

# PERFORMANCE AUDIT

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## California Area School District Washington County, Pennsylvania

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August 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Michael S. Sears, Superintendent  
California Area School District  
11 Trojan Way  
Coal Center, Pennsylvania 15423

Mrs. Amy Todd, Board President  
California Area School District  
11 Trojan Way  
Coal Center, Pennsylvania 15423

Dear Mr. Sears and Mrs. Todd:

Our performance audit of the California Area School District (District) evaluated the application of best practices in the areas of finance and school safety. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). This audit covered the period July 1, 2011 through June 30, 2015, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit 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 listed above and complied, in all significant respects, with relevant requirements, except as detailed in our two findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report.

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 relevant requirements. 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".

Eugene A. DePasquale  
Auditor General

August 11, 2016

cc: CALIFORNIA AREA SCHOOL DISTRICT Board of School Directors

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## Executive Summary

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### 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, 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 July 1, 2011 through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report (see Appendix). Compliance specific to state subsidies and reimbursements was determined for the 2011-12 through 2014-15 school years.

### 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, and administrative procedures, except for two findings.

**Finding No. 1: The District's General Fund Decreased by 69 Percent Over a Three Year Period and as of June 30, 2015, the District has a Current Fund Balance of \$602,469.** The General Fund balance decreased from a high of \$1,948,794 on June 30, 2012, to \$602,469 on June 30, 2015. The decreasing General Fund balance was the result of operating deficits for the 2012-13, 2013-14, and 2014-15 fiscal years (see page 6).

**Finding No. 2: Errors in the District's Reporting of Transportation Data Resulted in Underpayments of Over \$72,000.** During our audit of the District's transportation operations, we found that the District failed to correctly report transportation data to the Pennsylvania Department of Education (PDE) for reimbursement in the 2011-12, 2012-13, and 2013-14 school years (see page 13).

**Status of Prior Audit Finding.** There was one finding in our prior audit report (see page 17). The District did not take corrective action to address this prior audit finding. As a result, transportation errors continued as reported in Finding No. 2 of the current report (see page 13).

## Background Information

School Characteristics 2015-16 School Year <sup>A</sup>	
County	Washington
Total Square Miles	35
Resident Population <sup>B</sup>	11,632
Number of School Buildings	2
Total Teachers	69
Total Full or Part-Time Support Staff	36
Total Administrators	10
Total Enrollment for Most Recent School Year	893
Intermediate Unit Number	1
District Vo-Tech School	Mon Valley Career and Technology Center

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

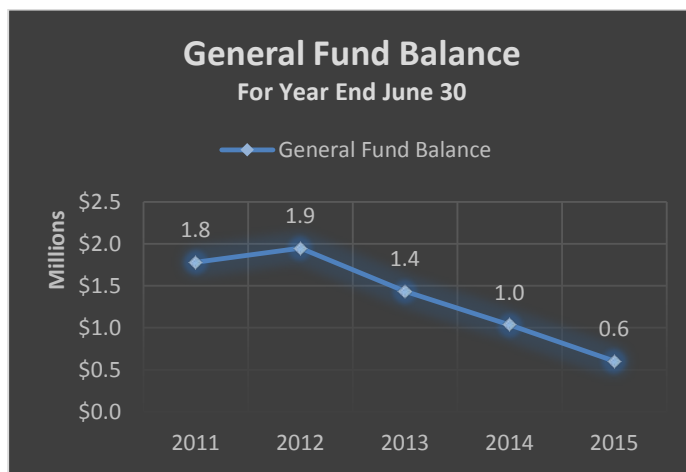
B - Source: United States Census  
<http://www.census.gov/2010census>

## Mission Statement<sup>A</sup>

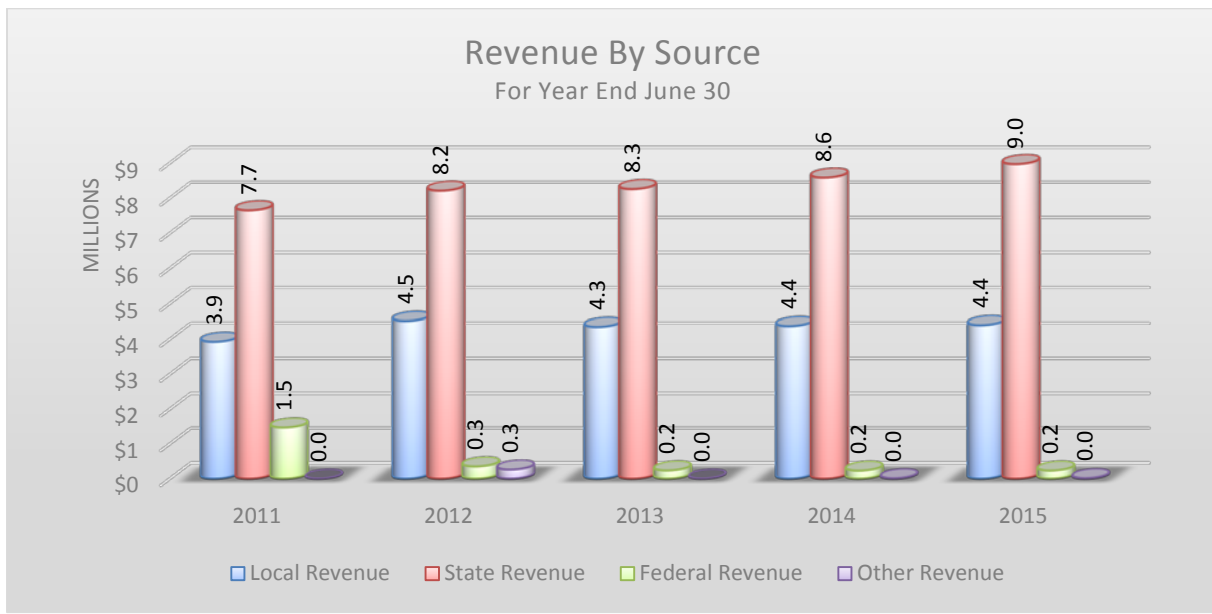
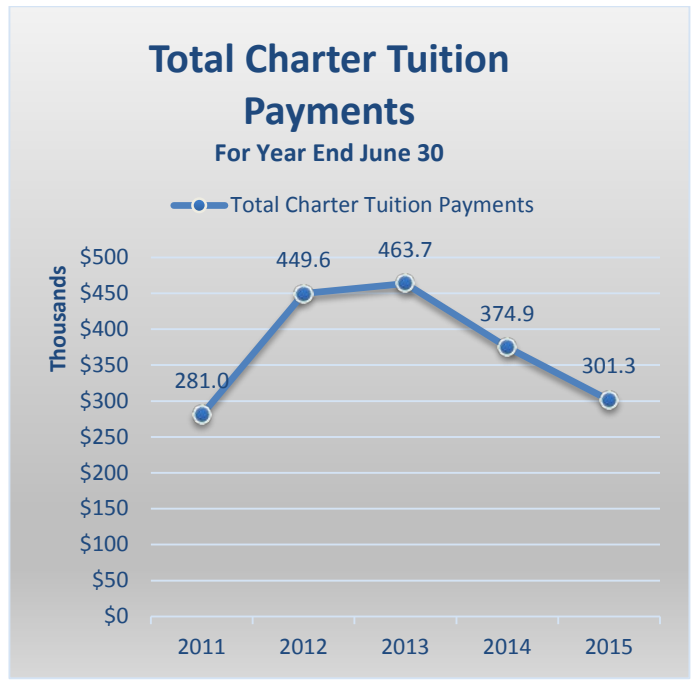
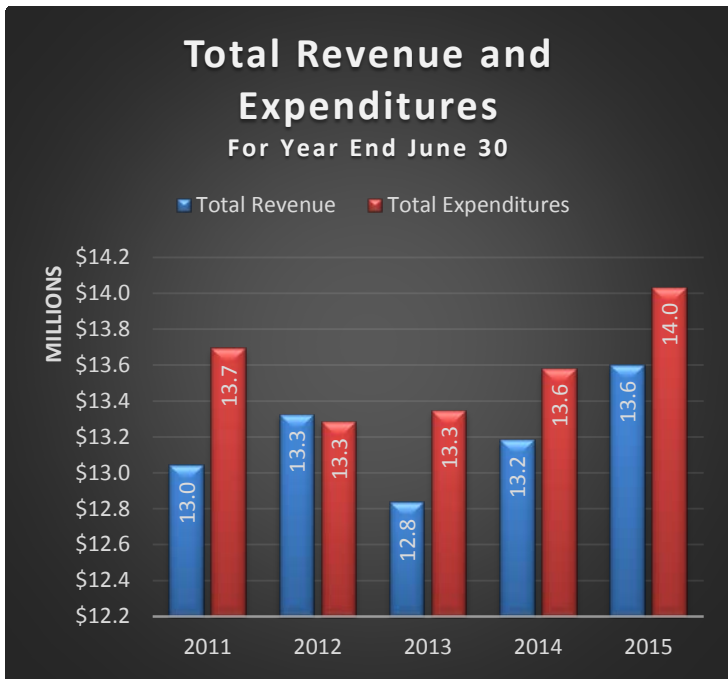
“California Area School District is a learning community dedicated to providing the environment and resources for the development of student responsibility, civility, achievement, and success.”

## Financial Information

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



## Financial Information Continued



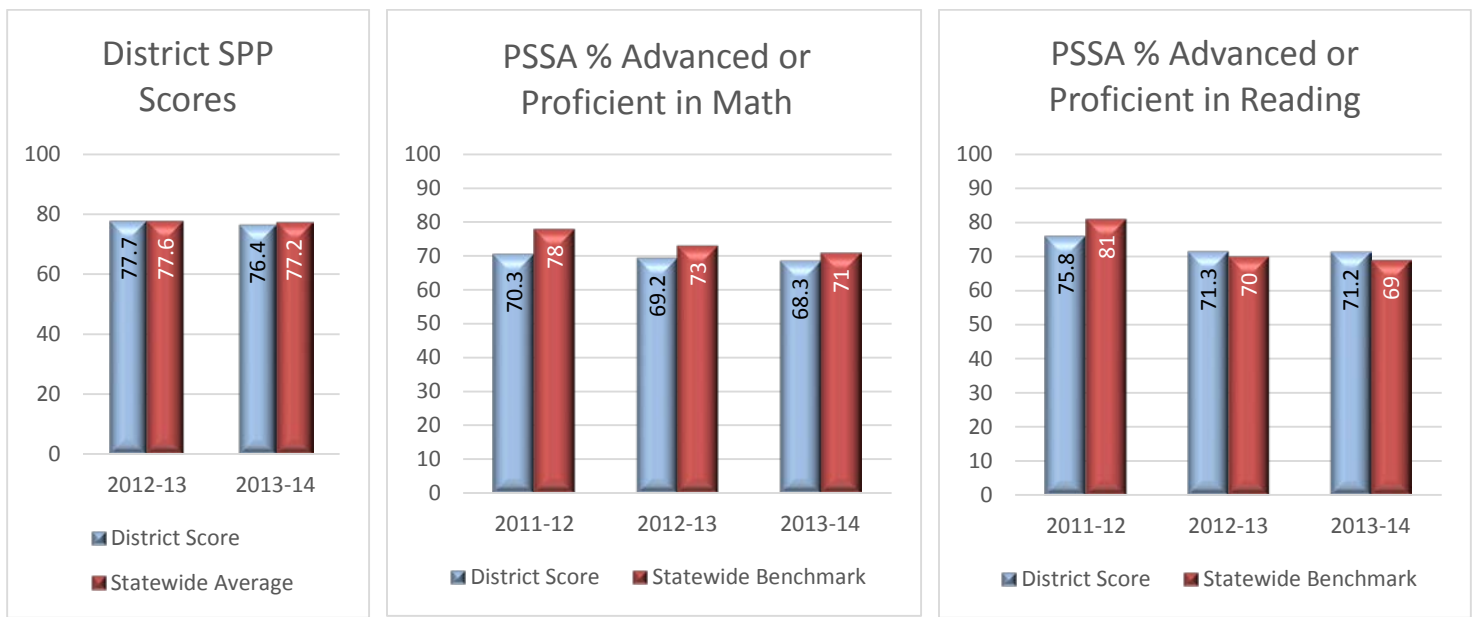
## Academic Information

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.<sup>1</sup> 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.<sup>2</sup> PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.<sup>3</sup> 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>California Area SD</i>	77.7	76.4	70.3	69.2	68.3	75.8	71.3	71.2
<i>SPP Grade<sup>4</sup></i>	C	C						



<sup>1</sup> PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

<sup>2</sup> Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

<sup>3</sup> 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.

<sup>4</sup> 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)

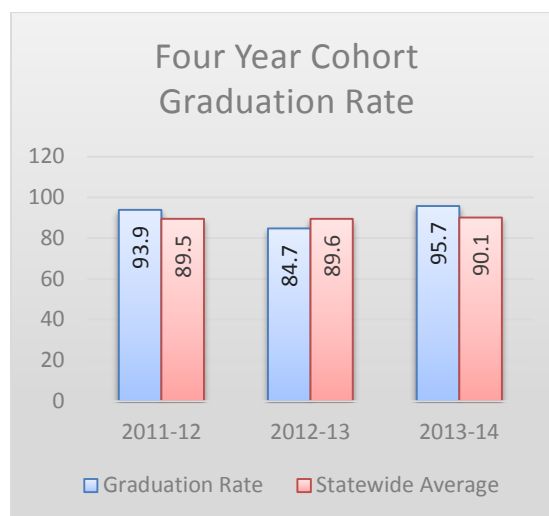
## Individual School Building SPP and PSSA Scores

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.<sup>5</sup>

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
<b>Statewide Benchmark</b>	<b>77.6</b>	<b>77.2</b>	<b>78</b>	<b>73</b>	<b>71</b>	<b>81</b>	<b>70</b>	<b>69</b>
<i>California Area Elementary School</i> <sup>6</sup>	<b>86.8</b>	<b>82.1</b>	<b>79.0</b>	<b>74.6</b>	<b>75.2</b>	<b>77.4</b>	<b>73.2</b>	<b>73.1</b>
<i>California Area Intermediate Middle School</i>	<b>74.7</b>	<b>82.3</b>	<b>61.3</b>	<b>63.6</b>	<b>73.4</b>	<b>68.6</b>	<b>59.7</b>	<b>64.1</b>
<i>California Area Middle School</i>	<b>79.6</b>	<b>75.8</b>	<b>76.9</b>	<b>72.7</b>	<b>73.4</b>	<b>79.6</b>	<b>76.2</b>	<b>73.4</b>
<i>California Area Senior High School</i>	<b>69.7</b>	<b>65.3</b>	<b>64.0</b>	<b>66.1</b>	<b>51.4</b>	<b>77.4</b>	<b>76.3</b>	<b>74.3</b>

## Four 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.<sup>7</sup>



<sup>5</sup> PDE’s data does not provide any further information regarding the reason a score was not published.

<sup>6</sup> The California Area Elementary School houses grades K-4 “Elementary”, grades 5-6 “Intermediate, and grades 7-8 “Middle.” The District has only two buildings.

<sup>7</sup> <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx#.V1BFCDTD-JA>



## Findings

### Finding No. 1

**The District's General Fund Decreased by 69 Percent Over a Three Year Period and as of June 30, 2015, the District Has a Current Fund Balance of \$602,469**

*Criteria relevant to the finding:*

The benchmarks used as criteria for this objective were based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado State Auditor, and the National Forum on Education Statistics. The following are some of the benchmarks used in our evaluation:

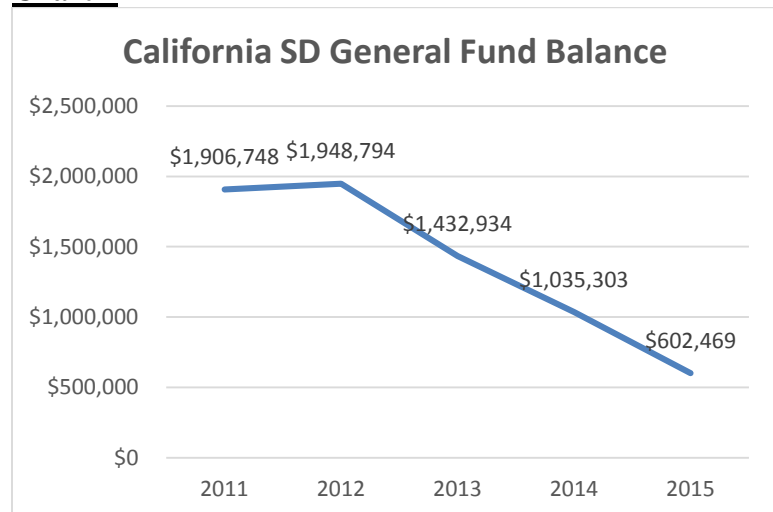
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).
- A school district should maintain a stable fund balance.
- Financial industry guidelines recommend that a fund balance should range between 5 and 10 percent of annual expenditures.

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 year ending June 30, 2011 through June 30, 2015. The benchmarks used are discussed below and include the following:

- General Fund Balance.
- General Fund Operations.
- Budgetary Expenditures and Revenues.<sup>8</sup>

**Decreasing Fund Balance:** As shown on the chart below, the District's General Fund balance increased from fiscal years 2011 to 2012. The General Fund balance then decreased from a high of \$1,948,794 on June 30 2012, to \$602,469 on June 30, 2015. The following graph illustrates the District's General Fund balance for the fiscal years ending June 30, 2011 through June 30, 2015.

**Chart 1**



<sup>8</sup> Fiscal year ending June 30, 2016 budget was completed during our review period; therefore, they were reviewed and included in the finding.

*Criteria relevant to the finding  
(continued):*

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

General Fund Reserve. School districts should establish a formal process on the level of 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% of regular general fund operating revenues or regular general operating expenditures and operating transfers out.

During this time period, the District's General Fund decreased by \$1,346,325. This decrease represents a 69 percent decline in the General Fund balance. The General Fund balance declined from \$1,906,748 or 13.9 percent of total expenditures for the fiscal year ending June 30, 2011, to its current position of \$602,469, which represents 4.3 percent of the District's expenditures for the fiscal year ending June 30, 2015. The GFOA recommends that a school district's General Fund balance should not fall below 10 percent of expenditures.

Just as individuals should have funds available to deal with emergencies, or unforeseen needs, districts should also have funds in reserve to deal with emergencies, unanticipated expenses, and disruptions to its revenues.

A decreasing fund balance also reduces the District's ability to generate investment income. The decreasing General Fund balance was the result of operating deficits for the 2012-13, 2013-14, and 2014-15 fiscal years. An operating deficit occurs when expenditures are greater than revenue. Without the generation of additional revenues or the reduction of expenditures, the fund balance will continue to decrease and further weaken the District's financial position.

According to the District's General Fund budget for the 2015-16 fiscal year, the General Fund balance is projected to further decrease. The District projects the General Fund to have a balance of approximately \$3,000 at June 30, 2016.

**General Fund Operations:** For the period of the fiscal year ending June 30, 2011 through the fiscal year ending June 30, 2015, total expenditures exceeded total revenues (operational deficit) for four of the five years reviewed.

The following chart shows a comparison of the District’s operating position:

**Table 1**

California Area SD			
General Fund Operating Position <sup>9</sup>			
Year Ended June 30	Total Revenues and Other Financing Sources	Total Expenditures and Other Financing Uses	Surplus/ (Deficit)
2011	\$13,039,629	\$13,693,440	(\$653,811)
2012	\$13,328,317	\$13,286,271	\$42,046
2013	\$12,832,815	\$13,348,675	(\$515,860)
2014	\$13,185,242	\$13,582,873	(\$397,631)
2015	\$13,602,133	\$14,034,967	(\$432,834)
<b>Total:</b>	<b>\$65,988,136</b>	<b>\$67,946,226</b>	<b>(\$1,958,090)</b>

**Revenues:** The District’s total revenue is obtained from three governmental sources: local, state, and federal. State and federal sources are known as subsidies and are provided at the discretion of state and federal governments and, therefore, can significantly vary from year-to-year. Local revenue is comprised of local property taxes.

Total revenues and Other Financing Sources have been stagnant over the period reviewed, as shown in Table 1. However, state revenue increased by \$1.3 million dollars, while the District’s federal revenue decreased \$1.2 million dollars over the time period reviewed. The significant decrease in federal revenue can be attributed to the District’s loss of American Recovery and Reinvestment Act (ARRA) funds<sup>10</sup> during this period. The District’s local revenue slightly decreased from over \$4.5 million in fiscal year ending 2012, to approximately \$4.4 million in fiscal year ending 2015.

District officials stated that the decline in the fund balance and the operating deficits are the result of the District’s millage rate being static for 13 years, while operating expenses rose. District officials stated that the District has made financial concessions where they can cut without eliminating programs.

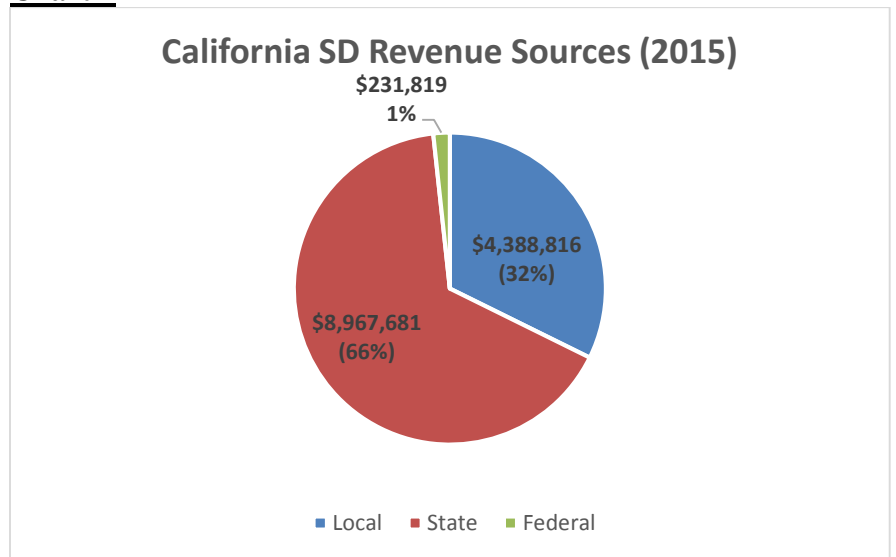
<sup>9</sup> Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2012 through 2015. Although this information was audited by other auditors, we didn’t audit the information or review the work of the other auditors.

<sup>10</sup> ARRA of 2009 (Public Law 111-5), commonly referred to as “The Stimulus Act” or “The Recovery Act.”

The District did raise property taxes by nearly 2 mills during the 2014-15 school year, and by nearly 2.5 mills during the 2015-16 school year, in an attempt to generate more revenue. Even with these increases, the District has the lowest millage rate in Washington County.

As Chart 2 (below) shows, even with the recent property tax increases, the District’s local sources comprise 32 percent of total revenues. Unless local sources comprise a bigger percentage of total revenues, the District will be reliant on subsidies, specifically state subsidies, to fund operations.

**Chart 2<sup>11</sup>**



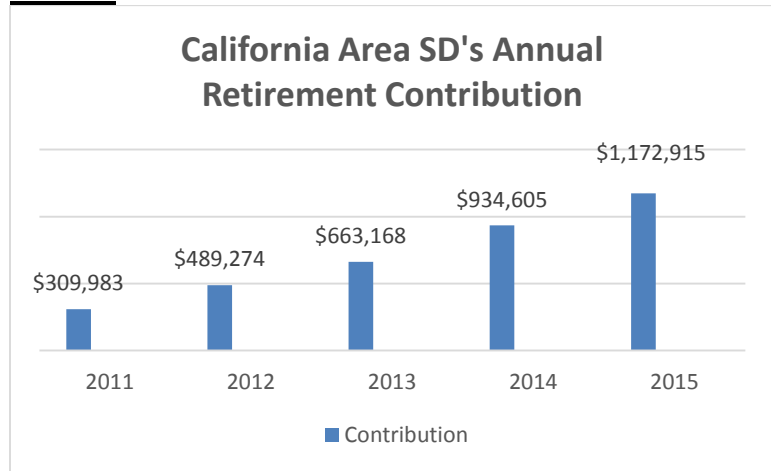
**Expenditures:** District officials stated that an increase in fixed costs are leading to operating deficits. District officials specifically cited the pension reform bill that considerably raised school districts’ pension contributions. Pension contribution rates have risen significantly during our period reviewed. The District’s required pension contribution has more than tripled from \$309,983 in the fiscal year ending 2011, to over \$1.1 million for the fiscal year ending 2015. Required pension contributions will continue to increase and, in turn, comprise a bigger percentage of District’s total expenditures through 2020.

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<sup>11</sup> Information obtained from the District’s fiscal year ending 2015 Independent Auditor’s Report.

The following chart illustrates the rise in the District's annual retirement contributions over our audit period:

**Chart 3<sup>12</sup>**



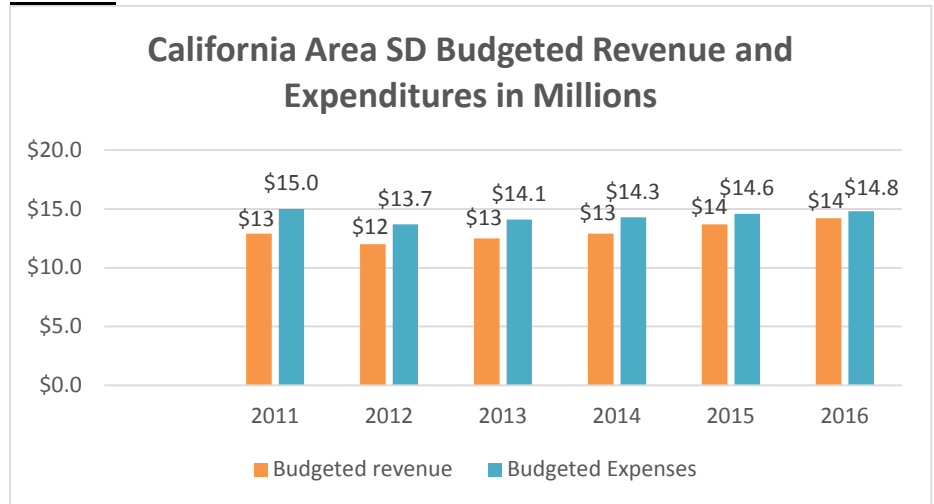
The District's rate paid to the Public School Employees' Retirement System (PSERS) increased from 16.93 percent in 2013-14 to 21.40 percent in 2014-15. The Commonwealth communicated these increases well in advance in order to give school districts the opportunity to prepare for them. The Board of School Directors (Board) was adamant about not raising taxes, choosing instead to spend down the fund balance and not seek new revenues or decrease operational expenses. This indicates that the Board didn't properly plan for the increases in pension funding. As a result, these increases continue to have a negative impact on the District's General Fund balance.

**Budgetary Expenditures and Revenues:** The District has approved an unbalanced budget for the last seven consecutive fiscal years up to and including the fiscal year ending June 30, 2016 (see Chart 4).

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<sup>12</sup> Information obtained from the District's Annual Financial Report (AFR) for the fiscal years ending 2011 through 2015.

**Chart 4<sup>13</sup>**



The practice of the Board repeatedly approving budgets with expenditures greater than revenues is an unsustainable business model. Not only has this practice depleted the General Fund, but if continued, it will lead to the District being forced to borrow to fund daily operations.

The District has historically budgeted expenditures that exceeded their budgeted revenues and actual expenditures have exceeded actual revenues. As a result, the District has been using its fund balance for all five trend years in order to balance its budget. The use of the unassigned fund balance can only be an effective method of balancing revenues to expenditures for a very limited time. The District needs to establish a minimum level to which the fund balance can be depleted.

With stagnant revenues and increasing expenditures, the District has reached a point where the General Fund balance cannot continue to be used to bridge the gap between operating expenditures and revenues. While the District has begun to seek additional revenue through increased taxes, they continue to rely on subsidies. We encourage the District to develop a business model where expenditures are less than revenues and a balanced budget can be implemented moving forward.

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<sup>13</sup> Information obtained from the District's final budget (PDE-2028) for the fiscal years ending 2011 through 2015.

## **Recommendations**

The *California Area School District* should:

1. Develop a multi-year (three to five) financial plan that includes annual review and revision, based upon actual operating revenues and expenditures, to address the declining General Fund balance situation. This should include adhering to District policy, which addresses a minimum required level for the General Fund balance.
2. Implement written balanced budgeting procedures to better address and plan for projected future costs. These procedures should address, but not be limited to, increased PSERS rate contributions, unfunded special education mandated costs, and reduction of charter school funding.
3. Continue to use historical data when preparing annual budgets, as well as reviewing and adjusting its multi-year financial plan to help reduce the financial impact of large unanticipated expenditure increases or revenue shortfalls.

## **Management Response**

Management agrees with the finding and did not respond with any further written comments.

## **Auditor Conclusion**

We are glad that management agrees with our finding and feel certain that the District will follow through with the recommendations made in order to ensure better fiscal health for the District.

## Finding No. 2

### Errors in the District's Reporting of Transportation Data Resulted in Underpayments of Over \$72,000

#### *Criteria relevant to the finding:*

Section 2541 (relating to Payment on account of pupil transportation) of the Public School Code (PSC), 24 P.S. § 25-2541, states that school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.

Daily miles traveled, the greatest number of pupils transported, days of service, and mileage with or without pupils are an integral part of the transportation reimbursement calculation. These factors must be reported accurately to PDE in order to receive the correct reimbursement.

Chapter 23 of the State Board of Education Regulations provides that the Board is responsible for the negotiation and execution of contracts or agreements with contractors and approval of the drivers of the vehicles providing transportation. *See 22 Pa. Code §§ 23.1 – 23.40.*

PDE's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

During our audit of the District's transportation operations, we found that the District failed to correctly report transportation data to PDE for reimbursement in the 2011-12, 2012-13, and 2013-14 school years. As a result, the District was underpaid \$72,763 in transportation reimbursement from PDE for these three years. We also found errors in the District's transportation data reported to PDE for the 2014-15 school year, but we were unable to calculate the amount of the underpayment to the District because the final transportation data was not available at the completion of our fieldwork.

The daily mileage traveled for each bus transporting District students is one of the major components<sup>14</sup> used by PDE to calculate the District's transportation reimbursement. Daily mileage must be reported accurately to PDE in order for the District to receive the correct amount of reimbursement for student transportation.

We found that the daily mileage was incorrectly reported for almost all of the District buses for each school year reviewed as shown in the table below.

California Area SD			
Transportation Reimbursement Underpayments			
School Year	Total Number of District Buses	Number of Buses with Mileage Errors	Underpayment Amount
2011-12	10	9	\$32,895
2012-13	10	9	\$28,031
2013-14	10	10	\$11,837
2014-15	10	7	N/A
<b>Total:</b>	<b>40</b>	<b>35</b>	<b>\$72,763</b>

<sup>14</sup> Each bus reports the number of miles with students, the number of miles without students, and the greatest number of students on each bus for each day in service. These are three of the inputs used by PDE to calculate the District's transportation reimbursement amount.



*Criteria relevant to the finding (continued):*

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis."

Due to the fact that the majority of buses we reviewed had mileage errors, we asked District officials to provide us with the District policies and procedures that outline how student transportation data is to be collected and reported to PDE. The District was unable to produce written policies and/or procedures outlining the collection and reporting of transportation data to PDE.

We also had conversations with the District official responsible for collecting and reporting student transportation. The District official began in this role during the 2011-12 school year and was given this responsibility by the District's former Superintendent without any formal or informal training on transportation data. The District official stated that verbal instructions were communicated by the former Superintendent concerning how to collect and report student transportation data. We found multiple types of errors that occurred for the school years reviewed and some of the errors we found contradicted what the District official stated was occurring in regard to collecting and reporting student transportation data to PDE. The following are the errors we found in the District's transportation data.

- Failure to include total mileage for buses that completed multiple runs in a day (both elementary and secondary trips).
- Failure to include the mileage for transporting students to the vocational technical school.

Each one of the errors cited above resulted in the District reporting incorrect transportation data to PDE and, in turn, being underpaid in each subsidy year reviewed. Transportation reimbursement from PDE is a vital part of every school district's fiscal operations. It is especially important for the California Area School District to receive the full amount of transportation reimbursement owed to the District due to the current financial struggles of the District cited in Finding No. 1 of this report.

It is clear from our review of the District's transportation operations and discussions with District officials that the District is unsure how to collect and report the correct transportation data to PDE. It is the responsibility of District administration to have in place appropriate internal policies and procedures to ensure that transportation data is

collected properly, accurate, and reported timely. Without such internal controls, the District is at risk to not receive the proper transportation subsidy.

We have provided PDE with the errors in transportation data we found for the 2011-12, 2012-13, 2013-14, and 2014-15 school years. PDE will use this information to re-calculate the District's transportation reimbursement and resolve the cumulative underpayments.

### **Recommendations**

The *California Area School District* should:

1. Develop and maintain formal written internal policies and procedures to ensure that student transportation data is collected and reported accurately to PDE. Ensure that the review process includes multiple District staff.
2. Ensure that the internal policies and procedures include total mileage for all bus runs in a day, include mileage needed to transport District students to the county vocational school, and collect separately the miles of buses that include students and mileage where the buses don't include students.
3. Ensure that District personnel responsible for collecting and reporting transportation data are provided with training in regard to PDE reporting requirements.

The *Pennsylvania Department of Education* should:

4. Adjust the District's subsidy to resolve the \$72,763 underpayment.

### **Management Response**

Management agrees with the finding and stated:

The District acknowledges that the person responsible for the transportation reporting was never properly trained and, therefore, reported incorrect information for the years audited. The District will develop and maintain clear cut written policies and procedures to ensure proper reporting in the future. The District will also provide

opportunities for on-going training for the personnel involved in the reporting to PDE, as well as provide cross-training so that more than one person understands the reporting and can also review the report for accuracy before submission. Finally, the District will utilize the transportation software that it purchased to further ensure accurate calculations.

### **Auditor Conclusion**

We are pleased to see that the District will take steps to ensure proper training of transportation personnel as well as utilize the software to ensure accurate reporting of transportation data.

## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the District released on January 14, 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 interviewed District personnel and performed audit procedures, as detailed in each status section below.

### **Auditor General Performance Audit Report Released on January 14, 2013**

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**Prior Finding:** **Errors in Reporting Pupil Transportation Data Resulted in Overpayments of \$71,229 to the District**

Prior Finding Summary: Our prior audit of the District's 2008-09 and 2009-10 pupil transportation records submitted to PDE found reporting errors, which resulted in overpayments of transportation reimbursement of \$66,689 and \$4,540, for the 2008-09 and 2009-10 school years, respectively.

Prior Audit Recommendations:

We recommended that the District should:

1. Develop procedures to ensure all future transportation data is accurately reported to PDE.
2. Review data submitted for the 2010-11 school year for accuracy and submit revised reports to PDE, if necessary.

The *Pennsylvania Department of Education* should:

3. Adjust future District allocations to recover the overpayments of \$71,229.

Current Status: The District did not implement our prior recommendations. Please see page 13 of this report. On January 5, 2016, PDE adjusted the District's subsidy to correct the prior overpayment.

## **Appendix: Audit Scope, Objectives, and Methodology**

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

Our audit, conducted under authority of Section 403 of The Fiscal Code,<sup>15</sup> is not a substitute for the local annual financial audit required by the PSC 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, 2011 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 controls<sup>16</sup> 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.

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<sup>15</sup> 72 P.S. § 403.

<sup>16</sup> 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 efficiency and effectiveness in the following areas:

- ✓ Financial Stability
- ✓ Transportation Operations
- ✓ School Safety
- ✓ Bus Driver Requirements

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, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2010-11 through 2014-15. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. Finding No. 1 describes the exceptions noted during our review.
- ✓ Did the District have basic internal controls in place to ensure compliance with laws and regulations governing transportation operations?
  - To address this objective, we reviewed transportation data submitted by the District to PDE for all ten contracted buses for fiscal years 2011-12 through 2014-15. We obtained odometer readings and student rosters for each bus. We reconciled bus mileage and student counts for each bus. We compared our calculations to the data the District submitted to PDE to determine if the proper amount of transportation subsidy was received. Finding No. 2 describes the exceptions noted during our review.

- ✓ 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, and anti-bullying policies. In addition, we followed up on our prior (and initial) safe school review to assess whether the District had implemented basic safety practices and recommendations. Due to the sensitive nature of school safety, the results of our review of this objective are not described in our report. The results of our review of school safety are shared with District officials and, if deemed necessary, PDE.
  
- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outline in applicable laws?<sup>17</sup> Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
  - To address this objective, we selected 5 of the 24 bus drivers hired by District bus contractor, during the school year July 1, 2015 through June 30, 2016, and reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

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<sup>17</sup> 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.*

## **Distribution List**

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

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