

# PERFORMANCE AUDIT

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## Austin Area School District Potter County, Pennsylvania

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March 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Donald Lathrop, Board President  
Austin Area School District  
138 Costello Avenue  
Austin, Pennsylvania 16720

Dear Governor Wolf and Mr. Lathrop:

We conducted a performance audit of the Austin Area School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period June 22, 2011 through August 15, 2014, except as otherwise stated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

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

Eugene A. DePasquale  
Auditor General

March 19, 2015

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

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Austin Area School District (District) in Potter County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period June 22, 2011 through August 15, 2014, except as otherwise stated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately 228 square miles. According to 2010 federal census data, it serves a resident population of 1,278. According to District officials, the District provided basic educational services to 218 pupils through the employment of 21 teachers, 11 full-time and part-time support personnel, and 3 administrators during the 2011-12 school year. The District received \$1,845,684 in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation.

**Finding: Continuing School Bus Drivers' Qualifications Deficiencies.** Our audit of the Austin Area School District's (District) school bus drivers' qualifications on file at the District for the 2013-14 school year found that not all records were on file at the time of audit. Additionally, documentation was not provided to the District by the transportation contractor, as specified in the transportation contract (see page 8).

**Observation: The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges.** During our current audit of the Austin Area School District (District), we reviewed several financial indicators in an effort to assess the District's financial stability. Our review found that the District is potentially in a financially declining position (see page 12).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the Austin Area School District (District) from an audit released on January 11, 2012, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to a certification deficiency (see page 19). The teacher retired at the end of the 2012-13 school year. Therefore, we are not citing the District during this audit. Also, we

found that the District did not take corrective action in implementing our recommendations pertaining to the tuition billing (see page 20). This was the third consecutive audit with a tuition finding. We determined the District is not going to change its practice, and we chose not to pursue it any further. In addition, we found that the District also did not take corrective action in implementing our recommendations pertaining to school bus drivers' qualifications deficiencies (see page 20).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period June 22, 2011 through August 15, 2014, except for the verification of professional employee certification which was performed for the period July 1, 2013 through June 30, 2014.

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

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

### Objectives

*What is the difference between a finding and an observation?*

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

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

- ✓ Were professional employees certified for the positions they held?
  - To address this objective, auditors reviewed and evaluated certification documentation for all 27 teachers and administrators that did not have permanent certificates, were newly hired, or changed assignment at the time of our audit. Twenty-seven teachers is the entire teacher population.

- ✓ Did the District ensure that bus drivers transporting District children at the time of the audit had the necessary license, physicals, training, background checks, and clearances as outlined in 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 PA Code Chapter 8, and 23 PA C.S. § 58-6354, and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors initially selected all seven (7) newest drivers from the current school year and worked backwards to the last time the Bureau of School Audits audited the District and reviewed bus driver compliance. Auditors ensured that all of the new drivers not reviewed during the previous audit were selected for review and included both district-employed and contractor-employed drivers, as appropriate.
  - The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
    - To address this objective, the auditors reviewed the contract(s), settlement agreement(s), board meeting minutes, board policies, and payroll records for any administrator whose District contract was bought-out.
  - ✓ Were votes made by the District’s Board of School Directors free from apparent conflicts of interest?

- To address this objective, auditors reviewed all ten (10) of the sitting and recent board members' employment history, Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District.
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
  - To address this objective, the auditors reviewed the District's annual financial reports, budget, independent auditor's reports, summary of child accounting, and general ledger for fiscal years 2011 through 2012.
- ✓ Did the District take appropriate steps to ensure school safety?

To address this objective:

- The auditors reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and 24 P.S. Sect. 13-1302, 1302.1A, 13-1303.1 and 13-1303 A. Generally, the auditors evaluate the age of the plan, whether it is being practiced through training and whether the school has an after action process for trying to improve on the results of its training exercises.
- In addition, the auditors conducted on-site reviews at both of the District's two (2) school buildings (one (1) from each education level) to assess whether they had implemented basic physical safety practices based on national best practices.



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

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.
- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

## Methodology

*What are internal controls?*

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

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

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

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

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

Our audit examined the following:

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

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

To determine the status of our audit recommendations made in a prior audit report released on January 11, 2012, we reviewed the District's response to PDE dated July 24, 2012. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continuing School Bus Drivers' Qualifications Deficiencies

*Criteria relevant to the finding:*

The Pennsylvania Department of Transportation's regulations require bus drivers to possess a valid driver's license, obtain certification of safety training, and pass a physical examination.

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

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

Our audit of the Austin Area School District's (District) school bus drivers' qualifications on file at the District for the 2013-14 school year once again found that not all records were on file at the time of audit. Additionally, documentation was not provided to the District by the contractor as specified in the transportation contract. If the District had in place the necessary internal controls over the reviewing the bus driver qualifications, they would have known that their transportation contractor was not following the terms of their contract. Failure to obtain the documentation could have resulted in a driver transporting students who may not have been suitable to have direct contact with children.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six (6) requirements:

- Possession of valid driver's license.
- Possession of a valid school bus endorsement card, commonly referred to as an "S" card, indicating completion of skills and safety training.
- Passing a physical examination.
- Lack of convictions for certain criminal offenses.
- Official child abuse clearance statement.
- Possession of valid Federal Criminal History Act 114 of 2006.

We audited the personnel records of all five (5) drivers and two (2) substitute drivers currently employed by the District's pupil transportation contractor. Our review found that the District did not have on file at the time of the audit a valid child abuse clearance for one (1) driver, and five (5) drivers did not have valid criminal history records on file.

*Criteria relevant to the finding  
(continued):*

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

Additionally, Chapter 23 of the State Board of Education Regulations indicates that the Board of School Directors is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

In addition, one (1) driver received a citation from the Pennsylvania State Police following an inspection and was found to not carry his documentation while transporting students. Similar deficiencies were found in our prior audit (see page 20).

The District's transportation contract states, in part:

“Every school bus driver will meet all the regulations of the Bureau of Traffic Safety of the Pennsylvania Department of Transportation and the Austin Area School District.

- A. All drivers must have the following minimum qualifications and carry this documentation with them while transporting students:
  1. Valid PA Driver's License.
  2. Valid Physician's certificate . . .
  3. School Bus Operator's Certificate . . .
  4. PA DOT [Pennsylvania Department of Transportation]/Certificate of Completion . . .
- B. Evidence of the above documentation will be on file with the Transportation director . . .
- C. The contractor will ensure that drivers have met all certification requirements . . .
- D. . . . Additionally, the contractor must furnish to the Austin Area School District a listing of drivers with the required data *before the start of each school year . . . .* (emphasis added)
- E. The District, without prejudice to any other rights or remedies it may have, reserves the right to terminate a contract if the contractor violates the terms of this contract or fails to provide what the District deems 'reasonable performance.' Reasonable performance may include among other things, (1) observance of rules and regulations, (2) adherence to Austin Area School District Policy on transportation, (3) minimal equipment breakdowns, (4) compliance with routes and route schedules, (5) properly trained drivers, etc.”

It should be noted that the District's administrators, in response to our previous driver qualifications finding, informed the Pennsylvania Department of the Auditor General that the District would require the bus contractor to

submit to the District, by the August school board meeting of each school year, all bus and van driver credentials. District administrators also stated that drivers would not be permitted to drive for the District if the necessary documents are not available. The District also commented, “The District will utilize [a] form that was developed to verify all credentials.”

On July 30, 2014, we informed management of the missing documentation and instructed them to immediately obtain the necessary documents so that they can ensure the drivers are properly qualified to continue to have direct contact with children. As of the end of fieldwork, August 15, 2014, management had not yet provided us with all of the necessary documentation. Therefore, we were unable to verify that all drivers were properly qualified to have direct contact with children.

### **Recommendations**

The *Austin Area School District* should:

1. Prior to approving drivers to transport students, review each driver’s qualifications. If proper documentation is not available, the District should require the contractor to provide substitute drivers until it can produce evidence of proper qualifications.
2. Maintain files, separate from the transportation contractor’s files, for all District drivers, to ensure that each driver’s records are up-to-date and complete.
3. Implement the corrective action plan included in the management response from the prior audit regarding this situation.

### **Management Response**

Management stated the following:

“A copy of all qualifications for Bus and Van drivers, including substitute drivers, will be presented to the District by the contractor prior to the 1<sup>st</sup> day of school. A copy of all documents will be copied and kept on file in the Main Office of the school district. If all credentials are not presented, the driver will not be permitted to drive until such documents are presented.”

## **Auditor Conclusion**

While we are pleased that the District's administration has once again outlined corrective actions, we are stressing the need for a review process to ensure that the contractor follows the requirements of the contract.

## Observation

## The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges

### *Criteria relevant to the observation:*

The Pennsylvania Association of School Business Officials, in its testimony to the Senate Education Committee at a public hearing on fiscally distressed school districts, on January 24, 2012, provided a number of indicators that should be disclosed annually. These indicators require the following:

- Total debt service is not to exceed 10% of the General Fund expenditures.

The Pennsylvania School Boards Association, in its Annual Overview of Fiscal Health for the 2009-10 school year, provided the following information relevant to the following fiscal bench marks:

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

Best Business Practices and/or general financial statement analysis tools require the following:

- A school district should maintain a trend of stable or increasing fund balances.
- The trend of current ratios should be at least 2 to 1 or increasing. Anything less calls into questions the school district's ability to meet its current obligations with existing resources.

During the current audit of the Austin Area School District (District), we reviewed several financial indicators in an effort to assess the District's financial stability. Our review found that the District is potentially in a financially declining position.

We reviewed 22 financial benchmarks based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado State Auditor, and the National Forum on Education Statistics. The following were among the general areas we evaluated: (1) the level of the general fund – fund balance (assigned and unassigned), (2) the amount of total debt service, (3) the current ratio (current assets ÷ current liabilities) of all governmental funds, and (4) the trend of annual changes in financial position for all governmental funds.

Act 141 of 2012 permits the Pennsylvania Department of Education (PDE) to place a school district with serious financial problems on a financial watch list. This designation gives the district access to additional technical assistance from PDE. Likewise, if a school district's financial condition deteriorates to the point that it has to request an advance on its annual basic education subsidy, PDE may declare it to be in financial recovery status. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.

Our testing found the District scored negatively on the following benchmarks:

- **Decreasing Operating Position:** During the period 2010 to 2013, the District decreased its operating position by over expending its revenues. This reduction in operating position could leave the District in a more vulnerable financial position and move it closer to being placed on the financial watch list or declared to be in financial recovery status. Each year the District's

*Criteria relevant to the observation (continued):*

- A quick asset ratio or trend of ratios approaching 1 or less indicates a declining ability to cover obligations with the most liquid assets.
- A debt-to-asset ratio or trend of ratios increasing towards 1-to-1 or greater is an indication that the school district's liabilities are approaching the level of the district's assets. This indicates the district has a debt level that may be too great for the district to adequately function.

The cost for a school district student attending a charter school is paid out of the sending district's operating funds. This results in a reduction of the funds available for use in providing educational services to the district's students that remained in the traditional public school. This scenario continues until the number of students attending charter schools is so large that the district can reduce costs by closing a school building and reduces the number of staff employed by the district.

expenditures exceeded its revenues, it incurred a deficit. The deficits resulted in a decrease to the District's fund balance. Such decreases could eventually lead to a negative fund balance, which would impact the District's ability to maintain its educational services.

The following chart documents the District's decreasing operating position:

<b>Trend: Revenues v. Expenditures</b>			
<u>Year End</u> <u>June 30</u>	<u>Total</u> <u>Revenues</u>	<u>Total</u> <u>Expenditures</u>	<u>Excess/</u> <u>(Deficit)</u>
2008	\$3,657,390	\$3,389,749	\$267,641
2009	3,641,966	3,579,942	62,024
2010	3,790,167	3,704,664	85,503
2011	3,805,092	3,891,889	(86,797)
2012	3,586,563	3,670,027	(83,464)
2013	4,055,644	4,113,764	(58,120)

- **Decreasing Fund Balance:** During the period 2010 to 2013, the District's general fund-fund balance decreased. A decreasing trend indicates the District's expenditures exceeded its revenues. This reduction in the fund balance indicates that the District's financial position is declining. Without receiving additional revenues or reducing expenditures, the fund balance will continue to decrease. The District must make a concerted effort to prevent their fund balance from falling below zero to avoid financial recovery status and possible PDE intervention.

The following chart documents the District's decreasing fund balance:

<b>Trend: Decreasing General Fund Balance</b>	
<u>Year End</u> <u>June 30</u>	<u>Total</u> <u>Fund Balance</u>
2008	\$475,168
2009	537,192
2010	622,695
2011	536,132
2012	452,668
2013	394,548



- Decreasing General Fund Current Ratio:** For the period 2008 to 2013, the District's fund current ratio (current assets ÷ current liabilities) was unstable, with a net effect overall decrease from 2.29 in 2008 to 1.83 in 2013. A decreasing trend towards 1-to-1 or even lower indicates that financial solvency is decreasing toward a point where the entity may not be able to pay its current debts without an infusion of cash. Instability in a current ratio, like the one at the District, can create volatility and make it difficult to budget and plan. In addition, potential creditors use this ratio to measure a District's ability to pay its short-term debts. Therefore, instability in this ratio may also negatively impact the District's ability to obtain any new debt, such as loans, or it could increase the interest rate on the debt it can obtain, thereby costing the District more money.

The following chart documents the District's unstable current ratio:

<b>Decreasing Current Ratio</b> <i>(Current Assets ÷ Current Liabilities)</i>			
Year End <u>June 30</u>	Current <u>Assets</u>	÷ Current <u>Liabilities</u>	= <i>Current Ratio</i>
2008	\$ 844,964	\$369,796	<b>2.28</b>
2009	912,434	375,242	<b>2.43</b>
2010	1,025,786	403,091	<b>2.54</b>
2011	1,086,460	550,328	<b>1.97</b>
2012	1,058,440	605,772	<b>1.75</b>
2013	867,569	473,021	<b>1.83</b>

- Decreasing General Fund Quick Ratio:** For the period 2008 to 2013, the general fund quick ratio (cash + investments) ÷ current liabilities) decreased each year, except for 2009. The net impact of this change was that the District's current quick ratio is now below 1, which is generally an indicator that the District would have trouble paying its current debts without the disposal of other current assets. As with the current ratio, potential creditors also use this ratio to measure a District's ability to pay its short-term debts. Therefore, a decreasing general fund quick ratio that is approaching 1 or below could also make it more difficult for the District to obtain a loan or other debt instruments at a competitive interest rate.

The following chart documents the District's unstable quick ratio:

<b>Decreasing Quick Ratio</b> <i>(Cash + Investments) ÷ Liabilities</i>									
Year End <u>June 30</u>	<u>Cash</u>	+	<u>Investments</u>	=	<u>Quick Assets</u>	÷	<u>Current Liabilities</u>	=	<b><i>Quick Ratio</i></b>
2008	\$467,798		\$112,000		\$579,798		\$369,796		<b>1.57</b>
2009	552,866		112,241		665,107		375,242		<b>1.77</b>
2010	458,436		112,000		570,436		403,091		<b>1.42</b>
2011	630,297		112,083		742,380		550,328		<b>1.35</b>
2012	564,031		112,011		676,042		605,772		<b>1.12</b>
2013	379,394		12,047		391,441		473,021		<b>0.83</b>

- Increasing Debt-To-Asset Ratio:** For the period 2008 to 2013, the general fund debt-to-asset ratio (current liabilities ÷ current assets) was unstable, with a net effect of an overall increase from 0.44 in 2008 to 0.55 in 2013. An increasing trend towards 1-to-1 or more is an indication that an entity may not be able to pay its current liabilities with current assets on hand. Such a trend could require the entity to liquidate non-current assets or wait for an inflow of revenues. As a result, the entity might have to increase the time it holds invoices prior to making payment. This action could impede the entity's ability to obtain a loan or other debt instrument. Likewise, the instability of the District's debt-to-asset ratio could preclude it from obtaining a loan and contribute to it paying a higher cost for any new debt that it does obtain.

The following chart documents the District's inconsistent debt-to-asset ratio:

<b>Trend: Increasing Debt-to-Asset Ratio</b> <i>(Current Liabilities ÷ Current Assets)</i>					
Year End <u>June 30</u>	<u>Current Liabilities</u>	÷	<u>Current Assets</u>	=	<b><i>Debt-to- Asset Ratio</i></b>
2008	\$369,796		\$ 846,168		<b>0.44</b>
2009	375,242		912,434		<b>0.41</b>
2010	403,091		1,025,786		<b>0.39</b>
2011	550,328		1,086,460		<b>0.51</b>
2012	605,772		1,058,440		<b>0.57</b>
2013	473,021		867,569		<b>0.55</b>

The District’s administration attributed its financial challenges, in part, to recent increases in the cost of employee health care benefits. This can be seen with the steady increase in current liabilities in the above two charts and ratios. According to the administration, these expenses increased by 7.5 percent between the 2012-13 and 2013-14 school years, and they will increase by another 20 percent between the 2013-14 and 2014-15 school years. The administration also indicated that a significant rise in the District’s payments for employee retirement benefits was another factor contributing to the District’s financial challenges. As illustrated in the chart below, these expenses have risen by a total of 15.76 percent over five (5) years.

<b>Percentage District Pays for Employee Retirement Benefits</b>	
2010-11	5.64%
2011-12	8.65%
2012-13	12.36%
2013-14	16.93%
2014-15	21.4%

Finally, the District’s administration also attributed its financial challenges to reductions in state education funding, which made it more difficult to address the increases in expenditures.

The District’s increasing financial challenges have had a direct impact on its ability to educate its students. For example, as illustrated in the chart below, starting with the 2011-12 school year, administrators had to eliminate three (3) programs from the curriculum and let nine (9) teaching positions go unfilled after they left vacant due to retirements:

<i>Impact of Financial Challenges</i>		
<b>School Year</b>	<b>Program Eliminations</b>	<b>Retirements that Went Unfilled</b>
2011-12	Consumer Science	4 Teachers
2012-13	None	1 Teacher
2013-14	Phys-Ed Golf	0
2014-15	Industrial Arts	4 Teachers

The elimination of three (3) programs and nine (9) teachers may seem like a minimal cut. However, because of the District's extremely small size, these reductions can have major impacts on its ability to deliver educational services. For example, in the 2012-13 school year, the District only had a total of 22 teachers. Therefore, a reduction of nine (9) teachers is 41 percent of the entire teaching staff. The District's administration indicated that the unfilled teaching positions have forced the remaining teachers to take on extra duties.

### **Recommendations**

The *Austin Area School District* should:

1. Provide the Board of School Directors standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
2. Monitor and maintain budgetary control over expenditures so that expenditures do not exceed revenues.

### **Management Response**

Management stated the following:

“The Austin Area School District is taxing at the highest allowable index in order to meet financial obligations. The negotiated teacher contract did not include an increase for the 2014-15 school year. A number of positions have been eliminated over the past five years and a retirement incentive was offered to lower payroll costs. In spite of these actions, the increase[s] in health care and retirement and decreased funding from State and Federal Agencies has caused a declining fund balance.”

## **Auditor Conclusion**

The purpose of this observation is to provide the District with information about its potential financial instability and to give it the opportunity to integrate these issues into its financial planning. The District's management should continue to monitor these financial benchmarks in order to track how the District is performing in the areas where we noted a negative trend. Finally, the District should work to develop possible solutions to improve its overall financial position.

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

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Our prior audit of the Austin Area School District (District) released on January 11, 2012, resulted in three (3) findings, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did not implement our recommendations related to certification deficiency, failure to bill tuition in accordance with Public School Code (PSC) requirements, or school bus drivers' qualifications deficiencies.

### **Auditor General Performance Audit Report Released on January 11, 2012**

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**Finding No. 1: Certification Deficiency**

Finding Summary: Our prior audit of the District found that one (1) professional employee was employed without possessing proper certification. This individual had also been cited in the preceding audit. District personnel had failed to implement internal control procedures to ensure all professional personnel hold valid, proper certificates. As a result, the District was subject to a subsidy forfeiture of \$1,475 for the 2010-11 school year.

Recommendations: Our audit finding recommended that the District should:

Develop procedures to ensure all professional employees are properly certified for their assignments.

We also recommended that PDE should:

Adjust the District's allocations to recover the subsidy forfeiture of \$1,475.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. However, since the teacher retired at the end of the 2012-13 school year, our Department will not issue a repeat finding. We found that PDE did adjust the District's allocations in the amount of \$1,475 on June 1, 2012.

**Finding No. 2: Failure to Bill Tuition in Accordance with Public School Code Requirements Resulted in Underpayments of \$36,002**

Finding Summary: Our prior audit of the District found that the District failed to bill non-resident tuition for the 2008-09 and 2009-10 school years in accordance with the PSC, 24 P.S. § 25-2561. As a result, the District lost \$36,002 in revenue over the two (2) school years.

Recommendations: Our audit finding recommended that the District should:

1. Send the home district of the non-resident students' amended bills and collect the \$36,002.
2. Bill the tuition rate mandated by the PSC.

We also recommended that PDE should:

3. Enforce PSC Section 2561.

Current Status: During our current audit, we found that the District did not implement our prior recommendations. The District's Superintendent stated that the District will continue to accept 50 percent of the approved tuition rate, contrary to what the PSC requires. Due to the District's desire to continue to accept the reduced tuition, our Department will not issue a repeat finding.

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**Finding No. 3: School Bus Drivers' Qualifications Deficiencies**

Finding Summary: Our prior audit of the District found that the District's school bus drivers' qualifications records were not on file at the District for the 2010-11 school year, and the contractor did not provide documentation as specified in the transportation contract.

Recommendations: Our audit finding recommended that the District should:

1. Prior to approving drivers to transport students, review each driver's qualifications. If proper documentation is not available, the District should require the contractor to provide substitute drivers until it can produce evidence of proper qualifications.
2. Maintain files, for all District drivers, to ensure that each driver's records are up-to-date and complete.
3. Implement the corrective action plan included in the management response from the prior audit regarding this situation.

Current Status:

During our current audit, we found that the District did not implement our prior recommendations. (See the follow-up finding for the current audit on page 8).



## **Distribution List**

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

The Honorable Tom W. Wolf  
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Harrisburg, PA 17120

The Honorable Pedro A. Rivera  
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This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditor.gen.state.pa.us](mailto:news@auditor.gen.state.pa.us).