PERFORMANCE AUDIT

Mid Valley School District

Lackawanna County, Pennsylvania

March 2016

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Mr. Patrick Sheehan, Superintendent
Mid Valley School District
52 Underwood Road
Throop, Pennsylvania 18512

Mr. Rick Barone, Board President
Mid Valley School District
52 Underwood Road
Throop, Pennsylvania 18512

Dear Mr. Sheehan and Mr. Barone:

Our performance audit of the Mid Valley School District (District) evaluated the application of best practices in the areas of 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 July 1, 2011 through December 10, 2015, 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,

Eugene A. DePasquale
Auditor General

March 16, 2016

cc: **MID VALLEY 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 July 1, 2011 through December 10, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report.

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 Lost Over $2 Million from June 30, 2009 through June 30, 2014, and as of June 30, 2014 had a Negative Balance of $167,375. Between fiscal years ending 2009 and 2014, the District's General Fund decreased by over $2 million. As of the fiscal year ending 2009, the District's General Fund balance was $1,867,168. The District's General Fund balance had decreased to a negative $167,365 as of the fiscal year ending 2014. The negative General Fund balance at the end of the fiscal year 2014 represented negative 0.86 percent of operating expenditures (see page 5).

Finding No. 2: The District Paid a Former Business Manager Almost $14,000 for Unused Sick Days which He was not Entitled to Receive. Our review of District payroll records revealed that the District's former Business Manager (Business Manager) received a $13,975 payment on September 6, 2013, for 53 accumulated unused sick days when he resigned from the District (see page 13).

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 taken appropriate corrective action in implementing our recommendations pertaining to the questionable payout to a former Superintendent (see page 16).

Background Information[i] (Unaudited)

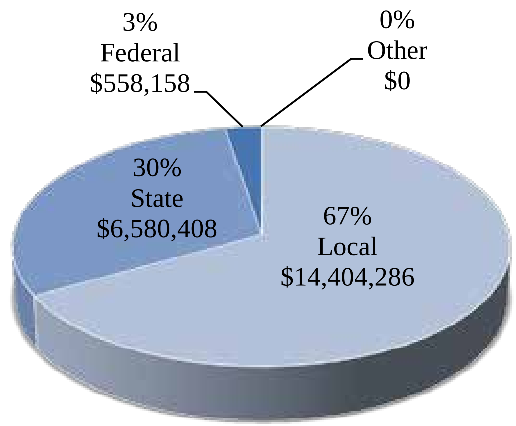
School Characteristics 2014-15 School Year[ii]	
County	Lackawanna
Total Square Miles	15
Resident Population	15,321
Number of School Buildings	2[1]
Total Teachers	123
Total Full or Part-Time Support Staff	49
Total Administrators	22
Total Enrollment for Most Recent School Year	1,731
Intermediate Unit Number	19
District Vo-Tech School	Career and Technology Center of Lackawanna County

Mission Statement

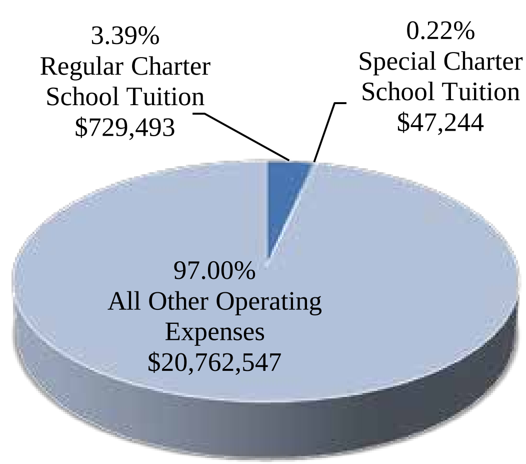
"The Mission of the Mid Valley School District is to teach, challenge and encourage all students to become responsible citizens and continue a life of learning."

Financial Information

Revenue by Source for 2013-14 School Year

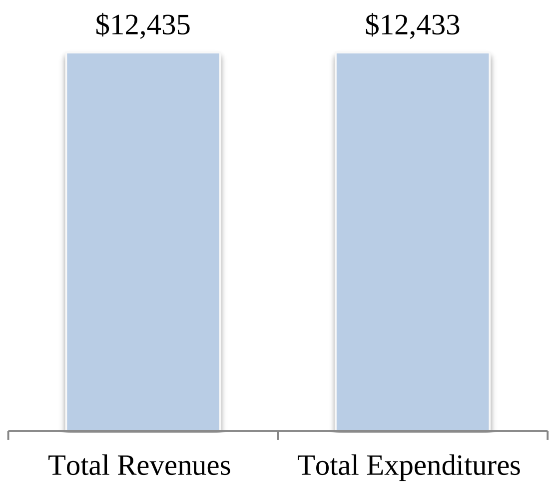


Select Expenditures for 2013-14 School Year



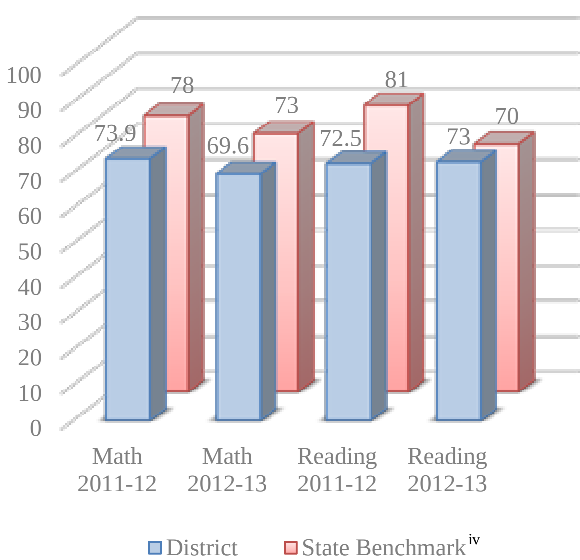
[1] The District middle school and high school are in the same building.

Dollars Per Student
2013-14 School Year

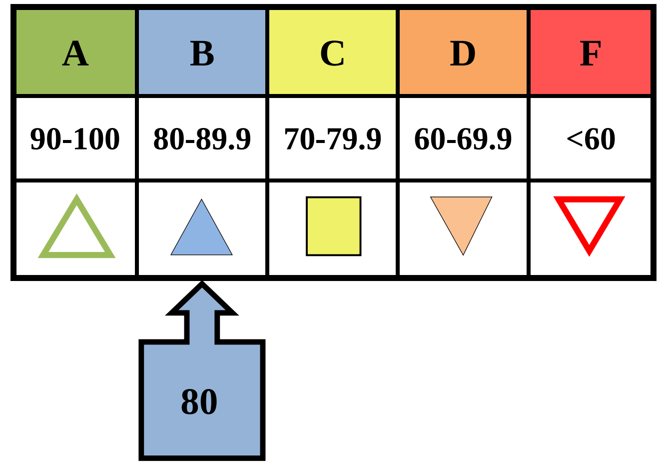


Academic Information

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



District's 2012-13 SPP Score[vi]



Individual Building SPP and PSSA Scores[vii] 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)[viii]**
Mid Valley Elementary	78.9	80	7	71	1	Reward
Mid Valley Middle	87.4	79	6	76	6	No Designation
Mid Valley High	72.8	50	23	72	2	No Designation

Findings and Observations

Finding No. 1	The District's General Fund Lost Over $2 Million from June 30, 2009 through June 30, 2014, and as of June 30, 2014 had a Negative Balance of $167,365

Criteria relevant to the finding:

Section 609 of the Public School Code (PSC), 24 P.S. § 6-609, provides in part:

"No work shall be hired to be done, no materials purchased and no contracts made by any board or school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded."

The annual General Fund budget is addressed under Section 687 of the PSC, 24 P.S. § 6-687, and specifically subsection (b), which provides, in part:

"the Board of School Directors, . . . after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation, available for school purposes in that district . . ."

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.
- A current asset ratio or trend of ratios approaching one or less indicates a declining ability to cover obligations with the most liquid assets.

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 six years from fiscal year ending 2009 through 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
- Debt and Debt Service Payments
- Budgetary vs. Actual Revenues and Expenditures
- Current Ratio

Declining Fund Balance: Between fiscal years ending 2009 and 2014, the District's General Fund decreased by over $2 million. As of the fiscal year ending 2009, the District's General Fund balance was $1,867,168. The District's General Fund balance had decreased to negative $167,365 as of the fiscal year ending 2014. The negative fund balance at the end of the fiscal year 2014 represented negative 0.86 percent of operating expenditures.

Just as individuals should have funds available to deal with emergencies or other unforeseen events, districts should also have funds in reserve to pay for emergency repairs or interruptions to revenues. When a school district's General 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.

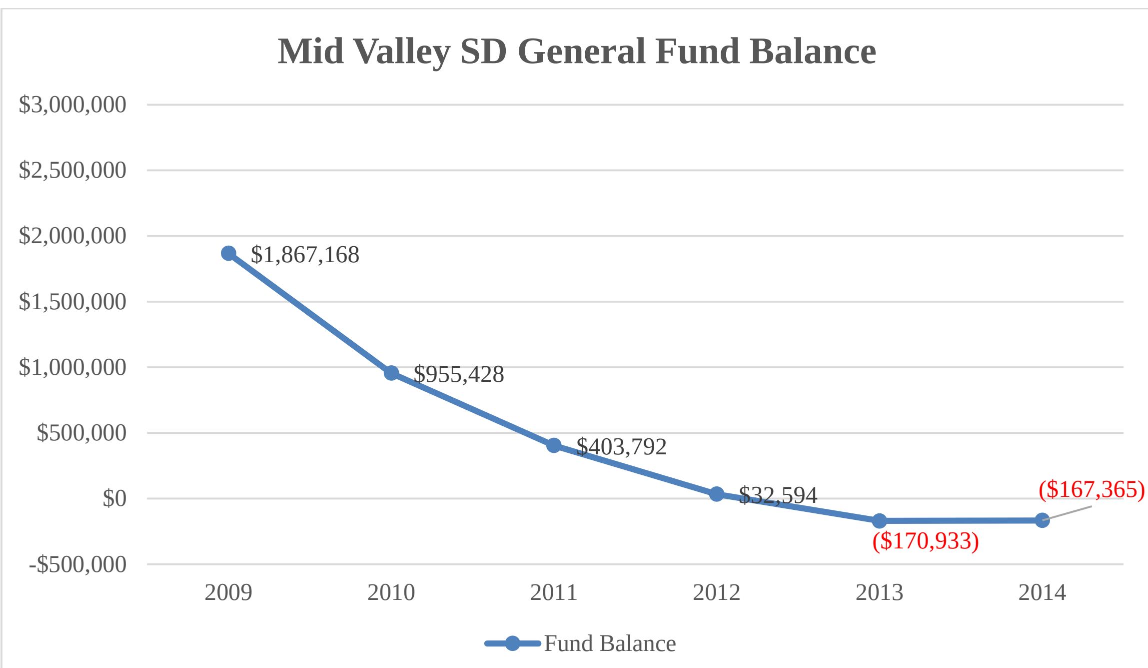
Criteria relevant to the finding (continued):

- Financial industry guidelines recommend that a fund balance should range between five and ten percent of annual expenditures.

The benchmarks used as criteria for this objective were also based on best business practices established by several entities/agencies, including Pennsylvania Association of School Business Officials (PASBO), the Colorado State Auditor, and the National Forum on Education Statistics.

Also, Act 141 of 2012 gives the Pennsylvania Department of Education (PDE) the ability to designate a district facing severe financial troubles into two categories. Districts with financial concerns are first placed on the financial watch list and, if the financial situation doesn't improve, a district could ultimately be placed in the financial recovery status. Financial recovery status requires that a PDE appointed Chief Recovery Officer be assigned to the District.[2] Presently, the District has not been placed on the financial watch list, but continued financial concerns and a negative General Fund balance increase the chance of this occurring and the District losing local control over their financial operations.

During the period of fiscal year ending 2009 through 2014, 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 graph illustrates the District's weakening fund balance:



[2] Article VI–a. (relating to School District Financial Recovery) of the Public School Code pertaining to financial recovery in certain school districts. *See* 24 P.S. § 6-601-A *et seq*., effective July 12, 2012.

General Fund Operations: For each of the fiscal years from 2009 through 2014, the District's General Fund operations resulted in surpluses (see chart below), meaning revenues exceeded expenditures each year. Given the six consecutive operating surpluses totaling over $9 million, the General Fund balance would be expected to have increased over time; however, the opposite occurred. Through inter-fund transfers, the District's operating surplus and General Fund balance have been used to pay back the District's long term debt.

Mid Valley SD Comparison of General Fund Operating Revenues and Expenditures			
Fiscal Year	**Revenues**	**Expenditures**	**Surplus**
2009	$ 19,771,486	$ 18,359,005	$1,412,481
2010	$ 19,881,071	$ 18,995,194	$ 885,877
2011	$ 20,584,917	$ 19,053,724	$1,531,193
2012	$ 20,826,133	$ 19,279,254	$1,546,879
2013	$ 21,044,290	$ 19,169,200	$1,875,090
2014	$ 21,542,852	$ 19,452,806	$2,090,046
Total from Operations	**$123,650,749**	**$114,309,183**	**$9,341,566**

Inter-fund Transfers: General Fund transfers to pay principal and interest on the District's long term debt exceeded $12 million. In other words, the District's entire operating surplus over the period fiscal year ending 2009 through 2014 and the over $2 million decrease in the General Fund balance was due to the District's long term debt obligations.

Debt Service: The District's future debt service requirements increased more than two fold from $13.8 million in fiscal year ending 2009 to $33.3 million in fiscal year ending 2014. The most significant additions to debt resulted from the District issuing $16.425 million of general obligation bonds to finance the construction of a new elementary school during the 2009-10 fiscal year. The District subsequently elected to use the proceeds to renovate the existing elementary school. Also, during the 2009-10 fiscal year, the District issued over $12 million to advance refund and restructure previously issued bonds.

Because of the increased debt, it is imperative that the District manage its operations so that it not only continues to generate a surplus of revenues over expenses, but also that this surplus is enough to cover required debt service obligations. If the District is forced to continue to re-structure existing debt it may place an unmanageable burden on future taxpayers.

Budgetary vs. Actual Revenues and Expenditures: After four years of spending less than the budgeting amount, the District's actual expenditures exceeded budgeted expenditures by over $790,000 for the 2012-13 fiscal year and over $333,000 for the 2013-14 school year (see chart below). Exceeding budgetary expenditures is a violation of Section 609 of the PSC.

Mid Valley SD Comparison of General Fund Budgeted verses Actual Operating Expenditures			
Fiscal Year	**Budgeted**	**Actual**	**Actual Under/(Over) Budget**
2009	$ 19,782,017	$ 18,359,005	$ 1,423,012
2010	$ 19,942,500	$ 18,995,194	$ 947,306
2011	$ 22,079,891	$ 19,053,724	$ 3,026,167
2012	$ 19,490,590	$ 19,279,254	$ 211,336
2013	$ 18,377,294	$ 19,169,200	$ (791,906)
2014	$ 19,119,311	$ 19,452,806	$ (333,495)
Total from Operations	**$118,791,603**	**$114,309,183**	**$4,482,420**

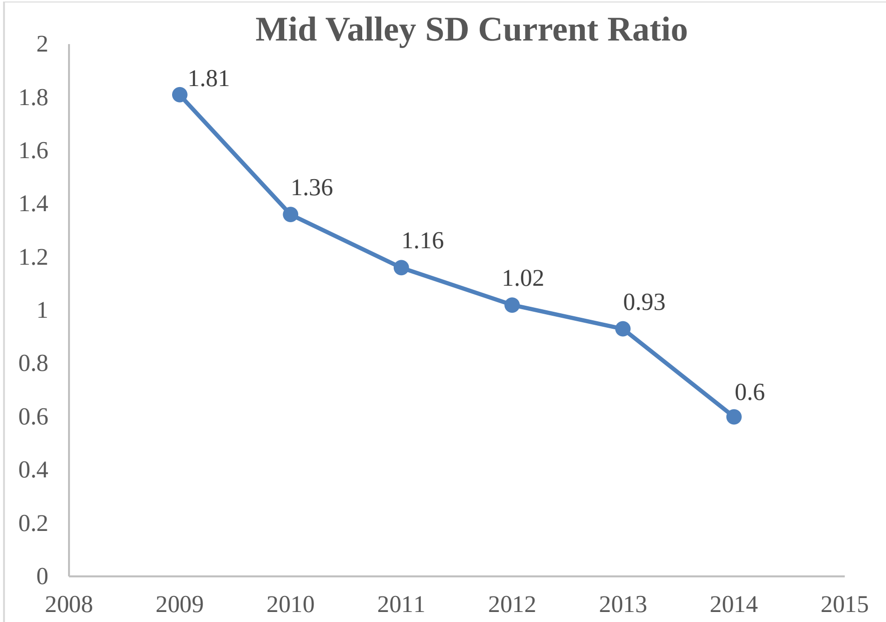
District officials attributed the increase in actual expenditures to retirement costs and the lack of state reimbursement for construction projects. District contributions to retirement has increased from 4.78 percent for the 2009-10 school year to 16.93 percent for the 2013-14 school year. District officials estimated that the District is owed over $600,000 in state reimbursement for completed construction projects.

Further review revealed that the District's legal fees increased significantly, beginning in the 2013 calendar year and extending to the 2015 calendar year. In February 2012, the District hired a law firm as special counsel to represent them in a dispute with a contractor. This law firm was hired because of their specialty with construction contract disputes. The District paid a total of $573,350 in legal fees to represent them. The breakdown for this amount paid from the 2012 calendar year through the 2015 calendar year is as follows:

Calendar Year	Special Counsel Fees
2012	$ 35,389
2013	$139,327
2014	$192,114
2015	$206,520
Total	**$573,350**

During the February 23, 2012 school board meeting, the Board of School Directors (Board) initially voted to approve the law firm's legal services and limit the amount paid to $20,000. This limit was increased multiple times at subsequent board meetings. The legal fees, incurred mostly due to a construction project, paid to this special counsel was more than half of the District's total legal fees for the 2012-13 and 2013-14 fiscal years. The District's legal battle with the lead construction contractor hired in 2011 to construct a $15.5 million elementary school was unsuccessful and ultimately was determined that the District wrongly withheld payment of nearly $750,000. An arbitrator ruled that in favor of the contractor in the amount of $1.02 million.

Decreasing Current Ratio: One of the key measures of a District's financial condition is known as the current ratio, 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 District needs to develop a business model where revenues exceed expenditures combined with fund transfers to cover debt service payments. A negative General Fund balance leaves the District without any cushion to absorb unexpected expenditures or a downturn in the economic climate. All expenditures needs to be scrutinized, and the budget needs to be treated as a tool to help the District achieve a positive and increasing General Fund balance.

Recommendations

The *Mid Valley School District* should:

1. Review current expenditure and revenue monitoring procedures to ensure a monthly analysis is completed to prevent over expending of individual account classifications and in total. The monitoring procedures should also address the need for revenue to exceed expenditures.

2. Provide the Board with standard monthly updates on key financial indicators or benchmarks so that policy changes can actively be made.

3. Establish a multi-year plan, involving additional revenue sources and minimizing expenditures, to address the negative General Fund balance.

Management Response

Management stated the following:

"The District acknowledges its declining financial position, however Administration as well as the Board of School Directors and Business Manager Consultant are working diligently to reduce the negative fund balance and replenish its fund balance to an acceptable level.

Administration and the Business Office monitors revenues and expenditures on an ongoing basis, with a monthly treasurer report and any potential budget issues presented to the Board of School Directors at a monthly work session or voting meeting, both open to the public. In addition to the monitoring of revenue, expenditures and cash flows, administration is aware of the financial status of the District and are working to reduce costs and increase revenues. Within the past 6-12 months the District has made the following changes to its operations to reduce costs:

- Outsourced transportation to the NEIU.
- Realigned administrative positions.
- Exploring options with municipalities for cost sharing or Crossing Guards.
- Monitoring Special Education Programs.
- Administration has applied for and has been awarded an SRO grant to offset the cost of the District's SRO.
- Refinanced its bond to reduce expenditures in 2015-16 as well as 2016-17 without extending the term of the debt.
- Overall analysis of district-wide supplies and services.
- Continues analysis of potential attrition of Professional and Support Staff.

Within the past 6-12 months the District has made the following changes designed to increase revenues:

- Approved an agreement to seek Reverse Tax Assessments for potential recurring local tax revenue.
- Raised Local Real Estate Tax Millage to the index in 3 years and index and exceptions in 3 years out of the past 8 years. The District approved a

preliminary 2016-17 budget in excess of the state approved Act 1 index and is awaiting approval of requested exceptions.
- Continuing to research grants to benefit the District.

The District continues to wait for the State to release PlanCon funds which are estimated to be in excess of $600,000. This one time cash influx as well as the projected yearly recurring reimbursement would assist in stabilizing the District's fund balance."

Auditor Conclusion

We are encouraged that the District realizes the seriousness of its financial challenges and has implemented corrective action. Since most of the District's operational improvements occurred within the last 6-12 months, we will review these changes and any other corrective actions during our next audit of the District.

Finding No. 2 — The District Paid a Former Business Manager Almost $14,000 for Unused Sick Days which He was not Entitled to Receive

Criteria relevant to the finding:

The District's Administrative Compensation Plan (governed by PSC 24 P.S. § 11-1164 under Act 93) addresses District-paid Early Retirement Incentives, in part, as follows:

Effective July 1, 2009, the District agrees to provide an early retirement incentive program pursuant to the following terms and conditions:

Condition #1
No administrator/management level staff member shall be eligible for early retirement unless the member retires under the provisions of the Public School Employees' Retirement System (PSERS) and has no less than 15 years of service, no more than 35 years of service in the PSERS, *10 of which must be with the District.*

Condition #4
Eligible administrative/ management level staff members shall receive an incentive payment equal to a percentage of their final full year's base salary based upon the forfeiture of accumulated sick days . . .

Our review of the District's payroll records revealed that the District's Business Manager received a $13,975 payment on September 6, 2013, for 53 accumulated unused sick days when he resigned from the District.

Since the Business Manager did not have an employment contract with the District, the District's Act 93 Plan contained conditions for which his salary and benefit payments were to be made. The Act 93 Plan required ten years of service with the District in order to be eligible for payment of unused sick days. The Business Manager was hired on November 24, 2008, and resigned from the District on September 4, 2013. Since he was employed by the District for less than five years, he was not eligible to receive this payment.

This unauthorized payment resulted from an inadequate administrative review process. Prior to the start of the August 21, 2013 regularly scheduled board meeting, the Business Manager informed the Board of his intention to resign from the District. The Board accepted his resignation and request for payment of unused sick days at this meeting. The board meeting minutes for this agenda item are not detailed to show if there was any discussion of the Business Manager's eligibility for this payment. At a later date, the Business Manager presented the Superintendent with a resignation letter requesting payment of $13,975 based on 53 unused sick days at his per diem salary rate of $263.67. The letter was signed by the Superintendent on September 4, 2013, and the payment to the Business Manager was paid on September 6, 2013, through the District's normal bi-weekly payroll.

After the September 6, 2013 payment was made to the Business Manager, District employees questioned the eligibility of the Business Manager to receive this payment. These concerns were taken to the Board, and the Board instructed the District's Superintendent and solicitor to request immediate return of the payment.

On September 10, 2013, the District's solicitor emailed all board members and stated that he spoke with the Business Manager about the payment of accumulated sick days upon his resignation. The solicitor stated in his email to the Board, which he discussed with the Business Manager, that as an administrator, it was the Business Manager's responsibility to have knowledge of his compensation plan and the provisions as contained in the Act 93 plan. In this email, the Business Manager indicated he intended on retaining the payment for the unused sick days since it was approved by the Board during the August 21, 2013 meeting.

On September 11, 2013, at a work session, the Board members were provided a copy of the Business Manager's resignation letter in their packets.

On September 18, 2013, at the regularly scheduled board meeting, the Board rescinded the Business Manager's resignation under the terms of his letter and proceeded to approve his resignation without the $13,975 payment for his unused sick days.

On September 19, 2013, the District's solicitor sent correspondence in writing to the Business Manager requesting the return of the $13,975 payment for unused sick days. On October 3, 2013, the District received a letter from the Business Manager's attorney stating the Board lawfully approved his client's resignation (retirement from the District) and request for payment. The Business Manager's attorney went on to further state that the Business Manager is under no legal obligation to return the money to the District. As of December 10, 2015, the District had not received reimbursement of any of the $13,975 paid to the Business Manager.

The information regarding future payments based on the Act 93 Plan, agreements, or other personal contracts, as a result of a retirement or resignation, should be referenced or documented in the board meeting minutes. This procedure would make such payments more transparent and would allow the taxpayers to consider such information when determining whether the Board made decisions in the best interest of the District, the taxpayers, and the students.

Recommendations

The *Mid Valley School District* should:

1. Ensure all retirement and resignation payments made to District employees are reviewed and approved by the District's solicitor to ensure the employee is eligible for the payments.

2. Ensure that all Board discussion concerning retirement and resignation payments to District employees are referenced and documented in the board meeting minutes.

Management Response

Management stated the following:

"The District has designed procedures that any retirement and/or resignation payments made to District employees are calculated by the Payroll/Human Resource Department, reviewed with the Business Manager Consultant and Superintendent and then provided to the District solicitor for approval. In addition, the Board of School Directors are informed to potential costs prior to voting on the approval of such an agreement. No payments are to be made without the Solicitor's and Board of School Director's approval."

Auditor Conclusion

We are encouraged to see that the District has implemented procedures to address retirement/resignation payments to District employees. We will review these new procedures and any other corrective actions during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on July 11, 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 the status section below.

Auditor General Performance Audit Report Released in July 11, 2013

Prior Finding: **Questionable Payout to Former Superintendent**

<u>Prior Finding Summary:</u> Our prior audit found that the District violated the PSC by failing to enter into a contract with its former Superintendent. In addition, the Board inconsistently applied the District's Administrative Compensation Plan or Act 93 Plan to address the former Superintendent's benefits in lieu of a contract. In doing so, the Board permitted him to receive a lucrative early retirement incentive, totaling $187,111.

<u>Prior Recommendations:</u> We recommended that the District should:

1. Ensure that subsequent superintendents have contracts in accordance with the PSC.

2. Consider limiting sick leave accumulation to avoid excessive early retirement incentive payouts.

3. Ensure that salary increases are made in accordance with the applicable contract.

<u>Current Status:</u> During our current audit, we reviewed two subsequent superintendent contracts and found the District did implement our recommendations. We found that the superintendents had contracts with the District which were in accordance with the PSC and salary increases were stated in the contract. In addition, the District's Administrative Compensation Plan now addresses the requirements for unused sick leave payment eligibility and proration percentages for unused sick leave.

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 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 July 1, 2011 through December 10, 2015. 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 controls[4] 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 efficiency and effectiveness in the following areas:

- Governance
- Financial Stability
- Contracting
- 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:

- 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.

- 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 ending June 30, 2009 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.

- ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?

  - o To address this objective, we reviewed the District's procurement and contract monitoring policies and procedures. We obtained a list of vendors for goods and services which the District expended more than $50,000 for the 2013-14 school year. We haphazardly selected 5 out of 22 vendors to determine if contracts existed. For the vendors which had contracts, detailed testing was completed. Testing included a review of the procurement documents to determine if the contract was procured in accordance with the PSC and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board's Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.

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

  - o To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports.

- 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?[5] Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

  - o To address this objective, we selected five of the nine bus drivers hired by District bus contractor, during the period of July 1, 2012 through January 27, 2015, 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.

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

[ii] Source: Information provided by the District administration.

[iii] 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.

[iv] 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.

[v] 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.

[vi] 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.

[vii] *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.

[viii] 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.