

# PERFORMANCE AUDIT

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## Aliquippa School District Beaver County, Pennsylvania

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January 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Dr. Peter M. Carbone, Superintendent  
Aliquippa School District  
800 21st Street  
Aliquippa, Pennsylvania 15001

Ms. Elverna Cuffie, Board President  
Aliquippa School District  
800 21st Street  
Aliquippa, Pennsylvania 15001

Dear Dr. Carbone and Ms. Cuffie:

We have conducted a performance audit of the Aliquippa School District (District) for the period July 1, 2012, through June 30, 2016, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. We evaluated the District's performance in the following areas as further described in the appendix of this report:

- Financial Stability
- Transportation Operations
- Bus Driver Requirements
- School Safety

The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 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 performed adequately in the areas listed above, except as noted in the following finding:

- A Cumulative Operating Deficit Reduced the District's General Fund Balance to Negative \$1.5 Million as of June 30, 2016

Dr. Peter M. Carbone  
Ms. Elverna Cuffie  
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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". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale  
Auditor General

December 26, 2017

cc: **ALQUIPPA SCHOOL DISTRICT** Board of School Directors

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## Background Information

School Characteristics 2016-17 School Year <sup>A</sup>	
County	Beaver
<b>Total Square Miles</b>	4.1
<b>Resident Population<sup>B</sup></b>	9,438
<b>Number of School Buildings</b>	2
<b>Total Teachers</b>	94
<b>Total Full or Part-Time Support Staff</b>	47
<b>Total Administrators</b>	9
<b>Total Enrollment for Most Recent School Year</b>	1,062
<b>Intermediate Unit Number</b>	27
<b>District Vo-Tech School</b>	Beaver County CTC

A - Source: Information provided by the District administration and is unaudited.

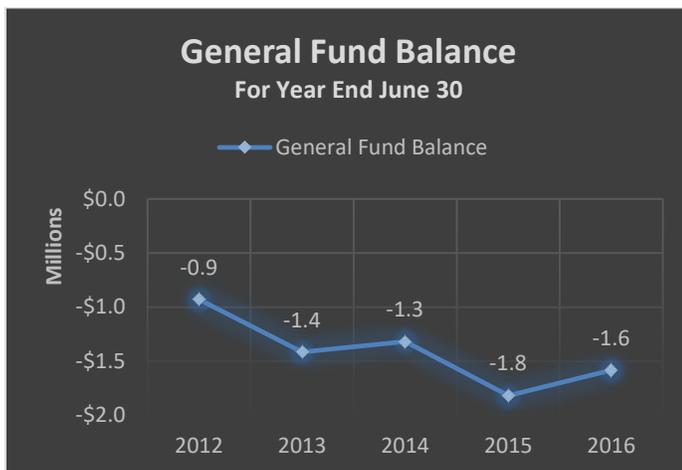
B - Source: United States Census  
<http://www.census.gov/2010census>.

## Mission Statement<sup>A</sup>

By fostering student success in a relevant and challenging learning community, the Mission of the Aliquippa School District is to create productive citizens for a global society.

## Financial Information

The following pages contain financial information about the Aliquippa School District (District) obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE's public website. This information was not audited and is presented for **informational purposes only**.

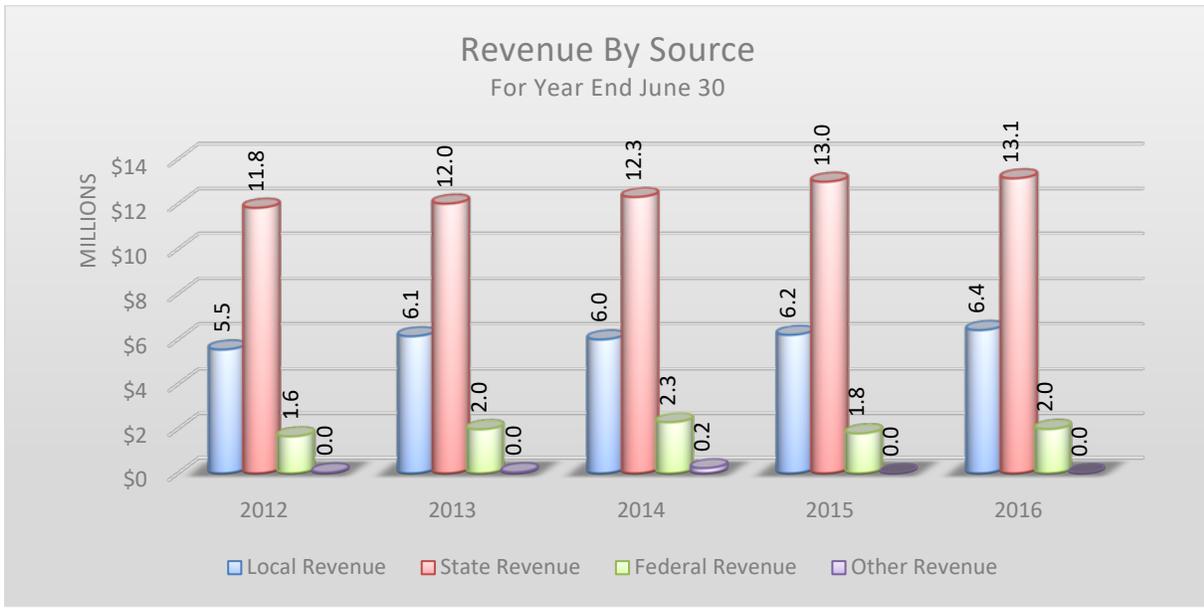
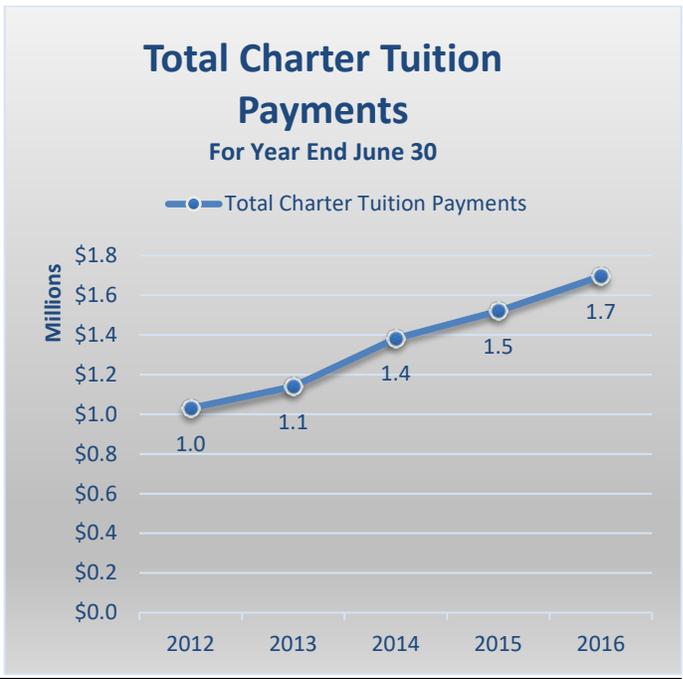
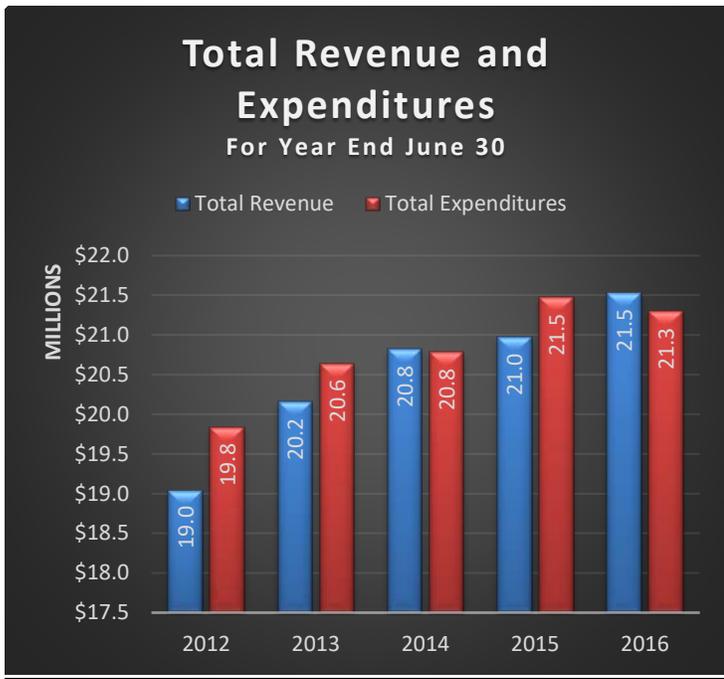


**Note:** General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



**Note:** Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

## Financial Information Continued



## Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA), Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15 and 2015-16 school years.<sup>1</sup> These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding chart.<sup>2</sup> Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.<sup>3</sup>

### **What is a SPP score?**

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e. PSSA and Keystone exams), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.<sup>4</sup> PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

### **What is the PSSA?**

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

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<sup>1</sup> PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

<sup>2</sup> PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

<sup>3</sup> Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

<sup>4</sup> According to PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of PSSA exams to align with state Common Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.<sup>5</sup> The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

### **What is the Keystone Exam?**

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until at least 2020. In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

### **What is a 4-Year Cohort Graduation Rate?**

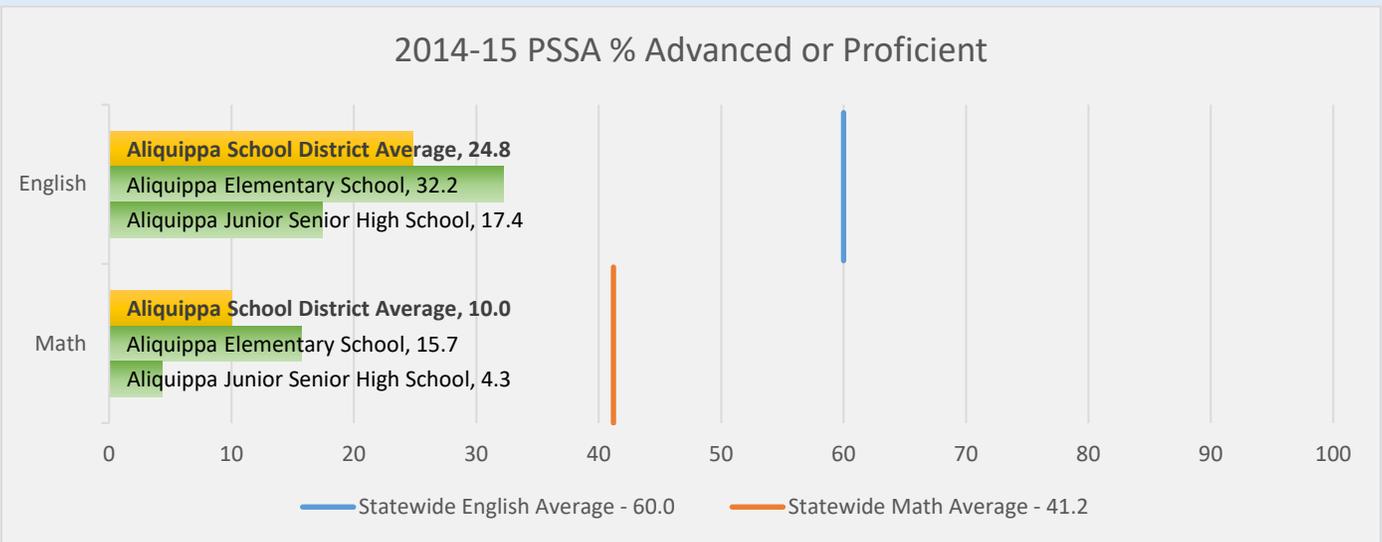
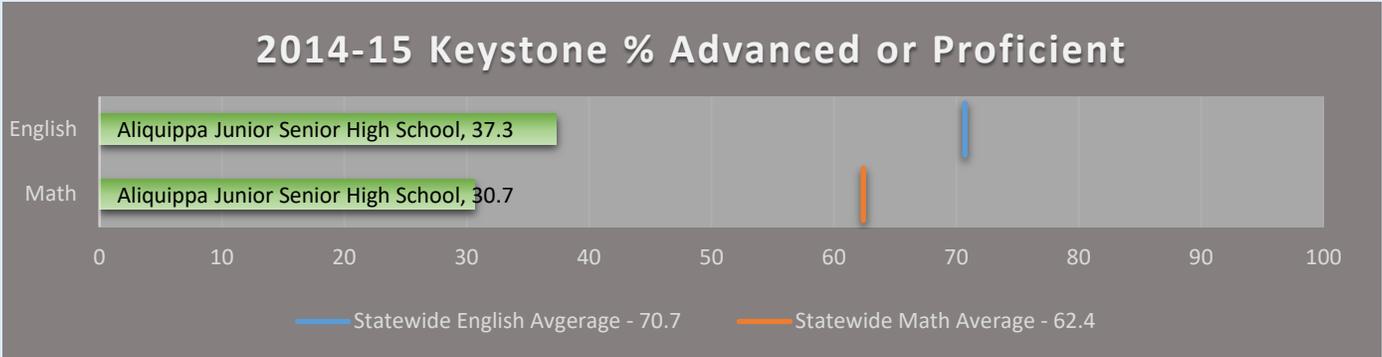
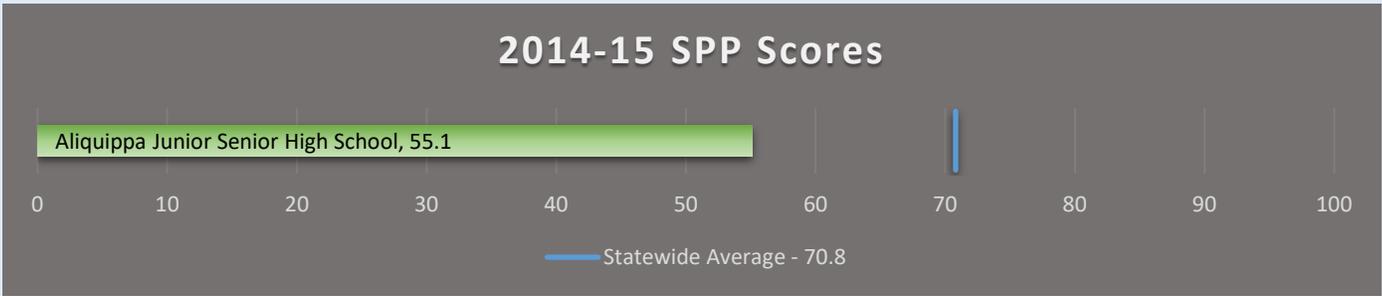
PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.<sup>6</sup>

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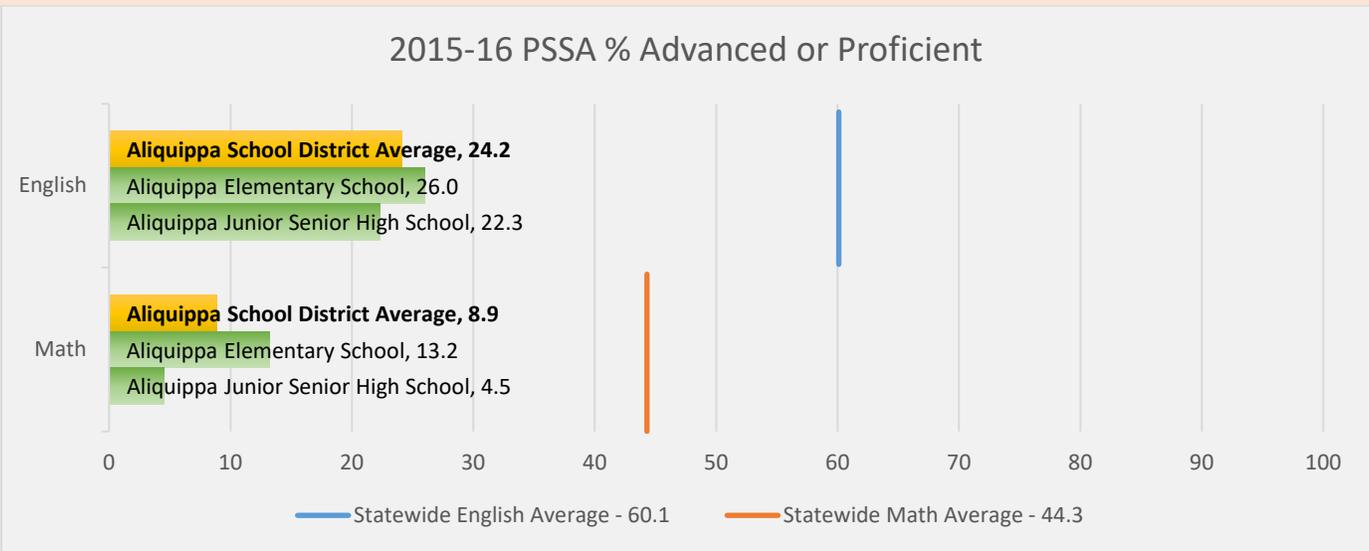
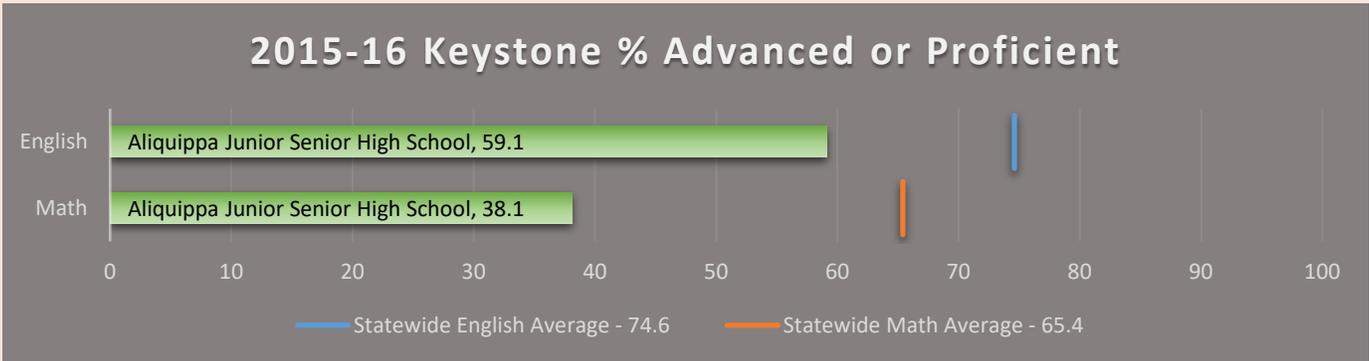
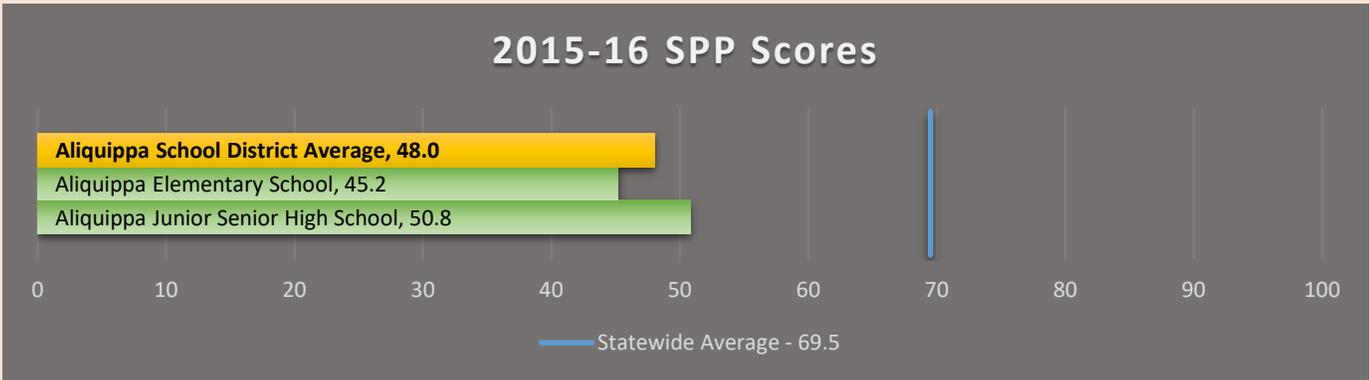
<sup>5</sup> PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam. (Also, see footnote 4).

<sup>6</sup> PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

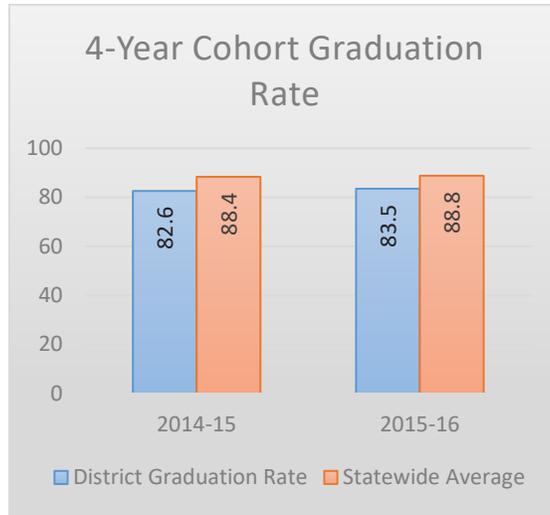
**2014-15 Academic Data**  
**School Scores Compared to Statewide Averages**



**2015-16 Academic Data**  
**School Scores Compared to Statewide Averages**



### **4-Year Cohort Graduation Rate**



## Finding(s)

### Finding

### A Cumulative Operating Deficit Reduced the District's General Fund Balance to Negative \$1.5 Million as of June 30, 2016

*Criteria relevant to the finding:*

**The Government Finance Officers Association (GFOA)** has developed Budgeting Best Practices for School Districts. Among the best practices are:

**General Fund Reserve.** School districts should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk.

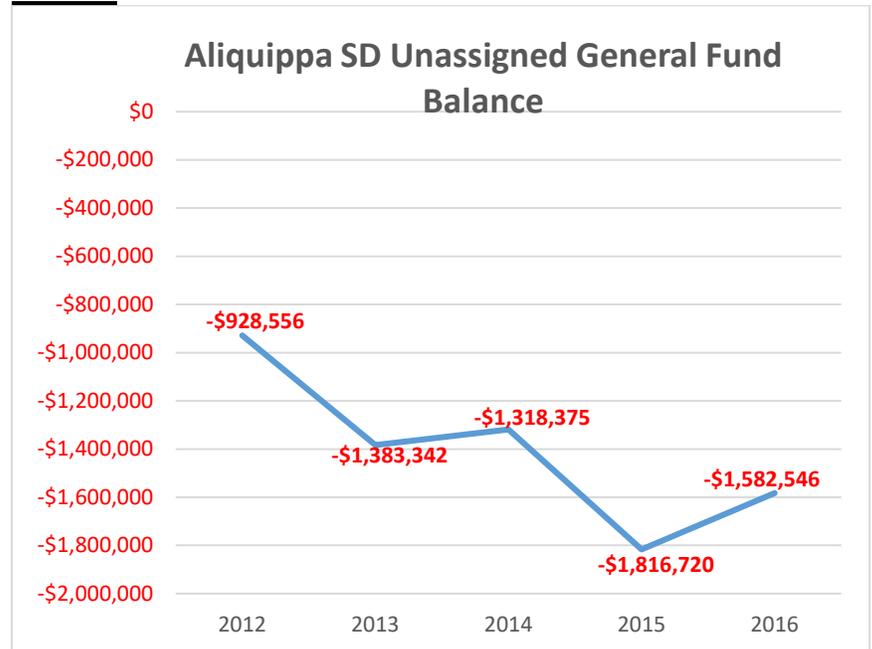
The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their general fund of no less than ten percent of regular general fund operating revenues or regular general operating expenditures and operating transfers out of the General Fund.

Budgeting and maintaining adequate fund balances allow school boards and superintendents to maintain their educational programs and services with level tax adjustments. They also provide financial stability in emergency situations so that it is certain that employees and vendors are paid on time. Fund balances reduce interest expense or interim borrowings. In addition, stable fund balance history appeals more to underwriters and other creditors when construction projects are undertaken and the school district must enter the bond market.

Our review of the Aliquippa School District's (District) financial position over a four-year period showed that the District's General Fund balance decreased by over 70 percent. At the beginning of our audit period, on July 1, 2012, the District's General Fund balance was negative **\$928,556**. Due to multiple operating deficits during the four years of our review, the District's General Fund balance decreased to negative **\$1,816,720** on June 30, 2015, before increasing slightly to negative **\$1,582,546** as of June 30, 2016. Chart 1 illustrates these amounts below.

As detailed in the criteria box, it is considered best practice for school districts to maintain an unrestricted, or unassigned, fund balance of no less than ten percent of General Fund operating revenues. With such a large negative General Fund balance, the District is far from operating in accordance with best practices.

**Chart 1**



*Criteria relevant to the finding (continued):*

The Pennsylvania School Boards Association in its Overview of Fiscal Health for the 2013-14 school year provided the following fiscal benchmarks.

- Financial industry guidelines recommend that fund balances be between 5 percent and 10 percent of annual expenditures.
- 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).

**Section 611-A. (relating to Early warning system) of the Public School Code provides, in part:**

(a) Establishment.—

(1) The department shall develop and implement an early warning system under which the department shall:

(i) Compile financial data and maintain accurate and current information and data on the financial conditions of school districts. Each school district shall provide its financial data and information to the department within 15 days of a request by the department.

(ii) Regularly analyze and assess school district budget reports, data and other information directly related to the financial conditions of school districts.

The District's negative General Fund balance during our four-year audit period should be concerning to taxpayers. Even more problematic for the District is the cumulative operating deficit that the District experienced during the 2012-13 through 2015-16 fiscal years.

The District's financial position has continued to deteriorate despite being placed on "financial watch" status by the Pennsylvania Department of Education (PDE) on March 15, 2013. The District was placed on financial watch status due to its negative General Fund balances. Being placed on financial watch status allowed the District to receive and continue to receive technical assistance with the ultimate goal of improving the District's financial position.

The District was provided a PDE-appointed advisor when it was placed on financial watch status. This advisor meets with District officials in person quarterly and communicates with District officials on an ongoing basis to provide ideas for the District to improve its financial position. District officials stated that the technical assistance received has been beneficial and provided specific examples that we discuss later in the "expenditures" section of this finding. While the District has made strides in the area of controlling variable expenditures, the cumulative operating deficit and decline in the General Fund balance show the continuing financial stress that the District is experiencing.

The District will need to make significant operational changes and reverse the current state of its finances to avoid losing local control of District operations. Without a fundamental change to current operations to improve the fiscal condition, the District may be placed in "financial recovery" status in the future. A district placed in financial recovery status loses local control of district operations.<sup>7</sup> The District's Board of School Directors (Board) would no longer have the authority to provide oversight of District operations.<sup>8</sup> 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.<sup>9</sup>

<sup>7</sup> 24 P.S. § 6-601-A *et seq.*

<sup>8</sup> *Ibid.*

<sup>9</sup> 24 P.S. § 6-631-A (relating to Appointment [of a chief recovery officer]) and 24 P.S. § 6-641-A (relating to Contents [of Plan]).

*Criteria relevant to the finding (continued):*

(iii) Utilize appropriate fiscal and socioeconomic variables to identify financial difficulties in school districts in financial watch status.

(iv) Notify any school district identified for financial watch status.

(v) Offer technical assistance to school districts in financial watch status to correct minor financial problems and to avoid a declaration of financial recovery status under section 621-A.

(2) (i) The department shall develop the fiscal and economic variables to be used in identifying school districts in financial watch status, shall test the validity and reliability of the variables and shall continuously monitor the variables to assure their effectiveness.

(ii) The variables developed by the department under this paragraph shall include, but shall not be limited to, whether any political subdivision located within the school district is a financially distressed municipality under the act of July 10, 1987 (P.L.246, No. 47), known as the Municipalities Financial Recovery Act.

(3) In developing an early warning system under this section, the department may employ or contract with fiscal consultants as deemed necessary to administer the provisions of this section.

The remainder of the finding discusses the specific financial concerns we identified in the following areas:

- Operating Position
- Revenues
- Expenditures
- Charter School Expenditures

**Operating Position**

A school district’s operating position (revenue minus expenditures) is an important indicator of a district’s financial health. The result of total expenditures exceeding total revenues is an operating deficit. The District’s cumulative operating deficit of more than \$600,000 was the primary factor of the significant decrease in the General Fund balance during the period reviewed. The District’s annual and cumulative operating position is shown in Table 1 below.

**Table 1**

Aliquippa School District General Fund Operating Position <sup>10</sup>			
Fiscal Year Ended June 30	Total Revenues and Other Financing Sources <sup>11</sup>	Total Expenditures and Other Financing Uses <sup>12</sup>	Operating Surplus/(Deficit)
2013	\$20,186,327	\$20,641,113	(\$454,786)
2014	\$20,817,192	\$20,785,773	\$31,419
2015	\$20,972,348	\$21,470,693	(\$498,345)
2016	\$21,530,395	\$21,296,221	\$234,174
<b>Total:</b>	<b>\$83,506,262</b>	<b>\$84,193,800</b>	<b>(\$687,538)</b>

**Revenues**

The District relies heavily on revenue from the Commonwealth. Revenue from the Commonwealth comprised 61 percent of the District’s total revenues in the 2015-16 fiscal year. Thirty percent of total revenues was

<sup>10</sup> Information obtained from Independent Auditors Reports, statements of revenue, expenditures and changes in fund balance.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

*Criteria relevant to the finding  
(continued):*

(b) Duties.--When a school district is identified through the early warning system for financial watch status, the department shall:

(1) Notify the school district that the department has identified the school district for financial watch status.

(2) Request from the school district all information necessary to enable the department to conduct a review of the school district's financial condition. A school district that receives a request for information under this paragraph shall provide the department with all information requested within 15 days.

(3) Perform a thorough review of the school district's financial condition, which shall include a review of the information provided by the school district under paragraph (2) and which may include visits and correspondence with school district officers and employees.

(4) Provide the school district with technical assistance appropriate to remedying the school district's financial difficulties, which may include, but shall not be limited to, contracting with financial consultants to assist the school district. *See 24 P.S. § 6-611-A(a) and (b).*

derived from local sources while federal revenue was the remaining nine percent.

As shown in the table above, the District's total revenue increased over the period reviewed by seven percent. This increase was primarily the result of increases in Commonwealth subsidies. Local revenue is mainly comprised of property taxes and increased by four percent over the period reviewed. The minimal increase in local revenues is concerning when you consider that the District increased millage rates in each fiscal year of the period reviewed. Federal revenue was stagnant during the period reviewed.

The District expects flat or declining local revenues, state subsidies, and federal funds. State and federal subsidies are variable in nature since they are distributed based on the discretion of those governmental entities. The District is also rightfully concerned about their local taxpayers being able to afford to pay increasing millage rates. The City of Aliquippa experienced a population decline of 19.6 percent from 2000 to 2010. More than 20 percent of the City's residents live at or below the poverty level, almost double the national average. Any increased local tax impact remains minimal as the overall assessed value of property in the City of Aliquippa continues to decline. In addition, the largest tract of property for development is along the riverfront, and it has been designated a Keystone Opportunity Expansion Zone.<sup>13</sup>

### Expenditures

Total District expenditures increased three percent over the period reviewed. Total District expenditures are categorized into four major functions: instructional, support services, non-instructional, and fund transfers/debt service. Instructional expenditures comprise the majority of the District's expenditures and increased from 53 to 57 percent of total expenditures from the 2012-13 fiscal year to the 2015-16 fiscal year. Support services remained constant at 30 percent of total expenditures over the period reviewed. Non-instructional expenditures and fund transfers/debt service declined over the period reviewed.

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<sup>13</sup> The Pennsylvania Department of Community and Economic Development can designate zones of property a Keystone Opportunity Expansion Zone. This designation eliminates certain state and local taxes.

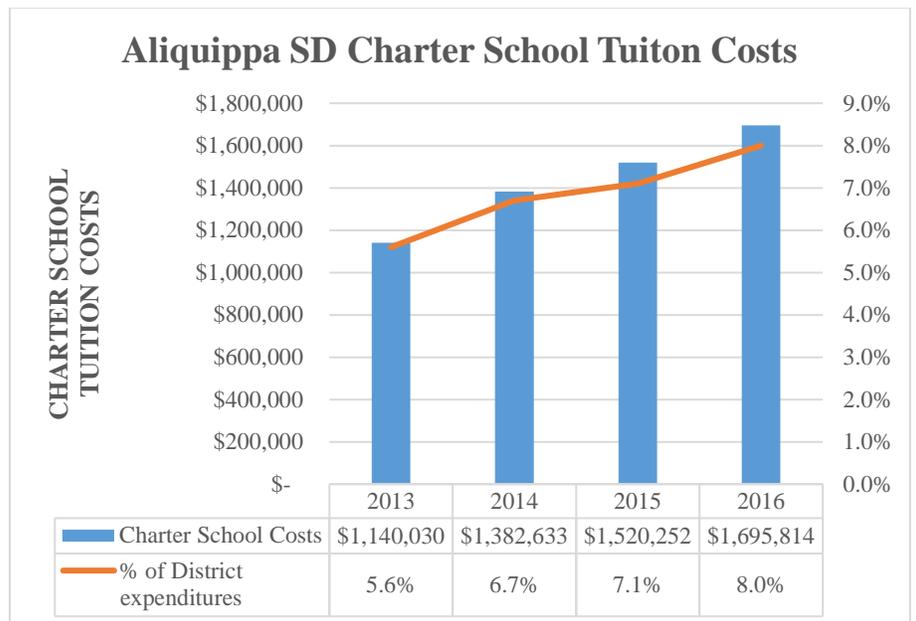
District officials attributed their ability to control expenditures to some of the suggestions provided by the PDE-appointed advisor. The advisor’s suggestion to subcontract some transportation and maintenance services was specifically cited by the District. District officials also stated that they are trying to address rising instructional expenditures by implementing retirement incentive programs and working with the Board to strategically eliminate programs.

Similar to other districts in the Commonwealth, the Aliquippa School District is facing an increase in mandated expenditures. Special education costs, retirement contributions, and health benefits have increased over the period reviewed, and the District expects these mandated expenditures to continue to increase. The District has also experienced a steady and concerning increase in charter school expenditures.

**Charter School Expenditures**

The District’s charter school tuition costs were a significant expenditure for each year we reviewed. Charter school tuition costs increased each year of the audit period. The chart below illustrates the District’s charter school tuition costs and the percentage of charter school tuition costs to total District expenditures.

**Chart 2**



Charter school tuition costs adversely affected the District’s financial status and also reduced the funds available to support academic programs for the District. As discussed earlier, the District’s revenue streams are not increasing proportionally to offset this significant increase in a mandated expenditure category. Additionally, other expenditures are not being reduced proportionally to allow the District to achieve an operating surplus.

Increasing charter school costs were the result of increased charter school enrollment of District students. The following table shows the growth in charter school enrollment and the corresponding loss of enrollment in the District’s schools.

**Table 2**

Aliquippa SD Public and Charter School Enrollment					
	2012-13	2013-14	2014-15	2015-16	% Change <sup>14</sup>
<b>Public</b>	1,195	1,170	1,156	1,107	-7%
<b>Charter</b>	118	130	140	148	25%
<b>Total</b>	<b>1,313</b>	<b>1,300</b>	<b>1,296</b>	<b>1,255</b>	-4%

Compounding the negative effect of increasing charter school costs, in 2011-12, the Commonwealth eliminated the charter school reimbursements it had been paying to sending school districts.<sup>15</sup> Rising charter school enrollments have hurt school district finances across the Commonwealth. Essentially, charter school tuition payments are contra revenues that effectively reduce state aid to the district by redirecting it to charter schools. Since state aid is the primary source of funding for the District, the effect is more pronounced for this District.

Charter school growth in this District has created a negative feedback loop, wherein the diversion of limited resources to charter schools threatens the quality of District schools, further driving students to charter schools and exerting more financial pressure on the District.

District officials stated that they are continually looking to update curriculum to keep students from leaving the District to attend charter schools. Specifically cited was the

<sup>14</sup> Percentage change from the 2012-13 school year to the 2015-16 school year.

<sup>15</sup> Section 259.1 of the Public School Code, 24 P.S. § 25-2591.1, provides for the Commonwealth to partially reimburse school districts for their charter school costs, but the Commonwealth stopped providing reimbursements after 2011.

District's addition of robotics and computer coding programs in the high school and the incorporation of iPads throughout the District.

### **Conclusion**

Despite the District being placed in financial watch status in 2013 and receiving PDE provided technical assistance, the District's General Fund balance decreased during the audit period due to a cumulative operating deficit. The District was able to control variable expenditures during the 2012-13 through 2015-16 fiscal years but continues to struggle to generate the revenues required to meet fixed expenditures. Like most districts, the District has experienced increasing charter school tuition costs, and unless the District is able to reverse this trend, it will continue to struggle to achieve consistent operating surpluses.

### **Recommendations**

The *Aliquippa School District* should:

1. Prepare a multi-year budget that reduces expenditures to an amount that will allow the District to achieve operating surpluses.
2. Release this multi-year budget to the public so that taxpayers and District officials can publicly discuss this plan at open meetings.
3. Conduct annual surveys with students and their parents/guardians to obtain their suggestions/concerns. Summarize this information and use it as a guide to make changes to District programs to reverse the trend of students leaving the District to attend charter schools.

### **Management Response**

District management provided the following response:

Aliquippa School District was placed on a financial watch status in 2013. Since that time we have made huge strides to correct this situation. We have outsourced transportation and technology services, offered early retirement incentives and cut spending across the board. We continue to explore

savings options, and will again show a positive income for the year ending June 30, 2017.

We will begin to work on a multi-year budget projection. We will also continue to monitor contractual services to ensure that we are receiving the best service for the best price. We will continue to work with our PDE advisor for saving ideas and options.

Charter School enrollments have also been problematic for the district. We have implemented a STEM program to try to offset charter school enrollments. We continue to conduct yearly surveys so that we can look at student offerings. This information is compiled in order to provide academic options for our students.

### **Auditor Conclusion**

We are encouraged that the District has taken steps to reduce expenses and is in the process of preparing multi-year budget projections. While the District has experienced increased fixed costs and increased enrollment in charter schools, we continue to stress the importance of keeping actual expenditures at or below actual revenues. We will determine the effectiveness of the District's corrective actions during our next audit of the District.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Aliquippa School District (District) released on November 21, 2013, resulted in one finding 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 reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

### Auditor General Performance Audit Report Released on November 21, 2013

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**Prior Finding:**                    **The District Is Facing Serious Financial Challenges, including a \$928,556 General Fund Deficit**

Prior Finding  
Summary:

Our prior audit of the District's annual financial reports, independent auditor's reports, and General Fund budgets for fiscal years ended June 30, 2007, 2008, 2009, 2010, 2011, and 2012 found that the District has a deteriorating general fund balance, with a \$928,556 deficit for the fiscal year ended June 30, 2012. This decline was due primarily to its failure to control expenditures in accordance with its General Fund budgets.

Prior Recommendations: We recommended that the District should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.<sup>16</sup>
2. 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.
3. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated.
4. Adopt budgets estimating beginning fund balances based on historical indicators and realistic expectations of the amount that will actually be available for the budgetary period.
5. Provide for systematic reduction of the General Fund deficit.

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<sup>16</sup> See 24 P.S. § 6-609 (relating to Budgeted funds not to be used for other purposes or exceeded).

6. Conduct a survey with parents sending their children to a charter school to determine the reason why the District is losing students.
7. Monitor the costs to the District related to charter schools on a continuous basis.
8. Open a dialogue with the community to keep stakeholders informed of the financial status and health of the District.
9. Accept technical assistance offered by PDE to help the District with its financial challenges.

Current Status:

While the District has implemented many of our prior audit recommendations, the District has not been able to increase its General Fund. The District's current financial state is discussed on pages 8 through 15.

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## **Appendix: Audit Scope, Objectives, and Methodology**

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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 (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,<sup>17</sup> is not a substitute for the local annual financial 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. 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, 2012, through June 30, 2016. In addition, the scope of each individual audit objective is detailed on the next page.

The Aliquippa School District's (District) management is responsible for establishing and maintaining effective internal controls<sup>18</sup> to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which 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.

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<sup>17</sup> 72 P.S. §§ 402 and 403.

<sup>18</sup> 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, 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, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2012, through June 30, 2016. 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:

- Financial Stability
- Transportation Operations
- Bus Driver Requirements
- School Safety

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

- ✓ Based on an assessment of financial indicators, 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, and independent auditor's reports, for fiscal years ending June 30, 2013, through June 30, 2016. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, debt ratio, and current ratio. These financial indicators were deemed appropriate for assessing the District's financial stability. The financial indicators are based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. Our review of this objective can be found in the Finding.
- ✓ Did the District receive the correct transportation reimbursement from the Commonwealth?<sup>19</sup>
  - To address this objective, we requested documentation to support payments made to the transportation contractor for payable years 2012-13, 2013-14, 2014-15, and 2015-16. We reviewed the documentation for these five years to determine if

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<sup>19</sup> See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

contractor costs were accurately reported to PDE.<sup>20</sup> Our review of this objective did not disclose any reportable issues.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver’s license, physical exam, training, background checks, and clearances as outlined in applicable laws?<sup>21</sup> Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
  - To address this objective, we obtained a current list of District bus drivers, as of July 25, 2017. We randomly selected 5 of the 27 drivers from this list to ensure that the District complied with all of the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures ensure compliance, when followed, with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.<sup>22</sup>
  
- ✓ Did the District take actions to ensure it provided a safe school environment?<sup>23</sup>
  - 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 followed up on the prior safe school review to assess whether the District had implemented basic safety practices and recommendations. Due to the sensitive nature of school safety, the results of our review of this objective are not described in our report. The results of our review of school safety are shared with the District officials and, if deemed necessary, PDE.

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<sup>20</sup> Districts are reimbursed by the Commonwealth annually based on the lower of “reported contractor cost” or “final formula allowance.”

<sup>21</sup> 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.*

<sup>22</sup> We selected drivers randomly in order to obtain a representative selection of drivers. While the results of tests of representative selections may be projected to their respective populations, the characteristics present in the population may differ from the characteristics of the items selected.

<sup>23</sup> 24 P.S. § 13-1301-A *et seq.*

## **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:

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