

SCHOOL DISTRICT OF PITTSBURGH
ALLEGHENY COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002, AND 2001,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004

WITH FINDINGS, RECOMMENDATIONS
AND STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS
THROUGH NOVEMBER 9, 2006



SCHOOL DISTRICT OF PITTSBURGH
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SCHOOL DISTRICT OF PITTSBURGH
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the School District of Pittsburgh for the years ended June 30, 2004, 2003, 2002, and 2001, and in certain areas extending beyond June 30, 2004. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit was limited to the following objectives:

- Objective No. 1 - To determine if the School District of Pittsburgh complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the School District of Pittsburgh took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

To plan and perform our audit of the School District of Pittsburgh, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls, we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

Independent Auditor's Report (Continued)

The results of our tests identified internal control weaknesses and indicated that, in all significant respects, the School District of Pittsburgh was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit and took appropriate corrective action to address the findings and recommendations contained in our prior audit report, except as noted in the following findings and observation further discussed in the Conclusions section of this report:

Objective No. 1

- Finding No. 1 – The District's Buy-Out of the Prior Superintendent's Employment Contract Cost the District an Additional \$13,148, and the Current Superintendent's Employment Contract Does Not Contain Adequate Provisions Regarding the Effect of a Premature Termination of that Contract
- Finding No. 2 – Review of Transportation Operations Found Underpayments of \$220,220 in Reimbursements for Transportation of Nonpublic Students and Internal Control Deficiencies in Reporting Other Transportation Reimbursable Factors
- Finding No. 3 – Lack of Internal Controls Over Excess Inventory
- Observation – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Objective No. 2

- Finding No. 1 – Inadequate Computer Controls, Including the Inability to Provide Data Supporting Membership Reports Submitted to the Department of Education
- Finding No. 2 – Certification Irregularities
- Finding No. 3 – School Bus Driver Qualifications Irregularities
- Finding No. 4 – Improper Student Activity Fund Procedures

Independent Auditor's Report (Continued)

We believe that our recommendations, if implemented by the district, will improve the internal control weakness identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

November 9, 2006

/s/
JACK WAGNER
Auditor General



SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The School District is located in Allegheny County and encompasses an area of 55.5 square miles. The school district has a population of 334,563, according to the federal census. The administrative offices are located at 341 South Bellefield Avenue, Pittsburgh, Pennsylvania.

According to school district administrative officials, during the 2003-04 school year, the district provided basic educational services to 34,619 pupils through the employment of 767 administrators, 3,950 teachers, and 930 full-time and part-time support personnel. Special education was provided by the district and the Pittsburgh-Mount Oliver Intermediate Unit #2. Occupational training and adult education in various vocational and technical fields were provided by the district.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year in which the school district incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school district throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 45 through 48 of this report for a listing of the state revenue the district received during the 2003-04, 2002-03, 2001-02, and 2000-01 school years and for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. School district annual financial reports and the related certified audits of the payments are not available before October 31st of the following fiscal year.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

Our audit objectives were:

- Objective No. 1 - To determine if the School District of Pittsburgh complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the School District of Pittsburgh took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

The scope of our audit covered the years ended June 30, 2004, 2003, 2002, and 2001, and in certain areas extending beyond June 30, 2004.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of a school district requires school board members to establish and maintain internal controls to provide reasonable assurance that specific school district objectives will be achieved. School board members are responsible for the adoption and use of policies and procedures that promote the economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the school district's internal controls as they relate to the district's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports, and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a school district's operations for a given year until after this information becomes available.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

CONCLUSIONS – OBJECTIVE NO. 1

The first objective of our audit was to determine if the School District of Pittsburgh complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests identified internal control weaknesses and indicate that, with respect to the items tested, the School District of Pittsburgh complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the Conclusions-Objective No. 2 section of this report and the findings and observation listed below. The findings, observation, and recommendations were reviewed with representatives of the School District of Pittsburgh, and their comments have been included in this report.

Finding No. 1 - The District's Buy-Out of the Prior Superintendent's Employment Contract Cost the District an Additional \$13,148, and the Current Superintendent's Employment Contract Does Not Contain Adequate Provisions Regarding the Effect of a Premature Termination of that Contract

Section 1073 of the Public School Code requires school districts to enter into three-to-five-year employment contracts with their superintendents.¹ On April 19, 2000, the board of school directors (Board) of the School District of Pittsburgh entered into an employment contract (Contract) with an individual (Superintendent) to serve as the district's superintendent. The Contract had a term of five years, from July 1, 2000 to June 30, 2005. The Contract provided compensation to the Superintendent of \$175,000 in the first year, as well as a variety of other payments, perks, and benefits. In subsequent years, compensation would be increased by at least \$2,500 each year. Furthermore, starting in the second year of the Contract, the Superintendent would be eligible for an annual performance-based lump sum bonus in an amount up to ten percent of his annual salary.

The Contract included the following provisions with regard to termination of the Superintendent's employment with the district:

- the Board had the right, under certain circumstances, to unilaterally terminate the Superintendent in the event of his disability;

¹ 24 P.S. § 10-1073(a).

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Finding No. 1 (Continued)

- . the Contract acknowledged the Board's right under Section 1080 of the Public School Code to terminate the Superintendent "for neglect of duty, incompetency, intemperance, or immorality" following a hearing with due process"²; and
- . the Board had the right to unilaterally terminate the Superintendent, presumably for any reason, but would be required to pay severance of an amount equal to all of the aggregate annual salary that the Superintendent would have earned pursuant to the Contract plus the value of any benefits provided in the Contract, from the actual date of termination to the termination date set forth in the Contract, or \$350,000, whichever amount was lower. If the Board were to elect to terminate the Superintendent by making such a payment, the Superintendent would be deemed to have waived his right to a hearing and his right to appeal the Board's action.

On January 26, 2005, with only four-and-a-half months remaining in the Contract and after the Board had already notified the Superintendent that the Contract would not be renewed for the period starting on July 1, 2005, the Board approved a resolution (Resolution) terminating the Superintendent's employment with the district, effective February 9, 2005. The Resolution provided the following information regarding the reasons for the termination:

[T]he District faces a number [of] serious academic and system management challenges, including those relative to student achievement, state funding, educational leadership, staff morale, declining enrollment, school closings, physical plant improvements and shrinking revenues; and . . . a majority of the Board believe[s] that the students, their parents or guardians, the staff, and the taxpayers will be best served and the challenges will be met under the guiding hand of a new educational and managerial leader for the District. . . .

² 24 P.S. § 10-1080.

SCHOOL DISTRICT OF PITTSBURGH
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Finding No. 1 (Continued)

Reflecting the termination provision in the Contract, the Resolution provided that the Superintendent would be paid a severance that should equal his aggregate annual salary plus the value of any benefits provided in the Contract, from the actual date of termination to the termination date set forth in the Contract, or \$350,000, whichever amount was lower. The Resolution also stated that the Superintendent and the Board valued the salary and benefits in the Contract at \$250,000 per year, and applying that valuation to the remaining period of the Contract resulted in “severance pay” of \$96,575 “or such amount as determined to be the proper sum” by the district’s legal counsel according to the Contract. The district ultimately paid the Superintendent a total of \$150,165, which was calculated as follows:

- . \$92,311 represented payment for salary and retirement contributions from January 1, 2005 through June 30, 2005³, as provided in both the Contract and the Resolution;
- . \$16,000 represented payment for 16 unused vacation days, as required annually by the Contract; and
- . \$41,854 represented payment for 144.5 unused vacation, sick, and personal days that the Board opted to pay the Superintendent based on leave pay-out policy for district retirees. This payment was not specifically provided for in either the Contract or Resolution, but the Contract did entitle the Superintendent “to all of the fringe benefits applicable to 12-month administrative employees...as are now in existence or come into existence during the term” of the Contract.

The Department of the Auditor General requested an explanation of the reasons for the termination of the Superintendent. In lieu of providing a verbal or written explanation, district management referred our auditors to the minutes of the Board meeting of January 26, 2005, at which the Board approved the Resolution terminating the Superintendent’s employment with the district. The meeting minutes indicate that the following issues led to the Board’s decision:

- . lack of improvement in student achievement;
- . lack of improvement in the district’s financial condition; and
- . concerns about the Superintendent’s management and leadership skills.

³ Note that the Contract required the calculation of severance to be made “from the actual date of termination,” which would appear to be January 26, 2005, the date of the Resolution, not January 1, 2005. However, the district, through its solicitor, was unable to explain this issue.

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Finding No. 1 (Continued)

On March 23, 2005, the Board entered into an employment contract with the district's chief academic officer to serve as acting superintendent (Acting Superintendent) for a period not to exceed one year or until a permanent superintendent was hired, effective February 10, 2005. The district paid the Acting Superintendent an additional \$19,000 over his then-current salary for the period February 10, 2005 through August 29, 2005, when the district hired a permanent superintendent.

This individual served as Acting Superintendent for six-and-one-half months. Four-and-one-half months of that time overlapped with the original term of the Superintendent's Contract. As a result, the district incurred an additional expense of \$13,148 by paying two individuals for the same time period. The district may incur even more costs because the Acting Superintendent is suing the district for discrimination for not hiring him as the permanent superintendent.

On August 3, 2005, the Board entered into an employment contract with an individual to serve as its superintendent (Current Superintendent) for a three-year period beginning on August 29, 2005. The contract provides compensation of \$165,000 in the first year, as well as a variety of other payments, perks, and benefits. In subsequent years, compensation would be increased by at least \$5,000, depending on performance. The contract includes provisions with regard to termination of the Current Superintendent's employment similar to those provisions in the district's Contract with its former superintendent, but does not explain how a contract buy-out would be calculated.

We commend the district for setting the Current Superintendent's initial term at the three-year minimum term permitted by state law. However, we are concerned that the employment contract with the Current Superintendent does not discuss the compensation and benefits payable to, or on behalf of, the Current Superintendent in the event of a premature termination of the contract. The time to negotiate those terms is at the outset of the employment relationship, not when matters turn potentially hostile between the parties.

Subsequent to the completion of our fieldwork, it came to our attention through various newspaper articles that, on November 15, 2006, the board voted to pay the Deputy Superintendent for Instruction, Assessment and Accountability (Deputy Superintendent) \$213,000 to settle a personnel dispute. The agreement calls for the Deputy Superintendent to be available to the district as an academic consultant through April 15, 2008; however, according to a quote attributed to the district's solicitor, "she will be paid the money regardless of the level of utilization of her services." In return for the consulting agreement, the Deputy Superintendent agreed not to sue the district and to relinquish her post as Deputy Superintendent. This consulting agreement may represent another example of a costly employment contract buy-out that could have been avoided had the employment contract contained adequate termination provisions.

SCHOOL DISTRICT OF PITTSBURGH
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Finding No. 1 (Continued)

Recommendations

The district should:

- continue to enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the district and its taxpayers;
- ensure that future employment contracts contain adequate termination provisions sufficient to protect the interests of the school district and its taxpayers in the event that the employment ends prematurely for any reason; and
- work with the Current Superintendent to include in his current contract, and any future contracts, a provision that addresses the compensation and benefits payable to, or on behalf of, the Current Superintendent in the event of a premature termination of his contract.

Response of Management

Management provided a written response indicating disagreement with the finding, and further stating:

The District takes . . . exception to the observations contained in [the] finding relating to the retaining of an Acting Superintendent. The issue of the Acting Superintendent's litigation is wholly unrelated to his compensation or the circumstances of [the Superintendent] leaving the District.

The District takes . . . exception to the comments relating to the Deputy Superintendent for Instruction, Assessment and Accountability. The District is complying with federal law relating to the confidentiality of certain personnel and other matters and the newspaper articles do not reflect the total circumstances of the agreement [between] the District [and] the former Deputy Superintendent. The amount paid to the former Deputy Superintendent represents a complete release of all claims under the Age Discrimination Employment Act, the various Civil Rights Acts and the Americans with Disabilities Act as well as numerous other state and federal statutes. The amount paid to the Deputy Superintendent represents less than half of the contractual liability the District had with respect to this matter.

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Finding No. 1 (Continued)

Auditor's Conclusion

We stand by our reference to the Acting Superintendent's litigation against the district and, specifically, the possibility of the litigation costing the district money. We are not taking a position on the merits of the lawsuit; we are merely recognizing that it was the result of a chain of events that began with the buy-out.

Without reviewing the terms of the Deputy Superintendent's employment contract and settlement agreement, we cannot evaluate whether or not the district's recent action was appropriate. However, given that the Current Superintendent's employment contract lacks provisions discussing the district's liability in the event of a premature termination of his contract, we would not expect such provisions to be in the Deputy Superintendent's employment contract. It is our position that buy-outs can be averted, or their cost significantly reduced, if school districts would include provisions in employment contracts regarding the compensation and benefits payable to, or on behalf of, district employees upon the premature termination of those contracts. We will review this matter in our next audit of the district.

With minor revisions based on the district's response, the finding shall remain. We encourage the district to implement promptly the accompanying recommendations. We will follow-up at the appropriate time to determine whether the recommendations have been implemented.

Finding No. 2 – Review of Transportation Operations Found Underpayments of \$220,220 in Reimbursements for Transportation of Nonpublic Students and Internal Control Deficiencies in Reporting Other Transportation Reimbursable Factors

Our review of the district's transportation data submitted to the Department of Education (DE) for the 2003-04 school year found errors in reporting the number of nonpublic pupils transported, resulting in underpayments of \$220,220 in reimbursements for nonpublic pupil transportation. Our review also found internal control deficiencies in reporting other reimbursable factors as follows:

- nonpublic pupil computer program deficiencies;
- activity runs;
- days of operation; and
- contractor costs.

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Finding No. 2 (Continued)

Nonpublic Pupil Transportation Errors

Section 2509.3 of the Public School Code provides, in part:

For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of three hundred eighty-five dollars (\$385) for each nonpublic school pupil transported.⁴

District personnel excluded 572 pupils eligible for nonpublic transportation reimbursement from reports submitted to DE for the 2003-04 school year. The district had computer server problems on several occasions during the year. During this period of time, the district did not have procedures in place for backing up and retrieving nonpublic pupil transportation data reported by the district for reimbursement. The district's software company at that time attempted to retrieve the nonpublic pupil data, but was unsuccessful. An early count of nonpublic pupils retrieved by the software company was used for reporting purposes and did not include nonpublic pupils who were provided fare-based transportation. Our review of the 2002-03, 2001-02, and 2000-01 school years did not reveal any problems in this area.

We have provided DE with discrepancy reports detailing the errors for use in recalculating the district's reimbursements for nonpublic transportation.

We noted the following additional internal control deficiencies during our review of transportation operations. Although we determined that errors occurred in these areas, documentation was insufficient for us to determine the correct data that should have been reported to DE.

Nonpublic Pupil Computer Program Deficiencies

In addition to the nonpublic pupil transportation errors noted above that resulted in nonpublic pupil transportation reimbursement underpayments, our audit also found other problems in determining the number of nonpublic students eligible for reimbursement.

The district's transportation personnel obtain nonpublic student counts from the technology personnel. When determining the number of nonpublic students eligible for reporting, the district uses its student tracking system to take a count at a particular point in time. Only nonpublic students who are in the system at that point of time are reported. Nonpublic students who withdrew before, or who entered after, the count is taken are excluded from the count. As a result, the total number of nonpublic students transported is not reported accurately.

⁴ 24 P.S. § 25-2509.3.

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Finding No. 2 (Continued)

Activity Runs

District personnel do not report data related to students transported for activity runs. Data related to student activity runs are reimbursable by DE. Interviews with district personnel disclosed that the district has not reported this data to DE for our years of audit, nor in prior years.

Days of Operation

The district did not correctly report the days of operation of buses providing transportation, which is a major factor in determining the amount of reimbursement due the district.

DE's instructions for reporting days of operation state that districts are to report the number of days vehicles "actually" provided transportation to and from the school. The instructions further state that, depending on the service that vehicles provided, this number could exceed or be less than the number of days that the district was in session.

Historically, the district has incorrectly used the number of days that school is in session as the equivalent to the actual number of days that vehicles provided transportation to and from school for transportation reimbursement purposes. Furthermore, miscommunication between the transportation department and the technology department resulted in the district reporting one more day than the actual number of days in session for the 2003-04 school year.

Contractor Costs

Our audit found that district personnel did not accurately report costs for certain contractors. Only transportation to and from school is eligible for reimbursement. One contractor's costs included transportation costs for a summer program, conferences, and a banquet, none of which should have been included in total costs for the school year. We also noted one instance in which a contractor's costs for one month (June 2004) were not included at all in the total costs.

Pupil transportation data must be maintained and reported in accordance with DE guidelines and instructions to ensure accurate reimbursement.

DE instructions for completion of end-of-year-reports state, in part:

It is essential that the data be reported accurately, according to the enclosed instructions. Incorrect data could have an adverse effect on the amount of subsidy your districts will receive from the Commonwealth.

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Finding No. 2 (Continued)

Recommendations

The board should:

- require district personnel to develop procedures for backing up and retrieving electronic data so that data can be restored if and when the district's computer system malfunctions;
- require district personnel to establish and adopt policies and procedures that will ensure maintenance of proper documentation and correct and accurate reporting of all nonpublic students transported;
- require district personnel to accurately report reimbursable data related to activity runs as required by DE guidelines;
- require district personnel to discontinue the practice of reporting the number of days that school is in session and instead report the number of days that each vehicle actually provided transportation to and from the school, as required by DE guidelines;
- require district personnel to conduct an internal review to ensure that the amounts paid to contractors are accurately reported;
- require pupil transportation personnel to attend workshops sponsored by DE on pupil transportation operations and data reporting to improve their understanding of DE's regulatory requirements; and
- require district personnel to review subsequent school years' pupil transportation reports, revise them if necessary, and resubmit corrected reports to DE.

Response of Management

Management provided a written response indicating agreement with the finding, and further stating:

Nonpublic Pupil Transportation Errors

When Transportation staff was preparing reimbursement data for the 2003/04 school year, the stand alone transportation server crashed, resulting in 572 nonpublic students being excluded from the sequel count.

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Finding No. 2 (Continued)

The Transportation server is no longer housed in the Transportation office. It is housed at a server farm maintained by the Technology office. If this server should ever crash, back-ups will be available.

The District will resubmit the 2003/04 reimbursement data and include the 572 students in the amended report.

Activity Runs

The District agrees that it did not ask for reimbursement for activity runs even though payment for these runs is made by the Transportation office.

These runs are arranged by each individual school and verified by signature from each school. Each run varies by times, days run, etc. because each school has its own schedule of after school activities.

To obtain all of the information for activities reimbursement would require us hiring another staff member which would significantly diminish the net reimbursement.

Days of Operation

Transportation has always taken a “snapshot” and then submitted it to the state. This method has proven satisfactory given the size of the District and was always based upon the maximum allowable days that the District ran.

The Transportation office will now alter its data collection method via collaboration among Transportation, Technology and Trapeze Transportation Software staffs.

Contractor Costs

The District agrees that field trip costs should not be reported in contractor costs for reimbursement purposes. The District notes that the error did not result in over or under reimbursement. Transportation and Finance are working collaboratively to report this correctly in the future.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

Auditor's Conclusion

Since the district does not track student activity runs, it was impossible for us to determine the amount of potential reimbursement loss to the district. The district's contention is another employee would have to be hired to collect all this data, and that hiring this employee would significantly diminish the amount of additional reimbursement. We recommend that the district perform a cost-benefit analysis to determine whether reporting data related to students transported for activity runs is feasible.

Finding No. 3 – Lack of Internal Controls Over Excess Inventory

During our current audit, we conducted an on-site review of the district's inventory control procedures over excess inventory stored at the closed Gladstone School Building.

We found the following conditions, which were inconsistent with sound management and business principles:

- inventory records were not properly maintained;
- usable school equipment was located on-site;
- storage area was in disarray; and
- an unknown number of keys to the school building were distributed.

Inventory Records were not Properly Maintained

Inventory records of the equipment on-site were not properly maintained. By failing to maintain equipment inventory records, the board lost control over the equipment.

A properly maintained inventory record system provides safeguards against loss of equipment through fraud, waste or abuse.

SCHOOL DISTRICT OF PITTSBURGH
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Finding No. 3 (Continued)

Usable School Equipment was Located On-Site

During our on-site evaluation of the Gladstone School Building, we noted that many of the rooms contained usable classroom equipment.

It is feasible the usable equipment could be used elsewhere in the school system or, if not needed, made available for sale to other educational entities.

Storage Facility was in Disarray

The district used the classrooms and hallways of the Gladstone School Building for centralized storage of equipment from other closed school buildings.

Our review of the storage facility found that:

- the equipment in stock was not organized to facilitate efficient inventory control or distribution for use in other buildings;
- the facility was unclean with empty cardboard boxes and other debris evident in the rooms; and
- all observed rooms were cluttered with unused equipment.

Sound business practice provides for a well-organized storage facility, free of all unusable materials, to enhance efficient storage, security and distribution of equipment.

Unknown Number of Keys to the School Building were Distributed

District personnel could not provide an accounting of who has keys to gain access to the building. Tradesmen (electricians, plumbers, etc.) who needed access to the building requested a key from their supervisors, or the custodian assigned to the building opened the building for them.

Sound business practice provides for a secured area in which to store excess inventory, and for an accounting of all personnel who have access to the storage area.

Recommendations

The board should adopt policies and institute procedures that:

- provide an accounting of all equipment on hand with perpetual updating of equipment inventory;

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Finding No. 3 (Continued)

- provide for proper disposition of useable equipment;
- require organized storage of equipment in facilities free of debris and clutter; and
- provide an effective system of accounting for all personnel who have access to the storage area.

Response of Management

Management provided a written response indicating agreement with the finding, and further stating:

Inventory records were not properly maintained

Equipment assets were recorded as obsolete when they were removed from service and moved to Gladstone. Some assets were relocated without notifying the District Finance or Technology offices.

Equipment is not permitted to be moved without Technology office approval, through the dray process. Asset information is directly recorded by Technology or its contractors and is electronically forwarded to the Finance office. Additionally, as the District moves forward with a contract to dispose of obsolete equipment, a requirement is stipulated to provide the School District documentation, which includes asset tag and serial number information to archive.

All capital equipment—and donated works of art and historical treasures—in service is carefully tagged and periodically inventoried. We note that the finding is limited to the obsolete items being disposed of by the District and is not a finding on our capital asset accounting records and procedures for assets in service.

Usable school equipment was located on-site

All equipment authorized by the Technology Office, in storage, is considered obsolete by our standards. In fact, the District is currently reviewing responses to a request for proposal to dispose of all obsolete technology equipment at Gladstone. The pricing of each of the proposals received indicates that the District may need to pay as much as \$100,000 or more to dispose of the equipment.

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Finding No. 3 (Continued)

Storage area was in disarray

Equipment as delivered was without proper direction.

Today, equipment placed in the storage site is directed by a supervisor to create a more organized space. Additionally, the space will become “cleaner” by virtue of the up-coming award of a disposal/salvage RFP, which requires all material to be removed properly and not leave packing behind in the building.

An unknown number of keys to the school building were distributed

All access to the building is now requested through direct notification with the custodian or the Plant Operations office.

Auditor’s Conclusion

If it has now been determined that this equipment is obsolete, then the district should devise a cost-effective plan for disposal of all of this equipment.

Observation – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications

Section 111 of the Public School Code 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. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.⁵

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.⁶

⁵ 24 P.S. § 1-111(e).

⁶ 23 Pa.C.S. § 6355(b).

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Observation (Continued)

The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Our review of the personnel records of a random sample of 164 of 821 bus drivers currently employed by the district's transportation contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and that the School District of Pittsburgh had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the transportation contractors from hiring any of the drivers. Therefore, we concluded that the School District of Pittsburgh has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL.

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PERFORMANCE AUDIT REPORT

Observation (Continued)

However, we did find convictions of serious crimes that call into question certain drivers' suitability to have direct contact with children. Specifically, we found that 21 of the 164 sampled drivers had been convicted of 44 crimes that, while not listed as disqualifying crimes in Section 111 and/or were committed beyond the five-year look-back period, were nonetheless serious, as detailed below:

Number of Convictions Stratified over Time Period

		<u>Less than 5 Years</u>	<u>Over 5 Years</u>
<u>Criminal Convictions</u>			
<i>Disqualifying under Section 111 of the Public School Code:</i>			
Felony Violation of the Drug Act ⁷		-	1
	Total	-	1
<i>Not Disqualifying under Section 111, but Serious:</i>			
Criminal Attempt/Forgery		-	2
Forgery		-	1
Criminal Conspiracy/Theft by Unlawful Taking or Disposition		-	1
Criminal Conspiracy/Violation of the Drug Act		-	1
Criminal Conspiracy/Burglary		-	1
Possessing Instrument of Crime		-	2
Simple Assault		-	2
Criminal Mischief		-	1
Disorderly Conduct		-	15
Burglary		-	2
Burglary of Railroad Cars		-	1
Robbery		-	4
Robbery by Assault/Armed Robbery		-	3
Public Drunkenness		-	1
Firearm Carried without a License		1	-
Violation of Uniform Firearms Act		-	1
Driver Required to be Licensed		-	1
Driving Under the Influence of Alcohol or a Controlled Substance		-	3
	Totals	1	42

⁷ Known as the Controlled Substance, Drug, Device and Cosmetic Act, 35 P.S. § 780-101 et. seq. Please note that the violation referenced here involved an April 7, 1994 conviction under 35 P.S. § 780-113(a)(30), which prohibits “the manufacture, **delivery, or possession with intent to manufacture or deliver, a controlled substance** by a person not registered under this act, or a practitioner not registered or licensed by the appropriate State board or knowingly creating, delivering or possessing with intent to deliver, a counterfeit controlled substance.” [Emphasis added]

SCHOOL DISTRICT OF PITTSBURGH PERFORMANCE AUDIT REPORT

Observation (Continued)

Furthermore, our review found that the district does not have written policies or procedures in place to ensure that it is notified if current employees have been charged with, or convicted of, serious criminal offenses that should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. The district does have procedures to ensure that drivers' qualifications are current, but those procedures do not require criminal history and child abuse clearances to be updated periodically. Our review of contractors' policies found that one of the district's contractors had written policies pertaining to updating criminal history records, but this policy did not address child abuse clearances. The other contractors used by the district did not have written policies addressing updates to either criminal history records or child abuse clearances.

Recommendations

The school board and district administrators should consider, in consultation with the district's solicitor:

- developing a process to determine, on a case-by-case basis, whether prospective employees of the district's transportation contractors have been convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children;
- implementing written policies and procedures to ensure that the district is notified when current employees of the district's transportation contractors are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the district considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action;
- implementing written policies and procedures to ensure that bus drivers' criminal history records and child abuse clearances are reviewed and updated on an annual basis; and
- reviewing whether the school district properly complied with 24 P.S. § 5-527(a), which requires termination of "any employee, professional or otherwise of a school district" who is convicted of delivery of a controlled substance with intent to deliver, as prohibited by the Drug Act, with respect to the bus driver, who may have been employed at the time of his conviction, referenced in the table in this finding under the category of **Disqualifying under Section 111 of the Public School Code**.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Observation (Continued)

Response of Management

Management provided a written response indicating agreement with the observation, and further stating:

Management agrees with the observation; however the District believes that the State law should be amended if the auditors are to conclude that in following the state guidelines and mandated procedures that the District was too lax.

Auditor's Conclusion

The Department of the Auditor General stands by its position that school districts can conduct background checks and establish employment policies that protect the safety and welfare of children beyond the minimum requirements of the Public School Code and the Child Protective Services Law. Although school districts are not required to implement the recommendations from this observation, they have the authority to do so.

We encourage the district to review this issue with its solicitor. We will revisit this issue in our next audit of the district.

SCHOOL DISTRICT OF PITTSBURGH
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CONCLUSIONS - OBJECTIVE NO. 2

The second objective of our audit was to determine if the School District of Pittsburgh took appropriate corrective action to address the findings and recommendations contained in our prior audit report for the years ended June 30, 2000 and 1999, and in certain areas extending beyond June 30, 2000. The status of these findings along with a description of the school board's disposition of each recommendation, was determined by one or more of the following procedures:

- reviewing the board's written response, dated February 25, 2004, to the Labor Education and Community Services Comptroller's Office, replying to the Department of the Auditor General's audit report for the years ended June 30, 2000 and 1999, and in certain areas extending beyond June 30, 2000;
- performing tests as a part of, or in conjunction with, the current audit; and
- questioning appropriate district personnel regarding specific prior years' findings and recommendations.

Finding No. 1 - Inadequate Computer Controls, Including the Inability to Provide Data Supporting Membership Reports Submitted to the Department of Education

The Department of Education (DE) calculates a school district's subsidies and reimbursements based on reports prepared and submitted by each school district. One of the reports submitted by each district is the "Annual Attendance and Membership Report" (PDE 4062). The data contained in this report is one of the factors used in the calculation of the school district's subsidies and reimbursements. Our prior audit of pupil membership and attendance, which attempted to substantiate membership reports submitted to DE, found numerous deficiencies about whether state subsidies paid to the district were consistent with the district's funding entitlement. We also noted weaknesses in the general computer controls environment.

The following recommendations were made to correct the weaknesses identified in the finding:

- choose and implement a method of backing up data using a process that ensures data recovery and facilitates ease of restoration;
- ensure that data supporting the final version of the PDE-4062 is maintained, can be easily obtained and used, and is available for audit; and

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

- . continue to implement planned measures to strengthen the computer control environment so that the computer system produces accurate data that is adequately safeguarded.

The board, in its written response to our prior audit report, which was submitted to the Labor, Education and Community Services Comptroller's Office, stated the following:

Management agrees with the audit finding that there were inadequate computer controls in the Student Membership area for the years in question.

The first finding covering the school year 1997-1998 was a data and system conversion issue. In preparation for the year 2000, the District changed hardware platforms and operating systems. By the time the State Auditors requested the membership data, the pre-Y2K Data General mainframes had already been shipped out. Although the reel-to-reel backup tapes were stored for possible future conversion, because of the cost and time involved in converting these tapes the District did not pursue this.

The following year the District was caught in another conversion, this time from the older TRS system to a new NCS Pearson SASI system. TRS was a PC-based application requiring users to send their electronic data to a centralized office. The data would then be downloaded into an Access database. The Office of Technology was unable to locate the appropriate Zip drive that stored the Access database matching the Form 4062 submitted to the State. Although management is convinced the data submitted on the form was the correct data, we were unable to produce the corresponding data file.

Since this last audit year, 1999-2000, the Office of Technology has made many changes to the computer controls to prevent these occurrences from happening again. The information no longer sits on an individual desktop, backed up on various Zip drives. The student data now resides on a centralized server farm backed up nightly. Data files corresponding to State forms and other requirements are now stored separately – in addition to the nightly backups – for ease of use and recovery.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

The Superintendent or his designee will monitor implementation of the corrective action plan. The Board's Business/Finance Committee shall receive a status report on the corrective action plan by June 30, 2004.

As part of our current audit, we requested the membership and attendance data used by the district to create the PDE-4062 report that was submitted to DE for the 2003-04 school year. We were unable to reconcile the data to the PDE-4062 report. District management stated that this was because they changed the district's computer system to a Real Time Information (RTI) System and did not back up the system at the time the PDE-4062 report was created. They further stated that they were unable to identify the activity (changes to the data) that occurred since creation of the PDE-4062 Report, due, in part, to changes in key personnel responsible for preparing the PDE-4062 Report.

Furthermore, district management stated that they were uncertain if students' classifications as resident or non-resident were accurate. Finally, district management admitted that membership days for those students with 10 or more days of consecutive unexcused absences who were not pursued by the district were not deleted from the membership totals for the year, resulting in the overstatement of total membership days reported on the PDE-4062 report. Therefore, we concluded that the district did not comply with the recommendations from our previous audit.

We also followed-up on the status of recommendations we made in previous audit reports to address inadequate general computer controls and included any unaddressed issues in the recommendations below. Although we noted improvements in the general computer controls since the last audit, we still found inadequate backup procedures, the lack of disaster recovery plan, inadequate off-site storage procedures, and no evidence of a security policy that enforces strong password authentication requirements.

Recommendations

Regarding the district's inability to provide data supporting membership reports submitted to DE:

- . The district should ensure that the database used to create the reports submitted to DE is backed up at the time of preparation of the PDE-4062 report. That snapshot of the database should be stored to substantiate the membership for the school year and be available for audit. If, for any reason, revisions are required to the PDE reports, the district should be prepared to explain and/or provide audit evidence of those revisions;

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

- DE should require the district to provide sufficient, competent, and reliable data to support the approximately \$151,777,718 in subsidies and reimbursements paid to the district based on the data from the years we audited. DE should also determine whether it is appropriate to assess a monetary penalty against the district if the supporting documentation is not provided; and
- DE should ensure that the district's child accounting membership reporting can be supported and verified prior to issuing future payments.

Regarding the district's inadequate general computer controls:

- The district should develop and test a disaster recovery plan, which reflects current operations, to ensure business continuity in the event of a disaster or emergency. The district should also use an environmentally controlled off-site storage facility that is at least 50 miles away from the data center/computer room when backing up its data; and
- The district's system should require that all users follow a formal password policy. District personnel did not provide requested evidence to support that the district's password policy was in place and being enforced. We requested, but did not receive, system parameter settings to prove that the system requires all users to change their passwords on a regular basis (i.e., every 30 days), use passwords that are a minimum length of eight characters, and include alpha, numeric, and special characters.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

Response of Management

Management provided a written response indicating agreement with the finding, and further stating:

The audit period in question was marked by major personnel turnover and system changes. None of the current staff responsible for child accounting were in place during the period and the transition to the Real Time Information (RTI) system was in its infancy. Hence, much of the data for state reports was stored on personal hard drives where the reports were created. Therefore, the information cannot be retrieved. Several attempts to recreate the data and reports could not meet the “reasonable margin of error” criteria because appropriate back up files and business rules could not be recreated. Subsequent to this period, RTI has been fully implemented with hard coded business rules and adequate back-up and storage procedures allowing us the ability to provide data supporting all reports submitted to the Department of Education (including membership). In addition, a system is being developed for non-resident counts for ADA/ADM. The system will track the number of days of membership attached to an address.

Auditor’s Conclusion

We appreciate the district acknowledging in its management response the weaknesses that contributed to the inability to provide data that supports membership reports submitted to DE. The district clearly states the causes for this inability to provide data to the auditors. However, these same weaknesses were noted in two previous audits.

At the entrance conference for the current audit, district representatives assured the auditors that data supporting the membership reports for the 2003-04 school year were available. Clearly, the district’s response points to a need for written procedures and management oversight to ensure that reliable data is captured and maintained despite employee turnover or system changes.

We will again request membership and attendance data in the next audit. We hope that the district will be able to provide complete and reliable data that reconciles to the reports submitted to DE to evidence the corrective actions noted in their management response.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 2 – Certification Irregularities

Our prior audit of certificates and assignments of professional personnel for the period July 1, 2000 through June 30, 2002, found that professional personnel were assigned to positions without proper certification. As a result, the district was subject to subsidy forfeitures of \$200,942.

During that audit we found two individuals in each school year who were improperly certified for the positions to which they were assigned, while the majority of the citations (56 in 2001-02 school year and 58 in 2000-01 school year) involved individuals holding no certification at all who were assigned as artistic specialists or performing arts practitioners, also known as adjunct teachers.

We recommended that the board require the administration to:

- review the assignments of all employees and reassign positions, if necessary, to comply with certification requirements established by DE; and
- hire only individuals holding valid certificates for the subjects or positions to which they are assigned.

We also recommended that DE require the district to conform to certification requirements and adjust future district allocations to recover the subsidy forfeitures for the irregularities. Concerning the issue of certification for the artistic specialist's adjunct teachers, we recommended that DE either enforce the provisions of the Public School Code or change its position to allow such teachers to be exempt from the certification requirements of the Public School Code.

The board was not required to submit a response to this finding, according to instructions from DE. As of completion of fieldwork for our current audit, DE had not yet assessed the subsidy forfeitures of \$200,942.

Our current audit of certificates and assignments of professional personnel for the period July 1, 2002 through June 30, 2006, again found that professional personnel might have been assigned to positions without proper certification.

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.⁸

⁸ 24. P.S. § 12-1202.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

Section 2518 of the Public School Code 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 Department of Education but who has not been certificated for his position by the 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.⁹

DE has issued regulations regarding professional certification. These regulations must be followed to ensure professional personnel are properly certified and to avoid possible subsidy forfeitures.

Information pertaining to the assignments considered questionable was submitted to DE's Bureau of Teacher Certification and Preparation (BTCP) for its review. BTCP determined that the individuals were improperly assigned and that the district is subject to additional subsidy forfeitures, detailed as follows:

<u>School Year</u>	<u>Adjuncts</u>	<u>Principals</u>	<u>Teachers</u>	<u>Subsidy Forfeitures</u>
2002-03	50	1	-	\$143,018
2003-04	57	1	2	169,056
2004-05	58	3	3	179,288
2005-06	58	4	12	<u>227,772</u>
Total Subsidy Forfeitures				<u>\$719,134</u>

The adjunct teachers have now been the subject of findings in six prior audit reports, and BTCP upheld the citations in all cases. However, DE has not enforced the penalties associated with the violations of the Public School Code, nor has the district complied with BTCP's determinations.

Additionally, principals and other teachers were either assigned to positions for which they might have held the wrong certification or were assigned without holding any certification.

Based on the results of our current audit, we concluded that the district did not take appropriate corrective action to address this finding.

⁹ 24 P.S. § 25-2518.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

Recommendations

We again recommend that the board require the administration to:

- review the assignments of all employees and reassign positions, if necessary, to comply with certification requirements established by DE; and
- hire only individuals holding valid certificates for the subjects or positions to which they are assigned.

DE should require the district to conform to certification requirements and adjust future district allocations to recover the subsidy forfeitures for this and prior certification irregularities. Concerning the issue of certification for the adjunct teachers, we again urge DE to either enforce the provisions of the Public School Code or change its position to allow such teachers to be exempt from the certification requirements of the Public School Code.

Response of Management

Management disagrees with the finding related to adjuncts and agrees, in part, with the finding related to principals and teachers.

Adjuncts

Regarding adjunct teachers, management disagrees with the finding.

The District has an appeal of the certification subsidy penalty pending before the Secretary of Education. It is the District's belief that the instructors in question are fully qualified to teach in the areas of instruction assigned to them as these areas reflect the instructors' area of expertise in the performing and visual arts.

Further, the Department of Education has recently issued regulations which permit such instructors to teach not more than 800 hours per year in such fields provided there is no supplanting of professional staff.

Finally, the District's status as a Commonwealth Partnership District, certified by the Secretary of Education in July 2006 permits the District to use staffing rules applicable to Empowerment Districts. These rules permit such districts to utilize the rules applicable to Charter Schools. Such schools are permitted to have 30% of the teaching staff on a non-certified status. The District meets those guidelines.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

The continued citation of the District for such staffing reflects a total lack of understanding of the educational program and curriculum at both CAPA High School and Rogers CAPA Middle School which utilizes such instructors.

Principals and Teachers

Management does not totally agree with the finding regarding the administrators having expired certificates.

One of our administrators had converted her certification to Level II in 1994, but the state put the incorrect type code on the certificate. The initial certificate was issued 11/86. A copy of both the initial and the converted certificate was faxed to the Auditor General's staff on January 7, 2006. An administrator, currently in secondary, does not have an expired certificate.

Her initial assignment was in an elementary building and she converted her elementary certificate to permanent in February 2004. In 7/04, she was transferred to a secondary school, where she is currently serving as an assistant principal. Her 3 years as a secondary administrator will be completed in 6/07. One of our administrators was serving in an acting capacity during the period she was in the administrative practitioner program. There should not be any forfeiture during this period which is for 2/24/05 to 6/30/05. One principal has converted her certificate and therefore, the forfeiture will only reflect 5 months.

Management does agree with the findings regarding the teachers who have expired teaching certificates. The problems are being corrected. One teacher who was cited was only a day-to-day substitute during the year in question and only served a brief time starting in November 2003. This did not require a certificate according to CSPG regulations concerning day-to-day substitutes.

A very detailed response on principal and teacher certification issues, specific to the employee, was faxed to the Auditor General's staff on January 8, 2007.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 2 (Continued)

Auditor's Conclusion

The Department of the Auditor General does not make the final determination on satisfaction of certification requirements by principals, teachers and adjuncts in the district. The employees in question were submitted to BTCP for determination. BTCP upheld all but a few of the questionable personnel submitted; citations not upheld were not included in this finding.

Regarding adjuncts, BTCP's final determination dated December 8, 2006, specifically states:

According to the information presented by the auditor, the educators included below were not properly certificated as adjunct teachers employed by the district to staff the CAPA Program (Creative Arts Performance Academy). Educators staffing the CAPA Program would be certificated or, if acting as a Resource Specialist, would be required to hold Resource Specialist Permits (CSPG #100; 22 PA Code 49.62). Prior to July 15, 2006 regulations did not allow a Resource Specialist to exceed 300 clock hours of service during a school year, but currently permit 800 hours per school year. Educators staffing the Pittsburgh CAPA Program do not have appropriate certification or Resource Specialist Permits for any of the school years, 9/2002 to 6/2006 (4 school years). The hours served by the adjunct instructors . . . exceeded 300 hours of service for each of the 2002-03, 2003-04, 2004-05, 2005-06 school years.

The district's status as a "Commonwealth partnership school district," subject to the certification requirements for districts on the Education Empowerment List, which, in turn, incorporate the certification requirements for charter schools,¹⁰ is not applicable to this audit. Our audit scope period ended June 30, 2006, but the charter school certification requirements did not apply to Commonwealth partnership school districts until the enactment of Act 114 of 2006 on July 11, 2006. Similarly, the 800-hour allowance for uncertificated Resource Specialists was authorized by regulations of the State Board of Education that became effective on July 15, 2006.¹¹ We will review all of these new requirements when they become applicable to the time period audited in our next audit of the district.

Therefore, this finding will stand as presented.

¹⁰ See 24 P.S. § 17-1704-B(a)(3), which incorporates 24 P.S. § 17-1724-A(a). The latter section requires that at least 75% of the professional staff members of a charter school shall hold appropriate state certification, not 70% as stated in the district's response to this finding.

¹¹ See 22 Pa. Code § 49.62.

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Finding No. 3 - School Bus Driver Qualifications Irregularities

Our prior audit of transportation operations was limited to a review of bus drivers' qualifications. We reviewed personnel files for a randomly selected sample of 100 school bus drivers out of 732 drivers employed by the district's transportation contractors during the 2001-02 school year.

Our prior review of drivers' personnel files found that:

- . 2 drivers had been convicted of crimes that should have prohibited their employment as district drivers under Section 111 of the Public School Code;
- . 14 drivers' files contained incomplete or unresolved criminal history documentation;
- . 26 drivers' files did not contain child abuse clearance statements;
- . 16 drivers' files did not contain current drivers' licenses;
- . 28 drivers' files did not contain school bus driver safety training certificates; and
- . 25 drivers' files did not contain physical examination certificates.

We recommended that the board of directors and district administrators:

- . review credential files for all drivers to ensure that the files are up to date and complete and to determine whether any additional bus drivers are ineligible for contracted employment;
- . develop, adopt, and implement policy clearly defining district driver qualification requirements; and
- . enlist the district's Office of Human Resources and Office of School Police for the bus driver qualification evaluation process.

We also recommended that DE review the requirements for school bus drivers' qualifications to ensure that current regulations provide adequate safeguards.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 3 (Continued)

The board, in its written response to the prior audit report, agreed with the finding, and stated:

1. The District created a Pupil Transportation Safety Coordinator position and filled the job for the 2003/04 school year. Our safety coordinator began employment with the District on September 15, 2003. The safety coordinator's responsibilities include:

- Inspecting vehicles to insure that they meet established state standards;
- Inspecting drivers' licenses;
- Working with all contracted carriers to ensure that all driver information is up to date and complete;
- Reviewing criminal history checks, child abuse clearances, and physical examination reports for all drivers.

Prospectively, District will insist on criminal history checks even for those drivers that were "grandfathered" in before criminal history checks were mandated. Likewise, the District already requires carriers to submit driver information every year because of the high turnover among school bus drivers.

2. The District will require child abuse clearances even for those drivers who began working before such child abuse clearances were mandated.
3. The contracted drivers in question no longer work for any of our approved carriers.
4. The District is requiring its contracted carriers to update certifications for all drivers in their employ.
5. The District is requiring its contracted carriers to submit certificate of [safety training] completion cards for each driver before they may drive school buses. Drivers are not required, however, to carry these cards with them when they are driving.
6. District personnel do receive a policy statement booklet upon hire. At the completion of the current carrier contract - which expires at the end of the 2003/04 school year - the District will stipulate that contracted personnel working around students must immediately notify the District in writing if they are charged with a violation of criminal law.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 3 (Continued)

7. The Pupil Transportation Safety Coordinator will not only examine driver records on an ongoing basis, but also will randomly check drivers in the field to provide the District assurance that the information submitted by contracted carriers matches the driver information in the field.

The School District of Pittsburgh remains committed to providing a safe learning environment for all students, one child at a time. We believe the enhanced controls described above will correct the school bus driver qualification irregularities.

The Superintendent or his designee will monitor implementation of the corrective action plan. The Board's Business/Finance Committee shall receive a status report on the corrective action plan by June 30, 2004.

During our current audit, we confirmed that, in response to our first prior audit recommendation, the district reviewed the credential files for all drivers and determined that there were no additional drivers who were ineligible for contracted employment. We also confirmed that the two drivers who were convicted of crimes that, under the Public School Code, should have prohibited them from employment were terminated. Furthermore, we reviewed the personnel records of a random sample of 164 of 821 bus drivers currently employed by the district's transportation contractors and found that each of the individuals in our sample possessed the minimum requirements to be employed as bus drivers and the School District of Pittsburgh had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed.

However, regarding our remaining two prior audit recommendations, we determined that the district did not:

- develop, adopt, and implement policy clearly defining district driver qualifications requirements regarding serious crimes; nor
- enlist the district's Office of Human Resources and Office of School Police for the driver qualification evaluation process.

We also confirmed that, while the district does review the criminal histories of a sample of drivers during each year for convictions prohibited by Section 111, the district does not update child abuse clearances after the initial clearance is obtained at the time of hire.

SCHOOL DISTRICT OF PITTSBURGH
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Finding No. 3 (Continued)

Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address part of this finding, in that our audit did not reveal any drivers with Section 111 convictions that occurred within the past five years. However, we did note drivers who had been convicted of crimes that, while not listed as disqualifying crimes in Section 111 and/or were committed beyond the five-year look-back period, were nonetheless serious, as discussed in the observation included in the Conclusions-Objective No. 1 section of this report.

Response of Management

Management provided a written response indicating agreement with the finding, and further stating:

The Transportation division will work with our Human Resources and School Police staffs to determine if one or both offices can review school bus driver information after it is submitted to the District by the carriers.

Finding No. 4 – Improper Student Activity Fund Procedures

Our prior audit of the district's management of student activity funds found the following deficiencies:

- inactive accounts were maintained within the funds; and
- interest income was not prorated among the various student activity accounts at each school.

We recommended the board should:

- update board policy to ensure student activity funds are adequately controlled and handled in a manner consistent with the Public School Code and good business practices;
- abolish all inactive accounts;
- require that all interest income earned from student activity fund monies be prorated back to the student activity accounts providing the investment principal; and
- require the fund custodian to continually monitor the various activities and organizations to ensure compliance with the Public School Code and board policy.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 4 (Continued)

The board, in its written response to the prior audit report, agreed with our finding, stating:

The Board adopted a student activity fund policy on April 23, 2003. The policy and corresponding training materials are herein incorporated into this response as the action plan implemented for the 2003/04 school year.

The Superintendent or his designee will monitor implementation of the corrective action plan. The Board's Business/Finance Committee shall receive a status report on the corrective action plan by June 30, 2004. The Board's policy on activity funds also contains specific management and audit requirements that shall further serve to monitor performance of the action plan.

During our current audit, we confirmed that the district updated board policy as we had recommended. As a result, we limited our review of compliance with the Public School Code and the board policy to four high schools (out of a total of ten) and one middle school, selected based on auditors' professional judgment. Our review of the 2005-06 student activity funds found the following deficiencies in three of the high schools and in the one middle school selected:

- inactive accounts were maintained within the funds of all four high schools and the middle school;
- one high school did not have its checking account in an interest bearing account;
- one high school's gate receipts were split between the activity fund and athletic fund;
- the middle school did not have the student officers of its clubs sign disbursement slips; and
- questionable expenditures were noted in the middle school activity fund.

SCHOOL DISTRICT OF PITTSBURGH
PERFORMANCE AUDIT REPORT

Finding No. 4 (Continued)

Section 511 of the Public School Code provides, in part:

(a) The board of school directors in every school district shall prescribe, adopt and enforce such reasonable rules and regulations as it may deem proper, regarding (1) the management, supervision, control, or prohibition of exercises, athletics, or games of any kind, school publications, debating, forensics, dramatic, musical, and other activities related to the school program, including raising and disbursing funds for any or all such purposes and for scholarships, and (2) the organization, management, supervision, control, financing, or prohibition of organizations, clubs, societies and groups of the members of any class or school. . . .

(d) Notwithstanding the use of school property or personnel, it shall be lawful for any school or any class or any organization, club, society, or group thereof, to raise, expend, or hold funds, including balances carried over from year to year, in its own name and under its own management, under the supervision of the principal or other professional employe of the school district designated by the board. Such funds shall not be the funds of the school district but shall remain the property of the respective school, class, organization, club, society or group.¹²

Inactive Accounts Were Maintained Within the Funds

Our review found 88 inactive accounts out of 213 accounts in student activity funds selected for review at the four high schools and at the middle school. Many accounts had relatively small balances or zero balances in them.

Section 511(d) of the Public School Code does not make provisions for the maintenance of inactive accounts. Inactive accounts increase bookkeeping costs and are susceptible to misuse.

Non-Interest Bearing Checking Account

One high school activity fund had a year-end balance of \$110,500, which was kept in a checking account that did not earn interest. Per the 2002 edition of the Student Activity Funds Guide issued by Pennsylvania Association of School Business Officials (PASBO), activity fund balances should be deposited in interest-bearing accounts or interest-earning investments permitted by the Public School Code.

According to the activity fund treasurer, district personnel were not aware that activity fund monies had to be deposited in an interest-earning account.

¹² 24 P.S. § 5-511.

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Finding No. 4 (Continued)

Gate Receipts Split between Activity Fund and Athletic Fund

One high school splits the gate receipts for athletics events between the activity fund general account and the athletic fund, at the direction of the school principal. Per PASBO's Student Activity Funds Guide, gate receipts from athletic events and contributions to support athletics from the general fund should be deposited into the athletic fund. By establishing an athletic fund, the board and administration can more readily determine the extent to which the athletic program is self-supporting.

No Evidence of Student Signatures on Middle School Disbursements Forms

The middle school did not have student officer's sign-off on disbursement slips for purchases. The school's treasurer for the activity fund stated that he was not aware that the officers were required to sign-off on expenditures. Section 511(d) of the Public School Code provides that student activity funds are the property of the student organization. Activity funds should not be used for expenditures that are normally made through the general fund and not controlled by the students. Therefore, students should have an active voice in how their funds are expended, documented by student signatures.

Questionable Expenditures Noted in the Middle School Activity Fund

Our review of the middle school activity fund found several expenditures that were not student-related. These purchases included an Internet service, supplies for special education classes, typewriter repair, batteries, Sam's Club membership renewal, reading supplies, ink cartridges, print wheel typewriter, copies, referee fee, music supplies, counseling supplies, office supplies, and family/consumer science supplies.

According to the treasurer, this is how money was spent from the fund in the past. However, as previously noted, the Public School Code provides that student activity funds are the property of the student organizations. Activity funds should not be used for expenditures that are normally made through the general fund and not controlled by the students.

Based on the results of our current audit, we concluded the district did not take appropriate corrective action to fully address this finding.

Recommendations

We again recommend that the board:

- . abolish all inactive accounts;
- . require all student activity fund monies to be deposited into interest-bearing accounts;
- . ensure student officers of all clubs sign disbursement slips; and

SCHOOL DISTRICT OF PITTSBURGH
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Finding No. 4 (Continued)

- . require the fund custodian to continually monitor the various activities and organizations to ensure compliance with the Public School Code and board policy.

We further recommend that the board:

- . implement a district-wide computer application accounting program for all activity funds at the schools to better ensure adequate control over student activity funds;
- . discontinue the practice of splitting gate receipts between the activity fund and athletic fund; and
- . discontinue the practice of using student activity funds to make general fund purchases.

Response of Management

Management provided a written response indicating agreement with the finding, and further stating:

Management agrees in part with the finding. It is most unfortunate that the report as written does not reflect the verbal comments of the Auditor General's team that this function is significantly improved since the prior audit.

The District has purchased a student activity fund software package for implementation at all schools. In addition to the revised policies and procedures adopted since April 2003, standardization across the District should result in further improvement to student activity fund accounting.

Inactive Accounts

The District generally agrees that inactive accounts should be closed out, but disagrees with [this part of] the finding as written.

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Finding No. 4 (Continued)

Sixty (60) of the eighty-eight (88) accounts cited had zero balances. All schools audited used software programs where deletion of zero balance accounts would eliminate *any* historical record of transactions. Elimination of historical records is not a PASBO recommendation and for this reason we believe that the Auditor General's citation is improperly valuing form over substance. Maintaining these accounts took no time or effort on the part of the treasurers and retained an accurate audit trail. Some of the accounts with balances will have future activity.

Implementation of the software should assist with management of inactive accounts.

Interest Bearing Accounts

All activity fund monies should be deposited into interest-bearing accounts, provided that the interest income outweighs the maintenance costs. Small compensating balances in the schools checking accounts can lead to substantial bank service charges. This is particularly true with large high schools that have high activity in the accounts. In the low interest rate environment experienced in recent years, bank service charges may exceed interest earned in interest bearing accounts or investments.

The high school in question has moved their funds to an interest bearing account.

Gate Receipts Split Between Activity and Athletics Funds

The District will emphasize its gate receipt policy to all high schools. Gate receipts should not be split between activity and athletic funds.

The treasurer and principal of the school in question have received additional training and clarification in this matter.

No Evidence of Student Signatures

Management agrees with [this part of] the finding as it pertains to this particular school. However, the vast majority of the schools do properly have the student officers sign to authorize disbursements. The District's student activity policy does include direction on student sign off of expenditures. Training and assistance are provided on an ongoing basis.

SCHOOL DISTRICT OF PITTSBURGH
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Finding No. 4 (Continued)

Questionable Expenditures

The expenditures in question were not improper, just misclassified. The PASBO student activity fund guide makes clear a school district's ability to maintain an imprest petty cash account at the school. The expenditures should have been recorded to the account and reimbursed. The District notes that such instances are corrected after the internal audit exit conference by reclassifying the transactions and having a petty cash reimbursement made to the fund.

Petty cash transactions are being phased out through implementation of purchasing cards or direct connect vendors in the purchase order requisition system, which should reduce the risk of misclassification over time.

Action plan

The Superintendent or his designee will monitor implementation of the corrective action plans applicable to each finding or observation. The Board's Business/Finance Committee shall receive a status report on the corrective action plan by December 31, 2007.

Auditor's Conclusion

Regarding inactive accounts, according to district policy, "monies left unused or uncommitted for one year or more after...shall be deemed to have been committed and transferred to the general student body activities account or other designated student related activity account for any proper school-related purposes." Our audit found that the district is not adhering to its own policy; therefore, the district's comments are not valid, and this portion of the finding will stand as presented.

The verbal comments to which the district refers in its management response were made by the auditor at the exit conference – while we acknowledge that improvements have been made in this area, such as the district updating its board policy, further improvements are still needed.

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SUPPLEMENTARY INFORMATION
[UNAUDITED]

Schedule of State Revenue Received

The district reported it received state revenue of \$188,611,037, \$183,411,572, \$180,112,296, and \$171,333,662, respectively, for the years ended June 30, 2004, 2003, 2002, and 2001, as detailed in the following schedule:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
STATE REVENUE				
Basic Education	\$122,796,361	\$120,389,499	\$118,042,074	\$115,700,299
Read to Succeed	189,917	178,081	679,759	756,254
Charter Schools	2,253,270	2,253,270	75,430	10,257
School Performance Incentives	-	1,058,304	505,264	445,039
Tuition for Orphans and Children				
Placed in Private Homes	1,309,504	2,971,635	2,727,429	2,508,917
Homebound Instruction	10,400	11,758	11,456	16,462
Vocational Education	2,042,146	2,389,613	1,901,840	2,034,086
Alternative Education	636,819	622,088	888,662	-
Workforce Investment Act (WIA)/Job				
Training Partnership Act (JTPA)	2,490,000	2,490,000	2,990,000	2,990,000
Special Education	24,943,035	23,736,885	24,245,505	21,358,894
Early Intervention	2,849,303	118,504	2,505,732	
Adult Literacy	281,094	256,907	262,241	298,364
Transportation	12,649,516	12,321,669	10,941,602	10,774,010
Rental and Sinking Fund Payments	2,852,039	3,191,230	3,160,127	2,039,189
Health Services	-	960,048	871,253	945,454
Vocational Training of the Unemployed	-	-	-	*(18),
Social Security and Medicare Taxes	6,746,735	8,585,427	8,042,719	7,899,963
Retirement	4,716,920	1,366,555	1,296,921	2,185,710
Technology Grants	-	-	10,000	-
Other Program Subsidies/Grants	1,843,978	510,099	954,282	1,370,782
<u>TOTAL STATE REVENUE</u>	<u>\$188,611,037</u>	<u>\$183,411,572</u>	<u>\$180,112,296</u>	<u>\$171,333,662</u>

*Prior year adjustment

SCHOOL DISTRICT OF PITTSBURGH
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SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received (Source: Pennsylvania Accounting Manual)

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2504, 2506, and 2507 of the Public School Code.

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[UNAUDITED]

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Workforce Investment Act (WIA)/Job Training Partnership Act (JTPA)

Revenue received from the Commonwealth to train economically disadvantaged persons and others for permanent private sector employment.

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school-age special education students.

Early Intervention

Revenue received from the Commonwealth for subsidy for young children eligible for early intervention services.

Adult Literacy

Revenue received from the Commonwealth to expand the availability of adult literacy and other adult education programs authorized by the Pennsylvania Adult and Family Literacy Education Act (Act 143 of 1986, as amended).

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

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[UNAUDITED]

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Vocational Training of the Unemployed

Revenue received from the Commonwealth as subsidy for expenditures for projects for vocational training of the unemployed. Payments are made in accordance with Section 2508.3 of the Public School Code.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Technology Grants

Revenue received for technology initiatives that allow the schools to develop new information technology projects, such as upgrade of networks or improved computer hardware and software.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

BUREAU OF SCHOOL AUDITS
AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.