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News for Immediate Release

May 18, 2016

Auditor General DePasquale Says Dereliction of Duties Pushed Penn Hills School District to Edge of Financial Cliff

District debt skyrocketed from less than \$11 million to an unmanageable \$167 million in five years

PITTSBURGH – Auditor General Eugene DePasquale today said a recent audit of Penn Hills School District, Allegheny County, shows long-term lack of oversight permitted stunning financial mismanagement and illogical business decisions resulting in an outstanding debt of \$167 million and multiple criminal investigations.

“Penn Hills School District is nearly broke. A former business manager made a series of bad decisions and financially catastrophic mistakes that could have been avoided if the school board and the former superintendent had done their jobs,” DePasquale said. “Everyone seems to have turned a blind eye as the school district marched toward financial disaster. The school board, along with the former superintendent and business manager all failed the students and parents of this district.”

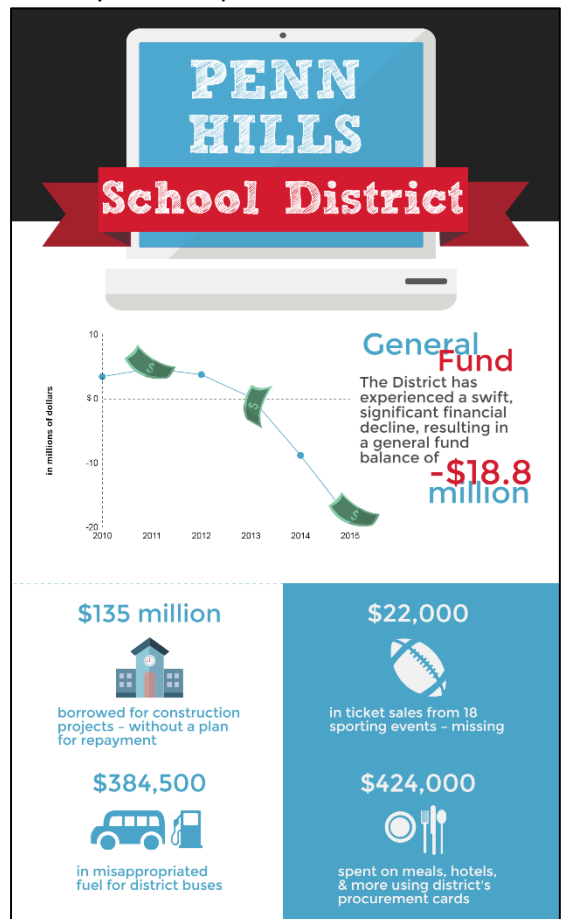
DePasquale noted that the former business manager simultaneously held the positions of board treasurer and secretary, a direct violation of the Public School Code.

“The school board threw all checks and balances out the window when it allowed the former business manager to hold these two key positions,” DePasquale said. “Not only did the business manager control what went to the board, we found a five-month period where financial reports were never presented to the board.

The former business manager received an independent audit report on Jan. 12, 2015, but delayed presenting it to the school board. Details of the report came out after the former business manager was placed on paid leave in March 2015.

“This is one of the worst school audits I have ever seen,” he said, noting, “It is so bad that we already sent a copy of the report to the Allegheny County district attorney’s office, the U.S. Attorney for the Western District, the Department of Revenue, and the state Ethics Commission for further investigation of possible criminal and tax violations.”

The audit, which contains eight findings and 28 recommendations, covers July 2012 through June 2015. The district agreed with all of the findings and recommendations presented in the audit report.



"I am encouraged that the current superintendent and business manager – who have certainly inherited quite a mess – seem very committed to turning this district around," DePasquale said.

Swift and significant financial decline

The district's outstanding long-term debt grew from less than \$11 million in 2009 to more than \$167 million in 2015. That is more than the district's entire operating budget for 2014 and 2015 combined.

At the same time, the district's General Fund balance — a reflection of how much the district has left each year after paying for operations and debt payments — went from a relatively healthy \$3.4 million in 2010 to negative \$18.8 million in 2015.

"Clearly, the board and district officials were not keeping an eye on the district's financials to let it go so far in the red in a such short time," DePasquale said. "The most significant contribution to this financial disaster is the fact that the district failed to have a long-term plan to pay for the debt incurred with the construction of a new high school and elementary school, and renovations to the middle school.

"Despite being warned by the architect's feasibility study that the district should increase taxes, consolidate three elementary schools and reduce staff to pay for construction expenses, the former business manager completely neglected to budget for construction and related debt payments.

"Turns out the architect gave better business advice than the former business manager. Since the district never raised taxes, never reduced staff, and never realized any of the other promised cost savings, the district started the rapid downward spiral that brought it to the edge of the financial cliff.

"Alarm bells should have been sounding when the district's annual debt payments began to grow exponentially from a manageable \$2.6 million in 2012 to nearly \$11 million in 2015 when the financial house of cards came tumbling down."

Auditors also note that:

- The districts' total expenditures exceeded budgeted amounts for fiscal years 2012 through 2015, and were cumulatively more than \$24 million over budget for this time period.
- In January 2015, the district asked the Pennsylvania Department of Education – without approval of the school board – for a \$3.1 million advance on its state subsidy, and while the advance was approved it came too late for the district to make an April 1 debt payment deadline. As a result, the payment was made by the Pennsylvania School District Enhanced Intercept Program, which steps in when districts are at risk of default on their debt obligations.

"It is bad enough that we found ongoing bad budgeting practices, but the fact that the district needed a \$3.1 million advance from PDE should have set off alarms from here to Harrisburg," DePasquale said. "A district asking for a subsidy advance to meet a debt service payment is not only rare, but it should also have been a wake-up call for PDE that the district is in trouble."

Credit cards abused

The auditors' review of the district's credit card practices revealed rampant abuse and numerous violations of board-approved policies, including a years-long persistent failure by the district to review, authorize, and account for purchases.

Despite a policy restricting credit card access to four positions, the district issued nearly two-dozen cards and racked up more than \$424,000 in purchases on these cards during the audit period ending June 30, 2015.

"For one of the retailer-specific cards, the name embossed on the card was 'Anyone in Uniform,'" DePasquale said. "That meant anyone with a Penn Hills School District shirt or ball cap could use the credit card to buy who knows what without showing any type of identification. That is insanity."

Although the cards were to be used for emergency purchases only, in August 2012 alone, district procurement cards were used to purchase items such as:

- doughnuts for meetings,
- lunches at local restaurants,
- sports equipment, and
- hotel rooms for district consultants.

“And then there is the even more troubling case of an employee purchasing a residential water heater for \$358.98 with the district’s purchasing card,” DePasquale said. “The invoice authorizing payment for this item was approved by the former business manager, despite the lack of a receipt, and — we checked — the water heater is not on district property.”

DePasquale said current district officials verified this purchase through the retailer’s security camera footage. Another employee purchased asphalt sealant with the card in August 2014 even though the district did not have a need for asphalt sealant and the purchase was not made during work hours.

\$384,500 in district fuel stolen

The former business manager stated at an April 2014 board meeting that the bus contractor wanted to lease a district-owned maintenance facility, which is where the district stores its fuel. Expecting \$5,000 per month lease income, the board agreed to the arrangement, and the contractor occupied the space, effective August 2014.

The district collected only \$2,500 in lease payments for three months and it wasn’t until new leadership took over that the back lease payments were pursued.

Not only did the district not receive the full lease payment, but the district also failed to monitor the fuel usage of the bus contractor, resulting in a 117 percent increase — or \$428,000 — in the district’s fuel costs from fiscal years 2014 to 2015. Based on a review of actual miles traveled and price per gallon the district should have experienced an estimated \$43,500 increase in fuel expense.

Auditors calculated that the contractor may have stolen as much as \$384,500 in fuel from the district. Previously, the district estimated the amount misappropriated for the life of the contract at \$260,000. When confronted, the contractor agreed with the amount and offered to discount future invoices to ‘repay’ this amount. “It is simply incredulous that the district did not keep better track of the fuel it purchased to transport its own students,” DePasquale said. “When the district finally caught on, it installed cameras that documented the fueling of buses transporting students from other districts and personal vehicles — all at the expense of Penn Hills School District students and taxpayers.

“Months later, the district installed more cameras,” DePasquale said. “However, the two cameras installed at the district-owned maintenance facility leased by the contractor ‘malfunctioned’ after only a few days. It was later discovered to have been disconnected from inside the garage.”

Upon the recommendation of the audit report, the district plans to terminate the current bus contract at the end of June.

Missing \$22,000 in ticket sales from athletic events

Auditor found that at least \$22,000 collected as admission fees to district athletic events from July 1, 2012, through June 30, 2015, went missing and was not deposited into the district’s General Fund.

The district did not have written procedures for collecting, safeguarding and depositing admission fees.

“Athletic programs count on admission fees and \$22,000 is a significant amount for a high school athletic program,” DePasquale said. “The student athletes are the ones who will suffer most, no matter whether this was an act of theft or not.”

Improperly selling fuel resulted in loss of thousands of dollars

During the audit, it was discovered that the district has been selling its tax-exempt fuel at a 15-cents-per-gallon markup to a local municipality — a violation of the Liquid Fuels and Fuel Tax Act.

The arrangement was neither supported by a written contract, nor approved by the school board.

“Ironically, despite trying to sell the fuel for a profit, the district’s billing practices were so deficient that it actually failed to collect enough revenue from the municipality to cover the cost of the fuel it sold in at least 2013-14 and 2014-15 and possibly other years,” DePasquale said. “The district’s loss during just those two years of fuel sales to the municipality totaled nearly \$66,000. That’s money lost that could have paid for another teacher.”

The district is currently in discussions with the Department of Revenue over potential penalties that may result from this questionable fuel sale practice.

Bus drivers missing background checks

The audit also reports that the district failed to meet the requirements related to the employment of contracted bus drivers having direct contact with students. Specifically, auditors found that of 25 driver records reviewed, the district did not obtain, review or maintain documentation to support that any of the 25 bus drivers were qualified and suitable to transport students.

“Two bus drivers had permanent convictions — one a felony drug offense and another one an aggravated assault crime — that should have barred them from employment as bus drivers,” DePasquale said. “Rightfully, when we brought this to the district’s attention, both drivers were removed from their positions.”

Both drivers transported district students in the 2014-15 school year and the early part of the 2015-16 school year.

“To help ensure the safety of the students in their charge, every school district needs to carefully monitor the individuals hired to transport students,” DePasquale said.

Herculean effort needed to turn district around

“Despite the willingness of the district’s current administration to right this ship, the \$167 million long-term debt and negative annual balance will mean that drastic changes are needed in the district,” DePasquale said. “I encourage the new leadership and board members to carefully consider the impact on students as they make decisions to keep the district afloat. Ensuring that students receive a proper education needs to be top of mind in any decision going forward.”

The Penn Hills School District audit report is available online at: www.PaAuditor.gov.

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