

PERFORMANCE AUDIT

Bedford Area School District Bedford County, Pennsylvania

October 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Dr. Allen Sell, Superintendent
Bedford Area School District
330 East John Street
Bedford, Pennsylvania 15522

Mr. Thomas Bullington, Board President
Bedford Area School District
330 East John Street
Bedford, Pennsylvania 15522

Dear Dr. Sell and Mr. Bullington:

We have conducted a performance audit of the Bedford Area School District for the period July 1, 2012 through June 30, 2015, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in the appendix of this report:

- Financial Stability
- Bus Driver Requirements
- School Safety

The audit was conducted pursuant to Section 402 and 403 of The Fiscal Code (72 P.S. § 402 and 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Our audit found that the District performed adequately in the areas listed above, except as noted in the following finding:

- The District's General Fund Balance Decreased by Over \$3.3 Million from June 30, 2011 through June 30, 2015.

Dr. Allen Sell
Mr. Thomas Bullington
Page 2

We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

Eugene A. DePasquale
Auditor General

October 13, 2016

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

Table of Contents

	Page
Background Information	1
Finding	5
Finding – The District’s General Fund Balance Decreased by Over \$3.3 Million from June 30, 2011 through June 30, 2015	5
Status of Prior Audit Findings and Observations	13
Appendix: Audit Scope, Objectives, and Methodology	14
Distribution List	17

Background Information

School Characteristics 2015-16 School Year ^A	
County	Bedford
Total Square Miles	300
Resident Population ^B	49,762
Number of School Buildings	3
Total Teachers	121
Total Full or Part-Time Support Staff	79
Total Administrators	14
Total Enrollment for Most Recent School Year	1,814
Intermediate Unit Number	8
District Vo-Tech School	Bedford County Technical Center

A - Source: Information provided by the District administration and is unaudited.

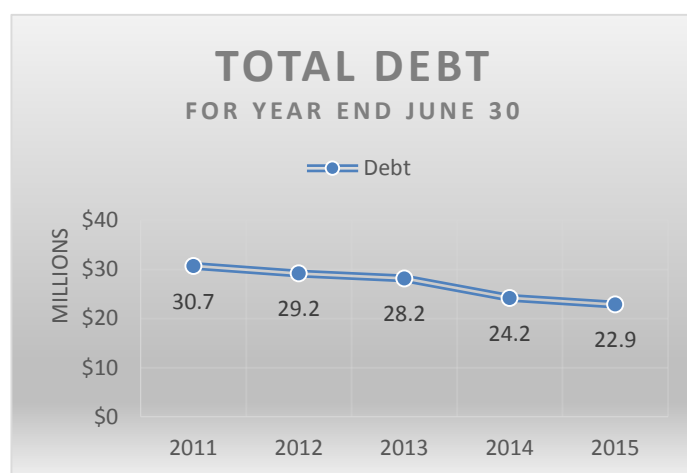
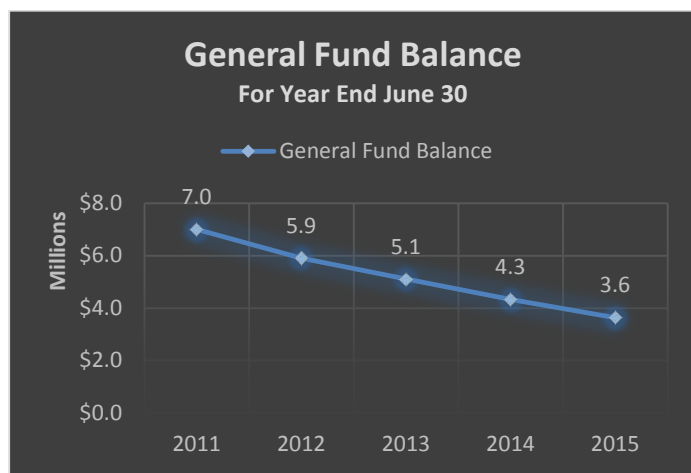
B - Source: United States Census
<http://www.census.gov/2010census>

Mission Statement^A

“SELL Success: Students Empowered for Life Long Success.”

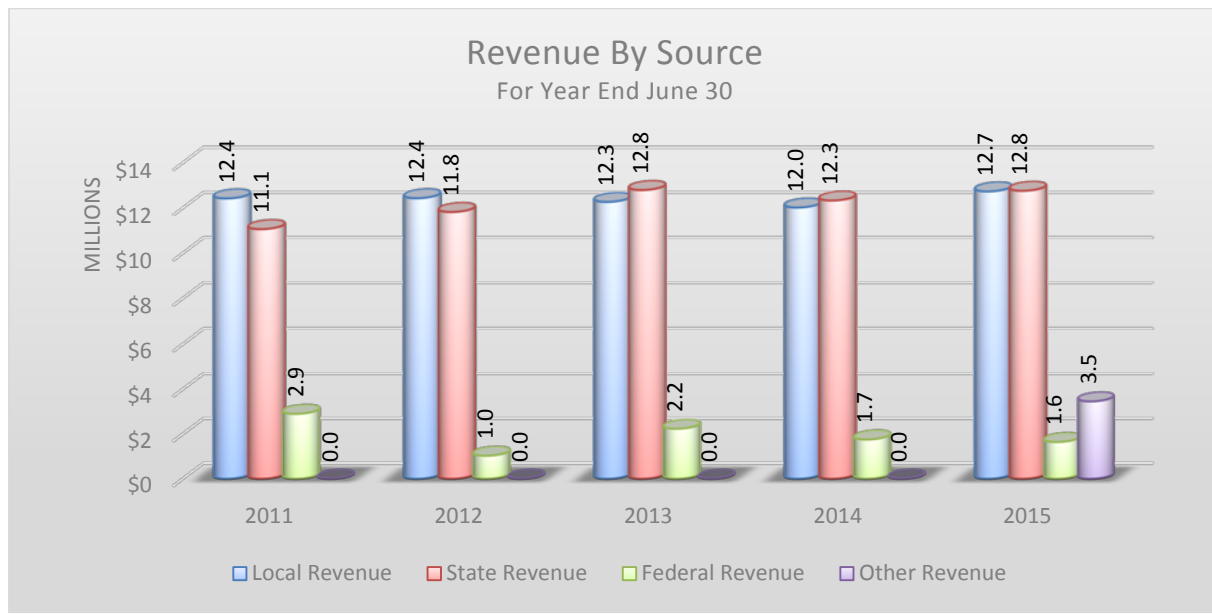
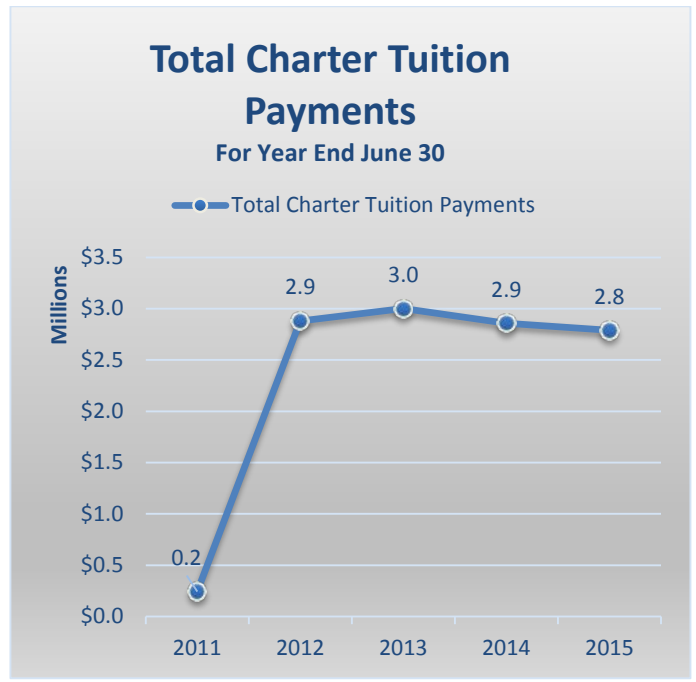
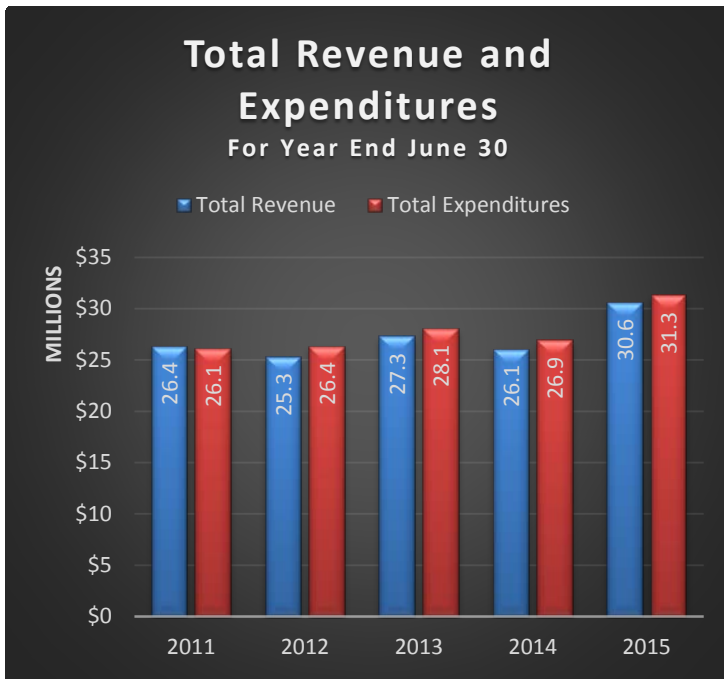
Financial Information

The following pages contain financial information about the District obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE’s public website. This information was not audited and is presented for **informational purposes only**.



¹ Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

Financial Information Continued



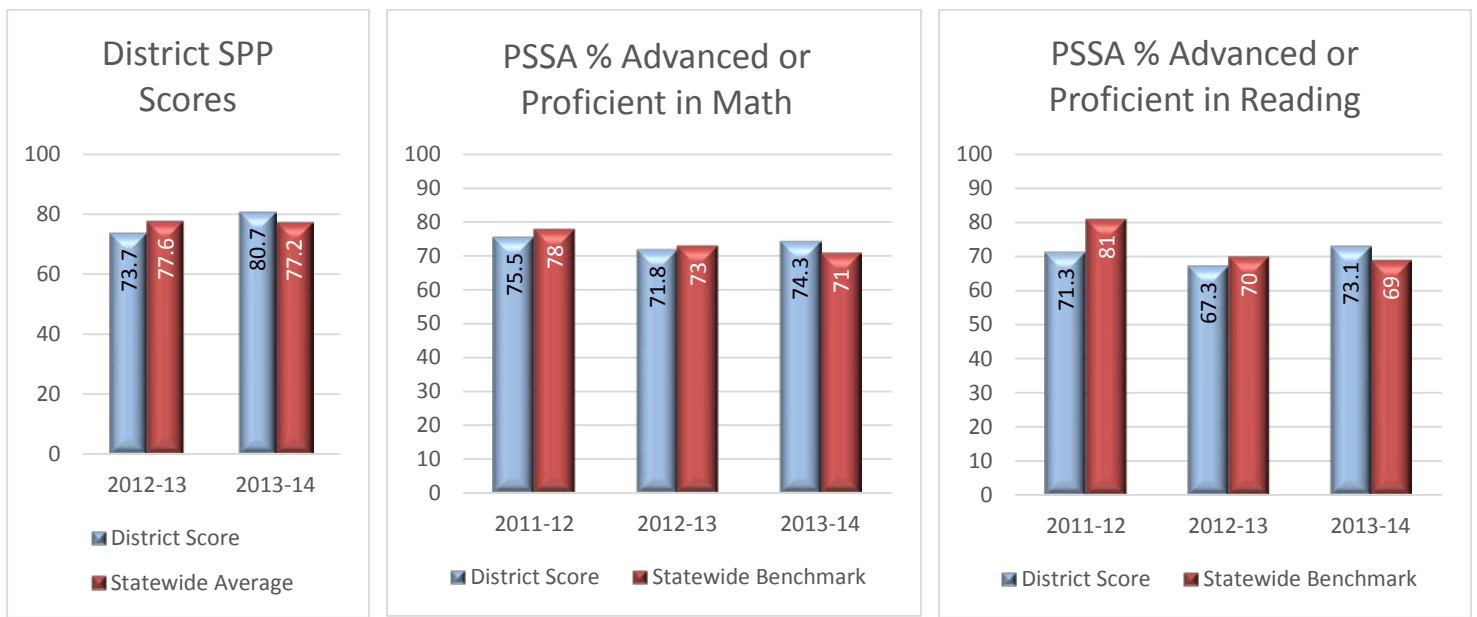
Academic Information

The following table and charts consist of School Performance Profile (SPP) scores and Pennsylvania System of School Assessment (PSSA) results for the entire District obtained from PDE's data files.² These scores are presented in the District's audit report for **informational purposes only**, and they were not audited by our Department.

SPP benchmarks represent the statewide average of all district school buildings in the Commonwealth.³ PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.⁴ District SPP and PSSA scores were calculated using an average of all of the individual school buildings within the District. Scores below SPP statewide averages and PSSA benchmarks/goals are presented in red.

Districtwide SPP and PSSA Scores

District	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
<i>Statewide Benchmark</i>	77.6	77.2	78	73	71	81	70	69
<i>Bedford Area SD</i>	73.7	80.7	75.5	71.8	74.3	71.3	67.3	73.1
<i>SPP Grade⁵</i>	C	B						



² PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publicly available website.

³ Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

⁴ PSSA benchmarks apply to all district school buildings, charters, and cyber charters. 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 and 2013-14 school years, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

⁵ The following letter grades are based on a 0-100 point system: A (90-100), B (80-89), C (70-79), D (60-69), F (59 or below).

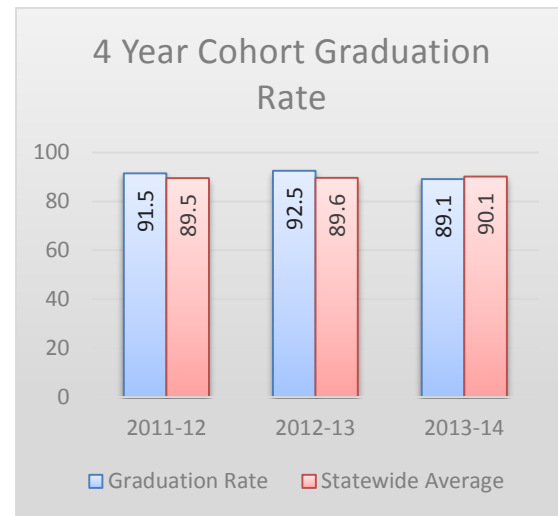
Individual School Building SPP and PSSA Scores

The following table consists of SPP scores and PSSA results for each of the District's school buildings. Any blanks in PSSA data means that PDE did not publish a score for that school for that particular year.⁶

School Name	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
<i>Statewide Benchmark</i>	77.6	77.2	78	73	71	81	70	69
<i>Bedford Elementary School</i>	62.9	77.0	78.5	77.5	82.6	71.6	66.0	71.5
<i>Bedford Middle School</i>	83.7	81.3	82.2	80.9	70.5	73.5	68.4	70.2
<i>Bedford Senior High School</i>	74.5	83.7	65.8	57.1	69.9	68.7	67.7	77.4

4 Year Cohort Graduation Rates

The cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year.⁷



⁶ PDE's data does not provide any further information regarding the reason a score was not published.

⁷ <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx#.V1BFcdTD-JA>.

Finding

Finding

The District's General Fund Balance Decreased by Over \$3.3 Million from June 30, 2011 through June 30, 2015

Criteria relevant to the finding:

The Pennsylvania Association of School Business Officials (PASBO) in its Annual Overview of Fiscal Health for the 2013-14 school year provided the following information relevant to the following fiscal benchmarks:

- Operating position is the difference between actual revenue and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

Best business practices and/or general financial statement analysis tools require the following:

- A school district should maintain a trend of stable or increasing fund balance.
- The trend of current ratio should be at least two to one or increasing. Anything less calls into question the school district's ability to meet its current obligation with existing resources.

The benchmarks used for this objective were also based on best business practices established by several entities/agencies, including PASBO and the National Forum on Education Statistics.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of five years from fiscal years ending (FYE) June 30, 2011 through June 30, 2015. We found that the District is in a declining financial position. Those benchmarks are discussed below and include the following:

- General Fund Balance
- General Fund Operations
- Increasing Charter School Costs
- Decreasing Current Ratio

We found that the District had an operating deficit for three of the five years we reviewed, which directly resulted in the decreasing General Fund balance. Bedford Area School District, similar to other districts in the Commonwealth, has experienced an increase in fixed costs, such as retirement, health care, and special education costs.

However, it was the expense the District had to absorb due to the opening of a new charter school⁸ in the District at the start of the 2011-12 school year that had the greatest impact on the District's finances. The District had two high schools until the end of the 2010-11 school year, when the District closed the Hyndman High School due to low enrollment. Instead of realizing costs savings and economies of scale through the closure of Hyndman High School, the District experienced a significant loss of students to the HOPE for Hyndman Charter School.

Although the District had its own cyber education program that opened at the start of the 2002-03 school year, the District was unable to retain the majority of the students who enrolled in the charter school after the closing of Hyndman High School.

⁸ The HOPE for Hyndman Charter School.

Criteria relevant to the finding (continued):

The Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems notes the importance of the operating budget cycle. This process includes budget preparation, budget analysis, board approval, adoption, budget control, and budget to actual reports.

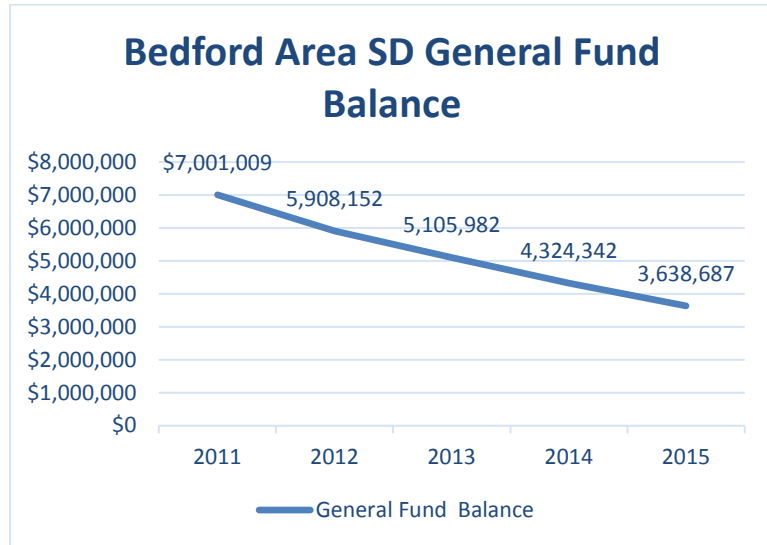
The manual addresses each part of the budgeting cycle in detail; however, we would like to emphasize the following:

- The accurate estimation of revenue has a critical impact on the budget.
- Analysis of historical trends is a reliable method for the projection of revenue and expenditure for budget preparation and analysis.

Generally Declining Fund Balance

The District's General Fund has decreased over the period reviewed, as shown in the chart below.

Chart 1



Between the FYEs ending June 30, 2011 and June 30, 2015, the District's General Fund balance decreased by over \$3.3 million.

When a school district's General Fund balance is too low, it may be unable to pay for costs incurred in emergency situations or to cover unexpected interruptions in revenues. In addition, the school district's credit rating could be affected adversely by an inadequate fund balance, which could then increase the cost of borrowing.

The overall decline of the General Fund balance is an indicator that the District's financial position is declining, and without additional revenues or the reduction of expenditures, it may continue to decrease.

General Fund Operating Deficits

A school district's operating position (revenue minus expenditures) is one important indicator of a district's financial health. The result of total expenditures exceeding total revenue is an operating deficit. The District's cumulative operating deficit of more than \$3.1 million was a primary factor of the decrease in the General Fund balance. The District's annual operating position is shown in the table on the next page.

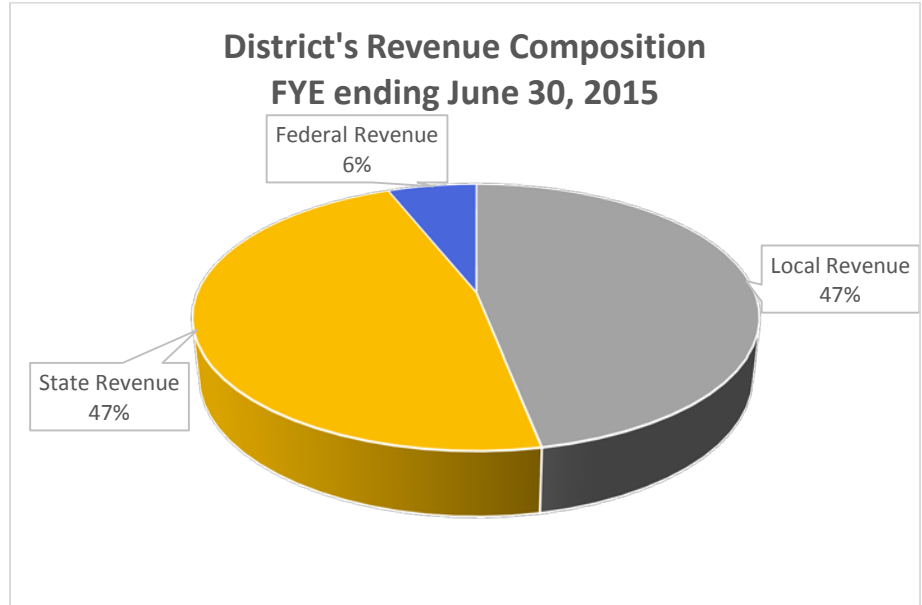
Table 1

Bedford Area SD General Fund Operating Position⁹			
FYE <u>June 30</u>	Total Revenues and Sources	Total Expenditures and Uses	Operating Surplus/ <u>(Deficit)</u>
2011	\$ 26,377,685	\$26,122,908	\$ 254,777
2012	25,276,222	26,369,079	(1,092,857)
2013	27,288,747	28,090,917	(802,170)
2014	26,099,034	26,880,674	(781,640)
2015	<u>27,126,613</u>	<u>27,812,268</u>	<u>(685,655)</u>
Total:	\$132,168,301	\$135,275,846	(\$3,107,545)

Revenue: Local, state, and federal revenues are the three components of the District's "Total Revenues." The chart on the following page shows the composition of "Total Revenues" for the fiscal year ended 2015.

⁹ Information obtained from the District's Independent Auditor's Report, *Statement of Revenue, Uses and Changes in Fund Balance*, fiscal years ending 2011 through 2015.

Chart 2¹⁰



Total revenues increased three percent over the period reviewed primarily due to an increase in local revenue. Federal revenue declined over this period due to the loss of ARRA¹¹ funding.

Expenditures: The District's total expenditures increased by six percent – more than double the rate that total revenues increased over the same time period. The majority of the increase in expenditures occurred due to a significant increase in charter school costs beginning with the start of the FYE June 30, 2012.

In addition, school districts across the Commonwealth experienced increases in their retirement cost, and the District was no exception. The District's employer contribution rate more than tripled over the review period. The contribution rate for the FYE June 30, 2011, was 5.7 percent of total payroll cost and increased to 21.9 percent for the FYE June 30, 2015.

However, it was the increased charter school expenses that had the greatest impact and caused the District's fund balance to decrease over the years.

¹⁰ Information obtained from the District's fiscal year ending 2015 Independent Auditor's Report.

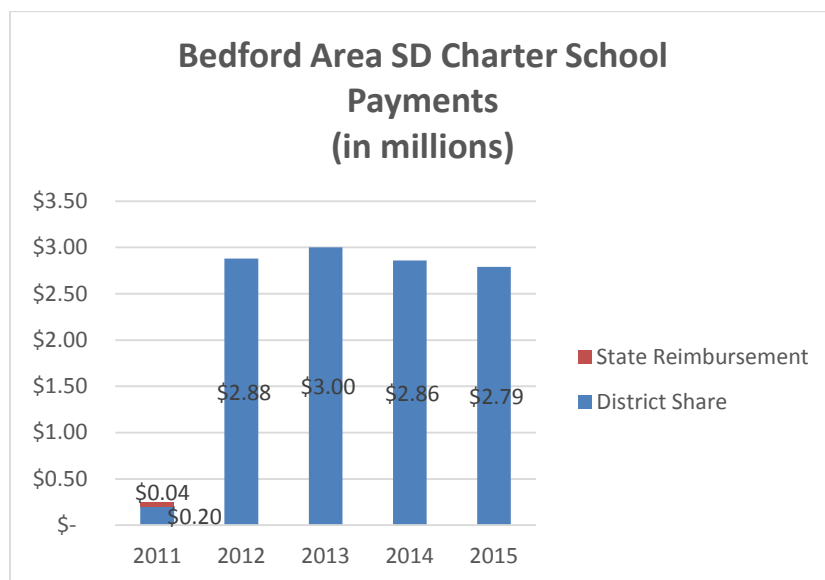
¹¹ American Recovery and Reinvestment Act of 2009 (ARRA) was a federal stimulus package that included direct spending in education.

Increased Charter School Costs

As previously mentioned, the District's charter school tuition costs significantly increased from 2011 through 2015, with payments totaling \$11.7 million over the five year period. These increasing charter school costs reduced the funds available to support academic programs for students in the District's buildings.

The chart below illustrates the increase in the District's required payments to charter schools. The financial burden on the District grew from \$200,000 in the FYE June 30, 2011, to \$2.8 million in FYE June 30, 2015. In addition, the Commonwealth eliminated its partial reimbursements for charter schools after the 2011 state budget.

Chart 3

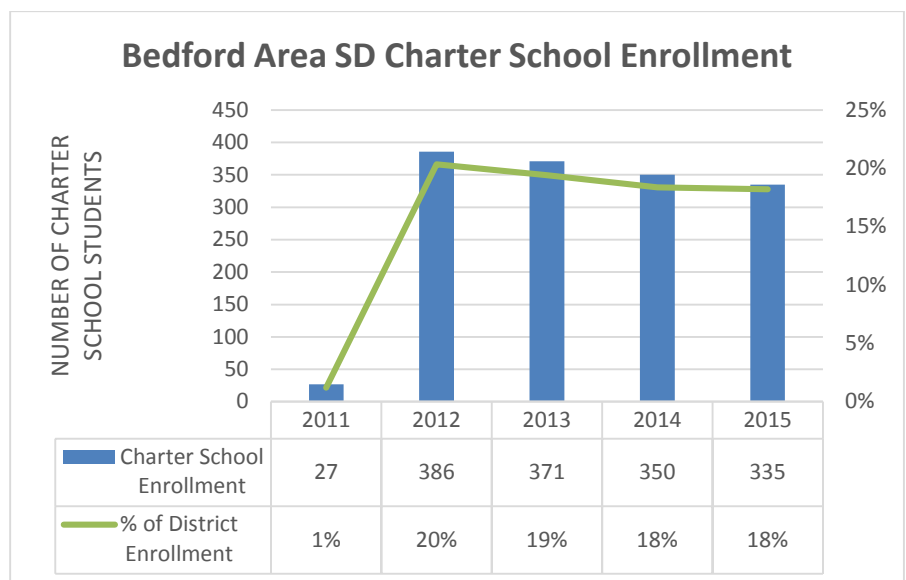


The charter school funding formula, together with the increasing charter school enrollment, produced an increase in the District's obligation each fiscal year from 2011 through 2013. There was a slight decrease in the costs for the 2014 and 2015 fiscal years due to lower charter school enrollment.

District enrollment in charter schools significantly increased from 2011 to 2015 to over 300 students; whereas the District's total enrollment¹² decreased by 17 percent to about 1,841 in the same period. As a result, charter school enrollment, as a percentage of District enrollment, significantly increased from 1 percent in the FYE ending June 30, 2011, to 18 percent in the FYE June 30, 2015.

The following chart demonstrates the growth in charter school enrollment and its relationship to the District's enrollment.

Chart 4



The District is hopeful that the decrease in charter school costs due to a decrease in charter school enrollment for the 2014 and 2015 fiscal years is the beginning of a trend that will help restore the District's finances.

Decreasing Current Ratio

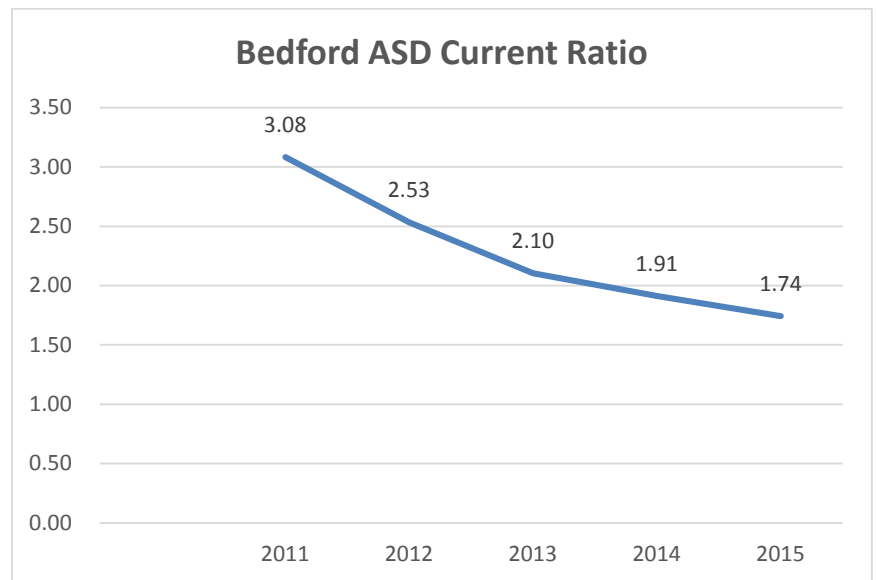
One of the key measures of a school district's financial condition is known as the current ratio, which is used to gauge a school district's ability to meet its current obligations (as opposed to long-term). A current ratio of one indicates that a school district has current assets equal to its current liabilities and can theoretically pay all of its current bills on time without having any remaining cash or other liquid assets left over. When the current ratio dips

¹² Both students educated at the District and District students who attend charter schools.

below two, then a school district may have trouble paying its current obligations with the resources it has on hand. Potential creditors use this ratio to measure a school district's ability to pay its short-term debts, and it can affect the cost of borrowing.

The following graph illustrates the District's decreasing current ratio by the end of the audit period:

Chart 5



As we noted earlier, the increase in charter school costs has been a significant factor affecting not only the reduction of the fund balance, but also the reduction in the current ratio.

Conclusion

The District continues its effort to conduct a thorough analysis of all the District's operations, as well as reviews of expenditures and revenue sources. This effort will hopefully allow the District to develop a business model that can stabilize the District's financial position.

Recommendations

The *Bedford Area School District* should:

1. Establish a multi-year plan, involving additional revenue sources and minimizing expenditures, to address the declining General Fund balance.

2. Review all variable costs to ensure that revenues are being spent in the most needed and cost effective areas. Specifically, review the District's charter school expenditures to ensure the District's funds are being spent wisely and are protected from abuse.
3. Promote the District's cyber education program to curtail the exodus of students to charter schools.

Management Response

District management provided the following response:

"The Bedford Area School District will create multiple year projections of expenditures to determine the amount of revenue that will be required to maintain our current standard of educational programs.

The Bedford Area School District consistently examines the budget to determine areas where expenditures can be reduced.

We currently monitor the invoices from the charter school to determine if all the students listed on the invoices are Bedford students and are eligible for payment. We also verify their special education classification.

The Bedford Area School District currently employs a full time person to promote and manage the district's cyber program. He will continue to work and develop innovative ideas to attract more students to our cyber program."

Auditor Conclusion

We are pleased the District intends to implement our recommendations and will determine the effectiveness of the actions during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the District, released on March 13, 2013, resulted in one finding as shown below. 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 March 13, 2013

Prior Finding:	Errors in Reporting Non-resident Membership Resulted in an Underpayment of \$70,916 in Tuition for Children Placed in Private Homes
<u>Prior Finding Summary:</u>	Our prior audit of the District's pupil membership reports submitted to PDE for the 2009-10 school year found that non-resident membership days for children placed in private homes were understated by 148 days for elementary grades and 1,353 days for secondary grades. The errors resulted in an underpayment of \$70,916 in Commonwealth-paid tuition for children placed in private homes.
<u>Prior Recommendations:</u>	<p>We recommended that the District should:</p> <ol style="list-style-type: none">1. Provide training to District personnel responsible for the child accounting software, so they are familiar with how the system operates.2. Review reports submitted subsequent to the years audited and submit revised reports to PDE if errors are noted. <p>We also recommended that PDE should:</p> <ol style="list-style-type: none">3. Adjust the District's allocations to correct the underpayment of \$70,916.
<u>Current Status:</u>	During our current audit, we found that the District did implement both of our prior recommendations. We also noted that on June 1, 2015, the District received its final payment to correct the underpayment.

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 402 and 403 of The Fiscal Code,¹³ is not a substitute for the local annual financial audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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 July 1, 2012 through June 30, 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 controls¹⁴ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, 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.

¹³ 72 P.S. § 402 and 403.

¹⁴ 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, 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, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years ending June 30, 2011 through June 30, 2015. 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 efficiency and effectiveness in the following areas:

- Financial Stability
- Bus Driver Requirements
- School Safety

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

- ✓ 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, budgets, independent auditor's reports, summary of child accounting, and general ledger for the fiscal years 2011 through 2015. 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. See the finding for the results of our review of this objective.
- ✓ Did the District ensure that bus drivers transporting District students had the required driver's licenses, physical exams, training, background checks, and clearances as outlined in applicable laws?¹⁵ Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we reviewed documentation for all 36 full-time bus drivers employed by District bus contractors during the 2015-16 school year 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

¹⁵ 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*.

drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

- ✓ 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. In addition, we conducted on-site reviews at two out of the District's three school buildings to assess whether the District had implemented basic safety practices. Due to the sensitive nature of school safety, the results of our review of this objective area are not described in our audit report. The results of our review of school safety are shared with District officials and, if deemed necessary, PDE.

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
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Harrisburg, PA 17126

The Honorable Timothy Reese

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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.