

PERFORMANCE AUDIT

Connellsville Area School District Fayette County, Pennsylvania

February 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Philip Martell, Superintendent
Connellsville Area School District
732 Rockridge Road
Connellsville, Pennsylvania 15425

Mr. Jay Fox, III, Board President
Connellsville Area School District
732 Rockridge Road
Connellsville, Pennsylvania 15425

Dear Mr. Martell and Mr. Fox:

Our performance audit of the Connellsville Area School District (District) evaluated the application of best practices in the areas of academics, finance, governance, and school safety. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period June 29, 2012 through January 20, 2016, except as otherwise stated and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District applied best practices in the areas listed above and complied, in all significant respects, with relevant requirements except as detailed in our two findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

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

Eugene A. DePasquale
Auditor General

February 29, 2016

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

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the District. Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, 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 29, 2012 through January 20, 2016, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2012-13 school year.

Audit Conclusion and Results

Our audit found that the District applied best practices and complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two findings detailed within our report.

Finding No. 1: The District's General Fund has been Depleted Through a Combination of Transfers to Pay Debt Obligations and to Support the District's Career and Technical Center. We reviewed several financial benchmarks to evaluate changes in the District's financial position over a period of seven years. We found that the District is in a declining financial position (see page 6).

Finding No. 2: The District's Former Superintendent Retroactively Authorized Unsubstantiated Overtime at a Doubled Rate for a Former Employee and Granted This Same Employee Compensatory Time Which was Expressively Prohibited. We found that a former District Superintendent repeatedly disregarded District policy by approving unsubstantiated overtime and compensatory time for the District's former Network Administrator (see page 14).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to non-resident pupil membership errors (see page 19).

Background Informationⁱ

School Characteristics 2014-15 School Year ⁱⁱ	
County	Fayette
Total Square Miles	216
Resident Population ⁱⁱⁱ	34,479
Number of School Buildings	11 ¹
Total Teachers	366
Total Full or Part-Time Support Staff	235
Total Administrators	21
Total Enrollment for Most Recent School Year	4,658
Intermediate Unit Number	1
District Vo-Tech School	Connellsville Area CTC

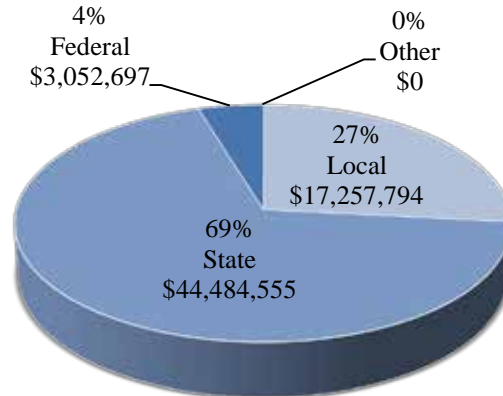
Mission Statement

“Through the cooperative efforts of educators, parents, community, and students, the Connellsville Area School District will provide a safe, diverse, and challenging educational environment dedicated to helping students become respectful, responsible, and knowledgeable life-long learners prepared to meet the challenges of an ever-changing global society. The Connellsville Area School District will support the integration and expansion of technology in the curriculum to benefit students, parents, and the community.”

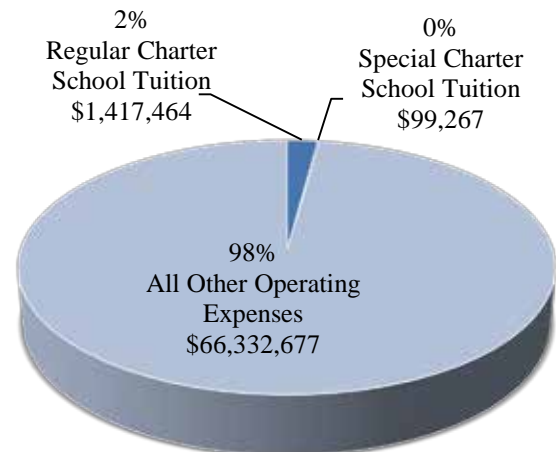
¹ The total buildings include the Vocational Technical School which does not have a School Performance Profile score.

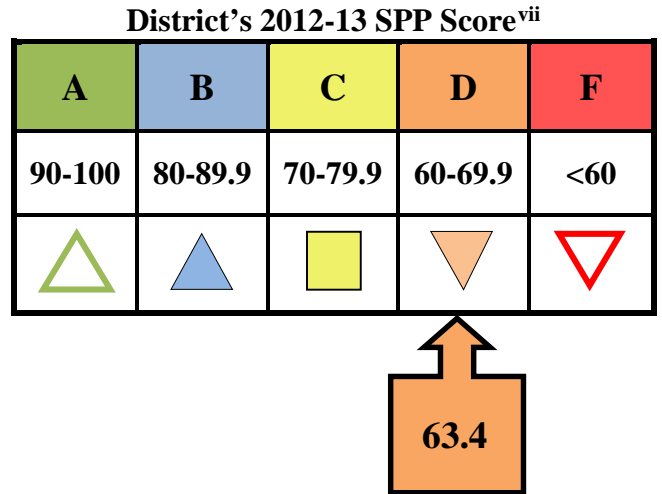
Financial Information

Revenue by Source for 2012-13 School Year



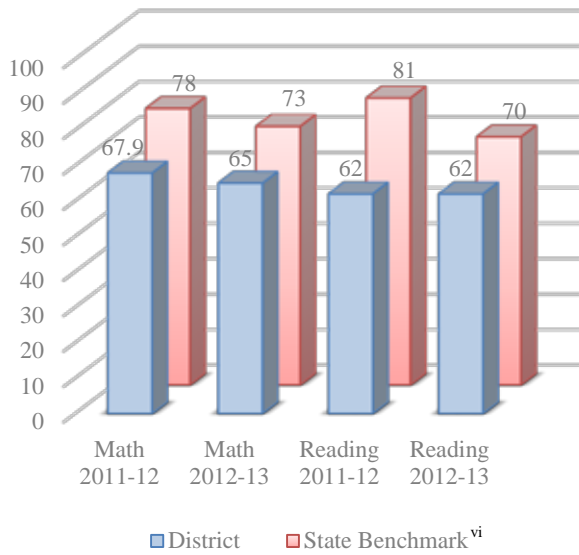
Select Expenditures for 2012-13 School Year





Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



Individual Building SPP and PSSA Scores^{viii} 2012-13 School Year						
School Building	SPP Score	PSSA % School Proficient and Advanced in Math	PSSA % Statewide Benchmark of 73% Above or Below	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark of 70% Above or Below	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
Bullskin El Sch	71.8	73	---	63	7	No Designation
Clifford Pritts El Sch	63.8	62	11	58	12	No Designation
Connellsville Area JHS	60.4	64	9	62	8	No Designation
Connellsville Area SHS	83.3	72	1	84	14	N/A
Connellsville Twp El Sch	78.4	75	2	66	4	No Designation
Dunbar Boro El Sch	60.6	58	15	55	15	No Designation
Dunbar Twp El Sch	62.2	63	10	57	13	No Designation
South Side El Sch	71.9	69	4	64	6	No Designation
Springfield El Sch	81.2	65	8	65	5	No Designation
Zachariah Connell El Sch	66.1	58	15	49	21	No Designation

Superintendent Turnover

The District has experienced significant turnovers at the Superintendent position over the calendar years 2009 through 2015. The District has employed five individuals in the role of Superintendent over this time period; three have been “Acting” Superintendents and two were hired as a result of nationwide searches.

The District’s first Superintendent during this time period became Superintendent in January 2009 after a nationwide search and fulfilled two and a half years of a three-year contract, leaving in May 2011. This initial Superintendent attributed the resignation to a non-existent relationship with the Board of the School Directors (Board).

The District promoted an in-house Director of Curriculum to the position of Acting Superintendent in May 2011. This second Superintendent held this position for one year, ending their tenure in May 2012.

After a second nationwide search, a new Superintendent was hired in May 2012. This Superintendent fulfilled his three-year contract, resigning in January 2015, with an effective date of June 2015. It was during this time that we found the issues discussed in Finding No. 2.

In May 2014, the District hired a Director of their career and technology center (CTC) from outside of the District. In July 2015, after eight months with the District, as Director of the CTC, he was made Acting Superintendent. Like the previous Acting Superintendent, this was intended to be for one year, but in November 2015, this Acting Superintendent resigned with an effective date of December 31, 2015.

Due to the Acting Superintendent using his leave (sick, personal, and vacation time) from his announced resignation in November 2015, and his effective date of December 31, 2015, the District hired another Acting Superintendent in November 2015.

In May 2015, the District made the current Business Manager the Acting Superintendent. This individual began his employment with the District in June 2015. After five months as Business Manager, this employee was made Acting Superintendent due to the timeline discussed in the previous paragraph.

Findings and Observations

Finding No. 1

The District's General Fund has been Depleted Through a Combination of Transfers to Pay Debt Obligations and to Support the District's Career and Technical Center

Criteria relevant to the finding:

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

1. 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).
2. A school district should maintain a trend of stable fund balances.
3. The trend of current ratios should be at least two to one or increasing. Anything less calls into question the school district's ability to meet its current obligations with existing resources.
4. Debt-to-asset ratios or trend of ratios should be less than one and should be decreasing.
5. The school district's audit report should contain no instances of material internal control weaknesses.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of seven years from fiscal year ending June 30, 2008 through fiscal year ending June 30, 2014. We found that the District is in a declining financial position. Those benchmarks are discussed below and include the following:

- General Fund Balance
- General Fund Operations
- Inter-fund Transfers/Uses of General Funds
- Current Ratio
- Impact of Charter School Costs
- Independent Audit Report Opinions & Findings
- Buildings & Enrollment

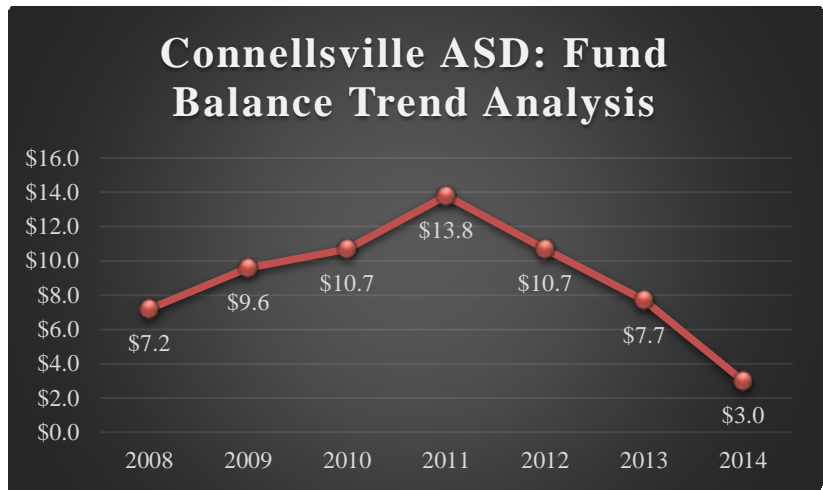
Generally Declining Fund Balance: Between fiscal years ending 2008 and 2014, the District's General Fund first rose to almost \$14 million in 2011 and then declined to \$3 million as of the fiscal year ending June 30, 2014. Financial industry guidelines recommend that a fund balance should range between 5 percent and 10 percent of annual expenditures. In the District's case, the \$3 million fund balance at the end of 2014 represented only 4.8 percent of expenditures of \$62 million for that year, the lowest percentage in the seven-year audit period.

When a school district's fund balance is too low, it may be unable to pay for costs incurred in emergency situations or to cover unexpected interruptions in revenues. In addition, the District's credit rating could be affected adversely by an inadequate fund balance, which could then increase the cost of borrowing.

The overall decline of the General Fund balance is an indicator that the District's financial position is declining, and without additional revenues or the reduction of expenditures, it may continue to decrease. The following

chart and accompanying graph illustrate the District's weakening fund balance:

Connellsville ASD General Fund	
Fiscal Year Ending June 30	Fund Balance
2008	\$ 7,224,558
2009	\$ 9,633,994
2010	\$10,696,285
2011	\$13,823,415
2012	\$10,720,138
2013	\$ 7,665,774
2014	\$ 3,008,614



General Fund Operations: For each of the fiscal years from 2008 through 2014, the District's General Fund operations resulted in surpluses (see chart below), meaning revenues exceeded expenditures each year. Given the seven consecutive operating surpluses, the General Fund balance would be expected to have increased over time; however, the opposite is the case. Through inter-fund transfers, the District's operating surpluses have largely supported two other funds, the CTC Fund and the Debt Service Fund.

Connellsville ASD General Fund Operations			
Fiscal Year Ending June 30	Revenues	Expenditures	Operating Surpluses
2008	\$ 61,561,808	\$54,031,715	\$ 7,530,093
2009	\$ 63,300,340	\$ 54,492,274	\$ 8,808,066
2010	\$ 67,297,941	\$ 58,979,521	\$ 8,318,420
2011	\$ 68,643,621	\$ 58,117,123	\$10,526,498
2012	\$ 62,586,910	\$ 58,163,304	\$ 4,423,606
2013	\$ 64,795,046	\$ 59,673,565	\$ 5,121,481
2014	\$ 65,593,132	\$ 62,162,979	\$ 3,430,153
Total	\$453,778,798	\$405,620,481	\$48,158,317

Inter-fund Transfers: General Fund transfers to other funds totaled \$51 million from fiscal years 2008 through 2014, about \$3 million more than its operating surpluses for the same period. Of those transfers, \$20.5 million, or 40 percent, were transferred to the CTC Fund, and \$28.8 million, or 56

percent, were transferred to the Debt Service Fund. Transfers to these two funds accounted for 96.7 percent of all transfers from the General Fund. The chart below breaks down the inter-fund transfers by fiscal year from the General Fund to the CTC and Debt Service Funds.

Connellsville ASD Transfers from General Fund		
Fiscal Year Ending June 30	CTC	Debt Service
2008	\$ 2,003,654	\$ 3,898,879
2009	\$ 2,034,118	\$ 4,166,300
2010	\$ 2,936,439	\$ 3,681,527
2011	\$ 2,922,271	\$ 4,303,543
2012	\$ 4,387,786	\$ 2,898,362
2013	\$ 3,067,564	\$ 4,903,166
2014	\$ 3,186,144	\$ 4,901,169
Total	\$20,537,976	\$28,752,946

District owned Career and Technical Center (CTC): The District’s General Fund operations subsidized the CTC for the last seven years with \$20.5 million in inter-fund transfers. Because the General Fund is being depleted, this practice will have to be significantly reduced or suspended, and the District will have to either find alternate funds to support the CTC or require it to operate in a way that can sustain itself.

Effective July 1, 2000, the Board assumed sole responsibility for the operation of the CTC, formerly the North Fayette Area Vocational Technical School. Although the CTC is a legally separate organization, the District’s Board is also the governing body for the CTC and is financially accountable for their operations. In addition, the CTC’s student enrollment consisted entirely of students from the District. Enrollment for the 2014-15 school year was 279 students.

The District is the only district in Fayette County to operate an independent CTC. The other five districts in the county use a county wide vocational school where sending districts pay a per student tuition fee based on a contract with the county vocational school. We asked District officials specifically about their CTC and the financial burden it has been on the District over our period reviewed. District officials stated that closing the CTC and sending students to the county vocational school was not an option because the

District has a bond issue on the CTC for recent renovations. The state reimbursement rate for this renovation project was 50 percent based on the fact that the CTC offers technical as well as core classes to their students.

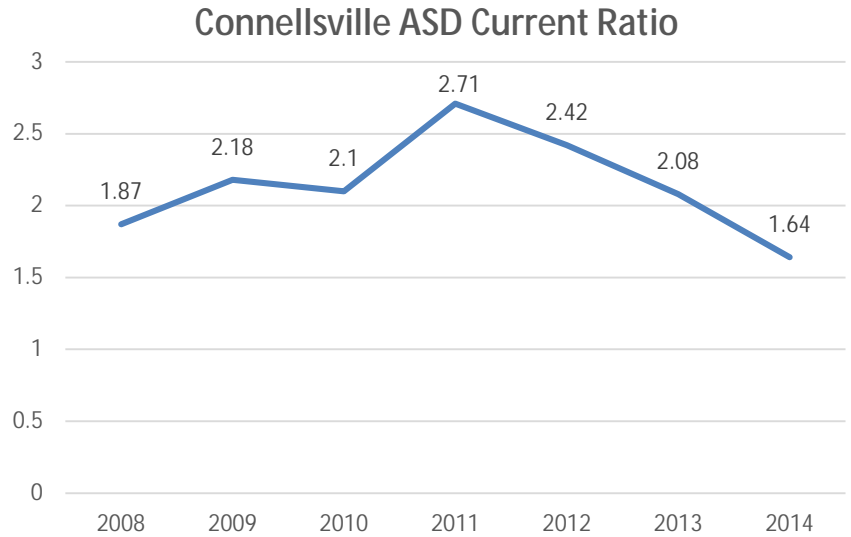
The Board is currently looking into other ways to make the CTC more financial stable. The District is exploring the option of receiving students from other districts, updating classes to make the classes more relevant for the current job environment, and adding adult education programs. All of these options would bring in more students to the District's facility and in turn generate revenue. The District is also seeking out foundation funding and exploring the possibility of forming partnerships with the private community.

Debt Service Fund: The District transferred almost \$29 million to the Debt Service Fund between fiscal years 2008 and 2014. Its long-term debt increased 86 percent from \$56.8 million in fiscal year 2008 to \$105.7 million in 2014.² The most significant additions to debt resulted from the construction of an addition and capital improvements to the high school as well as capital improvements to the CTC. Because of the increased debt, it is more imperative that the District manages its operations so that it not only continues to generate a surplus of revenues over expenses, but also retains a sufficient fund balance to meet future obligations and unanticipated or temporary revenue shortfalls.

Decreasing Current Ratio: One of the key measures of a District's financial condition is known as the current ratio (current assets/current liabilities), which is used to gauge a school district's ability to meet its current obligations (as opposed to long-term). A current ratio of one indicates that a school district has current assets equal to its current liabilities and can theoretically pay all of its current bills on time without having any remaining cash or other liquid assets left over. When the current ratio dips below two, then a school district may have trouble paying its current obligations with the resources it has on hand. Potential creditors use this ratio to measure a District's ability to pay its short-term debts, and it can affect the cost of borrowing.

The following graph illustrates the District's decreasing current ratio by the end of the audit period:

² Per respective notes on long-term liabilities in the District's Independent Auditor's Reports, page 29 of the June 30, 2008 report and page 31 of June 30, 2014 report.



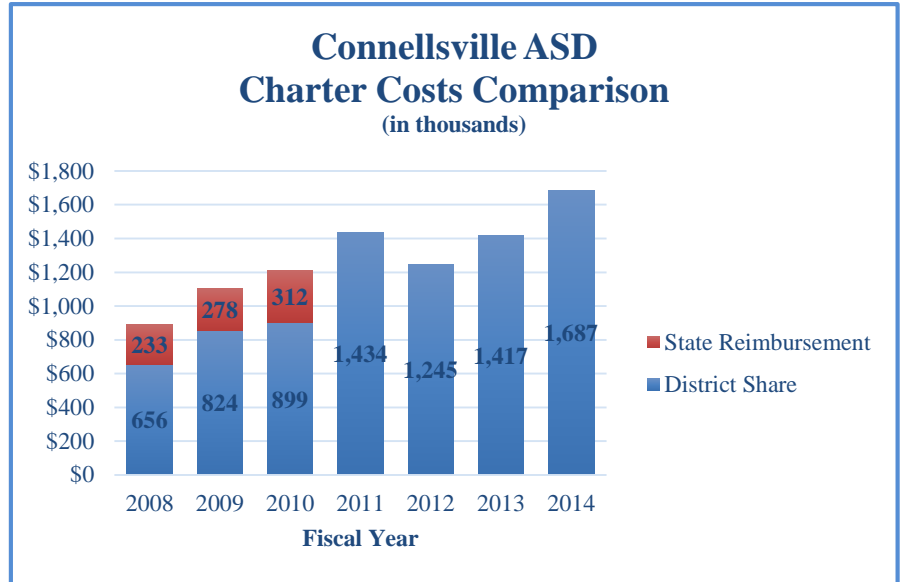
The District stated that retirements, health care costs, special education costs, and contractual obligations have increased and have caused the reduced liquidity. However, as we noted earlier, increased debt and subsidies to the CTC have been significant factors affecting not only the reduction in the fund balance, but also the reduction in the current ratio.

Increased Charter School Enrollment and Costs: The chart below compares charter school and District enrollment trends. For the seven-year review period, charter school enrollment increased 52 percent to 173 students by 2014, while the District’s enrollment decreased 11.3 percent to 4,882 for the same period.

Connellsville ASD Charter School & District Enrollment Trends		
School Year	Charter School Enrollment	District Enrollment
2008	114	5,432
2009	139	5,398
2010	144	5,317
2011	156	5,198
2012	126	5,117
2013	155	5,010
2014	173	4,882

Because of the increased charter school enrollment and the state-mandated funding formula, the District’s burden of

charter school costs increased during the audit period. During the seven-year review period from 2008 through 2014, the cost of students attending charter schools increased by 90 percent from \$889,896 to \$1,686,859.



These costs correspondingly absorbed a greater percentage of the District’s revenues, increasing 78 percent from 1.44 percent to 2.57 percent for the same period. In addition, the financial burden was compounded by the fact that after 2010, the state stopped providing school districts with partial tuition reimbursement for charter costs.

The increasing financial burden could cause the District to reduce services to the students who remain in the District’s traditional schools. For example, unless the number of students attending charter schools is significant enough to reduce the number of District staff or the number of school buildings, the District cannot reduce its operating costs, even though it has less money available because of the increased charter costs.

Independent Auditor’s Reports: The District’s independent auditor’s reports for all seven fiscal years, from 2008 through 2014, contained findings for significant internal control deficiencies. The two most frequent findings pertained to 1) the lack of a double-entry accounting system for the Food Service Fund and 2) the failure to develop an anti-fraud program or policy. In 2014, the independent

auditor's report also noted a significant deficiency related to a major federal award program.

In addition, the independent auditor's reports for five consecutive years between fiscal year ending June 30, 2009 and June 30, 2013, all contained a qualified opinion on the District's financial statements for failure to comply with GASB Statement No. 45, which addresses accounting for post-employment benefits other than pensions. In 2014, however, the District received an unmodified opinion on the financial statements.

Overall, the District's General Fund balance has weakened despite operating surpluses in each year of the review period. The District's long term debt obligations increased, its cash flow tightened, and its significant subsidy of the CTC will not be sustainable without additional revenues sources and/or the reduction of expenditures. The District should not only review the cost of operating the CTC but also develop a strategy for managing its increased debt.

Recommendations

The *Connellsville Area School District* should:

1. Develop a long-range financial plan to address its deteriorating fund balance, its declining liquidity, and its increased long-term debt. Items for consideration should include, but not be limited to:
 - a. Establishment of minimum required General Fund balance.
 - b. A review of the costs to operate the CTC.
 - c. A long-term debt management strategy.
 - d. Possible consolidation of schools and the corresponding sale of capital assets.
2. The Board should require the District's administration to present for approval its specific plans to address management of the General Fund balance, liquidity, support of the CTC,

debt management, enrollment trends, and the potential disposition of unused or underutilized capital assets.

Management Response

Management stated the following:

“The Connellsville Area School District agrees with [the] finding. The following steps are being taken to analyze and help alleviate some of these measures.

1. The district is currently evaluating options to decrease expenses and increase revenues. The 2015-16 annual budget for the general fund was significantly less than the prior year and the district increases local revenue through a tax increase for the first time in over seven years.
2. The district is currently reviewing options to consolidate schools and decrease expenses based on the trend of declining enrollment over ten years.
3. The district is attempting to review the Career and Technical Center programs to increase enrollment and bring more current types of programs to the district. If the district can enhance programming it will only increase the public and private workforce development initiatives that will possibly bring more revenue to the CTC which will help it become more self-sufficient.
4. The district through many of the new expense reductions and revenue enhancers will seek to create a positive fund balance.

The district is currently in the process of screening and seeking applications for Superintendent of Schools. It will look to find an individual who is committed and has the experience to guide the district for the foreseeable future. The district will work with the individual to secure an agreement for the period permitted by law. The district agrees with the finding that the position needs stabilized to provide the district with good leadership.”

Finding No. 2

The District's Former Superintendent Retroactively Authorized Unsubstantiated Overtime at a Doubled Rate for a Former Employee and Granted This Same Employee Compensatory Time as Expressly Prohibited

Criteria relevant to the finding:

District procedures for overtime pay require that time sheets for overtime must be received by the end of business the Wednesday following a pay date and must have a description of the purpose of the work and be signed by the appropriate supervisor.

Article III, entitled Work Week, of the Technology Department Employment Policy states:

“The work week, Sunday through Saturday, will be 40 hours as administratively scheduled. Additional hours must be administratively scheduled as necessary prior to being worked, and will be treated as overtime and paid accordingly. No compensatory time will be granted.” [Emphasis added.]

During our audit, we found that one of the District's former Superintendents (Superintendent) repeatedly disregarded District policy by approving unsubstantiated overtime and compensatory time for the District's former Network Administrator (Administrator). The Administrator was an employee of the District's technology department and began employment with the District on July 1, 2013. On November 10, 2014, the Administrator went on FMLA (Family Medical Leave Act) and subsequently separated from employment with the District on March 16, 2015.

Payroll Advance Request

On June 16, 2014, three days after the normal bi-weekly pay, the Administrator requested an advance of pay from the payroll specialist. The payroll specialist denied this request stating that the District does not ever advance pay for any of its employees. The same day, the Superintendent asked the payroll specialist to comply with the Administrator's request, and, once again, the payroll specialist denied this request citing the District's practice of not advancing pay.

Overtime Request

The next day, June 17, 2014, the Administrator brought a calendar to the payroll specialist. The calendar was the Administrator's support that overtime work was completed from January 14, 2014 through May 2, 2014. The Administrator was asking for overtime pay in the amount of \$2,494.92, approximately the Administrator's bi-weekly pay amount. The payroll specialist once again denied this request due to the overtime lacking approval and the District's practice of not engaging in special pays or pays outside of the normal payroll cycle. The payroll specialist advised the Administrator that the overtime would require approval and, if approved, would be paid on the next pay cycle.

One day later, on June 18, 2014, the Superintendent provided the payroll specialist with the Superintendent approved overtime sheets and directed the payroll specialist to pay the

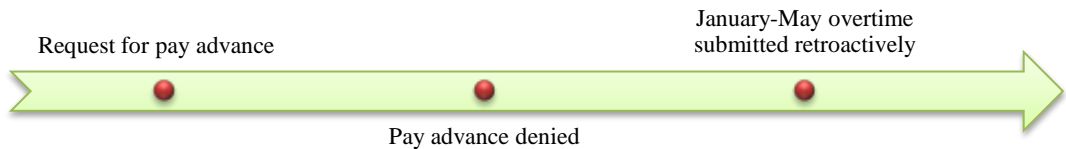
Administrator \$2,494.92, prior to the next payroll cycle. The payroll specialist took her concerns about this situation to the former Business Manager. The former Business Manager confirmed that the District doesn't advance pay, but the Superintendent once again instructed the Business Manager and payroll specialist to pay this overtime. On June 19, 2014, the payroll specialist fulfilled the Superintendent's request and paid the former Administrator \$2,494.92.

Issues with Overtime Request

The Superintendent approved the overtime pay sheets even though the request did not comply with the District's established procedures regarding pre-authorization of overtime hours and the submission of overtime pay sheets. However, the District's Board had not formally approved specific policies governing the payment of overtime. Even so, the timeline and other related items raise concerns.

The Administrator's overtime requests were not submitted on time, as required. The overtime sheets were submitted in June 2014, were for work allegedly performed from January through May 2014, contained no description of the work that was performed, and each of the request forms lacked written approval. Instead, there was one blanket approval, signed by the Superintendent, covering all requests and dated June 18, 2014.

Figure 1. June 2014 Network Administrator Overtime Timeline



In addition to retroactively approving overtime that supposedly had been incurred months earlier, the Superintendent approved the overtime at a rate that was double the rate that should have been paid, assuming the overtime was validly worked. The total erroneously-calculated amount of overtime paid to the Administrator approximated his bi-weekly salary, which was the amount requested as an advance in the same month the overtime was retroactively granted.

Compensatory Time Approved in Violation of Employment Policy

Not only did the Superintendent retroactively approve overtime payments for the Administrator, the Superintendent also blanket-approved eight compensatory days for the Administrator on June 5, 2014, as follows:

Network Administrator Compensatory Days	
Date	Length
01/13/14	Full Day
01/21/14	Half Day
01/31/14	Full Day
02/10/14	Half Day
02/26/14	Full Day
03/31/14	Full Day
04/14/14	Full Day
06/02/14	Full Day

The retroactive granting of compensatory time violated the policies of the Technology Department, which disallowed compensatory time altogether. Also, one of the compensatory days approved, February 26, 2014, was then approved for overtime payment on June 18, 2014. It does not seem reasonable for an employee to receive overtime pay for a day when he apparently wasn't working. The Superintendent separated from employment with the District on June 30, 2015, and current District officials could not explain how this happened due to not having their current positions during the time of the above activities.

Further review showed the Administrator also did not appear to sign in for work at different school buildings as required for all employees, including administrators. In October 2010, in order to increase accountability, a previous Superintendent had implemented sign-in procedures for all District employees, including administrators. The procedures require all District employees to sign in on designated sign-in sheets with name and time of arrival at each school building.

We reviewed sign-in sheets for three district buildings (the senior high school, the junior high school, and the CTC) for the period November 2013 through March 2015. We found no evidence the Administrator ever signed in at any of the three buildings for the review period. Since the Administrator was responsible for overseeing repairs, installing and configuring hardware, as well as cabling and trouble-shooting of equipment, we would have expected to see his signature on the sign-in sheets. Since the Superintendent was responsible for oversight of the sign-in sheets, it was his responsibility for the Administrator's failure to comply. As a result, the hours and location of work performed by the Administrator could not be verified.

Conclusion

Overall, it appears the District's former Superintendent disregarded the practice of not paying employees outside of the normal pay cycle, improperly authorized overtime pay and compensatory time for the Network Administrator, and did not ensure this employee complied with the District's sign-in procedures. As a result, the District, at a minimum, incurred unnecessary costs and violated its own policy.

Recommendations

The *Connellsville Area School District* should:

1. Review and possibly revise its overtime authorization policies and procedures and report all overtime costs to the Board monthly.
2. Ensure a timely, routine secondary review of overtime sheets and the school building sign-in sheets.
3. Establish a formal board approved policy regarding the District's payment to employees outside of the normal pay cycle.

Management Response

Management stated the following:

“The district agrees with the recommendations from the PA State Auditor General and the district will follow best practices in assuring that at least 2 administrative signatures are required to approve all OT [overtime].”

Status of Prior Audit Findings and Observations

Our prior audit of the District released on March 6, 2013, resulted in one finding. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on March 6, 2013

Prior Finding No. 1: Non-Resident Pupil Membership Errors Resulted in Underpayments of \$62,166 (Unresolved)

Prior Finding Summary:

Our prior audit of the District's 2009-10 non-resident pupil membership found errors in reports submitted to the Pennsylvania Department of Education (PDE) resulting in underpayment from the Commonwealth of \$62,166.

Prior Recommendations:

We recommended that the District should:

1. Review the Pennsylvania Information Management System manual of reporting for instructions on the proper reporting of non-resident students.
2. Review membership reports submitted to PDE for years subsequent to the audit and, if similar errors are found, submit reviewed reports to PDE.

We also recommended that PDE should:

3. Adjust the District's allocations to correct the underpayments of \$62,166.

Current Status:

During our current audit, we found that the District did not implement our recommendations. We noted errors in non-resident pupil membership reports submitted for the 2012-13 school year. Our review found that the District incorrectly reported membership days for students educated by the District. These errors resulted in the District being underpaid \$14,515.

As of January 20, 2016, PDE had not adjusted the District's allocations to correct the \$62,166 underpayment from our previous audit report.

Appendix: Audit Scope, Objectives, and Methodology

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

Our audit, conducted under authority of Section 403 of The Fiscal Code,³ is not a substitute for the local annual financial audit required by the Public School Code (PSC) of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period June 29, 2012 through January 20, 2016. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls⁴ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

³ 72 P.S. § 403.

⁴ Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as: effectiveness and efficiency of operations; relevance and reliability of operational and financial information; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's performance in the following areas:

- Academics
- Governance
- Financial Stability
- Hiring and Separations
- School Safety
- Bus Driver Requirements

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ü Did the LEA's Board and administration maintain best practices in governing academics and student achievement by developing and executing a plan to improve student academic performance at its underperforming school buildings?
 - o To address this objective, we considered a variety of District and school level academic results for the 2007-08 through 2012-13 school years to determine if the District had schools not meeting statewide academic standards established by PDE.⁵ Since underperforming schools were identified, we selected three of five underperforming schools for further review. This review consisted of conducting interviews with the Superintendent and any other designated employees and reviewing required School Improvement Plans and optional School Level Plans to determine if the selected underperforming schools have established goals for improving academic performance, are implementing goals, and are appropriately monitoring the implementation of these goals.

⁵ Academic data for the District and its school buildings included a five year trend analysis of Adequate Yearly Progress (AYP) results from the 2007-08 through 2011-12 school years, Pennsylvania System of School Assessment results in Math and Reading for the "all students" group for the 2011-12 and 2012-13 school years, School Performance Profile scores for the 2012-13 school year; and federal accountability designations (i.e. Priority, Focus, Reward, and No Designation) for Title I schools for the 2012-13 school year. All of the academic data standards and results we examined originated with PDE.

Ü Did the LEA’s Board and administration maintain best practices in overall organizational governance?

- To address this objective, we surveyed the District’s current Board, conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.

Ü Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District’s budget?

- To address this objective, we reviewed the District’s annual financial reports, budget, independent auditor’s reports, summary of child accounting, and general ledger for fiscal years July 1, 2007 through June 30, 2014. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District’s financial stability. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. We also made inquiries and evaluated data to determine the causes of the disparities noted between budgeted amounts and actual amounts during the period audited.

Ü Did the LEA follow the PSC and best practices when hiring new staff?

- To address this objective, we obtained and reviewed the District’s hiring policies and procedures. We selected the last three employees hired by the District during the period July 1, 2014 through June 30, 2015, and reviewed documentation to determine if the District complied with the PSC, District policies and procedures, and best practices in hiring new employees. Employees tested included both certified and non-certified employees.

Ü Did the District take appropriate actions to ensure it provided a safe school environment?

- To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted an on-site review of 1 out of the District’s 11 school buildings to assess whether the District had implemented basic safety practices.

- Ü Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outline in applicable laws?⁶ Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
 - To address this objective, we selected 5 of the 44 bus drivers hired by District bus contractors, during the period May 1, 2012 through December 31, 2014, and reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

⁶ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

Distribution List

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

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This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

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

^{iv} PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

^v PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a significant weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vi} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{vii} SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^{viii} *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a significant deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.