PERFORMANCE AUDIT

The School District of the City of Erie

Erie County, Pennsylvania

December 2015

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. Jay D. Badams, Superintendent
The School District of the City of Erie
148 West 21st Street
Erie, Pennsylvania 16502

Mr. Robert Casillo, Board President
The School District of the City of Erie
148 West 21st Street
Erie, Pennsylvania 16502

Dear Dr. Badams and Mr. Casillo:

Our performance audit of the School District of the City of Erie (District) evaluated the application of best practices in the areas of academics, finance, governance, and school safety. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period January 18, 2011 through November 10, 2015, except as otherwise stated, and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found significant instances of failing to apply best practices and noncompliance with relevant requirements, as detailed in our four audit findings. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education (PDE) and the Public School Employees' Retirement System (PSERS).

Dr. Jay D. Badams
Mr. Robert Casillo

Our audit findings 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 course of the audit.

Sincerely,

Eugene A. DePasquale
Auditor General

December 14, 2015

cc: **THE SCHOOL DISTRICT OF THE CITY OF ERIE** 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 District. Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period January 18, 2011 through November 10, 2015, 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, 2011-12, and 2012-13 school years.

Audit Conclusion and Results

Our audit found significant instances of failing to apply best practices and noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the four audit findings within this report.

Finding No. 1: The District's Persistent Annual Operating Deficits Have Not Been Cured by Short-Term Financial Maneuvers. Our review of common financial benchmarks used to evaluate school district finances found the District faces a number of fiscal challenges. This finding first addresses the District's deteriorating fund balance, operating deficits, and cash flow problems. It then discusses some of the causes of these problems, such as funding limitations and increasing charter school costs. Finally, it discusses the reporting deficiencies and other accounting issues we identified (see page 7).

Finding No. 2: The District's Poor Internal Controls Over Transportation Data for Services Provided to Nonpublic and Charter School Students Resulted in an Underpayment of Nearly $275,000. The District continued to fail to properly account for transportation operations related to nonpublic and charter school students. In the last five consecutive audit reports, we recommended the implementation of procedures to account for, review, and reconcile transportation services. Failure to do so negatively impacted the already financially strapped District. We found that the District underreported the number of charter school students who received transportation services paid for by the District. This reporting error resulted in potential lost revenue of $272,965 (see page 19).

Finding No. 3: The District Provided More Than 100 Cell Phones to Employees, School Board Members, Consultants, and Others Without Policies and Procedures in Place to Monitor Usage and Increasing Costs. For the four year period, 2011-12 through 2014-15, the District paid for more than 100 cell phones issued to employees, Board of School Directors (Board) members, a consultant, a solicitor, and two retired employees. The

District did not have policies and procedures to govern the assignment and usage of district-paid cell phones or to monitor the corresponding usage and costs. The District also failed to require employees and others to sign user agreements, which typically restrict the use of government property (see page 23).

Finding No. 4: The District Disregarded Regulations Pertaining to the Rehiring of Annuitants and Failed to Document the Exceptions Allowing Them to Work for the District, Several for at Least Eight Consecutive Years. Between 2008 and 2013, we found the District compensated 46 rehired retirees, an average of 29 retirees per year. Many returned to District work for three or more consecutive years, in possible noncompliance with the Public School Employees' Retirement Code (PSERC) and its related guidelines (see page 28).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to findings in the areas of improper tuition agreement and tuition waivers (see page 37), certification deficiencies (see page 38), and charter school tuition (see page 39). Additionally, the District had taken appropriate corrective action in implementing our recommendations pertaining to observations in the areas of information technology (IT) (see page 42) and a Memorandum of Understanding (MOU) (see page 43).

However, the District did not take appropriate corrective action in implementing our recommendations relating to findings in the areas of General Fund deficits see page 35), pupil transportation (see page 38), student activity fund practices (see page 40), and the re-employment of retired employees (see page 41).

Background Information[i]

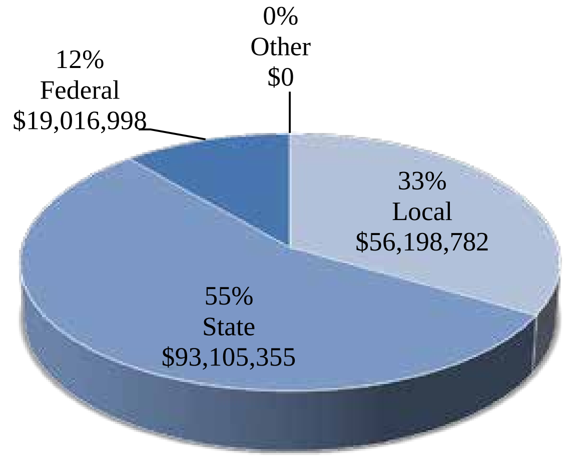
School Characteristics 2013-14 School Year[ii]	
County	Erie
Total Square Miles	18.9
Resident Population[iii]	101,786
Number of School Buildings	18
Total Teachers	860
Total Full or Part-Time Support Staff	381
Total Administrators	66
Total Enrollment for Most Recent School Year	11,721
Intermediate Unit Number	5
District Vo-Tech School	Central Career and Technical School

Mission Statement

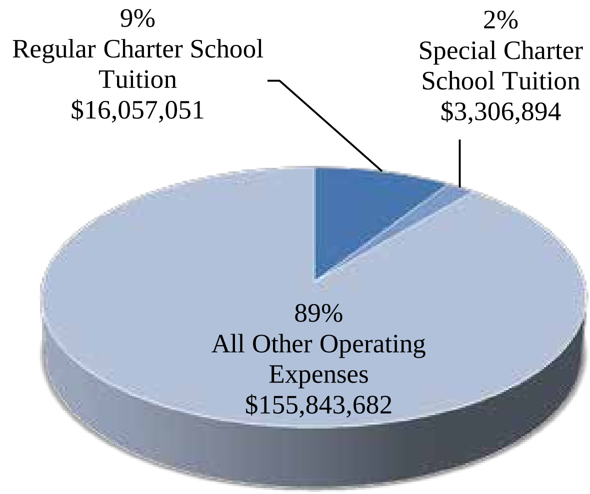
"The Erie School District will create in its schools, and in its relationships with the Erie Community, a culture of high expectations, collaboration, respect, and accountability. We will actively engage students in their learning through a high quality curriculum and excellent teaching. Our primary purpose as an organization is to prepare our students to establish and achieve their highest education and career goals."

Financial Information

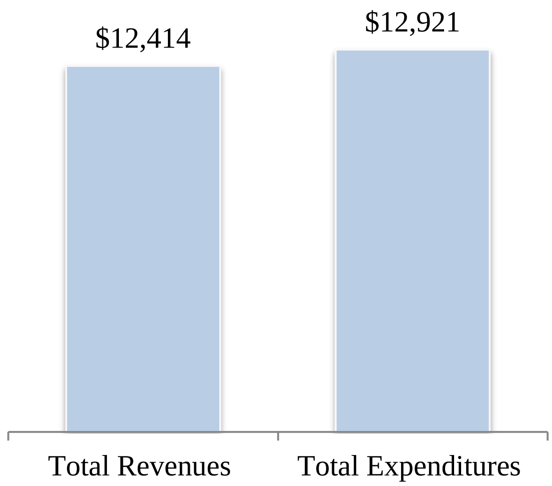
Operating Revenue by Source for 2013-14 School Year



Charter School Expenditures for 2013-14 School Year

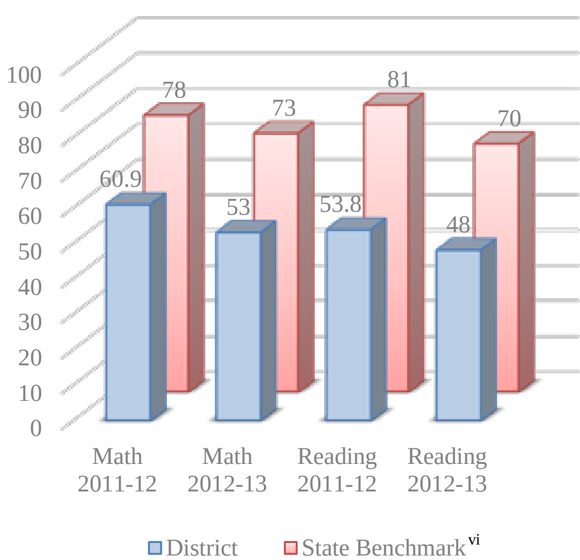


Dollars Per Student
2013-14 School Year



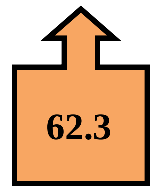
Academic Information

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



District's 2012-13 SPP Score[vii]

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



Individual Building SPP and PSSA Scores[viii] 2012-13 School Year						
School Building	**SPP Score**	**PSSA % School Proficient and Advanced in Math**	**PSSA % Statewide Benchmark of 73% Above or Below**	**PSSA % School Proficient and Advanced in Reading**	**PSSA % Statewide Benchmark of 70% Above or Below**	**Federal Title I Designation (Reward, Priority, Focus, No Designation)[ix]**
Central High	49.1	37	36	51	19	Not Applicable
Cleveland Elementary	74.8	71	2	60	10	No Designation
Connell Elementary	71.3	79	6	66	4	No Designation
Diehl Elementary	56.4	51	22	41	29	No Designation
East High	43	25	48	40	30	Not Applicable
Edison Elementary	54.1	40	33	34	36	Focus
Emerson-Gridley Elementary	50.6	42	31	35	35	Focus
Harding Elementary	70.2	76	3	67	3	No Designation
Jefferson Elementary	61.8	57	16	51	19	No Designation
Lincoln Elementary	64.8	58	15	41	29	No Designation
McKinley Elementary	60.9	59	14	45	25	No Designation
Northwest PA Collegiate Academy	91.8	94	21	100	30	Not Applicable
Perry Elementary	65.5	59	14	45	25	No Designation
Pfeiffer-Burleigh Elementary	45.3	31	42	25	45	Priority
Roosevelt Middle	55	56	17	54	16	No Designation
Strong Vincent High	48.6	37	36	44	26	Not Applicable
Wayne Middle	50	35	38	25	45	Focus
Wilson Middle	54.9	50	23	47	23	No Designation

The District's overall SPP score of 62.3 is comprised of the 18 individual school building scores. As shown in the table above, 4 of 18 District school buildings are labeled as "Priority" or "Focus." According to these new federal accountability designations, Title I schools are designated as "Priority" if their performance is in the lowest 5 percent and "Focus" schools are the next lowest 10 percent of all Title I schools.

As shown on the above chart, PSSA proficiency in 15 of the 18 schools was lower than the statewide benchmark in Math and 17 of the 18 schools for Reading. However, only the four schools with a Priority or Focus designation were required to develop and file academic school improvement plans (SIPs) with PDE. According to District officials, the District only prepares written plans when required to do so. The absence of a PDE filing requirement does not minimize the importance of school level planning because all underperforming schools have a written plan aimed at improving student performance.

School level planning is important to the District, educators, and students because developing a written plan helps to ensure a clear focus, consistent support, and a strategic framework of goals for improving student achievement and the learning environment. Without a written plan for improvement, underperforming schools may lack direction, focus, and support to be able to reverse a pattern of low student performance. For example, the lack of a school level plan increases the risk that administrators and educators may not all be working towards the same goals and outcomes if there is not a planning document that clearly spells out priorities, expectations, timeliness, and responsibilities.

In addition, best practice research has found that continuous monitoring of the SIPs by individual District personnel will help to ensure that the SIPs are being followed and will allow for optimal communication between teachers, principals, the Superintendent, and the Board. Furthermore, continuous planning and monitoring efforts are essential to providing increased student performance and achieving quality results.

Findings and Observations

Finding No. 1	The District's Persistent Annual Operating Deficits Have Not Been Cured by Short-Term Financial Maneuvers

Criteria relevant to the finding:

The annual general fund budget is addressed under Section 687 of the Public School Code (PSC), 24 P.S. § 6-687, and specifically subsection (b), which provides, in part:

"The Board of School Directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation, available for school purposes in that district."

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 current asset ratio or trend of ratios approaching one or less indicates a declining ability to cover obligations with the most liquid assets.

Our review of common financial benchmarks used to evaluate school district finances found the District faces a number of fiscal challenges. This finding first addresses the District's deteriorating fund balance, operating deficits, and cash flow problems. It then discusses some of the causes of these problems, such as funding limitations and increasing charter school costs. Finally, we discuss the reporting deficiencies and other accounting issues we identified.

It was recently brought to our attention that the fiscal year ended June 30, 2014 financial statements audited by an independent auditor are in the process of being restated. As of the date of the issuance of this report, the restated fiscal year end balances were still in draft form and not formally issued by the independent auditor in their fiscal year ended June 30, 2015 audit report. Accordingly, our finding presents the results of our review of the data that was available during the audit

Deteriorating General Fund Balance

For fiscal years 2009 through 2014, we found the District had an overall deteriorating General Fund balance, ending in a $4.7 million deficit for the fiscal year ended June 30, 2014. The following chart indicates the District had General Fund deficits for four of the last six fiscal years.

Criteria relevant to the finding (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 is so large that the district can reduce costs by closing a school building and reduces the number of staff employed by the district.

Section 433 of the PSC, 24 P.S. § 4-433, addresses the duties of the Board Secretary providing, in part:

"The secretary of the boards of school directors shall perform the following duties:

(7) He shall keep correct accounts with each receiver of taxes, school treasurer, or school tax collector of the district, reporting a statement of the same, together with a statement of the finances of the district, at each regular meeting of the board, which statement shall be entered in full upon the minutes . . ."

Erie SD General Fund[1]
Year-End Fund Balance Comparison

June 30	Fund Balance/(Deficit)
2009	($1,987,429)
2010	($7,930,597)
2011	($14,680,022)
2012	$377,897
2013	$2,596,902
2014	($4,734,725)

The primary driver of the District's deteriorating General Fund balance is persistent annual operating deficits, which occur when total expenditures exceed total revenues. The following chart shows that over a six year period, the net operating deficit exceeded $34 million.

Erie SD Comparison of General Fund
Operating Revenues and Expenditures[2]

Fiscal Year	Revenues	Expenditures	Surplus/(Deficit)
2009	$157,390,999	$164,882,293	($7,491,294)
2010	$165,043,382	$172,543,456	($7,500,074)
2011	$168,592,380	$176,458,090	($7,865,710)
2012	$156,726,340	$160,019,477	($3,293,137)
2013	$162,429,323	$163,434,659	($1,005,336)
2014	$168,321,135	$175,207,627	($6,886,492)
Total from Operations	**$978,503,559**	**$1,012,545,602**	**($34,042,043)**

Even with annual operating deficits, the District was able to achieve a positive year-end General Fund balance in fiscal years 2012 and 2013 through its use of other financing sources, which are discussed in more detail later in this finding.

The District's operating revenues are derived from federal, state, and local sources. The local source, which is comprised of tax revenue, accounts for 33 percent of the District's total operating revenue for the 2014 fiscal year. The state and federal revenues make up the remaining 67 percent of the total operating revenues for the 2014

[1] Information obtained from the Independent Auditors Report, Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds, fiscal years ending June 30, 2009 through June 30, 2014.
[2] Information obtained from the Independent Auditors Report, Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds, fiscal years ending June 30, 2009 through June 30, 2014.

Criteria relevant to the finding (continued):

Additionally, Section 441 of the PSC, 24 P.S. § 4-441, provides:

"The school treasurer shall settle his accounts annually with the board of school directors for each school year."

fiscal year. The state and federal revenue sources are commonly referred to as subsidies. The District relies more heavily on subsidies as a revenue source than most other districts in the Commonwealth.

Because the District relies so heavily on subsidies, its financial condition was greatly affected by a $9 million subsidy cut in 2011-12. While the subsidies increased in the next two fiscal years, subsidy amounts did not return to the 2010-11 level.

According to District officials, in response to the subsidy cuts and the declining fund balance, the District was forced to reduce expenditures. Actions taken by the District included closing three schools and laying off over 200 employees.

Even with the reduced expenditures, the subsidy reductions coupled with annual operating deficits caused the District to pursue other sources of revenue outside of its normal operating revenues. For example, in 2011-12, the District received $10.2 million in proceeds through a sale-leaseback arrangement and it realized another $6 million through a debt restructuring. In 2012-13, the District sold some buildings, which produced a one-time revenue stream of over $2 million.

These actions allowed the District to achieve a positive General Fund balance for the years ended 2012 and 2013, but in the case of the sale-leaseback arrangement, ended up costing the District substantially more in the long term.

Costly Sale-Leaseback Debt

To address the District's anticipated shortfall for fiscal year 2011-12, the Board approved a resolution on March 14, 2012, to enter into a sale-leaseback agreement with the Erie County General Authority for four school district buildings no longer in use. The arrangement provided the District with a one-time cash infusion in exchange for an expensive, 20-year obligation, at the end of which the District has the option to buy back each building for one dollar.

Per the leaseback agreement, the *Guaranteed Lease Revenue Bonds, Series of 2012 A*, issued April 23, 2012, provided the District with $10.2 million in cash after payment of issuance and underwriter costs of more than $300,000. According to the *Bond Debt Service* schedule, the interest rate over the life of the bond increases incrementally from 2.75 percent in 2012, to 5.75 percent in 2026, where it remains for the duration of the 20-year term, which ends in 2031.

This agreement obligates the District to pay the county authority approximately $900,000 per year for 20 years. The impact on the fund balance from the sale/leaseback transaction appears to be short-term, despite the long-term obligation. The decision to enter into this agreement to meet unanticipated cash needs will end up costing the District over $6 million when it eventually repays all of its principal, interest, and fees as shown below:

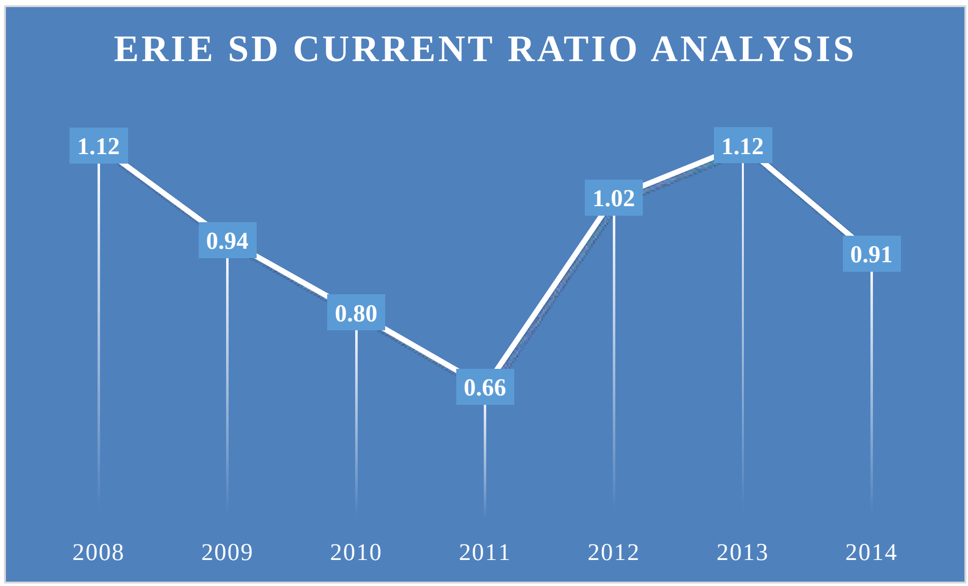
Erie SD Comparison of Sale Proceeds & Leaseback Payments			
Lease Bond Proceeds	$10,475,000	Principal Repayment	$10,475,000
Fees	($314,205)	Total Interest	$6,000,000
Net Proceeds to District	**$10,160,795**	**Total Repayment**	**$16,475,000**

<u>Liquidity & Cash Flow Problems</u>

One of the key measures of a District's financial condition is known as the current ratio, which is used to gauge a school district's ability to meet its current obligations (as opposed to long-term). A current ratio of 1.0 indicates that a school district has current assets equal to its current liabilities and can theoretically pay all of its current bills on time without any cash or other liquid assets leftover. When the current ratio dips below 1.0, then a school district may have trouble paying its current obligations on time due to cash flow shortages.

The table and the graph below highlight two key points: until 2011-12, when the District sought revenues from other financial sources as discussed earlier, its current ratio was deteriorating from year to year. In addition, the effect of those additional revenues appears to be short-term given the District's drop in the current ratio during the 2013-14 fiscal year.

ERIE SD GENERAL FUND ANNUAL CURRENT RATIO[3]			
Fiscal Year	**Current Assets**	**Current Liabilities**	**Current Ratio**
----- (in millions) -----			
2008	$31.2	$27.9	1.12
2009	$28.9	$30.8	0.94
2010	$31.8	$39.7	0.80
2011	$28.3	$42.9	0.66
2012	$20.8	$20.4	1.02
2013	$24.5	$21.9	1.12
2014	$22.9	$25.1	0.91



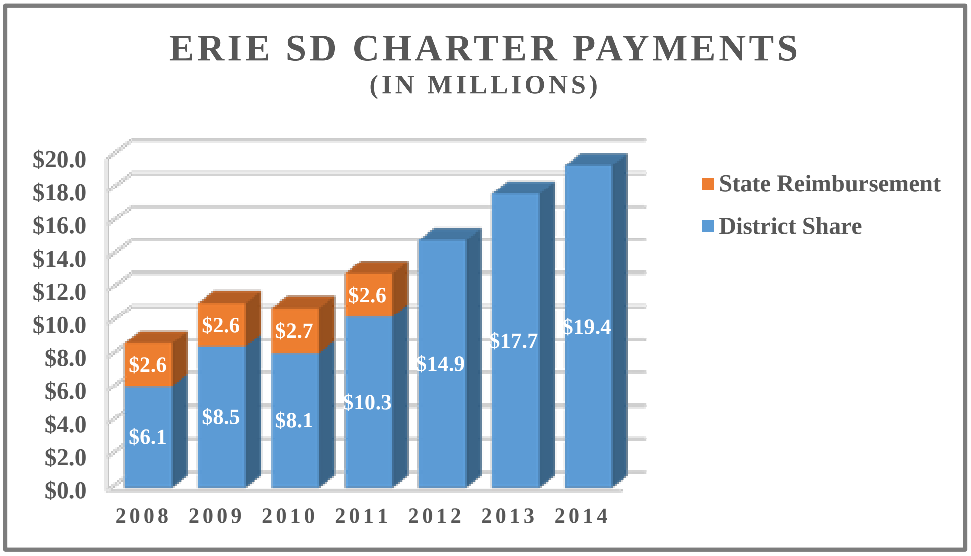
<u>Continually Increasing Charter School Costs</u>

The District's charter school tuition costs tripled during fiscal years 2008 through 2014, and it paid $85 million in that time (net of state reimbursements). This obligation not only adversely affected the District's already strained financial status but also reduced the funds available to support academic programs for District students.

The chart below illustrates the annual increase in the District's required payments to charter schools, offset by the State's partial reimbursements. The financial burden on the District grew from gross tuition payments of

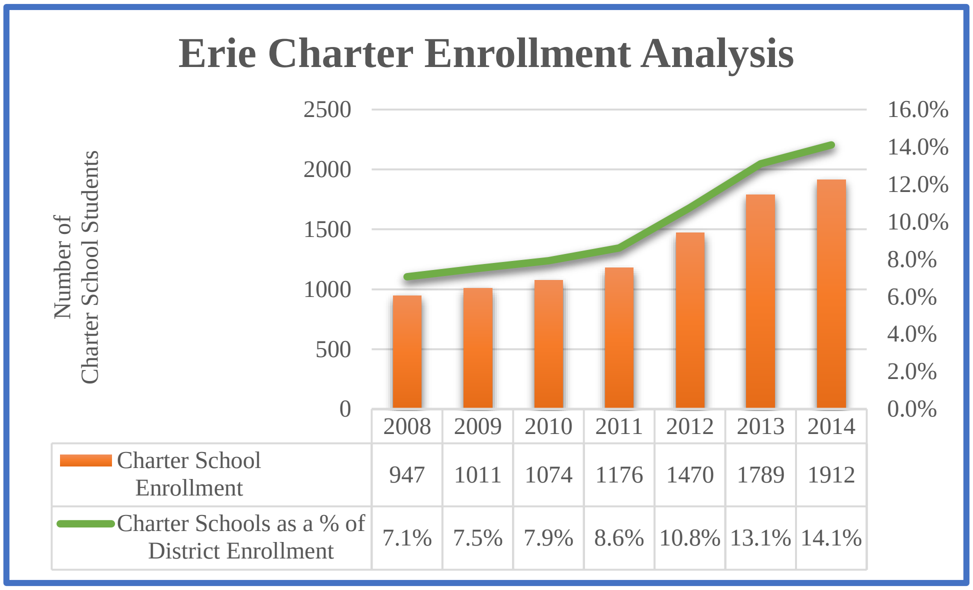
[3] Information obtained from the Independent Auditors Report, Balance Sheet – Governmental Funds, fiscal years ending June 30, 2008 through June 30, 2014.

$8.7 million in 2008, exclusive of the state reimbursement for that year, to over $19 million in 2014. To make matters worse, the State eliminated its partial reimbursements for charter schools after 2011, exacerbating the already growing financial strain on the District.



The charter school funding formula and the State's elimination of school district reimbursements for their charter school costs in 2011, together with the increasing charter school enrollment, produced an increase in the financial obligation each year from 2008 through 2014, except for the 2010 school year. Factoring in the partial reimbursements from the State from 2008 through 2011, the impact on the District's actual expenditures increased from 3.8 percent in 2008 to 11.1 percent in 2014.

Enrollment in charter schools more than doubled during the period to almost 2,000 students, whereas the District's overall enrollment grew by only 1 percent to about 13,600 in the same period. As a result, charter school enrollment as a percentage of District enrollment also doubled from 7 percent in 2008 to 14 percent in 2014. District personnel believe the trend of increasing charter school enrollment will continue. The following chart demonstrates the growth in charter school enrollment and its relationship to the District's enrollment.



Despite the efforts of the District to reduce expenditures by laying off staff and closing buildings, the District's charter school expenses coupled with the lack of state reimbursements are increasing the District's operating expenses and driving their liquidity issues.

Other Fiscal Concerns

Our review of the District's financial operations revealed several other fiscal concerns as detailed in the following sections.

Incomplete and Lack of Timely Reporting

Our audit found the monthly treasurer's report is not being provided to the Board timely, which may impact the Board's ability to make informed financial decisions. We found that these reports were three-to-four months late 39 percent of the time for the 49 regular board meetings held between May 2010 and December 2014. We also found that in several monthly meetings more than one report was presented for approval.

One of the causes noted for late submission of the monthly treasurer's reports was the delayed preparation of bank reconciliations months after the bank statements were received by the District from the bank. Timeliness in performing reconciliations is a key component of its effectiveness as an internal control for discovering and correcting errors. As noted in the criteria, the PSC requires the District to submit a monthly report regarding the District's finances.

Also, while the administration's reporting includes beginning and ending cash availability, revenues received, disbursements made, and cash flow statements, it did not provide reports such as balance sheets and income statements to provide for a more thorough evaluation of the District's financial standing and operations. Without complete monthly treasurer's reports, the Board cannot make sound decisions about how to use the District's public funds. In addition, this lack of information makes it more difficult for the Board to hold the District's administration accountable for its performance and for its implementation of the Board's fiscal policies.

<u>Failure to Reconcile Accounts & Make Adjusting Journal Entries</u>

The issue of unreconciled accounts has been an ongoing problem for the District. Its Independent Audit Report (IAR) for the fiscal years ended June 30, 2013 and June 30, 2014, included findings noting specifically "that the grant program coordinators were not reconciling the expenditures per the general ledger to the program grant reports." Without up-to-date account reconciliations, the District's management and Board cannot make informed financial decisions and errors cannot be detected and corrected in a timely manner.

The IARs for the fiscal years ended June 30, 2013 and June 30, 2014, recommended over 100 adjusting journal entries to correct bookkeeping errors or to record accruals and other adjustments that should have been made by the finance department. Without performing year-end closing procedures, including the reconciliation of all balance sheet accounts, the District's true financial standing is unknown. Therefore, the Board lacks the information it needs to make informed decisions.

<u>Incomplete Wage Records</u>

For the 2012-13 fiscal year, the District could not provide quarterly payroll reports to support the social security and retirement wages reported to PDE. In addition, the District did not have the PSERS Act 29 Reconciliation[4] on file to reconcile the District's retirement reimbursement. This report is created by PSERS and includes adjustments that are made to the retirement wages originally reported to them by the District.[5]

The District instead provided the federal quarterly reports.[6] However, there were significant unreconciled differences between the wages reported to PDE and the wages reported to the Internal Revenue Service (IRS), as shown in the following chart:

ERIE SD: Unreconciled Differences in Reported Wages			
Fiscal Year Quarter	**Soc. Sec. & Medicare Reported to PDE**	**Soc. Sec. & Medicare Reported to IRS**	**Unreconciled Difference Over/(Under)**
3rd 2012	$ 29,688,401	$ 34,090,291	($4,401,890)
4th 2012	38,067,859	38,067,859	0
1st 2013	31,337,527	35,671,144	(4,333,617)
2nd 2013	38,804,511	38,403,832	400,679
Total	**$137,898,298**	**$146,233,126**	**($8,334,828)**

The District attributed the unreconciled differences to new financial software that only supported the federal filing of Social Security and Medicare wages and not those reported for reimbursement from PDE. As a result, according to the financial supervisor, the District instead created manual reports to submit to PDE. These reports, however, were not provided to the auditors for verification.

Without adequate supporting documentation, we were unable to determine the accuracy of the reimbursements received for the 2012-13 fiscal year. We found varying levels of incomplete wage records for the other audit years, as well. Inadequate reconciliation procedures allowed this error to go undetected until it was found during our audit.

In conclusion, the District appears to be making efforts to address its cash flow problems through the use of short-term financing maneuvers. The short-term financings have not fixed the real financial problem of annual deficits resulting from operating revenues being consistently lower

[4] 24 Pa.C.S. §§ 8326, 8329, and 8535.
[5] Act 29 of 1994 changed the way Pennsylvania's LEAs are reimbursed for Social Security contributions.
[6] The federal reports filed containing the related data are the IRS 941 forms.

than expenses. Short-term financing sources used by the District during the fiscal years ending 2009 through 2014 provided only short-term financial relief. As discussed earlier in this finding, the cumulative effect of its operations resulted in a $34 million operating deficit for the period from fiscal years ending 2009 through 2014. The structural operating issues must be corrected if the District is to stop the ongoing annual deficits and rebuild a fund surplus. To help the District improve management of its fiscal environment it should, at a minimum, implement the following recommendations.

Recommendations

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

1. Develop a short-term (one-to-three years) operating plan to identify and address the structural elements that are leading to annual operating deficits. This plan must, at a minimum, annually balance operating expenditures with operating revenues.

2. Establish procedures to make appropriate periodic journal entries, as well as year-end adjustments, in order to properly and timely account for all transactions and provide the Board with complete, accurate financial information. If necessary, it should seek assistance from outside professional accountants.

3. Obtain in a timely manner, and maintain as part of wage documentation records, the PSERS Act 29 reports and any other wage documentation required to verify the District received the correct amount of social security and retirement reimbursements.

Management Response

District management provided the following response:

"The district agrees with the Auditor General's finding regarding financial reporting and is in the process of restructuring its accounting system to provide complete, timely, and accurate financial information to the School Board, Administration, and others. Once the accounting system has been restructured, a five-year financial projection model will be developed to assist with long-term planning.

The Auditor General's recommendation to develop an operating plan that annually balances operating expenditures with operating revenues is just not possible in the current fiscal environment. As detailed in this finding, the district has been in a situation where it has had to cut its way to a balanced budget for the last five years. Early on, there was room to trim programs, staff and other expenditures. But, as the years have gone on, it has been an increasing painful process. The refinancing options of the district's various debt instruments have been maxed out, three elementary schools have been closed, more than 200 staff have been furloughed, and central administration staff has been cut in half. Many employee groups have had salaries frozen or have received 1% increases, and the teachers have worked without a contract for nearly two years. Despite these local efforts, each budget year begins in a multi-million dollar deficit.

The district has done its part. On a per pupil basis, Erie's Public Schools spends less than 80% of the districts across the commonwealth. There is nothing left to cut without causing serious damage to educational programs. The district's buildings are crumbling, and though there is a detailed and will researched ten-year facilities plan, it would require an investment of about $300 million to build or renovate schools that are equitable locally and on par with schools throughout the state. The simple fact is the district needs additional funding.

Unfortunately, property tax payers in the City of Erie – already stretched thin due to the City's own financial challenges – have been forced to bite off an even larger piece of the educational funding pie. And, considering the fact that 30% of all property in the City is deemed tax exempt (representing $1.2 billion in assessed real estate value), the burden is even greater on the individual homeowner in urban areas like Erie. Continuing to raise taxes is not an option.

The absence of a fair funding formula ensures that Erie's Public Schools will continue to exemplify the embarrassing disparity between the wealthiest and poorest districts in Pennsylvania. The fact that our state ranks 50th in that regard should be motivation enough to implement the recommendations of the Basic Education Funding Commission."

Auditor Conclusion

We are encouraged that the District realizes the seriousness of its financial challenges and is in the process of restructuring its accounting system in order to provide complete, timely, and accurate financial information to the Board, administration, and others. We believe the development of a short-term operating plan will assist the administration in identifying the structural element deficiencies which have led to the historical annual operating deficits. Furthermore, the development of a five-year financial plan will allow the District's administration and Board to make better long range financial decisions. Since the District is in the process of restructuring the accounting system and developing a five-year financial projection, we will evaluate the effectiveness of those actions and any other corrective actions during our next audit of the District.

Finding No. 2	**The District's Poor Internal Controls Over Transportation Data for Services Provided to Nonpublic and Charter School Students Resulted in an Underpayment of Nearly $275,000**

Criteria relevant to the finding:

Section 2509.3 of the PSC, 24 P.S. § 25-2509.3, provides for payments on account of transportation of nonpublic school students.* This provision provides that each school district, regardless of classification, shall be paid by the Commonwealth for the 2001-02 school year, and every school year thereafter, the sum of $385 for each nonpublic school student transported.

*PDE also reimburses school districts $385 for each charter student transported, which is the same as for nonpublic school students. *See* Section 1726-A(a) of the Charter School Law (CSL), 24 P.S. § 17-1726-A(a).

Section 23.4 of the State Board of Education regulations, *22 Pa. Code § 23.4*, states, in part:

The board of directors of a school district shall be responsible for all aspects of student transportation programs, including the following:

***

(6) The maintenance of a record of students transported to and from school, including determination of students' distances from home to pertinent school bus loading zones.

PDE's instructions for completing End-of-Year Student Transportation reports provide that procedures, information, and data used by the LEA should be retained for audit purposes.

The District continued to fail to properly account for transportation operations related to nonpublic and charter school students. We found significant errors in the District's transportation reporting to PDE that resulted in a potential underpayment of $272,965.

In the last five consecutive audit reports, we recommended the implementation of procedures to account for, review, and reconcile transportation services. Failure to do so continued to negatively impact the already financially-strapped District either by having its funding reduced for over-reporting errors,[7] as identified in previous audits, or by not receiving all that it was entitled to due to underreporting its numbers, as identified in this current audit.

According to the PSC, a nonpublic school is defined, in part, as a nonprofit school other than a public school within the Commonwealth.[8] The PSC requires school districts to provide transportation services to students who reside in its district and who attend nonpublic schools, providing for a reimbursement from the Commonwealth of $385 for each nonpublic school student transported by the District. PDE also reimburses school districts this same amount for the transportation of charter school students pursuant to an equivalent provision in the CSL that refers to Section 2509.3 of the PSC.

Our current audit again found errors in the District's reporting of transportation rosters for nonpublic and charter school students for all five school years from 2008-09 through 2012-13. We noted clerical errors, double-reporting of students, and the erroneous inclusion of students who attended schools that didn't fall into the classification of nonpublic or charter schools. However, the most significant error we noted was that the District

[7] In October 2014, the District's funding was reduced by $145,000 for reporting errors related to transportation services.

[8] *See* Section 922.1-A(b) (pertaining to "Definitions") of the PSC, 24 P.S. § 9-922.1-A(b).

failed to account for charter school students who were provided public transportation tokens which are paid for by the District.

(Over)/Under-reporting of students by year			
School Year	Nonpublic	Charter	Under/(Excess) Subsidies
2008-09	(115)	162	$18,095
2009-10	(123)	115	($3,080)
2010-11	(34)	228	$74,690
2011-12	(53)	317	$101,640
2012-13	(31)	243	$81,620
Total	(356)	1,065	$272,965

The numerous reporting errors were caused by a failure to implement internal control procedures as recommended in previous audits. We found the following problems with the District's accounting and reporting procedures related to the transportation of nonpublic and charter school students:

- Failure to obtain independent transportation rosters from the educating nonpublic schools and charter schools, which could be used to reconcile with the District's source documents before submitting data to PDE.

- Absence of a secondary review of transportation data before submission to PDE, or at least the absence of any evidence thereof.

- No evidence of reconciliations between source documents and District records with the preliminary reports from PDE.

In addition to the errors, we found instances where the source documentation provided by the District did not agree with the records provided for the District's transportation services, which were used to report data to PDE.

When we summarized the total errors we identified, we determined that the net effect was the District underreported the number of non-public and charter school students. PDE reimburses the District for transportation services provided to each of those students; therefore, if the District underreported the total number of students then, based on our calculation, the District may been entitled to receive an additional $272,965.[9]

Again, it appears the District is negatively affected by its continued failure to properly and timely account for transportation services provided to its nonpublic and charter school students.

Recommendations

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

1. Establish detailed, written procedures to ensure the number of nonpublic and charter school students is accurately recorded, reconciled, reviewed, and reported to PDE.

2. Review reports already submitted for the 2013-14 and 2014-15 school years for accuracy and, if errors are found, submit revisions to PDE.

Management Response

District management provided the following response:

"The district agrees with the Auditor General's finding and has already begun to implement the recommendations."

Auditor Conclusion

We are encouraged that the District's current administration has realized the seriousness of the District's inadequate procedures to obtain, verify, and report transportation data to PDE. We are further encouraged that the current administration noted they have begun to implement corrective actions to address the deficiencies outlined in this finding. Since these actions were

[9] The PDE reimbursement is $385 per student, and we identified errors with 709 students. Therefore, the potential underpayment is $272,965.

implemented subsequent to our audit, we will evaluate the effectiveness of the corrective actions during our next audit of the District.

Finding No. 3

The District Provided More Than 100 Cell Phones to Employees, School Board Members, Consultants, and Others Without Policies and Procedures in Place to Monitor Usage and Increasing Costs

Criteria relevant to the finding:

The *E-policy Handbook: Rules and Best Practices to Safely Manage Your Company's Email, Blogs, Social Networking, and Other Electronic Communication Tools* (2009) states, in part:

http://www.lbm-engine.com/messagelabs/MessageLabs_ePolicy_Guidebook.pdf

"As an organization, it's crucial to develop guidelines that curb the boundless problems that excessive or inappropriate cell phone use can create for your organization."

"A well-crafted cell phone usage policy will not only set expectations for incoming employees but will also address serious issues concerning the safety, security, responsibility, and privacy of cell phone use."

"Having a policy is only the first step. The policy must be enforced and your employees must understand the consequences of failing to abide by its terms."

"Any workplace policy is useless if not properly enforced. After you've solidified your guidelines, here's how you can make sure they're abided by.

- Keep it updated.
- Have training sessions.
- Explicitly explain disciplinary action.
- Have every employee review and sign it."

For the four year period, 2011-12 through 2014-15, the District paid for more than 100 cell phones issued to employees, school board members, a consultant, a solicitor, and two retired employees. The District did not have policies and procedures to govern the assignment and usage of district-paid cell phones or to monitor the corresponding usage and costs. The District also failed to require employees and others to sign user agreements, which typically restrict the use of government property.

Furthermore, we found that many cell phones were provided with authorization for unlimited personal use. According to District officials, employees who were given permission to use their district-issued cell phones for personal use were required to reimburse the District monthly. The reimbursement rate was $25 per month for individuals who had a phone with a data plan and $15 per month for phones without a data plan.

However, unlike the employees, the school board members, a consultant, the solicitor, and two retired employees were not required to reimburse the District even though there were no restrictions on personal usage.

Cell phone expenses for board members cost nearly $25,000.

We found the District paid nearly $25,000 over four years for cell phones for the Board, yet the Board did not reimburse the District for costs related to personal usage.

The following chart shows the annual costs for the review period.

Board Members with District-Paid Cell Phones		
School Year	# Members with Cell Phones	Expense
2011-12	10	$ 7,734
2012-13	7	5,501
2013-14	8	5,713
2014-15	7	5,846
Total		**$24,794**

According to the Board Secretary, the Board came to an "informal agreement" several years ago to allow its members to have cell phones in exchange for not claiming personal mileage for attending board meetings. Not only did the Board fail to agree to this arrangement at a public meeting, but the arrangement also resulted in a costly tradeoff for a city district such as Erie where reimbursable mileage for board members is significantly less than other area school districts. Mileage is significantly less due to the requirement for board members to reside in the District and the square mileage of the District is less than most districts in the county.

The District paid more than $4,000 for a consultant's cell phone and $1,400 for a solicitor's cell phone.

The District also provided a cell phone to the former Athletic Director, a rehired annuitant who worked as an independent consultant. Total costs for the four years, between 2011-12 and 2014-15, were nearly $4,200. The cell phone was not disclosed as a fringe benefit in any of his consulting agreements for each of the four years.

The District also paid more than $1,400 over the three years, between 2011-12 and 2013-14, for a cell phone used by its former contracted solicitor. Again, the District did not require the consultant or the solicitor to reimburse the District for the personal usage benefit.

The District continued to pay for cell phone service for two employees after they retired.

A former Assistant to the Superintendent, who retired in August 2008, retained possession of his district-provided cell phone with the District paying for the service through April 2012. This former employee entered into a consulting agreement with the District for the 2008-09 and 2009-10 school years. We noted that this former employee did start reimbursing the District $25 per month beginning in August 2011. However, the District continued to incur costs and provide this benefit to a former employee.

We also found that an Assistant Superintendent, who retired in January 2009, also retained possession of his district-provided cell phone, with the District paying for the service through December 2011, three years after his retirement. The District did not provide any documentation of reimbursements from this former employee. The District explained that it allowed the former employee to keep his cell phone so the employee could maintain his phone number, and the actual phone itself had little to no value to the District.

A lack of policies and procedures contributed to the district's failure to adequately monitor cell phone costs.

During our review of cell phone invoices, we noted that the total "usage and purchase" charges were more than $18,000 for the four-year audit period. These charges are related to roaming charges, global texting, long distance charges, data overages, and 411 phone number search charges.

A more detailed analysis of the invoices disclosed instances of significant roaming and other usage charges. For example, we found one employee who incurred more than $1,800 in roaming charges over a four-month billing period. When we asked the District about these charges, officials explained that the employee incurred the charges when she was studying abroad on a Fulbright scholarship. The District further indicated that "the employee will be invoiced for the roaming charges."

We found other numerous examples of employees incurring significant "usage" charges. In response to our inquiries, District officials stated that "other employee(s) who utilized the phone for global texting and long distance charges will be invoiced to reimburse the District and reminded that they are not permitted to use the phone for personal and/or international use." Without user agreements, however, the District may not be able to recoup these charges.

When we reviewed cell phone usage and costs with the District in June 2015, we found that the District still had not developed a written policy even though we first discussed the lack of policies with the District as early as August 2013.

We found that for each succeeding year in the four-year review period, cell phone costs increased, bringing the total cost in just four years to over $370,000. Considering the increasing costs along with the numerous issues we found as part of our audit, it is imperative that the District develops and implements policies and procedures to govern the assignment of cell phones, personal use restrictions and reimbursements, as well as the timely monitoring of usage and costs. These policies and procedures are also necessary to help ensure prudent use of taxpayer dollars.

Recommendations

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

1. Immediately develop and implement board-approved cell phone policies to address the following, at a minimum:

    a. The use of District cell phones by the Board, current employees, retired employees, terminated employees, and consultants.

    b. Roaming, data, long-distance, and other charges.

    c. Personal use restrictions.

    d. A requirement of every recipient of a District cell phone to sign a user agreement so that the District has remedies it can enforce in the event of misuse of the cell phones.

2. Implement oversight procedures so that cell phone costs and usage are monitored on a monthly basis. It should also review cell phone plan features on all of its currently issued cell phones to ensure that those features are necessary.

Management Response

District management provided the following response:

"The district agrees with the Auditor General's recommendations to implement Board approved cellular phone policies and implement stricter oversight procedures.

As indicated in the finding, the district's total cellular charges over the four year audit period were just over $370,000. However, 37% of that cost was offset by reimbursements from employees and the federal e-Rate program. The district's net annual cost ranged from $34,342 to $56,575 during the audit period. Although the district's cellular costs did increase over the four year period, the increase can be attributed to the increase in the number of students participating in the district's cyber program during the same period. Students participating in this program receive a laptop with a wireless internet card provided by the district's cellular provider. This program was developed to compete with cyber charter schools and saves the district between $5,000 and $14,000 per student annually. Participation in this program has increased from 4 students in 2011-12 to 52 students in 2014-15."

Year	Cellular Charges			Reimbursements		Net Cost
	Regular	Cyber Program	Total	e-Rate	Employee	
2011-12	$ 64,179.81	$ 2,940.00	$ 67,119.81	$ (29,009.28)	$ (3,767.75)	$ 34,342.78
2012-13	$ 74,925.77	$ 16,080.00	$ 91,005.77	$ (33,196.00)	$ (12,654.75)	$ 45,155.02
2013-14	$ 72,027.27	$ 24,480.00	$ 96,507.27	$ (25,689.63)	$ (18,780.34)	$ 52,037.30
2014-15	$ 88,494.28	$ 27,420.00	$ 115,914.28	$ (37,332.88)	$ (22,006.33)	$ 56,575.07
Total	$ 299,627.13	$ 70,920.00	$ 370,547.13	$ (125,227.79)	$ (57,209.17)	$ 188,110.17

Auditor Conclusion

We are encouraged that the District agrees with our recommendations for policies and greater oversight procedures. Full implementation of policies and procedures would be a positive step to help ensure the proper use of District cellular phones and prudent use of taxpayer dollars. We will evaluate the corrective actions taken by the Board and administration during our next audit.

Finding No. 4

The District Disregarded Regulations Pertaining to the Rehiring of Annuitants and Failed to Document the Exceptions Allowing Them to Work for the District, Several for at Least Eight Consecutive Years

Criteria relevant to the finding:

PSERS publication #9682, *Return to Service Guidelines and Clarifications*, states that a retiree may not be employed by a Pennsylvania public school and receive a public school retirement benefit at the same time, unless one of three exceptions are met:

1. Employment emergency.
2. Personnel shortage.
3. Extracurricular position. (p. 1)

In order for a retiree to qualify to be rehired under one of the above exceptions, he or she must have had:

1. A bona fide break in service of not less than 90 days.
2. No pre-arrangement for termination and re-employment. (p. 2)

PSERS guidelines are also governed by several provisions of PSERC, including Section 8346 (relating to Termination of Annuities), 24 Pa.C.S. § 8346, which includes, but is not limited to the following:

Section 8346(b) (pertaining to *Return to school service during emergency)* of the PSERC. This includes as an emergency a shortage of appropriate personnel or teachers and limits the employment **"not to extend beyond the school year during which the emergency or shortage occurs . . ."** [Emphasis added.]

Between 2008 and 2013, we found the District compensated 46 rehired retirees, an average of 29 retirees per year. Many returned to District work for three or more consecutive years, in possible noncompliance with the PSERC and its related guidelines.

District personnel attributed our finding to the previously long-held practice of rehiring retirees prior to retirement or shortly thereafter and allowing them to continue working in their pre-retirement duties. District personnel also indicated they had a lack of familiarity with the "regulations" (i.e., the PSERC) and PSERS guidelines governing the rehiring of annuitants. However, our previous audit included a finding and recommendations regarding rehired annuitants.

During the current audit, we found the District failed to implement our prior audit recommendations to improve its procedures and accountability. We notified PSERS of our concerns regarding the District's lack of documentation to support rehiring annuitants, and the District is now in contact with the agency to address this finding as well as our previous finding.

Background

Between 2008 and 2013,[10] the District offered retirement incentives on four different occasions, in an effort to reduce payroll and benefits. The incentives were offered to different categories of employees, such as administrators, non-bargaining personnel, and non-instructional employees. They ranged from a one-time offer of $5,000 to $25,000 paid over three years, plus health benefits. During that time, 46 retirees were rehired to work for the District for different lengths of time, either as employees or as independent contractors.

[10] The number of rehired annuitants referred to in our report for 2013 was as of November 7, 2013.

Criteria relevant to the finding:

According to the PSERS guidelines, a member may be considered a consultant or independent contractor if some of the following aspects exist:

1. Performs different work than what he or she did while active.
2. Is paid under a Form 1099 with a separate written contract.
3. Receives no fringe benefits.
4. Sets his or her own hours.
5. Does not receive a performance evaluation.
6. Supplies his or her own materials.
7. Has an office outside the school grounds.
8. Has the ability to perform the same service for other schools or entities. (p. 8).

Section 8346(b.1) (pertaining to *Return to school service in an extra-curricular position)* of the PSERC. For purposes of subsection (b.1), "the term 'extracurricular position' means a contract position filled by an annuitant that is separate from the established academic course structure, including the position of athletic director."

The District provided us with a spreadsheet it prepared containing information such as hire dates and job titles for each of the 46 rehired annuitants who worked for the District during the period of 2008 through November 7, 2013.[11] The chart below illustrates the number of rehired annuitants who worked for the District during each year in the audit period.

Erie SD Rehired Annuitants Working for District	
2008	22
2009	28
2010	30
2011	29
2012	33
2013	30

Our review of this information and other District records found an array of issues, which are discussed below. Because we were not able to verify the accuracy and completeness of the data provided, there may be additional issues with rehired annuitants, which are not included in this finding.

<u>Allowable Exceptions Not Documented</u>

The District had no procedures in place to justify and document that its rehiring of annuitants complied with the provisions for the three allowable exceptions. For the first two exceptions below, the PSERC clearly indicates a temporary and time-limited term of service for rehired annuitants.

a. An employment emergency.
b. A personnel shortage.
c. An extracurricular position.

For all 46 of the annuitants it rehired, the District did not identify the type of allowable exception that applied.[12] As shown in the chart below, 34 of the 46 rehired annuitants, or 74 percent, worked for the District for at least three or more consecutive years without any District justification

[11] Our audit was limited to the data provided by the District; therefore, we cannot provide assurance on the completeness or accuracy of this information.
[12] *PSERS Return to Service Guidelines and Clarifications,* Publication # 9682, January 2013, pp. 2 and 4.

for their ongoing work. The length of service, coupled with the fact that the type of exception was not documented for each of the rehired annuitants, indicates they may not have been appropriately rehired. Moreover, we found no evidence the District documented the applicable exception for retaining rehired annuitants from year to year.

Number of Annuitants Who Worked Consecutive Years for District Between 2008 & 2013	
10	Two years
13	Three years
7	Four years
5	Five years
9	Six years

No Bona Fide Break in Service

Nine rehired annuitants did not have the PSERS required 90-day bona fide break in service, based upon the retirement dates and rehire dates provided to us by the District. They retired and were rehired effective the following business day or within the following week.

The District could not provide us with documentation to verify rehire dates for 12 more of the 46 rehired annuitants, so a bona fide break in service could not be verified.

Annuitants had Pre-Retirement Agreements

Five rehired annuitants had documented pre-arrangements for rehiring, which indicated the employees did not have a legitimate break in service, according to PSERS guidelines.[13]

Possible Instances of Inappropriate Rehiring Practices

PSERS provides detailed requirements, guidelines, and contact information for employers and annuitants concerning the rehiring of annuitants, including those rehired as employees and those rehired as consultants. It also emphasizes that while the employer makes the initial determination about a retiree's qualifications under one of the exceptions, PSERS has the right to review the

[13] Ibid, p. 4, item B addresses pre-arrangement.

employment of any retiree for compliance with the PSERC. We found the following conditions, which may indicate a lack of documentation to support whether certain retirees were rehired properly under the allowable exceptions.

1. The consulting agreement for one annuitant, an assistant to the Superintendent who retired on Friday, August 1, 2008, was signed by the Board President on August 4, 2008, his effective rehire date, but the agreement itself wasn't ratified by the Board until August 13, 2008. In addition, we noted the following:

    a. The agreement provided for free dental insurance, unlike other annuitants' agreements, which may constitute a fringe benefit.

    b. On January 14, 2009, the agreement was amended to provide for payment of a 403(b) deferral of vacation buyout. While the Board convened on the same day of this amendment, the corresponding minutes did not indicate approval of it. Also, the copy of the amendment provided to us did not contain any signatures.

    c. The annuitant also received an apparent fringe benefit in the form of a district-paid cell phone. (See Finding No. 3.)

    The lack of a bona fide break in service and the potential fringe benefits he received as a rehired annuitant may indicate this individual continued his work as an employee and did not meet requirements for an allowable exception.

2. Of seven rehired annuitants whose independent consulting contracts were available for review, none contained the following terms and conditions which would have supported their work as independent contractors and not as employees continuing the same work they did prior to retirement: 1) a waiver of a retirement contribution, 2) a reporting structure, 3) compensation through Form 1099, and 4) the establishment of an office outside of the District.[14]

[14] The District did not provide source documentation for verifications of the actual compensation paid to those annuitants who were rehired as consultants.

3. The job titles of 26 of the 46 annuitants were identical or nearly identical to their pre-retirement job descriptions, which may have indicated a continuation of their previous work and potentially disqualified the rehired employees from receiving annuities while working for the District. Without sufficient documentation of other employment details, we could not determine whether these annuitants were properly rehired under the allowable exceptions. For instance, the District provided no documentation of having made a required good-faith effort to hire non-retirees first.

Extracurricular Position: Possible Continuation of Previous Work

Similar to both the emergency and personnel shortage exceptions, which allow for the temporary rehiring of annuitants, the exception for an extracurricular position is governed by the PSERC and PSERS guidelines. This exception differs from the others in that it does not require the existence of an emergency or personnel shortage, nor is there a time limit to the extracurricular position.

As an independent contractor with the District, the annuitant rehired to work in an extracurricular position would have to demonstrate independence. Examples of the characteristics of an independent contractor as described by PSERS include, but aren't limited to the following:[15]

- Job duties different from those done prior to retirement; otherwise, the position could be viewed as a continuation of previous work.
- No fringe benefits.
- Compensation under a form 1099.
- Office outside of the school grounds.

An Athletic Director who retired in 2005 was rehired to begin work the following business day as an Assistant Athletic Director and continued to work in that capacity through the 2014-15 school year. He received compensation from the District through both the payroll and accounts payable systems, as well as a retirement incentive, and compensation from the stadium commission, the latter of which was paid to him through the District.

[15] Ibid., p. 8.

Based upon review of contracts and other documents, we found the following with regard to this annuitant's position:

- The annuitant had a pre-arrangement with the District via a board-approved consultant agreement dated February 14, 2005. Since he retired the following June, this kind of agreement indicated a potential continuation of service rather than an allowable exception.

- Furthermore, there was no bona fide break in service, since the Athletic Director's retirement date was June 29, 2005, and the rehire date was July 1, 2005, the following business day. There does not appear to have been an appropriate termination of service in order for the annuitant to be rehired under the extracurricular exception.

- The annuitant's duties appear to have been similar, if not identical, to his prior duties as "Athletic Director" for the District.

- The annuitant also received an apparent fringe benefit in the form of a district-paid cell phone, which may further indicate the annuitant continued his work with the District as an Athletic Director. (See Finding No. 4.)

The District provided us with a copy of a four-page letter, dated June 25, 2015, from the District's solicitor to PSERS addressing this rehired annuitant's numerous agreements with the District throughout the 10 years he worked post-retirement. While the letter did refer to the annuitant as an "Independent Consultant performing the role of Athletic Director" or "Associate Athletic Director" and it did state that the services were performed outside traditional working hours, it did not address any of the concerns we identified above, which may have disqualified the annuitant from the exception allowing the extracurricular position. In fact, the job descriptions summarized in the solicitor's letter seem to indicate a continuation of the duties performed pre-retirement.[16]

[16] Timothy S. Wachter, Letter, June 25, 2015.

Recommendations

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

1. Consult with its solicitor and work with PSERS to develop an appropriate course of action for annuitants currently employed by the District.

2. Develop and implement board-approved policies and procedures to address rehiring of annuitants and compliance with all applicable provisions of the PSERC and PSERS guidelines. These procedures should include review and reporting requirements so that the Board and the public are informed of the allowable exceptions and contract terms applicable to all annuitants rehired by the District.

A copy of this finding will be forwarded to PSERS for its review.

Management Response

District management provided the following response:

"The district agrees with these recommendations and has implemented procedures to ensure retirees do not work unless there is a temporary and/or time-limited term of service only from the three exceptions that PSERS allows. Prior to the end of the 2014-15 school year, the district notified all actively employed retirees that they must have PSERS approval in order to work for us as substitutes or in extra-curricular positions. Currently, all working retirees have proper documentation and/or PSERS approval."

Auditor Conclusion

We are encouraged that the District realizes the importance of ensuring retirees are only hired in accordance with PSERS guidelines. The District indicated that, prior to the end of the 2014-15 school year, all working retirees have proper documentation and/or PSERS approval. Since corrective action was taken after our audit work was completed, the effectiveness of those actions cannot be determined at this time. We will evaluate these and any other corrective actions during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on January 14, 2013, resulted in seven findings and two observations. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to PDE, interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on January 14, 2013

Prior Finding No. 1: **District Reported a General Fund Deficit of $7,930,597 as of June 30, 2010 (Unresolved)**

Prior Finding Summary:

Our prior audit of the District's annual financial reports, local auditor's reports, and General Fund budgets for the fiscal years ended June 30, 2007, 2008, 2009, and 2010, found deteriorating financial conditions. We reported that the District's expenditures exceeded revenues for three consecutive years and the District's General Fund balance declined by more than $14 million over a four year period. The finding also discussed how the District's poor budgeting process and increasing charter school costs have negatively impacted the District's financial condition.

Prior Recommendations:

We made seven recommendations to address the District's deteriorating financial condition. These recommendations included the following:

- Provide for a planned systematic reduction of the General Fund deficit.

- Research and implement cost saving measures that could reduce District expenditures or increase District revenue.

- Examine proposed budgets carefully for realistic increases/decreases in budgeted revenue and expenditures.

- Prepare realistic budgets which provide adequate funding for the operation of the District, specifically salaries and benefit expenditures. Base estimates on historical data and verifiable revenue and expenditure projections.

Current Status: During our current audit, we found that the District took several actions to improve its financial condition. Those actions included the following:

- In March 2011, the District entered into an agreement to sell their delinquent tax liens.

- On April 13, 2011, the Board approved an agreement with an advisory group to develop a fiscal recovery plan to address their General Fund deficit. As part of the fiscal recovery plan, the District closed three elementary schools. The District eliminated over 300 administrative, supervisory, professional/instructional, support staff, custodial and maintenance positions starting in the 2009-10 school year through the 2011-12 school year. According to the 2010-11 IAR, the District reviewed all contracts in effect with outside agencies, which resulted in the elimination of some contracts and the reduction of others.

- On October 19, 2011, the Board approved an agreement with a consulting firm to provide strategic planning services and to assist the advisory group with the fiscal recovery plan.

- On June 6, 2012 and January 9, 2013, the Board approved the resolution to sell two of their closed buildings which resulted in a one-time revenue stream of $2,046,000.

- In the 2012-13 school year, the Erie Education Association agreed to assist the District with having each employee that had medical insurance give back a monetary amount to the District which generated $746,114 in additional revenue.

With the implementation of the above actions, the District was able to achieve a positive General Fund balance by June 30, 2013. However, because many of the actions generated a one-time or short-term revenue stream, the District was unable to maintain a positive General Fund balance. As we discuss in Finding No. 1, the District ended the 2014 fiscal year with a General Fund balance deficit of $4.7 million.

Although the District did implement some of our prior recommendations, the District continues to experience annual operating deficits, liquidity and cash flow problems, and increasing charter school costs. All of these issues, as well as a few other fiscal concerns, are addressed in Finding No. 1 beginning on page 7.

Prior Finding No. 2: **Improper Tuition Agreement and Waivers Cost the District Taxpayers $1,185,177 (Resolved)**

Prior Finding Summary:

Our prior audit found that the Board entered into an improper tuition agreement with 12 neighboring school districts. The agreement allows for these non-resident students to attend one of the District's secondary schools, the Northwest Pennsylvania Collegiate Academy (NWPCA), at a reduced tuition rate of $3,100 per student. The reduced tuition rate resulted in $1,004,994 of uncollected tuition for the 2007-08 school year. Additionally, District personnel waived tuition, without board approval, for 23 non-resident students participating in a work study program at NWPCA resulting in lost tuition payments totaling $180,183. We also noted that this was the third consecutive audit in which we cite the District for its improper tuition billing practices.

Prior Recommendations:

We made five recommendations to the District to address the improper agreement and the deficient tuition billing practices. Because it has been the long-standing position of the Department of the Auditor General that the agreement violates the PSC, we again recommended that the District review the propriety of the agreement with the surrounding school districts. In addition, we recommended that the District comply with the PSC by billing tuition at the full approved rate and ensure that all tuition waivers are approved by the Board.

Current Status:

During our current audit, we found that the Board approved a resolution on February 8, 2012, to terminate the RCI agreement, and the District is now billing tuition for non-resident students attending NWPCA based on residency of its students. This resolution resolved the concern of tuition waivers for students in work study programs and other scholarship assistance programs. In addition, we found that the Board approved a resolution on June 29, 2011, to raise the tuition rate for NWPCA students to $5,000 for new students enrolling in 2012. While the District increased its tuition rate to $5,000 per student, it still does not bill tuition at the rate that complies with the PSC. However, since PDE has not taken any action to address this tuition billing practice and because the PSC does not contain any provisions for consequences for noncompliance, we will consider this finding resolved.

Prior Finding No. 3: **Internal Control Weakness and Errors in Pupil Transportation Reporting Resulted in a Net Overpayment of $143,246 (Unresolved)**

Prior Finding Summary: During our prior audit, we reviewed the District's pupil transportation records and reports submitted to PDE for the 2006-07 and 2007-08 school years and found numerous errors which resulted in an underpayment of $1,899 for regular pupil transportation and a net overpayment of $145,145 for nonpublic and charter school pupil transportation. We also identified internal control weaknesses related to the accounting and reporting of transportation services.

Prior Recommendations: We made four specific recommendations for the District to correct the internal control weaknesses and to improve its transportation services recordkeeping and reporting practices.

We also recommended that PDE adjust the District's allocation to recover the net reimbursement overpayment of $143,246.

Current Status: During our current audit, we found that the District did not implement our prior recommendations, and we again found significant errors in the reporting for nonpublic and charter school transportation services. Our current audit test results are detailed in Finding No. 2 beginning on page 19.

With regard to our recommendation to PDE, we found that on October 30, 2014, PDE recovered the overpayment of $145,145 for nonpublic and charter school pupils reporting errors.

Prior Finding No. 4: **Certification Deficiencies (Resolved)**

Prior Finding Summary: Our prior audit of professional employees' certification for the 2008-09 and 2009-10 school years found that the District employed numerous individuals as behavior specialists and mental health specialists without proper certification.

The certification deficiency information was submitted to PDE, and, on September 10, 2010, PDE confirmed our finding that the employees were not properly certified. The deficiencies subjected the District to subsidy forfeitures of $54,590 and $58,824 for the 2008-09 and 2009-10 school years, respectively.

Prior Recommendations: We recommended that the District require professional employees to obtain proper Pennsylvania certification for their positions or reassign them to areas for which they are certified.

We also recommended that PDE adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: During our current audit, we found that the District still employed both behavior and mental health specialists without proper certification. On December 3, 2013, PDE again confirmed our findings that the employees were not properly certified thereby subjecting the District to additional subsidy forfeitures of $52,479, $30,013, and $39,513 for the 2010-11, 2011-12, and 2012-13 school years, respectively.

We also found that PDE executed two settlement agreements with the District for the certification deficiencies identified in previous audits covering the 2006-07 through 2009-10 school years that eliminated the subsidy forfeiture. Furthermore, the District provided us with information that it is currently working on another settlement agreement with PDE to address the deficiencies we cited for the 2010-11 through 2012-13 school years for employing both behavior and mental health specialists without proper certification.

Finally, we found that the District's corrective action included amending the job descriptions for the behavior and mental health specialists' positions. On March 10, 2015, the District received an approval from PDE for the new mental health specialist job description which will require them to be a Pennsylvania licensed social worker. In addition, the District is currently working with PDE for approval of a new behavior specialist job description.

Due to the settlement agreements and the District's actions regarding the job descriptions for the employee positions in question, we consider this finding resolved.

Prior Finding No. 5: Errors in Reporting Charter School Tuition Resulted in a Net Reimbursement Underpayment of $28,748 (Resolved)

Prior Finding Summary: Our prior audit of the 2006-07 and 2007-08 tuition payments to charter schools and the charter school reimbursement applications submitted to PDE found that the District failed to properly report the actual tuition paid for the school years of service. As a result, the District was overpaid $45,302 for the 2006-07 school year, and underpaid $74,050 for the 2007-08 school year.

Prior Recommendations: We made three recommendations to the District to correct the deficiencies we noted. We recommended that the District establish internal review and reconciliation procedures for the tuition payments and reimbursement applications. In addition, we recommended that the District review reimbursement applications for subsequent years for accuracy and resubmit reports to PDE if necessary.

Current Status: Since 2011, the Commonwealth no longer reimburses school districts for a portion of its charter school tuition payments; therefore, our current audit did not include a review of tuition payments to charter schools or the charter school reimbursement applications.

Prior Finding No. 6: Improper Student Activity Fund Practices and Lack of Documentation (Unresolved)

Prior Finding Summary: Our prior audit of the District's student activity funds revealed that the District had not corrected the deficiencies cited in previous audits. We reviewed the District's student activity funds for the 2009-10 school year at the District's three high schools and one middle school and again found numerous internal control and documentation issues. We again cited the District for deficiencies including the following:

- Commingling of the student activity and athletic funds.
- Graduated class monies remaining in class accounts with no commitment for distribution.
- Disbursements made without receipts to verify the purchases.
- Excessive account balances.
- Inactive and improper accounts.

Prior Recommendations: We made ten specific recommendation to correct deficiencies and improve student activity fund operations.

Current Status: Since the District did not provide a written response to our prior audit finding, we asked District officials what, if any, corrective action was taken to address the issues we cited. On

September 4, 2013, the District's Business Administrator provided a memo to the auditors that stated:

> "The Erie School District has given much thought and consideration to each finding and recommendation from your office. Given the size of our District, quite a bit of money is run through these accounts over a period of time. Based upon your recommendations, we have held various workshops and in-services for our principals. We have gone to the schools to work with the treasurers of these funds. And yet we seem to continue to have the same issues. After the last audit, my recommendation to the board was to centralize the Student Activity Fund's process by hiring one individual, whose sole responsibility would be to ensure that your recommendations are followed, and that the guidelines set up by PASBO are adhered to. Given the financial condition of the District; however, we have unfortunately been unable to follow through with such a position. Clearly, over the last several years we have had to eliminate or consolidate a number of positions throughout the District. We shall continue to complete an internal audit of Student Activity Funds and address issues as they arise."

Since the District acknowledged that minimal corrective action had been taken since the last audit, we determined that detailed testing of the student activity fund was not necessary because the finding would be the same. However, we did recommend that the Board have the new business manager complete a current evaluation of the student activity fund operations, provide a summary of fund's continued weaknesses, and then establish a plan to improve its operations. We will evaluate the student activity fund operations during our next audit.

Prior Finding No. 7: **Possible Improper Re-employment of Retired District Employees (Unresolved)**

Prior Finding Summary:

Our prior audit found that the District rehired a number of its retired employees as consultants to perform the same jobs as employees hired to replace them. During the 2006-07 through 2009-10 school years, 17 former employees had retired prior to or during the period but were immediately rehired. The former employees were rehired to the same positions they formerly held, without a bona fide break in service. We determined that the District's practices may have violated the PSERC.

Prior Recommendations: We made the following three recommendations for the District:

1. Review the practice of re-employing retired District personnel with the District's solicitor and PSERS.

2. In the future, ensure there is an "emergency" within the meaning of Section 8346(b) of the PSERC that would justify any former employees returning to work for the District.

3. Evaluate the need to rehire retired personnel to positions for which new employees were hired.

Current Status: During our current audit, we determined that the District did not implement our prior recommendations. We found continuing issues with District's practice of rehiring retired employees. The results of our current work are detailed in Finding No. 4 beginning on page 28.

Prior Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses (Resolved)

Prior Observation Summary: Our prior audit found that the District used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor had remote access into the District's network servers. The prior audit determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide supporting evidence that it was adequately monitoring vendor activity in its system.

Our prior audit noted eight specific weakness over vendor access to the District's system, such as the following:

- Lack of a non-disclosure agreement with the vendor.
- Inadequate password security and syntax requirements.
- No current IT policies and procedures for controlling activities of vendors/consultants.

- Use of group userIDs rather than unique userID for each employee.
- Failure to remove the vendors' access to the system data after work was completed.
- Failure to obtain written requests for changing/updating software.

Prior Recommendations:	We made eight recommendations for the District to correct the deficiencies. Recommendations included obtaining a signed non-disclosure agreement, revising password security and syntax requirements, developing IT policies and procedures, assigning unique userIDs to vendor employees, removing vendor access after work is completed, and maintaining written requests for changes or updates to the District's software.
Current Status:	During our current audit, our testing and audit inquiries revealed that the District implemented our prior audit's recommendations and no further issues were identified.

Prior Observation No. 2: Memorandum of Understanding Not Updated Timely (Resolved)

Prior Observation Summary:	Our prior audit of the District's records found that its MOU with the local law enforcement agency had not been updated since February 2, 1999. We notified District officials of this deficiency during fieldwork, and as a result, an updated and signed MOU was received and approved by the Board on October 13, 2010.
Prior Recommendations:	To ensure that the District did not allow the MOU to lapse again, we recommended that the District adopt and implement a policy to review and update the MOU with the local law enforcement agency every two years.
Current Status:	During our current audit, we found that although the District did not adopt a policy, it did update and re-execute their MOU with the local law enforcement agency on September 14, 2011, September 18, 2013, and again on October 21, 2015.

Appendix: Audit Scope, Objectives, and Methodology

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

Our audit, conducted under authority of Section 403 of The Fiscal Code,[17] is not a substitute for the local annual financial audit required by the PSC, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period January 18, 2011 through November 10, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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 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.

The District's management is responsible for establishing and maintaining effective internal controls[18] 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 IT controls, that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

[17] 72 P.S. § 403.

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

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's performance in the following areas:

- Academics
- Governance
- Financial Stability
- Data Integrity
- School Safety
- Bus Driver Requirements
- Professional Certification
- Payroll Reimbursement
- Student Transportation
- Conflict of Interests

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

- Did the LEA's Board and administration maintain best practices in governing academics and student achievement by developing and executing a plan to improve student academic performance at its underperforming school buildings?

    - To address this objective, we considered a variety of District and school level academic results for the 2007-08 through 2012-13 school years to determine if the District had schools not meeting statewide academic standards established by PDE.[19] Since underperforming schools were identified, we selected 5 of 14 underperforming schools from the 2012-13 school year for further review. This review consisted of conducting interviews with the Superintendent and any other designated employees and reviewing required SIPs and/or optional School Level Plans to determine if the selected underperforming schools have established goals for improving academic performance, are implementing goals, and are appropriately monitoring the implementation of these goals.

[19] Academic data for the District and its school buildings included a five year trend analysis of Adequate Yearly Progress (AYP) results from the 2007-08 through 2011-12 school years, Pennsylvania System of School Assessment results in Math and Reading for the "all students" group for the 2011-12 and 2012-13 school years, School Performance Profile scores for the 2012-13 school year, and federal accountability designations (i.e. Priority, Focus, Reward, and No Designation) for Title I schools for the 2012-13 school year. All of the academic data standards and results we examined originated with PDE.

- ü Did the LEA's Board and administration maintain best practices in overall organizational governance?

  To address this objective:

  - o We conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.

  - o We also conducted a review of 10 out of 18 board members' travel expenditures for the 2011-12 school year. This review was completed to determine if the District had written policies and procedures to ensure travel expenditures were legitimate and in accordance with best business practices. We also ensured that the travel expenditures were reviewed and approved according to District policy and procedures.

  - o In addition, we conducted a review of all cellular phone statements for the 2011-12, 2012-13, 2013-14 and 2014-15 school years. This review was completed to determine if the District had written policies and procedures and if these policies and procedures were in accordance with best business practices in regard to obtaining, reviewing and approving cell phone expenditures.

  - o Finally, we reviewed one month of gasoline credit card expenditures for the 2011-12 school year. This review was completed to determine if the District had written policies and procedures and if these policies and procedures were in accordance with best business practices in regard to obtaining, reviewing and approving gasoline credit card expenditures.

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

  - o To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2008-09 through 2013-14. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. It was recently brought to our attention that the fiscal year ended June 30, 2104 financial statements audited by an independent auditor are in the process of being restated. As of the date of the issuance of this report, the re-stated fiscal year amounts were still in draft form and not formally issued by the independent auditor in their fiscal year ended June 30, 2015 audit report.

- Did the LEA ensure that the membership data it reported in the Pennsylvania Information Management System was accurate, valid, and reliable?

  - To address this objective, we reviewed 20 out of 12,349 total registered students (5 resident, 5 non-resident, 5 intermediate unit, and 5 area vocational-technical school, all selected randomly) from the vendor software listing for the 2011-12 school year and verified that each child was appropriately registered with the District.

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

  - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports.

- Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outline in applicable laws?[20] Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

  - To address this objective, we selected 5 of the 17 bus drivers who were hired by both the District and District bus contractors during the time period July 1, 2013 to October 23, 2013, and reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

- Were professional employees certified for the positions they held?

  - To address this objective, we reviewed and evaluated certification documentation for all 1048 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment during the 2010-11 through 2014-15 school years.

- In areas where the District received state subsidies and reimbursements based on payroll, did it follow applicable laws[21] and procedures?

[20] 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and *22 Pa. Code Chapter 8*.
[21] 24 P.S. § 8326 and 24 P.S. § 8535

To address this objective:

- o We reviewed total quarterly Social Security and Medicare wages reported for employees who were employed by the District during the 2012-13 school year.

- o In addition, we compared the District's 2012-13 school year payroll ledger to 2012-13 quarterly reports submitted to PSERS to determine if the total retirement wages for those employees were accurately reported.

ü In areas where the District received transportation subsidies, was the District, and contracted vendors, in compliance with applicable laws[22] and procedures?

To address this objective

- o We haphazardly selected and reviewed 12 of the 48 total District buses for the 2011-12 school year. For each bus in the sample, auditors reviewed various data, including board approval of routes, manufacturer, serial number, year of manufacture, and seating capacity as required under by the PSC.[23]

- o In addition, we reviewed the transportation data the District submitted to the PDE for the 2011-12 school year, which included contracted transportation costs, to the District's final formula allowance.

ü Were votes made by the District's Board free from apparent conflicts of interest?

- o To address this objective, we reviewed the board members' employment history, Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District for all 14 sitting members during the 2010, 2011, 2012, and 2013 calendar years.

[22] 24 P.S. § 25-2541.
[23] Ibid.

Distribution List

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

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano
Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

Ms. Connie Billett
Assistant Internal Auditor
Public School Employees' Retirement System
P.O. Box 125
Harrisburg, PA 17108

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

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