PERFORMANCE AUDIT

School District of Pittsburgh
Allegheny County, Pennsylvania

December 2015

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

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. Linda S. Lane, Superintendent	Dr. Regina Holley, Board President
School District of Pittsburgh	School District of Pittsburgh
341 South Bellfield Avenue	341 South Bellfield Avenue
Pittsburgh, Pennsylvania 15213	Pittsburgh, Pennsylvania 15213

Dear Dr. Lane and Dr. Holley:

Our performance audit of The School District of Pittsburgh (District) evaluated the application of best practices in the areas of academics, finance, governance, contracting, 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 February 23, 2012 through November 20, 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 that the District applied best practices in the areas noted above and complied, in all significant respects, with the relevant requirements except as detailed in our three findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District.

Dr. Linda Lane
Dr. Regina Holley

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 15, 2015

cc: **SCHOOL DISTRICT OF PITTSBURGH** Board of School Directors

Table of Contents

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 February 23, 2012 through November 20, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report.

Audit Conclusion and Results

Our audit found that the District applied best practices and complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for the three findings detailed within our report.

Finding No. 1: Despite Projected Insolvency in Recent Budget Forecasts, the District's Overall Fiscal Position Strengthened During the Audit Period as Actual Financial Results Consistently Outperformed Budget Expectations. Our audit found the District's financial position improved during calendar years 2010 through 2014. This improvement occurred despite the District's reliance on state and federal revenues (commonly referred to as subsidies) and its increased share of charter school costs. During the five-year review period, the District's General Fund increased by over $56 million, or 78 percent. Over this same time period, the District budgeted for an over $81 million reduction in the General Fund. The District was diligent in repaying its debt service obligations and increased its ability to cover obligations with liquid assets (cash and short term securities) (see page 8).

Finding No. 2: The District Did Not Include 24 Parcels of Vacant Land in Its Strategy for Divesting Itself of Unused Real Estate. In June 2012, the District engaged the services of a real estate marketing consultant to assist with selling unused properties; however, it did not include vacant and unused land parcels in its plans until July 2015, after our audit inquiry. The District owned 24 vacant and unused parcels for between 50 and 90 years. The District, therefore, appears to have not complied with its own policy to divest itself of such property (see page 20).

Finding No. 3: The District May Have Underreported Non-Resident Membership Data Which Would Have Impacted the District's Subsidies. The District's student membership data submitted to PDE for the 2011-12 school year did not agree with data records maintained by the District. Specifically, we found a significant variance between the number of non-resident students listed on the District's internal reports and the number listed on the Pennsylvania Information Management System (PIMS) reports (see page 23).

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 teacher and administrative certifications (see page 26), lack of Memorandum of Understanding (MOU) between the District and the local law enforcement agency (see page 28), the District paying a settlement amount of $140,000 to the chief financial officer/chief operations officer (see page 29), insufficiently defined terms for consultancy agreement costing $213,333 (see page 30), and continuing concerns regarding termination provisions in administrative contracts (see page 30). With regards to our safe schools review, the District had taken appropriate corrective action in implementing our recommendations pertaining to the District should improve its incident reporting procedures (see page 31).

We found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to improper activity noted for student activity funds (see page 27). With regards to our safe schools review, the District had not taken appropriate corrective action in implementing our recommendations pertaining to building safety reviews indicate areas of needed improvement (see page 32).

Background Information[i]

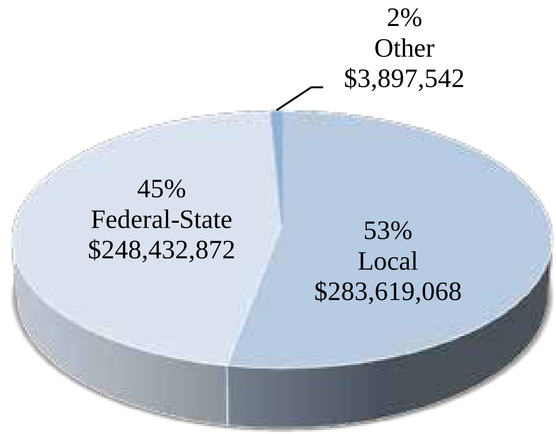
School Characteristics 2013-14 School Year[ii]	
County	Allegheny
Total Square Miles	55.3
Resident Population[iii]	309,107
Number of School Buildings	50
Total Teachers	1,929
Total Full or Part-Time Support Staff	1,656
Total Administrators	113
Total Enrollment for Most Recent School Year	25,504
Intermediate Unit Number	2
District Vo-Tech School	N/A

Mission Statement

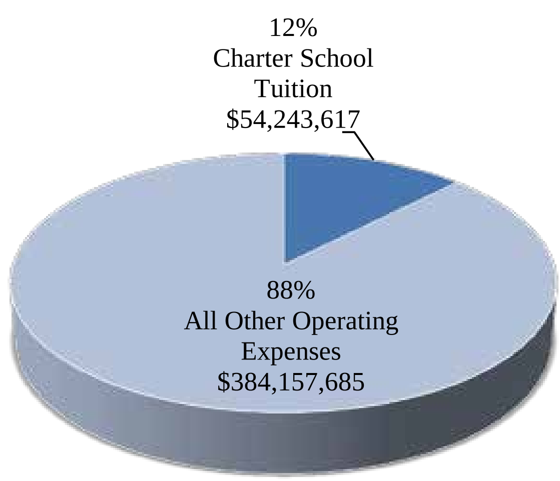
"The Pittsburgh Public Schools will be one of America's premier school districts, student focused, well managed, and innovative. We will hold ourselves accountable for preparing all children to achieve academic excellence and strength of character, so that they have the opportunity to succeed in all aspects of life."

Financial Information

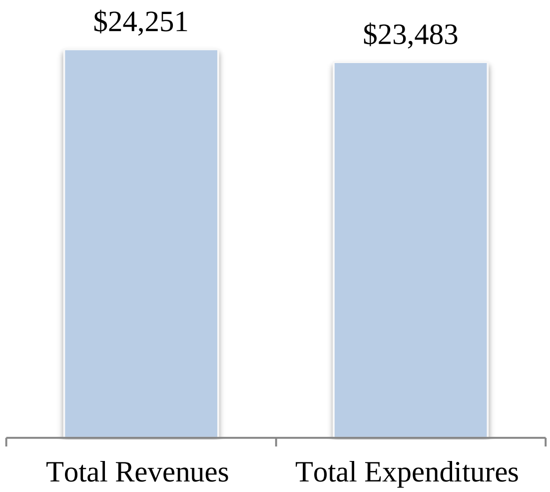
Revenue by Source for 2014 Calendar Year



Charter School Expenditures for 2014 Calendar Year

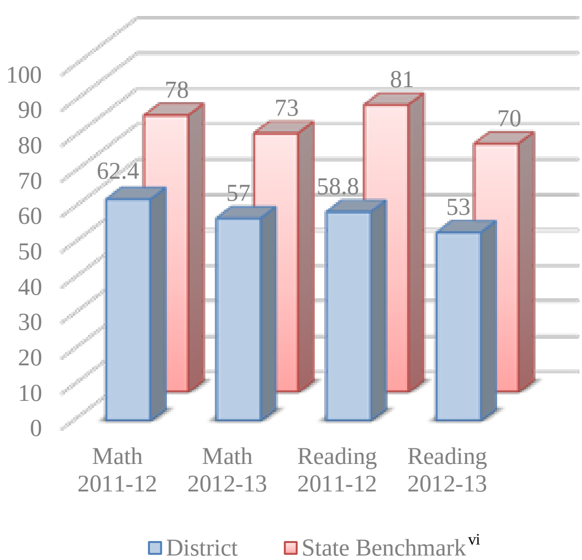


Dollars Per Student
2013-14 School Year



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

68.2

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]**
Academy at Westinghouse	43.4	25	48	29	41	Priority
Allderdice HS	71.8	64	9	74	4	No Designation
Allegheny 6-8	56.6	55	18	52	18	No Designation
Allegheny K-5	70.7	75	2	57	13	No Designation
Arlington K-8	54.3	46	27	38	32	Focus
Arsenal 6-8	60.0	54	19	37	33	No Designation
Arsenal K-5	55.2	48	25	31	39	Focus
Banksville K-5	71.9	78	5	58	12	No Designation
Beechwood K-5	58.9	65	8	49	21	No Designation
Brashear HS	54.7	46	27	59	11	Priority
Brookline K-8	71.9	78	5	65	5	No Designation
CAPA 6-12	82.2	82	9	89	19	Non-Title I
Carmalt K-8	80.1	70	3	63	13	No Designation
Carrick HS	58.9	53	20	67	3	Focus
Classical 6-8	69.3	56	17	56	14	No Designation
Colfax K-8	75.6	74	1	67	3	Non-Title I
Concord K-5	62.4	57	16	46	24	No Designation
Dilworth K-5	71.0	73	---	67	3	No Designation

Fasion K-5	57.5	33	40	31	39	Priority
Fulton K-5	66.6	70	3	52	18	No Designation
Grandview K-5	56.0	51	22	36	34	No Designation
Greenfield K-8	72.9	70	3	71	1	No Designation
King K-8	53.6	33	40	25	45	Priority
Langley K-8	53.2	36	37	36	34	Focus
Liberty K-5	82.6	77	4	68	2	No Designation
Lincoln K-5	63.4	38	35	36	34	Focus
Linden K-5	77.5	65	8	65	5	No Designation
Manchester K-8	63.1	49	24	40	30	No Designation
Mifflin K-8	66.9	63	10	54	16	No Designation
Miller K-5	58.6	45	28	33	37	Focus
Milliones 6-12	49.3	32	41	38	32	Focus
Minadeo K-5	67.2	68	5	55	15	No Designation
Montessori K-8	61.9	51	22	47	23	Focus
Morrow K-5	52.0	47	26	36	34	Focus
Obama 6-12	71.0	66	7	67	3	No Designation
Perry HS	43.3	29	44	36	34	Priority
Phillips K-5	79.7	81	8	68	2	No Designation
Roosevelt K-5	76.7	71	2	55	15	No Designation
Schiller 6-8	57.7	50	23	46	24	No Designation
Science and Technology Academy	72.5	82	9	75	5	No Designation
South Brook 6-8	57.9	59	14	54	16	No Designation

South Hills 6-8	65.3	57	16	53	17	No Designation
Spring Hill K-5	58.0	46	27	41	29	Focus
Sterrett 6-8	62.7	60	13	64	6	No Designation
Sunnyside K-8	74.4	60	13	51	19	No Designation
Weil K-8	67.4	52	21	42	28	No Designation
West Liberty K-5	77.3	77	4	63	7	No Designation
Westwood K-8	66.0	60	13	57	13	No Designation
Whittier K-5	79.6	80	7	71	1	No Designation
Woolslair K-5	60.0	46	27	32	38	Focus

Finding No. 1

Despite Projected Insolvency in Recent Budget Forecasts, the District's Overall Fiscal Position Strengthened During the Audit Period as Actual Financial Results Consistently Outperformed Budget Expectations

Criteria relevant to the finding:

The benchmarks used as criteria for this objective were based on best business practices established by several entities, including the Pennsylvania Association of School Business Officials (PASBO), the Colorado Office of the State Auditor, the Government Finance Officers Association, and the National Forum on Education Statistics.

PASBO provided testimony at a public hearing on fiscally distressed school districts to the Senate Education Committee on January 24, 2012. It suggested a number of indicators that should be reviewed annually. The following were among the benchmarks recommended for evaluating districts that we believe are prudent:

1. Total debt service should not exceed 10% of the General Fund expenditures.
2. The trend of effective tax rates as compared to levied tax rates should be stable or increasing to ensure the school district has sufficient tax revenues to maintain its educational services at an appropriate level.

Our audit found the District's financial position improved during calendar years 2010 through 2014. This improvement occurred despite the District's reliance on state and federal revenues (commonly referred to as subsidies) and its increased share of charter school costs. During the five-year review period, the District's General Fund increased by over $56 million, or 78 percent. Over this same time period, the District budgeted for an over $81 million reduction in the general fund.[1] The District was diligent in repaying its debt service obligations and increased its ability to cover obligations with liquid assets (cash and short term securities).

The actual financial results were more positive than the District expected primarily because operations accounted for in the General Fund significantly outperformed budgeted amounts for each year in the audit period.[2]

This finding first addresses increases in the District's General Fund, which were primarily driven by an operating surplus for four consecutive calendar years. It then discusses specific revenues and expenditures along with some of the challenges the District faces, specifically its reliance on subsidies and its increased share of charter school costs. We then discuss some of the liquidity and cash flow benchmarks that were reviewed. Finally, we show how actual General Fund results continually outperformed budgeted forecasts during our review period and how these variances caused the District's financial

[1] This calculation is based on the District's Final Budgeted Total Revenues and Total Expenditures. This does not include Other Financing Sources (Uses) like the sale of capital assets, capital leases, and transfers which are not included in the budget.

[2] http://www.post-gazette.com/news/education/2014/03/26/Pittsburgh-Public-Schools-Board-had-20-8-million-surplus-in-2013/stories/201403260208. (Accessed November 9, 2015)

Criteria relevant to the finding (continued):

3. The district's audit report should contain no instances of significant internal control weaknesses.

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

1. **Base Resourcing Decisions on the Total Value Created for Children**. The budget process should seek to allocate available dollars optimally, in a way that will create the most benefit for children given the costs – in other words, the best value.
2. **General Fund Reserve**. School districts should establish a formal process on the level of the unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk. The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their general fund of no less than 10 percent of regular General Fund operating revenues or regular general operating expenditures and operating transfers out.
3. **Year-End Savings**. A district should have a policy to define what happens to year end funds that are not used by a department. The GFOA recommends that districts develop policies that encourage a more strategic use of these funds.

position to be reported to the Board of School Directors (Board) inaccurately and then to be subsequently revised.

Increasing General Fund Balance

For the calendar years 2010 through 2014, we found the District had an increasing General Fund balance, ending in a $129.2 million balance for the calendar year ended December 31, 2014. The chart below shows the District's steadily increasing General Fund for the review period.

SD of Pittsburgh: General Fund Analysis		
Calendar Year	**General Fund Balance**	**Increase from Prior Year**
2010	$72,529,250	---
2011	$82,100,594	13.2%
2012	$88,958,227	8.4%
2013	$113,737,429	27.9%
2014	$129,213,110	13.6%

The District's General Fund balance at the end of calendar year 2014 was more than double the General Fund balance of the next highest Commonwealth school district or charter school.[3] Since school districts and charter schools across the Commonwealth vary in size, a more representative metric is the ratio of the District's General Fund balance to expenditures. The District's ratio was 24 percent for the calendar year ending 2014,[4] which is considerably higher than the 10 percent recommended by the GFOA.

Using this metric, the District was in the top 20 percent of all school districts and charter schools throughout the Commonwealth for the entire review period. It is important to note that a generous fund balance is a necessary component of a fiscally healthy school district. Fund balances are important to districts the same way a savings account is important to individuals. Just as individuals should maintain a savings account to deal with emergencies or other unforeseen events, districts should also have funds in reserve to pay for emergency repairs or interruptions to

[3] General Fund balance amounts were obtained from the PDE website www.education.pa.gov. We did not audit these General Fund balance amounts. The next highest General Fund balance as of fiscal year ending 2014 is Lower Merion School District with a General Fund balance of $55,921,794.

[4] General Fund expenditures for calendar year 2014 were $530,686,286, while the fund balance at year end was $129,213,110, as noted in the previous chart.

revenues. School districts must walk a fine line between being prepared for emergencies, increasing fixed costs, or interruptions to revenue and being responsible to their students and taxpayers.[5] Responsibility to their students means ensuring that available funds are being used for education.

The primary driver of the District's increasing General Fund balance is the four consecutive operating surpluses. The following chart shows that for the five year period, the net operating surplus exceeded $48 million.

SD of Pittsburgh: Comparison of Major Operating Funds[6]			
Calendar Year	**Total Revenues**	**Total Expenditures**	**Surplus/ (Deficit)**
2010	$ 624,659,577	$ 625,039,343	($ 379,766)
2011	$ 631,480,439	$ 627,004,392	$ 4,476,047
2012	$ 613,628,429	$ 605,077,670	$ 8,550,759
2013	$ 624,117,327	$ 603,204,979	$20,912,348
2014	$ 630,141,802	$ 614,990,205	$15,151,597
Total from Operations	**$3,124,027,574**	**$3,075,316,589**	**$48,710,985**

The secondary driver of the District's increasing General Fund balance were the sale of capital assets. The District received more than $13 million from the sale of capital assets during the period. Over $10 million, or 76 percent, of this revenue was generated by the sale of district-owned vacant buildings in the calendar year 2013.

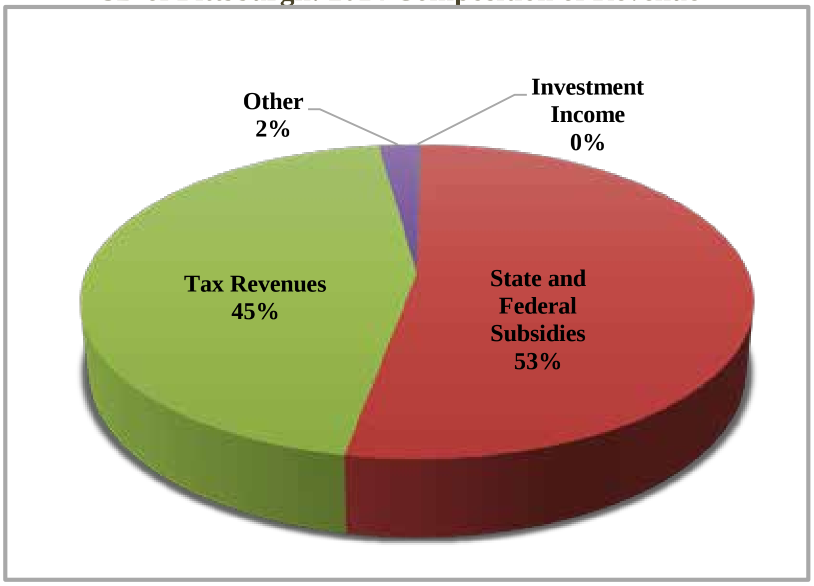
<u>District Revenue</u>

The divestiture of capital assets has been critical to the District's revenue generation since state and federal subsidies have remained relatively flat, with the increase during the five year period under review being less than three percent. The District relies on subsidies for the majority of its revenue as shown in the chart below. A district that relies primarily on subsidies has less of an ability to significantly increase its revenue by increasing millage rates. Tax revenues generally approximate 70 percent of total revenues in a suburban

[5] https://www.psba.org/wp-content/uploads/2015/07/PSBA-School-District-Snapshot-2015.pdf (Accessed November 19, 2015.)
[6] Operating Fund consists of the General, Special Revenue (IU), and Debt Service Funds.

school district, which is a considerably higher ratio than the 45 percent for the District.

SD of Pittsburgh: 2014 Composition of Revenue



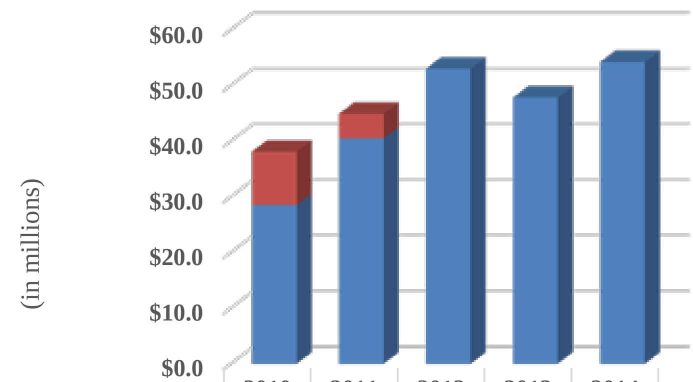
District Expenditures

The District has reduced overall expenditures during the review period despite being faced with an increase in charter school expenses and large fixed cost increases in the areas of retirement contributions and health care costs. Expenditures have decreased primarily due to a decrease in debt service payments and a decrease in instructional expenses as the District has tried to match staffing levels to the decrease in District enrollment.

Increased Charter School Costs

The District's net charter school tuition costs increased by almost $26 million, or 90 percent, during the period reviewed. The chart below illustrates the charter school tuition costs offset by the Commonwealth's partial reimbursements, which terminated entirely after 2011. The financial burden on the District grew from a net payment of $28.5 million in 2010 to $54.2 million in 2014.

SD of Pittsburgh: Charter School Costs Comparison



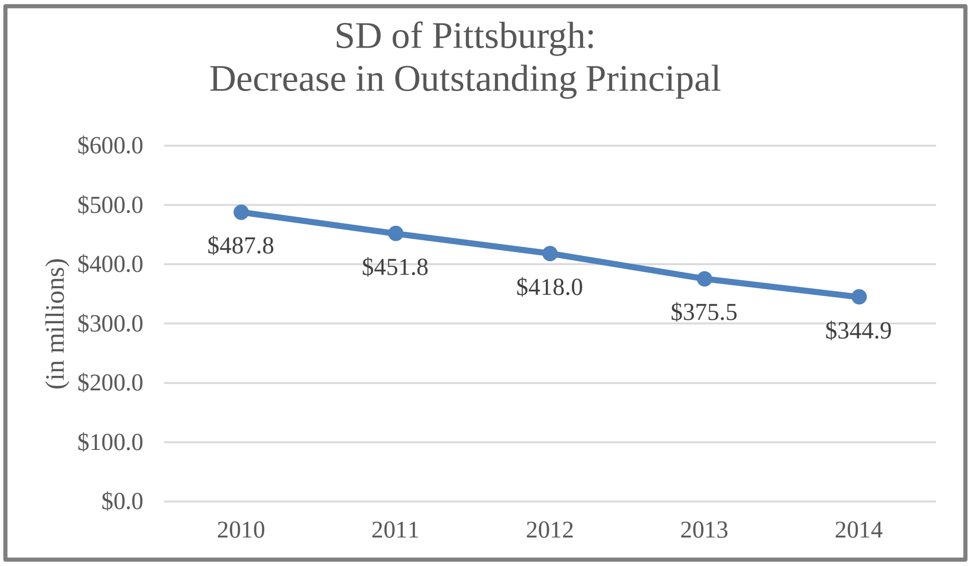
	2010	2011	2012	2013	2014
State Reimbursement	$9.6	$4.4	—	—	—
District Share	$28.5	$40.5	$53.0	$47.8	$54.2

Enrollment in charter schools increased by 620 students, or 20 percent, during the period reviewed, whereas the District's overall enrollment decreased by 1,628 students, or 6 percent. District personnel have been proactive in monitoring these trends and have made efforts to close and sell underutilized facilities as discussed previously in this finding. Charter school enrollment and the corresponding costs will be an ongoing issue for the District to manage and will affect the District's future financial position.

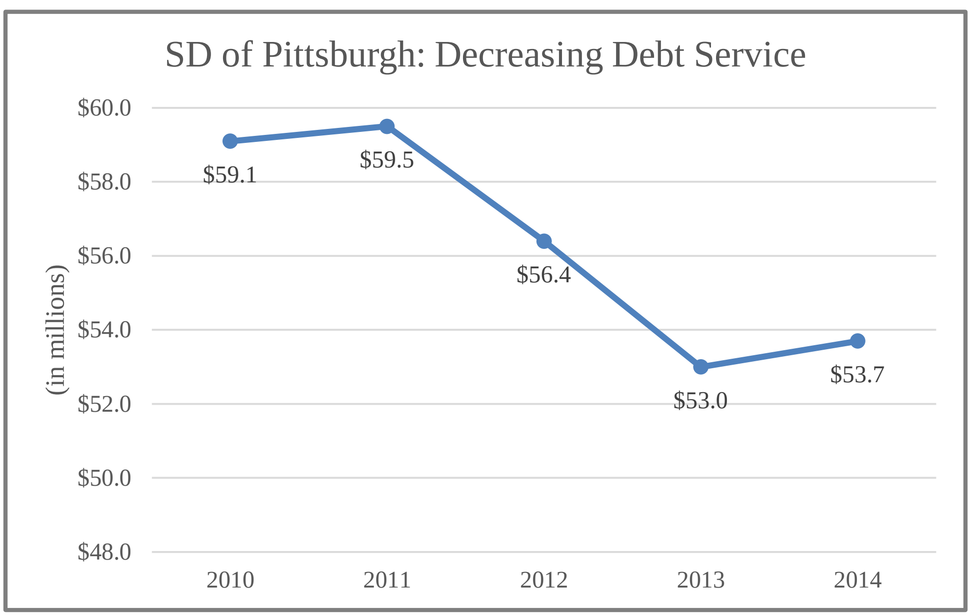
Along with selling underutilized facilities to combat declining district enrollment, the District has also been able to reduce instructional expenditures for regular elementary/secondary programs for each year reviewed. The District has been able to monitor declining enrollments and reduce staffing levels to match the decreasing enrollments.

Decreased Debt

Another way the District has reduced overall expenditures is by diligently repaying its debt. As the chart below demonstrates, total principal outstanding has declined by more than $142 million, or 29 percent, over the review period.

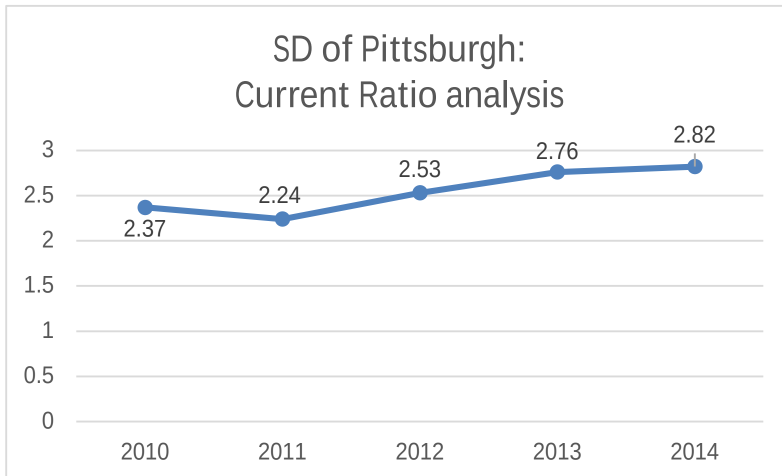


The District has also reduced its annual debt service, which equals the amount of money required to pay principal and interest, by almost $5.5 million, or nine percent, for the review period, as shown in the chart below.

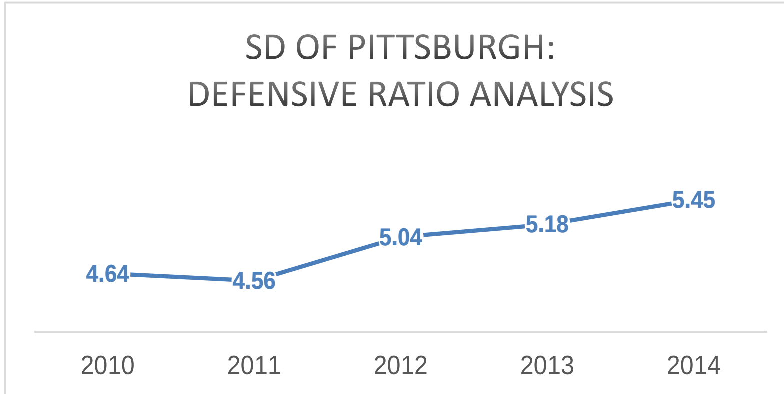


Liquidity & Cash Flow Increasing

One of the key measures of a school 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 obligations). 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 left over. The District has maintained a current ratio that has exceeded 2.0 for the period reviewed, and as the graph below highlights, the current ratio was approaching 3.0 as of December 31, 2014.



Another sign of the District's financial stability is its defensive interval, which reflects the number of months the District would be able to continue operations if no additional funds (revenues) were received. This ratio is an especially timely benchmark as the Commonwealth budget impasse has forced many districts and charter schools across the Commonwealth to borrow money to continue operations. Similar to the District's current ratio, the defensive ratio has been strong and improving (see graph below) for the review period, and as of December 31, 2014, exceeded five months. Consequently, the District has not been forced to borrow funds to sustain operations.



<u>Actual Results Consistently Outperforming Budgets</u>

The District budgeted its General Fund for a loss (excess expenditures over revenues) in all five calendar years reviewed. Repeatedly budgeting for a loss led the District to report that it was on a path to insolvency; yet, every year for the last five years, the District's actual results exceeded the District's budgetary forecasts. Not only did the actual results outperform budgets, but the District experienced operating surpluses from 2011 through the end of 2014. Due to these actual results, the District revised its projected insolvency dates multiple times and never reached insolvency at any time during the review period.

The chart below shows how the actual results for the General Fund outperformed the budgetary forecasts during the period reviewed.[7] This chart takes into account the net effect of revenues, expenditures, and budgeted transfers that occur in the "other financing sources" of the District's financial statements. Over the period reviewed, the District's General Fund outperformed the budgetary basis by over $116 million.

SD of Pittsburgh General Fund Annual Outperformance of Budgets	
31-Dec	**Actual > Budget**
2010	$ 8,677,398
2011	$14,567,048
2012	$29,075,009
2013	$35,200,199
2014	$29,105,382

[7] Special education was budgeted in the General Fund; however, expenditures were recorded in the Special Revenue Fund (which is shown as a transfer out in the actual column).

Actual revenue was slightly less than budgeted for calendar years 2010 and 2011, primarily due to the decrease in basic education subsidies and the Commonwealth's termination of partial reimbursements of charter school costs. Actual revenue exceeded budgeted amounts for the calendar years 2012 through 2014 primarily due to an increase in earned income tax revenues.

For each of the same five calendar years, the District's actual expenditures fell below budgeted amounts and cumulatively totaled more than $62 million below budgets. The majority of this budget variance related to instructional expenditures for regular elementary/secondary programs, instructional expenditures for special elementary/secondary programs, and operation and maintenance of plant services. Actual amounts for these categories of expenditures consistently fell below budgeted amounts for the period.

District management stated that these lower actual expenditures were the result of the "reduced staffing levels adjusted for declining enrollments." District management added that it made adjustments to yearly budgets based on actual results and stated that the actual results compared to budgets are monitored in real time and adjustments are made.

In addition to the substantial variances between actual and budgeted revenue and expenditures, operating transfers and sales of capital assets contributed to the significant outperformance of actual results compared to budgets.

Effect of Inaccurate Budgets

The District budgeted for a loss in four of the five years reviewed and outperformed budgetary projections in every year reviewed. The District's actual financial results outperforming the budgetary amounts every year of our review period has a two-fold effect.

First, at the beginning of the budgetary process in early 2013 and 2014, the District reported to the public a budgeted loss and an upcoming insolvency date based on forecasted losses. According to District management, these forecasted losses were driven by flat revenues being outpaced by expenditures. The District's cost per student was increasing due to declining enrollment and, while the fixed costs were steep, the District expressed no desire to raise taxes beyond statutory limits. Therefore, the District was forecasting significant losses. However, as actual results became available, the District recognized that they would end with a surplus instead of a loss.

Also, by consistently under budgeting the financial resources, the District may have not been sufficiently ensuring that necessary resources to meet District goals were being provided. According to the GFOA, when a school district does not employ effective budgeting practices, districts may risk not fully achieving their missions of improving student achievement.

We recognize there are numerous unknown long-term variables that will affect every district across the Commonwealth and that there are more unknowns for a district the size of the School District of Pittsburgh, but during the review period of calendar years 2010 through 2014, the District did actually increase its General Fund balance and operated with a surplus. The District has also been diligent in repaying its debt obligations. Together, these factors resulted in an increase in liquidity and cash flow despite relying on subsidies for more than half of its revenue and experiencing increased charter school and retirement costs. As previously stated, actual results have significantly outperformed budgeted forecasts, forcing the District to revise its negative outlooks.

Recommendations

The *School District of Pittsburgh* should:

1. Review the last five years of actual revenue and expenditure results compared to budgeted forecasts and evaluate areas that are consistently and significantly budgeted incorrectly.

2. Determine why actual instructional expenditures for regular and special elementary and secondary education and the operation and maintenance of plant services were consistently less than budgeted amounts to ensure these line items are budgeted more accurately in the future.

3. Continue to monitor enrollment and adjust facilities and staff to align with the changes in enrollment. Correspondingly, it should also continue to evaluate the disposal of unused or under-used District facilities.

Management Response

District management provided the following response:

"The District employs strong and conservative financial management principals as evident by our recent bond ratings issued by Moody's and Standard & Poor's. The District utilizes assumptions to forecast our financial outlook. The District accurately reports its financial position to the Board on a monthly basis. This forecast is subject to change based on changes at the Federal, State, Local, and District level. The forecast is routinely updated to reflect these changes.

Over the last 5 years, the variation between our budgeted and actual expenditures has been largely due to higher than expected local revenue and cost containment efforts. These two factors have contributed to an increasing District fund balance. Our healthy fund balance has allowed us to continue operations throughout the ongoing budget impasse without borrowing. Upon the closing of each budget year, variations between budgeted and actual expenditures are reviewed and the financial forecast is updated accordingly.

In an attempt to better refine our forecasting, the District has had its finances reviewed by numerous external consultants including Two Bell Group (2011), Alvarez and Marsal (2011-2012), American Federation of Teachers (2011-12), and FSG & Bellwether (2013). Also, on May 14, 2014 the District requested a review of the underlying assumptions of our forecast by the Auditor General. However, the Auditor General stated that his office was unable to accommodate this request because the Department is precluded from rendering any pre-audit advice concerning any transactions that the Department may have the subsequent duty to audit.

The District, as always, is committed to proper stewardship of taxpayer funds. Through continued strong financial management, the District will ensure that we have the necessary resources to meet our academic goals."

Auditor Conclusion

We are encouraged that the District reviews variations between budgeted and actual expenditures at the close of each budget year. We are also encouraged that the District has had its finances reviewed by numerous external consultants to better refine budgetary forecasts. We believe that our finding and recommendations can add to the District's process of refining budgetary forecasts, especially where the District has consistently over-budgeted expenditures.

Finding No. 2 — The District Did Not Include 24 Parcels of Vacant Land in Its Strategy for Divesting Itself of Unused Real Estate

Criteria relevant to the finding:

Section 703 of the Public School Code (PSC), 24 P.S. § 7-703, states, in part:

"In order to comply with the provisions of this act, and subject to the conditions thereof, the board of school directors of each district is hereby vested with the necessary power and authority to . . . sell, convey, transfer, dispose of, or abandon the same, or any part thereof, as the board of school directors may determine."

Section 707 of the PSC, 24 P.S. § 7-707, states, in part:

"The board of school directors of any district is hereby vested with the necessary power and authority to sell unused and unnecessary lands and buildings. . . ."

The District Board Policy No. 814, *Sale of Unused and Unnecessary School Buildings and Land*, states, in part:

"When the Board has decided to discontinue use of certain buildings and land . . . it is in the best interests of the District to divest itself of such property."

In June 2012, the District engaged the services of a real estate marketing consultant (Consultant) to assist with selling unused properties; however, it did not include vacant and unused land parcels in its plans until July 2015, after our audit inquiry. The District owned 24 vacant and unused parcels for between 50 and 90 years. The District, therefore, appears to have not complied with its own policy to divest itself of such properties.

As a result, the District may have missed opportunities to sell or lease vacant and unused land parcels and generate revenues not only from sale or lease income, but also from tax revenues as a result of potentially returning these properties to the property tax rolls, which are a primary source of revenue for the District.

In June 2012, the District engaged the services of a Consultant to assist with the "Development and Implementation of an Asset Maximization Plan for Unused and Unnecessary School Properties."[8] The term of the contract was for one year, and in each of the three succeeding years, a new contract with similar terms was authorized by the Board. Not until our audit inquiry, however, did the District, in July 2015, include vacant and unused land as part of its "Surplus Properties" offered for sale and listed as part of an attachment to the contract with the Consultant.

The total assessed land value of the 24 parcels identified by the District was $502,200.[9] Three of these parcels also have assessed building values assigned to them totaling $321,900, according to the Allegheny County Real Estate Portal.[10] However, according to District officials, these three parcels do not include buildings, and officials speculated that this was an instance of the county

[8] The School District of the City of Pittsburgh, *Consulting and Real Estate Commission Agreement*, effective July 20, 2012, Exhibit A. (Proposal).

[9] Assessed values are used in the calculation of property taxes and are different from current market values of property. This finding does not evaluate the potential market value of the vacant and unused land owned by the District.

[10] Allegheny County Real Estate Portal: http://www2.county.allegheny.pa.us/RealEstate/search.aspx, August 17, 2015.

possessing outdated records. The District is currently working with the county to resolve the discrepancy.

Conclusion

The District has generated revenue from the sale of various buildings;[11] yet, the District did not include its vacant and unused land parcels in its roster of properties to be marketed for sale with its Consultant until July 2015. As noted earlier, selling the vacant and unused land parcels may potentially raise revenue both from sales and possible future property taxes. The District should ensure that it evaluates all unused assets for revenue generation opportunities.

Recommendations

The *School District of Pittsburgh* should:

Establish specific criteria and procedures related to the marketing, sale, and lease of vacant and unused properties, including vacant land, in order to improve accountability. These procedures should include regular reporting to the Board on the status of marketing efforts along with updates on sales, leases, and any other divestiture of these properties.

Management Response

District management provided the following response:

"Throughout the course of our marketing and sale of unused facilities, the District received inquiries regarding the sale of vacant land which prompted a review of the District's inventory. In February 2015, recommendations for the sale and marketing of vacant lands were made to the District by its real estate marketing consultant (Consultants). These recommendations predate the April 2015 inquiries about vacant lands that were made by a representative of the Bureau of School Audits. The scope of the Consultant's work was expanded to include the marketing of vacant lands effective July 2015. Sale of unused and unnecessary school buildings and land is

[11] For example, in 2014, the District attributed $1.6 million in revenue from the sale of various unused buildings. School District of the City of Pittsburgh. *Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2014.* Page 13.

governed by the criteria and procedures in Board Policy No. 814. In response to the finding regarding vacant land which includes both the land as well as building values assigned to each one. We attached aerial photos of the parcels in question. These photos provide evidence that there are no existing structures on any vacant parcel. Since there are no structures, the identified parcels have a land value of $502,200, not a combined land and building value of $824,100. As stated in the Auditor's report, the assessed land value of the parcels is available on the Allegheny County Real Estate Portal."

Auditor Conclusion

The District entered into an initial contract with the consultant in June 2012 but did not expand the scope of the contract to include the marketing and sale of vacant land until during our audit in July 2015. Selling the vacant and unused land parcels would provide the District with potential revenue both from the actual sales and from possible future property taxes. The District should act more timely when considering the potential for additional revenues.

We agree with the District that it appears that there are no structures on the vacant land and therefore there would not be a building value attached to the vacant parcels of land. Since we reviewed the Allegheny County Real Estate Portal to determine the value of the vacant land we cited in the finding, we encourage the District to work with the county to clarify the county's records in regard to vacant land that contains both land and building values.

Finding No. 3

The District May Have Underreported Non-Resident Membership Data Which Would Have Impacted the District's Subsidies

Criteria relevant to the finding:

School districts, charter schools, intermediate units, and other local education agencies (LEA) must report their student membership data in PDE's PIMS. The term "membership" refers to the number of days a student is enrolled in a district or other LEA. Accurate reporting is essential to the appropriate evaluation of the data. According to PDE, accuracy of all data elements are important to:

- The School Performance Profile
- Title I Federal Differentiation
- Elementary & Secondary Education Act (ESEA) Federal Reporting

What is PIMS?

PDE's Pennsylvania Information Management System (PIMS) is a statewide data collection system used to manage student data in grades pre-kindergarten through 12. Data gathered from school districts and other LEAs throughout the state are used to meet state and federal reporting requirements and to improve educational decision-making. Data also affects the evaluation of academic performance in the context of demographics, which can then affect state and federal funding. Therefore, PIMS data impact both the academic and fiscal environments of school districts and other LEAs.

The District's student membership data submitted to PDE for the 2011-12 school year did not agree with data records maintained by the District. Specifically, we found a significant variance between the number of non-resident students listed on the District's internal reports and the number listed on the PIMS reports.

Student membership data is used to determine certain types of funding, and inaccurate data may result in either subsidy overpayments or underpayments to the District. Based on the membership data information available at the District, we could not make the determination as to which report was accurate and, therefore, could not verify the accuracy of the District's tuition reimbursement.

We found that the District did not implement a full reconciliation process to ensure that its average daily membership (ADM) was entered accurately into its student information system (SIS). Data from the SIS is uploaded to PIMS and that data is then used by PDE to calculate tuition reimbursement. Had the District conducted a reconciliation between the two reports, the significant variances would have been noticed and could have been corrected prior to the submission to PDE.

The chart below shows the ADM variances between the District's SIS and the information reported to PDE through PIMS.

2011-12 ADM[12]	***District's Internal Software (SIS)***	***PIMS ACS[13] Report***	***Variance (Positive/ Negative)***	***Percent of Variance***
Resident	24,479.648	24,602.836	123.188	.50%
Non-resident	213.672	93.957	(119.715)	(56.03%)
Total	**24,693.320**	**24,696.793**	**3.473**	**.01%**

As shown in the chart, the most significant variance is related to the non-resident numbers. When we asked about the large variances in non-resident membership, District personnel

[12] i.e., Average Daily Membership.
[13] i.e., Accuracy Certification Statement.

Criteria relevant to the observation (continued):

PIMS data are also used for Pennsylvania System of School Assessment (PSSA) accountability reporting. The system is designed to keep individual student data confidential.

PIMS went into effect in 2009-10, replacing the former CAD system (Child Accounting Database).

Four important data elements from the *Child Accounting* perspective are:

- District Code of Residence
- Funding District Code
- Residence Status Code
- Sending Charter School Code

In addition, other important fields used in calculating state education subsidies are:

- Student Status
- Gender Code
- Ethnic Code Short
- Poverty Code
- Special Education
- Limited English Proficiency Participation
- Migrant Status
- Location Code of Residence

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

stated that only "Total" ADM was reviewed. The District did not perform a reconciliation of the SIS reports with the PIMS statements to ensure that there was agreement between the student data classifications; therefore, the non-resident membership variances were not detected and corrected by the District before the information was submitted to PDE.

Non-resident membership is an important component in determining the District's subsidies since the District is reimbursed by either the sending district or the Commonwealth for every non-resident student enrolled in the District. If the District is underreporting their non-resident membership to PDE, they may not receive the full amount of reimbursement that they are entitled to receive.

While we found that the District does have some written procedures related to reporting membership data to PDE, those procedures do not include a reconciliation of each classification of students. Failure to ensure the accuracy of each classification of student data could have a negative financial impact on the District; therefore, it is prudent for the District to ensure that reconciliation procedures are implemented and documented.

Recommendations

The *School District of Pittsburgh* should:

1. Perform reconciliations between PIMS ADM data and SIS ADM data for all student data classifications to help ensure accurate reporting of child accounting data so that PDE uses accurate information when calculating District subsidies.

2. Document the reconciliation process in its written procedures and ensure that personnel comply with those procedures.

Management Response

District management provided the following response:

"For the 2011-12 school year, after running the district ADA/ADM report, anomalies were discovered and corrections were made to our SIS prior to the PDE submission. We did not return our internal ADA/ADM which would have moved students from non-resident to resident. Our bottom line number would have remained the same.

In order to address this issue the District will implement the following reconciliation process:

Step 1: Run an internally built report to calculate ADA/ADM for our district. This includes various dis-aggregations: by residency and grade.

Step 2: Run extracts for PDE/PIMS submissions. Submitting data through PIMS will alert basic data validation discrepancies.

Step 3: Make corrections to the live data in SIS.

Step 4: Rerun internal SIS ADA/ADM calculations.

Step 5: Repeat steps 2-4 until validation errors are rectified.

Step 6: Wait until PDE refreshes their warehouse in order to run their Cognos reports.

Step 7: Compare internal reports against PDE Cognos reports.

Step 8: If there are large enough variances between PDE vs. our SIS, narrow down areas where the discrepancies may exist. This may require us to reach out to other staff to verify why changes were made.

Step 9: Repeat previously documented step."

Auditor Conclusion

We are encouraged that the District has developed and will implement a detailed reconciliation process between PIMS ADM data and SIS ADM data for all student data classifications. Since the District is in the process of implementing this reconciliation process, we will evaluate the effectiveness of this process 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 2, 2013, resulted in four findings and two observations. Along with this cyclical performance audit, a safe schools initiative was conducted to assist the District in their effort to provide students with a safe and secure learning environment. The safe schools review resulted in two observations that were also presented in the report released on January 2, 2013. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures, as detailed in each status section below.

Auditor General Performance Audit Report Released on January 2, 2013

Prior Finding No. 1: Certification Deficiencies (Resolved)

Prior Finding Summary: During our prior audit of professional employees' certification and assignments for the period July 1, 2006 through June 30, 2011, we found teachers and principals who were assigned positions without proper certification, resulting in potential subsidy forfeitures totaling $390,337. This finding was a continuation of the certification deficiencies noted in the prior audit.

Prior Recommendations: We again recommended that the District establish procedures to ensure that teachers and principals are permanently certified before their provisional certificates expire.

We also recommended that PDE adjust the District's allocations to assess the subsidy forfeitures of $390,337.

Current Status: During our current audit, we again tested for certification deficiencies. We reviewed records for 69 teachers and 15 administrators to determine if these teachers and administrators possessed current certificates. We found that three teachers with lapsed certificates during the 2012-13 school year which now subjects the District to a potential subsidy forfeiture of $8,411. We also found that the District appealed the $390,337 subsidy forfeitures recommended in the prior audit. In March 2014, PDE settled with the District in the amount of $316,403. Since the District had a notable improvement in this area, we consider this finding resolved. However, we reserve the right to review this issue again during future audits.

Prior Finding No. 2: **Improper Activities Noted For Student Activity Funds (Unresolved)**

Prior Finding Summary:

In our prior audit, we again cited the District for continued deficiencies with its student activity funds. Specifically, we found the following issues:

- Year-end deficits were noted for various accounts.
- Inactive accounts were maintained within the funds.
- Some accounts had high year-end balances.
- Some student activity fund accounts had no documentation of student authorization to pay bills.

In its response to the finding the District indicated that additional training and assistance would be provided to all school personnel that have responsibility for student activity accounts. The District also indicated that it implemented a new software package that should provide better monitoring and oversight of the funds.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Prohibit the practice of using other account monies to offset shortfalls in accounts with deficits.

2. Abolish all inactive accounts.

3. Take steps to reduce accounts with high year-end balances.

4. Ensure documentation of student authorization to pay bills.

Current Status:

Weaknesses in the District's student activity funds has been a finding in the past three audits. While the District has taken some actions to correct the deficiencies and provide better oversight of the funds, we still found deficiencies. We reviewed the 2012-13 school year student activity fund operations for all nine high schools and five of the middle schools and found similar weaknesses as cited in the prior audit.

For example, we found that all 14 schools had one or more student activity accounts with year-end deficit balances. We also found 224 accounts in the 14 high schools and 43 accounts in the 5 middle schools that did not have any activity during the year. Finally, we found 60 accounts with year-end balances that exceeded $5,000.

Student activity funds require diligent monitoring and oversight and the District should ensure that it is doing all it can to mitigate the risk of fraud or misuse of those funds. Since internal control weaknesses over student activity accounts has been an on-going issue, we may evaluate the District's oversight efforts during our next audit.

Prior Finding No. 3: **Lack of Memorandum of Understanding Between the District and Local Law Enforcement Agency (Resolved)**

Prior Finding Summary:

Our prior audit found that the District had no signed MOU with its local law enforcement agency. The District made numerous attempts to obtain a signature on a MOU, but the local law enforcement agency failed to provide one. In its response, the District indicated that its School Safety Department maintains a good working relationship with local law enforcement. The District further indicated that it will continue its efforts to obtain a signed MOU with law enforcement.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Continue to try to obtain the cooperation of the local law enforcement agency in the development of a MOU that sets forth procedures to be followed when acts of violence or possession of weapons occurs on District property.

2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit, we found that the District implemented our first recommendation as it continued its efforts to obtain a MOU. On January 13, 2014, a District attorney sent a draft of a MOU to the local law enforcement agency. On January 17, 2014, the local law enforcement agency responded to the District, by email, and indicated that it disagreed with some language in the draft MOU. As of the close of our fieldwork, the District still does not have a signed MOU with the local law enforcement agency. Because we determined that the District has a working relationship with the city police, we did not cite the District again; however, we continue to encourage the District to obtain a signed MOU.

Prior Finding No. 4: District Paid a Settlement Amount of $140,000 to the Chief Financial Officer/Chief Operations Officer (Resolved)

<u>Prior Finding Summary:</u>

Our prior audit finding found the District entered into an Agreement and General Release (Agreement) with its Chief Financial Officer/Chief Operation Officer (CFO) even though the CFO did not have a separate employment contract. The Agreement resulted in a pay-out of $140,000 to the CFO as follows: $95,000 for accrued, unused sick/personal/vacation days; $27,500 for non-wage damage claims; and $17,500 for attorney's fees. The District was unable to provide documentation to support the calculation of this payment.

<u>Prior Recommendations:</u>

Our prior audit finding recommended that the District should:

1. Provide as much information as possible to the taxpayers of the District explaining the reasons for the resignation of the CFO and justifying the District's expenditure of public funds.

2. Ensure that future release agreements do not contain confidentiality agreements that prevent the District from informing taxpayers and others of the reasons for a termination.

<u>Current Status:</u>

During our current audit, we reviewed a current release agreement for the District's Assistant Superintendent, who was employed for a term of July 1, 2012 through June 30, 2015. We found that this agreement did not have any form of confidentiality language included in the agreement that would prevent the District from informing taxpayers and others of the reasons for a termination. Also, according to the District, it provided as much information as legally possible to taxpayers regarding the termination of the District's CFO. While we consider this specific issue resolved, we will continue to monitor the District's transparency and accountability efforts during future audits if we determine that the District executed any settlement agreements with former employees.

Prior Observation No. 1 Insufficiently Defined Terms for Consultancy Agreement Costing $213,333 (Resolved)

Prior Observation Summary:

Our prior audit found that the District entered into a Consultancy Agreement with its former Deputy Superintendent for Instruction, Assessment and Accountability, and in doing so, agreed to pay her $213,333 for undefined activities and deliverables. The agreement had no clearly defined work requirements and we found little evidence that sufficient work was performed to justify the payments.

Prior Recommendations:

Our prior observation recommended that the District should:

1. Ensure that any future consultancy agreements include clear descriptions of the required work. The authorization of payments should be dependent on the receipt of adequate evidence that such requirements were met.

2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Deputy Superintendent and justifying the District's expenditure of public funds to hire her as a consultant.

Current Status:

During our current audit, we reviewed a Consultancy/Contractor Agreement which contained a clear description of the required work. The District provided us with evidence of the authorization of payments, which were contingent on the work requirement being met. Also, according to the District, it provided as much information as legally possible to taxpayers regarding the termination of the District's Deputy Superintendent. While we consider this specific issue resolved, we will continue to monitor the District's transparency and accountability efforts during future audits if we determine that the District enters into consultancy agreements with former employees.

Prior Observation No. 2 Continuing Concerns Regarding Termination Provisions in Administrative Contracts (Resolved)

Prior Observation Summary:

During our prior audit, we found continuing concerns regarding the early terminations of administrative contracts. We reviewed four administrative contracts and found that three of them did not include adequate termination provisions. We reiterated our previous recommendations.

Prior Recommendations: Our prior audit observation recommended that the District should:

1. Enter into employment contracts with prospective superintendents at the three year minimum term permitted by state law, in all instances, as a means of limiting potential financial liability by the District and its taxpayers.

2. Ensure that future employment contracts contain adequate termination provisions sufficient to protect the interest of the District and its taxpayers in the event that the employment ends prematurely for any reason.

3. Work with the current Superintendent to include in her current contract, and any future contracts, a provision that addresses the compensation and benefits payable to, or on behalf of, the current Superintendent in the event of premature termination of the contract.

Current Status: During our current audit, we reviewed three contracts, including a new contract for the current superintendent, and found that the District did implement our recommendations.

Safe Schools Review
Prior Observation No. 1 **The District Should Improve its Incident Reporting Procedures (Resolved)**

Prior Observation Summary: Our prior audit observation found that the District should improve its incident reporting policies and procedures to ensure that it reports reliable and valid incident data to PDE. Specifically, in reviewing the District's incident data, it was found that it consistently exceeded state-wide averages for disorderly conduct.

Prior Recommendations: Our prior audit observation recommended that the District should:

1. Revise its current misconduct offenses and associated definitions within the Student Code of Conduct to be consistent with recent amendments to the PSC, especially for Level 2 infractions.

2. Provide better training to school administrators on the significance of accurately reporting incidents.

3. Perform periodic validation tests on incident data to ensure school administrators are accurately reporting incidents in accordance with the PSC.

Current Status: During our current audit, we found that the District implemented all three of our recommendations.

Safe Schools Review
Prior Observation No. 2 **Building Safety Reviews Indicate Areas of Needed Improvement (Partially Resolved)**

Prior Observation Summary: Our prior audit observation found that during our safe schools review of three elementary, three middle, and three high schools, we noted weaknesses based on best practice in school safety as well as some legal compliance issues. Specifically, we found that the schools needed to conduct more varied emergency drills and visitors procedures should be standardized throughout the District. The legal compliance issue addressed the failure to post the District's anti-bullying policy according to the Section 1303.1-A(b) of the PSC.

Prior Recommendations: Our prior audit observation recommended that the District should:

1. Ensure that each of its schools have an anti-bullying policy available in each classroom and publicly posted in a prominent location in each building.

2. Ensure that schools conduct lock-down drills, as well as other varied drills such as evacuation, shelter-in-place, reverse-evacuation, as well as conduct after-action reviews to ensure each school's emergency preparedness plans are current.

3. Improve communication systems at each of its buildings so that all staff members, not just those within the school's walls, are able to quickly communicate with the school's central office.

4. Establish standardized visitor policy procedures at each of its school buildings, and improve directional signage indicating where visitors should report.

Current Status: During our current audit, we found that the District implemented our recommendations. We did note, however, that only three of the seven schools we reviewed conducted lock-down drills. While this is an improvement from the results of our prior review, we reiterate the need for lock-down drills at all schools. We encourage the District to implement procedures to ensure that all schools are adequately prepared in the event that an intruder enters a school building by conducting lock-down drills.

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 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,[14] 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 February 23, 2012 through November 20, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls[15] to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

[14] 72 P.S. § 403

[15] 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
- Contracting
- Data Integrity
- School Safety
- Vacant Land

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.[16] Since underperforming schools were identified, we selected 10 of the 50 District's schools for further review. This review consisted of conducting interviews with the Superintendent and any other designated employees and reviewing required School Improvement 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.

[16] 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. PSSA 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.

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

  - To address this objective, we surveyed the District's current Board, conducted in-depth interviews with the current Superintendent and 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.

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

  - To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years June 30, 2009 through June 30, 2014, and calendar years January 1, 2010 through December 31, 2014. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. We also made inquiries and evaluated data to determine the causes of the disparities noted between budgeted amounts and actual amounts during the period audited.

- Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?

  - To address this objective, we reviewed the District's procurement and contract monitoring policies and procedures. We obtained a list of contracts for goods and services that were in effect for the 2013-14 school year. We selected 5 out of 230 significant contracts for detailed testing. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the PSC and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board's Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.

- ü Did the LEA ensure that the membership data it reported in PIMS was accurate, valid, and reliable?

  - o To address this objective, for the 2011-12 school year, we compared the District's SIS for resident and non-resident membership data to totals reported into PIMS. In addition, we randomly selected two out of ten school terms reported on the Summary of Child Accounting and verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Fact Template.

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

  - o To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at 7 out of the District's 50 school buildings to assess whether the District had implemented basic safety practices.

- ü Did the District follow its policies and procedures which address the sale of unused and vacant land?

  - o To address this objective, we reviewed a variety of documentation including, board meeting minutes, policies, property lists, and contracts for the 2011-12 through 2013-14 school years. Testing included a review of the documents to determine if the policy and the contracts efficiently and effectively addressed the sale of unused and vacant land.

A description of the methodology for the follow up on the status of prior audit findings and observations is included in the Status of Prior Audit Findings and Observations section of this report.

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

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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.