houston School District is one of the construction projects that is owed an estimated \$250,000-\$300,000 per year.

We are taking difficult steps to narrow our budget deficit and postpone the exhaustion of our Reserve Fund. Our preliminary budget for the 2014-2015 school year assumes an increase of 10.275 mills or about 9.3%, for which we hope to gain state approval through the exceptions. Even with this tax increase, the preliminary budget projects a shortfall of \$1.7 million. We must also find ways to reduce our expenditures, which will necessitate difficult decisions regarding our education and activities programs. The school board plans to take up consideration of these reductions once the state has specified the revenue increase approval.

What does this mean for district taxpayers? Currently, the Chartiers-Houston School District property tax rate is 110.5 mills. Each mill generates approximately \$58,000 in revenue for the school district. For taxpayers with an average home value of \$100,000, each mill represents approximately \$9.00 in tax payments. As such, the proposed 10.275-mill increase would raise taxes by about \$93 per year on a \$100,000 assessed valued home.

Chartiers-Houston Tax Base Information

Total CHSD Assessment Value	\$6,356,780
Current Tax Millage	110.5
Tax Revenue per Mill	\$57,527
Approximate SD Tax per \$100K FMV	\$1,000
Cost per Mill of \$100K FMV	\$9.05

Be assured that whatever challenges and decisions lie ahead, this district is committed to providing the best possible education for all our students so that they will have the skills and information they need to become productive citizens and lifelong learners.

Thank you for your understanding and support.

Sincerely,

John George

Superintendent

Don Bennett

Business Manager

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:

The Honorable Tom Corbett
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Commonwealth of Pennsylvania
Harrisburg, PA 17120

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The Honorable Robert M. McCord
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