



**STEELTON-HIGHSPIRE SCHOOL DISTRICT
DAUPHIN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

FEBRUARY 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Mary Carricato, Board President
Steelton-Highspire School District
250 Reynders Avenue
Steelton, Pennsylvania 17113

Dear Governor Corbett and Ms. Carricato:

We conducted a performance audit of the Steelton-Highspire School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period May 15, 2009 through July 5, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009, 2010 2011, and 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with relevant requirements, as detailed in the three (3) audit findings noted in this report. One (1) of the findings, regarding deficiencies in the District's employee certification, has been included in four (4) consecutive audits conducted by this department. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings, observation, and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

February 5, 2014

cc: **STEELTON-HIGHSPIRE SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Steelton-Highspire School District (District) in Dauphin County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures 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 May 15, 2009 through July 5, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2011-12, 2010-11, 2009-10, and 2008-09 school years.

District Background

The District encompasses approximately three (3) square miles. According to 2010 federal census data, it serves a resident population of 8,389. According to District officials, the District provided basic educational services to 1,306 pupils through the employment of 102 teachers, 23 full-time and part-time support personnel, and seven (7) administrators during the 2011-12 school year. The District received \$10.3 million in state funding in the 2011-12 school year.

In July 2012, the General Assembly passed Act 141 of 2012, which required the Pennsylvania Department of Education (PDE) to develop and implement an early warning system for identifying financially declining school districts. PDE places those districts detected through the early warning system in Financial Watch Status, which permits them to receive additional technical assistance to improve their financial condition (see Observation, page 16).

Under Act 141 of 2012, PDE may also declare school districts to be in financial recovery status. This designation occurs when a school district's financial condition deteriorates to the point that it requires multiple advances on its annual state basic education subsidy and has numerous negative financial indicators. PDE can find school districts to be in moderate or severe financial recovery status. Such designations result in PDE appointing a chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.

Audit Conclusion and Results

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the three (3) audit findings and one (1) observation within this report.

Finding No. 1: Possible Certification Deficiencies.

Our audit of the Steelton-Highspire School District's professional employee certification for the period May 16, 2009 through July 2, 2013, found 20 individuals with possible certification deficiencies (see page 7).

Finding No. 2: Pupil Membership Errors Resulted in Underpayments of \$30,024.

Our audit of the Steelton-Highspire School District's pupil membership reports for the 2011-12, 2010-11, 2009-10, and 2008-09 school years found errors in nonresident data reported to the Pennsylvania Department of Education for the 2011-12, 2010-11, and 2009-10 school years. These errors resulted in underpayments of \$30,024 (see page 10).

Finding No. 3: School Bus Driver Qualification Deficiencies.

Our audit of the Steelton-Highspire School District's personnel records for current bus drivers identified 20 individuals who did not possess an Act 114 federal criminal history record check (see page 13).

Observation: The District is Facing Serious Financial Challenges, Including a \$2,680,400 General Fund Deficit.

On March 15, 2013, the Pennsylvania Department of Education placed the Steelton-Highspire School District (District) in Financial Watch Status. In addition, our review of the District's annual financial reports and independent auditor's reports for the school years ended June 30, 2009 2010, 2011, and 2012, found the general fund had a deficit of \$2,680,400 as of June 30, 2012 (see page 16).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the Steelton-Highspire School District (District) from an audit released on January 26, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to the Memorandum of Understanding (see page 22). The District did not take appropriate corrective action pertaining to the certification deficiencies, which again resulted in a finding (see Finding No. 1, page 7).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period May 15, 2009 through July 5, 2013, except for the verification of professional employee certification, which was performed for the period May 16, 2009 through July 2, 2013, the administrator contract buy-out review, which was performed for the period July 1, 2008 through July 5, 2013, and the review of the District's general fund balance which was performed for the period June 30, 2008 through June 30, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2011-12, 2010-11, 2009-10, and 2008-09 school years.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

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

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2010, we reviewed the District's response to PDE dated July 28, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

24 P.S. § 12-1202 of the Public School Code (PSC) provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

24 P.S. § 12-1212 of the PSC provides, in part:

“Every district superintendent shall keep an accurate record of all valid certificates held by the teachers of the school within his jurisdiction.”

24 P.S. § 25-2518 of the PSC provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Possible Certification Deficiencies

Our audit of the Steelton-Highspire School District’s (District) professional employees’ certification for the period May 16, 2009 through July 2, 2013, was performed to determine compliance with the Public School Code and the Bureau of School Leadership and Teacher Quality (BSLTQ) *Certification Staffing Policies and Guidelines*. We found individuals with possible certification deficiencies. It should be noted that this is the fourth consecutive audit of the District that has included this finding.

Information pertaining to the certificates and assignments has been submitted to the Pennsylvania Department of Education’s (PDE) BSLTQ, for its review. Our audit found the following possible deficiencies:

- Eleven (11) individuals may have been assigned to positions prior to obtaining proper certification.
- Five (5) individuals may have continued in positions after their temporary certification had expired and prior to obtaining permanent certification.
- Four (4) individuals were assigned to locally titled positions possibly without the proper certification as follows:
 - One (1) individual was assigned to the position of Pupil Services Coordinator without Home and School Visitor Certification as required in the District’s job description.
 - One (1) individual was assigned to Director of Secondary Teaching and Learning without supervisory certification.
 - One (1) individual was assigned to the position of Assistant to the Superintendent without an Assistant Superintendent or Superintendent Letter of Eligibility.
 - One (1) individual was assigned to the position of Network Administrator/Director of Technology without any certification.

Information pertaining to the possible deficiencies has been submitted to BSLTQ for its review. If BSLTQ confirms the deficiencies, the District could be subject to the following subsidy forfeitures:

<u>School Year</u>	<u>Possible Subsidy Forfeitures</u>
2012-13	\$ 4,675
2011-12	5,503
2010-11	13,544
2009-10	<u>9,860</u>
Total	<u>\$33,582</u>

These certification deficiencies were caused by the administration’s failure to develop an effective process for accurately monitoring its professional personnel’s usage of provisional certificates. It is the responsibility of District management to have appropriate policies and procedures in place to ensure that employees are properly certified to teach the course to which they are assigned and also to ensure that those certificates are current.

This is the fourth consecutive audit of the District that has included a finding on employee certification. Since the 2002-03 school year, the auditors have found 64 instances of staff not being properly certified, and the District has faced possible subsidy forfeiture of a total of \$84,884. We are disappointed that the District continues to disregard our recommendations and fails to strengthen its review and monitoring of certification information. We again call on the District to correct these deficiencies (see page 21).

Recommendations

The *Steelton-Highspire School District* should:

1. Implement a process for regularly reviewing and verifying the records of all employees with provisional certificates to ensure that these individuals obtain their permanent certificates in a timely manner.
2. Keep a copy of all valid Pennsylvania certificates held by its professional employees on file.
3. Based on BSLTQ’s final determination, take the necessary action required to ensure compliance with certification staffing policies and guidelines.

4. Submit all locally titled positions to BSLTQ for review and determination of the appropriate certification for the positions.
5. Implement a tracking system to ensure all individuals employed by the District obtain the proper certification prior to being assigned to a position.

The *Pennsylvania Department of Education* should:

6. In conjunction with BSLTQ's determination, adjust the District's allocations to recover any subsidy forfeitures deemed necessary.

Management Response

Management stated the following:

“The District has had a history of employing individuals on an emergency basis with or without emergency certifications. Over the last several years, there has been a concentrated effort to correct all certification issues. The hiring process has also been reviewed and lack of or incorrect certifications should no longer be an issue.”

Auditor Conclusion

While we are encouraged that the District acknowledges its history of deficiencies, our recommendations go a step further than simply ensuring that employees are properly certified. By implementing a standard and routine review process, the District would have greater assurance that the deficiency is addressed and that employees are properly certified. We will follow up on our recommendations during our next cyclical audit of the District.

Finding No. 2

Pupil Membership Errors Resulted in Underpayments of \$30,024

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and 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; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit of the Steelton-Highspire School District's (District) pupil membership reports for the 2011-12, 2010-11, 2009-10, and 2008-09 school years found errors in the nonresident data reported to the Pennsylvania Department of Education (PDE) for the 2011-12, 2010-11, and 2009-10 school years. As a result of this incorrect data, PDE underpaid the District \$30,024 in nonresident student subsidy.

Specifically, PIMS requires District staff to report a district of residence for each of its students. In the case of the District's foster children, instead of entering the name of the district of resident for their custodial parents, they entered the District's name. Since these foster children were nonresident students, by definition they do not live in the District. As a result of this error, the District's staff underreported the membership days for its foster children as follows:

- One (1) student for 69 secondary days during the 2011-12 school year.

Additionally, according to the *Federal Information System Controls Audit 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.

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 . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

- One (1) student for 56 secondary days during the 2010-11 school year.
- Four (4) students for 243 elementary and 203 secondary days during the 2009-10 school year.

The District's subsidy underpayments from these reporting errors totaled \$30,024 and were broken down as follows:

School Year	Underpayment
2011-12	\$ 1,836
2010-11	3,503
2009-10	24,685
Total:	<u>\$30,024</u>

The District's reporting errors, and subsequent subsidy underpayments, were caused by its staff's failure to reconcile the information in the District's student information system with the data uploaded into PIMS. The District's employees also did not maintain a process for ensuring that the information the District reported in PIMS was accurate, valid, and complete. It is the responsibility of District management to have proper internal policies and procedures in place to ensure that student data is accurately collected and reported timely. Without such internal controls, the District cannot be assured that it is reporting the correct data to PDE, or that it is receiving the correct subsidy.

Recommendations

The *Steelman-Highspire School District* should:

1. Develop and implement procedures and guidelines for the collection, verification, and reporting of membership data to ensure that all days and student classifications are accurately reported to PDE.
2. Reconcile final PDE reports to the District's own student detail reports to ensure all students are properly accounted for and accurately classified.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to resolve the underpayments of \$30,024.

Management Response

Management stated the following:

“The District made an error in the coding of ‘District of Residence’ for 1305 students [*foster children placed in homes within the district by court order*]. The error has been rectified and information has been sent to the Pennsylvania Department of Education in order to receive the underpayment of \$30,024.”

Auditor Conclusion

We are encouraged that the District is taking action to recover the underpayment. However, in order to ensure that such an error does not occur again, its staff must put a process in place to ensure that all data reported to PDE is accurate, valid, and complete. We will follow up on our recommendations to correct this issue during our next cyclical audit.

Finding No. 3

School Bus Driver Qualification Deficiencies

Criteria relevant to the finding:

Section 111 of the Public School Code (PSC) (24 P.S. § 1-111) (Act 34 of 1985, as amended) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police, as well as a federal criminal history record. Section 111 lists convictions for certain criminal offenses that would prohibit individuals from being hired and provides that convictions for other felonies and misdemeanors would disqualify individuals for employment if they occurred within ten (10) or five (5) years, respectively.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended, (see 24 P.S. § 1-111(c.1), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by the Pennsylvania Department of Education. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

Our audit of the Steelton-Highspire School District's (District) personnel records for current bus drivers found 20 individuals did not possess the Act 114 federal criminal history record.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to protect the safety and welfare of the students transported in school buses.

During our audit, we requested that the District provide us with the following six (6) pieces of required documentation for a random selection of 29 of the 42 drivers currently employed by the District's transportation contractors:

1. Valid driver's license.
2. Certification of school bus driver skills and safety training.
3. Certification of a physical examination.
4. State criminal history background check.
5. Federal Criminal History Record.
6. Official child abuse clearance statement.

We found that the District was unable to provide federal criminal history background checks for 20 of the 29 drivers we selected. On May 16, 2013, we informed the District's management of the missing documentation and instructed them to immediately obtain the necessary documents to ensure that the drivers were properly qualified to have direct contact with children. As of the end of our fieldwork (July 5, 2013), the District's management had not provided us with the necessary documentation.

These deficiencies were caused by the District's lack of policies and procedures for the hiring of contracted bus drivers. By not having the required bus drivers' qualification documents on file at the District, District personnel were not able to review these documents prior to

Criteria relevant to the finding (continued):

Regarding the maintenance of documentation, Section 111(7)(b) of the PSC, 24 P.S. § 1-111(a.1)(7)(c.1), provides, in part: “Administrators shall maintain a copy of the required information and shall require each applicant to secure a Federal criminal history record information report that may not be more than one (1) year old at the time of employment.”

22 Pa Code 23.4(2) states in part that the Board of School Directors is responsible for “The selection and approval of appropriate vehicles for use in district service and eligible operators who qualify under the law and regulations.”

Chapter 8 of the State Board of Education Regulations states that School entities shall require a criminal history background check prior to hiring an applicant or accepting the services of a contractor, if the applicant, contractor or contractor’s employees would have direct contact with children. The criminal history background check may not be more than one year old at the time of employment or engagement of contracted services.

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa. C.S. § 6355, known as Act 151, requires prospective school employees to submit an official clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

determining whether the drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students. Instead, the District’s staff erroneously believed that it could rely on a neighboring school district that used the same contractor to review and maintain the federal criminal history background checks.

It is the responsibility of District management to have appropriate internal policies and procedures in place to ensure that contracted employees are appropriately qualified to work in the District, and, in the case of contracted bus drivers, have the required background documentation to transport children. Without such internal controls, the District cannot be assured that its bus drivers are properly qualified and that those qualifications are up-to-date.

Recommendations

The *Steelton-Highspire School District* should:

1. Review all bus drivers’ files and obtain any clearances that were not obtained prior to or during the audit.
2. Implement a policy to require the transportation coordinator or designee to review all bus driver clearances prior to allowing the driver to transport students for the District in order to determine each driver’s fitness for driving.
3. Develop procedures to ensure that the District is obtaining new clearances for bus drivers whenever a driver switches contractors, and/or begins driving for the District.

Management Response

Management stated the following:

“The District contracted with another school district in order to provide pupil transportation services. The District was unaware it, along with the other school district, had the responsibility to review clearances of all drivers.

*Criteria relevant to the finding
(continued):*

Amendments to Section 111 required all current school employees to submit an “Arrest/Conviction Report and Certification” form (PDE-6004) to local education agencies indicating whether or not they have ever been arrested or convicted of any Section 111 offense by December 27, 2011. Furthermore, effective September 28, 2011, all current employees arrested or convicted of a Section 111 offense must complete the form and file it a designated school administrator within 72 hours.

Regarding the maintenance of documentation, Section 111 (7)(b) of the PSC, 24 P.S. § 1-111(7)(b), provides, in part: “Administrators shall maintain a copy of the required information and shall require each applicant to produce the original document prior to employment . . .”

As of August 8, 2013 letters were sent to both [contractors] requesting clearances for all Steelton-Highspire School District bus drivers. The letters are attached.”

Auditor Conclusion

We are encouraged that the District has taken steps to address this deficiency. We will follow up on our recommendations during our next cyclical audit of the District.

Observation →

The District is Facing Serious Financial Challenges, Including a \$2,680,400 General Fund Deficit

Criteria relevant to the observation:

Section 6-611-A of the Public School Code provides:

“1) The department shall develop and implement an early warning system under which the department shall:

(i) Compile financial data and maintain accurate and current information and data on the financial conditions of school districts. Each school district shall provide its financial data and information to the department within 15 days of a request by the department.

(ii) Regularly analyze and assess school district budget reports, data and other information directly related to the financial conditions of school districts.

(iv) Notify any school district identified for financial watch status.

(v) Offer technical assistance to school districts in financial watch status to correct minor financial problems and to avoid a declaration of financial recovery status under Section 621-A.”

During our review of the Steelton-Highspire School District’s (District) annual financial reports (AFR), independent auditor’s reports (IAR), and general fund budgets for school years ended June 30, 2012, 2011, 2010, and 2009, we found that the District has a deteriorating general fund balance, with a \$2,680,400 deficit for the fiscal year ended June 30, 2012. This decline was due primarily to its failure to properly forecast actual revenues, which were consistently lower than budgeted revenues and exceeded by actual expenditures.

In addition, we found that the Pennsylvania Department of Education (PDE) has placed the District in Financial Watch Status because of its poor fund balance ratio and several other negative financial indicators. This designation gives the District access to additional technical assistance from PDE, aimed at improving its fiscal condition. If the District’s financial position does not improve it could be placed in financial recovery status. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the District and the development of a district-wide financial recovery plan.

As shown in the following chart, the District has had a general fund deficit for the last four (4) fiscal years:

Trend: Declining General Fund Balance				
Fiscal Year End	Revenue	Expenditures	Difference in Expenditures/Revenues	General Fund Surplus/Deficit ¹
June 30 2008	-	-	-	\$ 467,320
2009	\$18,680,194	\$19,662,927	\$ (982,733)	(503,602)
2010	18,517,254	20,288,766	(1,771,512)	(2,279,023)
2011	20,518,762	20,677,855	(159,093)	(2,435,143)
2012	18,566,901	18,812,158	(245,257)	(2,680,400)

The most significant factor impacting the deterioration of the District’s general fund balance was its over estimating of actual revenues for all four (4) years of our audit.

The following table details actual revenues falling short of

¹ The year-end balance is also affected by the increase or decrease in the District’s reserve fund for inventories. These figures totaled \$11,811 for 2008-09, (\$3,909) for 2009-10, \$2,973 for 2010-11, and \$0 for 2011-12.

budgeted revenues:

Expenditures: Budget vs. Actual			
<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Budgeted</u> <u>Revenues</u>	<u>Actual</u> <u>Revenues</u>	<i>(Over)/Under</i> <i>Budgeted</i>
2009	\$20,625,853	\$18,680,194	<i>\$(1,945,659)</i>
2010	21,172,996	18,517,254	<i>(2,655,742)</i>
2011	21,407,407	20,518,762	<i>(888,645)</i>
2012	19,416,216	18,566,901	<i>(849,315)</i>

According to District officials, they were incorrectly budgeting for local taxes, state, and federal revenues. The District was flat funding the state and local revenues and not accounting for changes from year to year. In addition, local tax collection rates were based on prior year budget figures and not actual historical figures. Furthermore, the District budgets were based on one-year projections without considering long-range budget obligations. The following table details actual local property tax revenues falling below budgeted revenues:

Local Property Tax Revenue: Budget vs. Actual			
<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Budgeted</u> <u>Tax Revenue</u>	<u>Actual</u> <u>Tax Revenue</u>	<i>(Over)/Under</i> <i>Budgeted</i>
2009	\$4,475,378	\$4,003,988	<i>\$(471,390)</i>
2010	4,086,477	4,018,372	<i>(68,105)</i>
2011	4,678,281	4,177,937	<i>(500,344)</i>
2012	4,773,502	4,325,539	<i>(447,963)</i>

As a result of the District’s general fund deficits and several other financial factors, on March 15, 2013, PDE placed the District on the Commonwealth’s financial watch list (see report background for additional information). As previously discussed, the watch list was created by Act 141 of 2012, as part of an “early warning system” for identifying school districts that were struggling to maintain fiscal stability. By detecting these districts when they are initially beginning to deteriorate, the General Assembly hoped to provide them with assistance that would prevent them from experiencing severe fiscal problems, which could cause them to fall into financial recovery status.

As part of this effort, PDE offers all districts on the financial watch list technical assistance to help them improve. This work involves PDE employees and consultants evaluating the districts’ policies and procedures, assessing their programs, providing best practice recommendations, and serving as liaisons with

PDE. However, these districts are not eligible for any additional funding under the financial watch status designation.

According to a letter from PDE dated March 15, 2013, the following financial indicators, prepared by PDE, led to the District’s financial watch list designation:

Financial Indicators Leading to Financial Watch Status	
<i>Indicator</i>	<i>District Performance</i>
Fund Balance Ratio	-13.6% fund balance ratio (2011-12 AFR).
Basic Education Funding Advance	District was provided an advance of \$1,300,000 in January 2013; advance to be recovered in June 2013.
Market Value/Personal Income Aid Ratio	For 2012-13, it was .7707.
Equalized Mills	For the 2010-11 school year, it was 26.4; the 36 th highest of the state’s 500 school districts.
Debt	The District petitioned the Court of Common Pleas in January 2013 for permission to borrow \$2,500,000 to “ <i>fund unfunded debt.</i> ”
Delinquent Tax Rate	District had a high delinquent real estate tax rate of 14.3% in the 2011-12 fiscal year.
Near Default on Bond	District petitioned Commonwealth to make \$284,997.04 payment to bank to prevent defaulting on a payment due for a bond issue.
Unpaid Bills	District has \$1.2 million in unpaid invoice from other local education agencies that are more than 90 days past due.

In addition, the District is facing growing financial pressure as a result of an increase in tuition being paid to charter and cyber charter schools. While charter costs are rising—nearly 110 percent over four (4) years—the issue is compounded by the fact that, since 2011, the Commonwealth has not funded the school district reimbursement for charter school tuition costs. If this reimbursement were still in place, the District would have received at least \$100,000 in additional state revenue for 2010-11 and 2011-12 charter costs.

Trend: Growth in Charter Costs			
School Year	Tuition Paid to Charters	Change From Previous Year	State Reimbursement
2008-09	\$ 439,887	+ 20.7 %	\$ 101,055
2009-10	414,490	- 5.8 %	111,744
2010-11	539,443	+ 30.1 %	No Funding
2011-12	916,426	+ 69.9 %	No Funding

In summary, the District is facing severe financial challenges. As a result, it may be forced to eliminate certain educational services and decrease its professional staff in order to account for its poor financial situation. The likelihood that the District will have to curtail its educational offerings is increased by the fact that it has an unstable local tax base, as evidenced by its high rate of delinquent tax payments. If the District's financial situation continues to deteriorate, it is possible that PDE may declare it to be in financial recovery status.

Recommendations

The *Steelton-Highspire School District* should:

1. Use historical and trend data when budgeting revenue and expenditures to create realistic projections.
2. Institute budget projections beyond the next fiscal year, preferably a minimum of three (3) years.
3. Provide the Board of School Directors (Board) with standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
4. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated.
5. Adopt budgets estimating beginning fund balances based on historical indicators and realistic expectations of the amount that will actually be available for the budgetary period.
6. Conduct a survey of parents sending their children to a charter school to determine the reason why the District is losing students.

7. Monitor the costs to the District related to charter schools on a continuous basis.
8. Open a dialogue with the community to keep stakeholders informed of the financial status and health of the District.
9. Accept technical assistance offered by PDE to help the District with its financial challenges.

Management Response

Management stated the following:

“The General fund deficit is a result of a decrease in local funding due to the economy as well as decreases in state and federal funding. There were also incorrect estimations in budgeted revenues.

May 13, 2013, the District issued General Obligation Bonds, Series 2013 (Limited Tax Obligations) in order to bring current all outstanding invoices of the district in accordance with the Order of the Court dated March 11, 2013. The District is also looking into long term budgeting.”

Auditor Conclusion

The severity of the District’s financial condition will require it to work collaboratively with PDE to find substantial opportunities to reduce its expenditures. In doing so, the District should develop more realistic budgets and then adhere to them so that its actual expenditures do not exceed its budgeted expenditures. Moreover, the District’s administration and its Board should continue to monitor the negative financial benchmarks outlined in PDE’s financial watch list designation. Without significant improvement, it is possible that the District will face further state intervention.

Status of Prior Audit Findings and Observations

Our prior audit of the Steelton-Highspire School District (District) released on January 26, 2010, resulted in one (1) finding and one (1) observation. The finding pertained to certification, and the observation pertained to a Memorandum of Understanding (MOU). As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding and observation. As shown below, we found that the District did not implement recommendations related to the certification finding but did implement recommendations for the MOU observation.

Auditor General Performance Audit Report Released on January 26, 2010

Finding:

Certification Deficiencies

Finding Summary:

Our prior audit of professional employees' certification for the period August 3, 2005 through May 15, 2009, found a total of 28 deficiencies.

Recommendations:

Our audit finding recommended that the District should:

1. Require the individuals cited in this finding to immediately obtain proper certification for the positions assigned or reassign them to positions for which they are properly certified.
2. Establish procedures to ensure that emergency permits are obtained in a timely manner.
3. Require all individuals employed by the District to obtain the appropriate certificate prior to starting employment with the District.
4. Submit all locally titled positions to the Bureau of School Leadership and Teacher Quality for review and determination of the appropriate certification required for the positions.

We also recommended that PDE should:

5. Recover the subsidy forfeitures resulting from the deficiencies.

Current Status: During our current audit, we found that the District did not implement our recommendations. In the current audit report, Finding No. 1 covers the District's continued certification issues. PDE did recover \$37,580 of subsidy forfeitures from the District on June 1, 2010.

Observation: Memorandum of Understanding Not Updated Timely

Observation Summary: Our prior audit of the District's records found that the MOU between the District and its law enforcement agencies were all signed on July 1, 2002, and thus were not updated timely. When this was brought to the District's attention during our review, the District obtained signed MOUs with all three (3) law enforcement agencies dated May 8, 2009.

Recommendations: Our audit observation recommended that the District should:

Follow the General Provisions of the District's current MOUs (Section IV, item B) signed May 8, 2009, which state "this Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two (2) years of the date of its original execution and every two (2) years thereafter."

Current Status: During our current audit, we found that the District implemented our recommendation from the prior audit. The District has updated their MOUs on May 7, 2011 and March 28, 2013, to comply with the General Provisions within their MOUs.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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