

PERFORMANCE AUDIT

Duquesne City School District Allegheny County, Pennsylvania

December 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Nedene M. Gullen
Acting Superintendent
Duquesne City School District
300 Kennedy Avenue
Duquesne, Pennsylvania 15110

Dr. Paul Long
Receiver
Duquesne City School District
300 Kennedy Avenue
Duquesne, Pennsylvania 15110

Dear Ms. Gullen and Dr. Long:

Our performance audit of the Duquesne City School District (District) evaluated the application of best practices in the areas of finance and school safety. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). This audit covered the period July 1, 2012, through June 30, 2016, except as otherwise indicated in the audit scope, objective, and methodology section of the report. 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.

During our audit, we found significant instances of failing to apply best practices and noncompliance with relevant requirements, as detailed in our four findings. A summary of the results is presented in the Executive Summary section of this report.

Our audit findings and recommendations have been discussed with the District's management, and their responses are included in this 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

November 8, 2017

cc: **DUQUESNE CITY 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 Duquesne City School District (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, 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, 2012, through June 30, 2016, except as otherwise indicated in the audit scope, objectives, and methodology section of the report (see Appendix). Compliance specific to state subsidies and reimbursements was determined for the 2012-13 through 2015-16 school years.

Audit Conclusion and Results

During our audit, we found significant instances of failing to apply best practices and noncompliance with relevant requirements, as detailed in our four findings.

Finding No. 1: Four Individuals Employed by the District, Including the Superintendent, Received 22 Interest-Free Loans over a 4-Year Period, Resulting in a Possible Misuse of Public Funds Under the Ethics Act. Beginning in fiscal year 2013-14 and continuing through the 2016-17 fiscal year, the District's Superintendent, a public official, authorized interest-free personal loans to four individuals employed by the District, including herself. In that four-year time span, 22 loans were issued, and 11 of them, or half, were issued to the Superintendent. The loans were paid from the District's General Fund, but were issued outside of public view—without authorization by the District's Receiver,¹ Chief Recovery Officer,² or Board of School Directors (see page 9).

Finding No. 2: The District Incorrectly Reported Transportation Data to PDE Resulting in an \$180,431 Overpayment.

During our audit of the District's student transportation data reported to the Pennsylvania Department of Education (PDE) for the 2012-13 through 2015-16 school years, we found that the District did not maintain adequate source documents to verify over \$1.3 million in transportation reimbursements from PDE. Even with the lack of adequate supporting documentation, some reporting errors by the District were so blatant that we were able to easily calculate that the District was overpaid. These errors

¹ Section 672-A of Article VI—a. relating to School District Financial Recovery of the Public School Code for instances of Severe Financial Recovery, the Receiver is to “assume **all powers and duties** of both **the chief recovery officer** and **the board of school directors**.” Further, “[t]he chief recovery officer appointed for the financial recovery school district under Section 631-A shall remain in place as **an advisor** to the receiver.” (Emphases added.) See 24 P.S. § 6-672-A(a)(1) and (3).

² Ibid.

resulted in the District being overpaid \$129,996 for regular transportation reimbursement. Additionally, we found that the District incorrectly reported the number of nonpublic and charter school students transported by the District to PDE. Incorrectly reporting the number of nonpublic and charter school students, resulted in overpayments of \$50,435 in nonpublic and charter school transportation reimbursements (see page 16).

Finding No. 3: The District Failed to Ensure School Bus Drivers Met All Employment Requirements. The District did not ensure that all bus drivers had the required credentials and criminal history clearances *before* they transported students at the beginning of the 2016-17 school year. Specifically, we found that the District failed to review documentation for completeness and verification that all bus drivers were qualified and suitable to transport District students (see page 23).

Finding No. 4: Inadequate Documentation to Support Over \$104,340 in Commonwealth-paid Tuition for Orphans and Children Placed in Private Homes. During our audit of the District's nonresident pupil membership records for the 2011-12, 2012-13, 2013-14, and 2014-15 school years, we found that the District did not maintain adequate documentation to support the students reported to PDE as nonresident students placed in private homes (foster children). Consequently, we were unable to verify the accuracy of the Commonwealth-paid tuition totaling \$104,340 for the years reviewed (see page 27).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to nonresident students (see page 31). We found that the District had taken appropriate corrective action pertaining to the District's financially declining position (see page 32). We found that the District had taken appropriate corrective action pertaining to the lack of sufficient internal controls over its student data (see page 33).

Background Information

Governance

A former Secretary of Education declared Duquesne City School District (District) a financially distressed school district in October 2000, in accordance with the requirements of the Pennsylvania Public School Code. Since October 2000, the District's governance structure has included the Pennsylvania Department of Education (PDE) appointees in addition to the elected nine member Board of School Directors (Board).

In July 2012, the General Assembly passed Act 141 of 2012, which permits PDE to declare a school district to be in financial recovery status. This designation occurs when a school district's financial condition deteriorates to a point that it has to request an advance on its annual state basic education subsidy. PDE can determine school districts to be in moderate or severe financial recovery status. Such designations result in PDE appointing a chief recovery officer whose responsibilities include oversight of the district and development of a district-wide financial recovery plan.

On November 16, 2012, the Pennsylvania Secretary of Education declared the District to be in severe financial recovery status and appointed a chief recovery officer to prepare a recovery plan. In April 2013, after the Board declined to approve the Chief Recovery Officer's plan,³ the Allegheny County Court of Common Pleas ordered the District into receivership and appointed the chief recovery officer to the position of the Receiver. At this time, the recovery plan was officially implemented. This was the same recovery plan that the Board previously rejected. At this point, the Receiver assumed all powers of the Board.⁴

District Students

Beginning with the 2007-08 school year, the District could no longer educate its high school students and instead, educational services for its high school students were provided through legislatively mandated contracts with two other local school districts. These contracts were expanded to include the District's middle school students beginning with the 2012-13 school year.⁵

³ The Board voted 8-0 (one member abstained) against the recovery plan. No comments or reasons given by the Board for voting against the recovery plan were documented in the official board meeting minutes.

⁴ Section 672-A of Article VI-a. relating to School District Financial Recovery of the Public School Code for instances of Severe Financial Recovery, the Receiver is to "assume **all powers and duties** of both **the chief recovery officer** and **the board of school directors**." Further, "[t]he chief recovery officer appointed for the financial recovery school district under section 631-A shall remain in place as **an advisor** to the receiver." (Emphases added.) See 24 P.S. § 6-672-A(a)(1) and (3).

⁵ The two local districts are the West Mifflin Area School District and the East Allegheny School District. Both districts are **legislatively** mandated to educate Duquesne City School District's high school and middle school students (i.e., in grades 7 through 12).

Beginning with the 2012-13 school year, kindergarten through sixth grade students were educated in one District building. The recovery plan, implemented in April 2013, presented the following four options deemed by the receiver to be the best options to effectively educate District students.

1. Continue to educate kindergarten through sixth grade students locally by the District in one building.
2. The District's kindergarten through sixth grade students would be educated by neighboring public schools that would voluntarily accept the District's students on a tuition basis.
3. The District's kindergarten through sixth grade students would be educated by neighboring public schools through legislative action.
4. The District's kindergarten through sixth grade students would be educated by a charter school that would open in Duquesne City or by existing charter schools.

The Receiver recommended the second option, but neighboring school districts have been unwilling to voluntarily accept the District's students on a tuition basis. The District negotiated with the School District of Pittsburgh and West Mifflin Area School District during the 2012-13 school year, but was unable to reach an agreement. Since the recovery plan was implemented in 2013, the Receiver has been unable to reach an agreement with neighboring districts to educate the District's elementary school students. Legislative action has not occurred that would legally compel districts to accept the District's students on a tuition basis precluding the District from using the third option of the recovery plan.

The fourth option has been determined by the Receiver to be financially untenable for the District. Without an extraordinary revenue source, the District is unable to convert to a charter school or pay tuition costs for each District student to attend a charter school.

The District continues to operate under the first option and has done so since the 2012-13 school year.

Academic Scores

Since the District only operates an elementary school, Keystone Exam scores and Graduation Rates were not available for either of the 2014-15 or 2015-16 school years. Likewise, the School Performance Profile (SPP) scores were not available for the 2014-15 school year.

School Characteristics 2015-16 School Year ^A	
County	Allegheny
Total Square Miles	2.0
Resident Population^B	5,565
Number of School Buildings	1
Total Teachers	38
Total Full or Part-Time Support Staff	37
Total Administrators	3
Total Enrollment for Most Recent School Year	326
Intermediate Unit Number	3
District Vo-Tech School	Steel Center

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

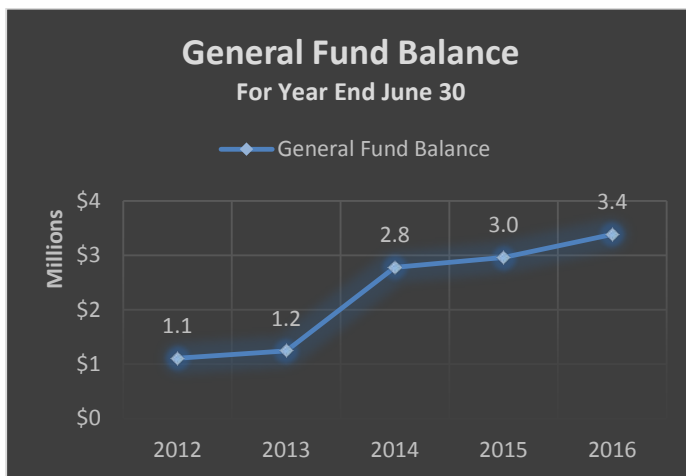
B - Source: United States Census
<http://www.census.gov/2010census>.

Mission Statement^A

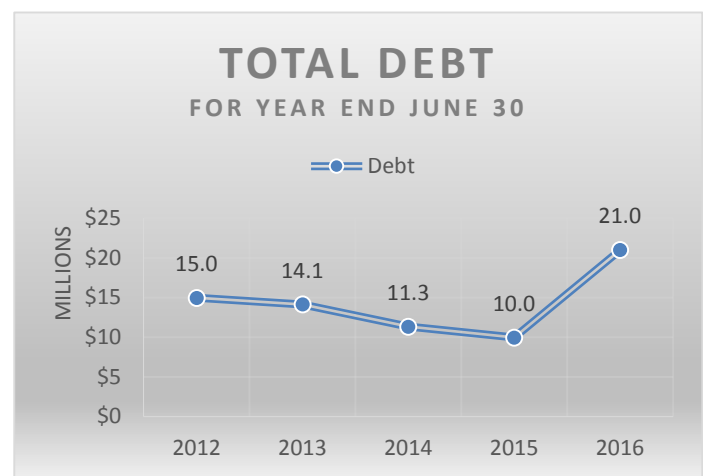
The Duquesne City School District exists to serve the diverse academic, physical, social and emotional needs of its learners in a supportive and caring environment.

Financial Information

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

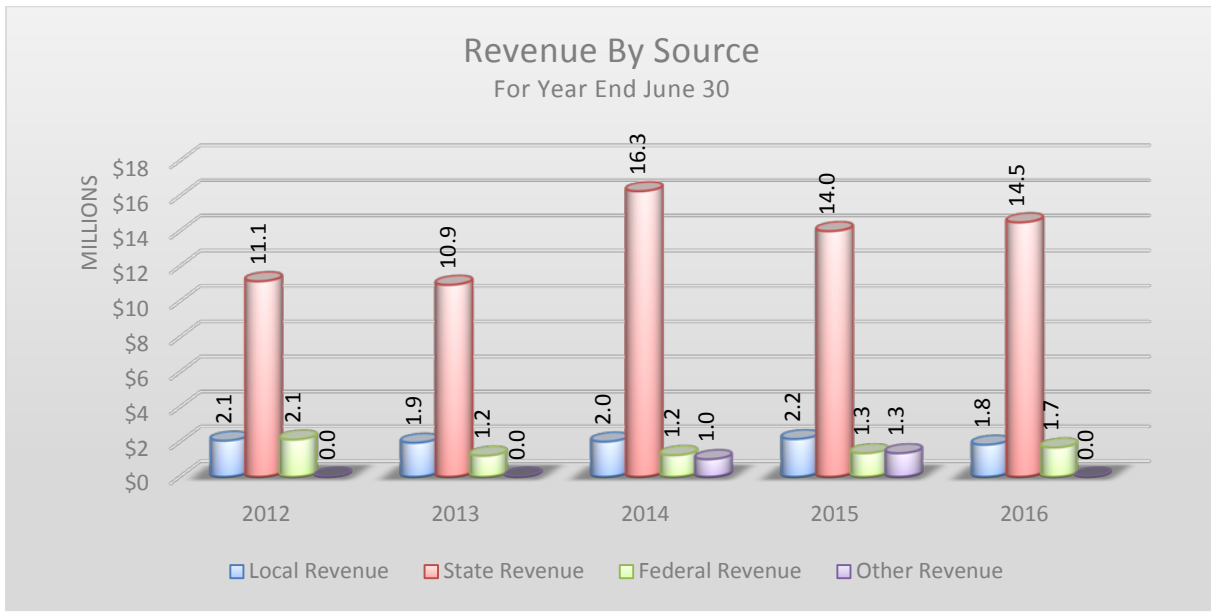
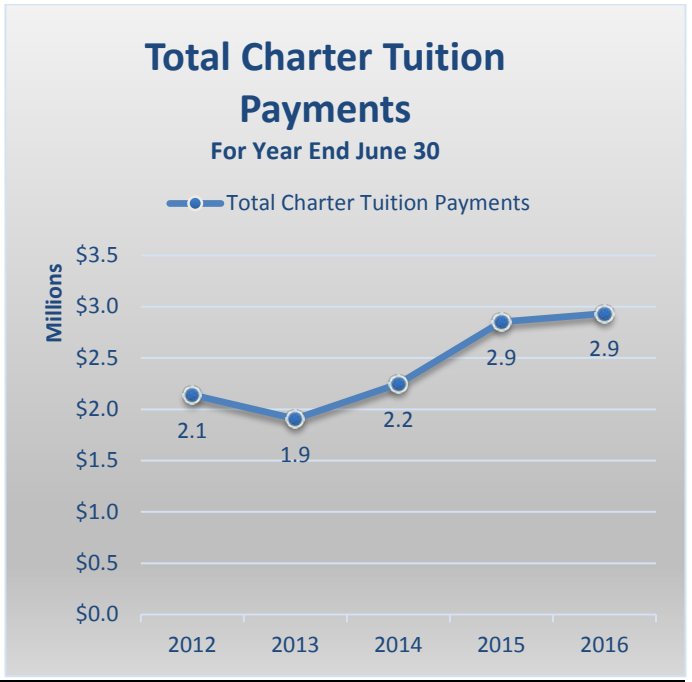
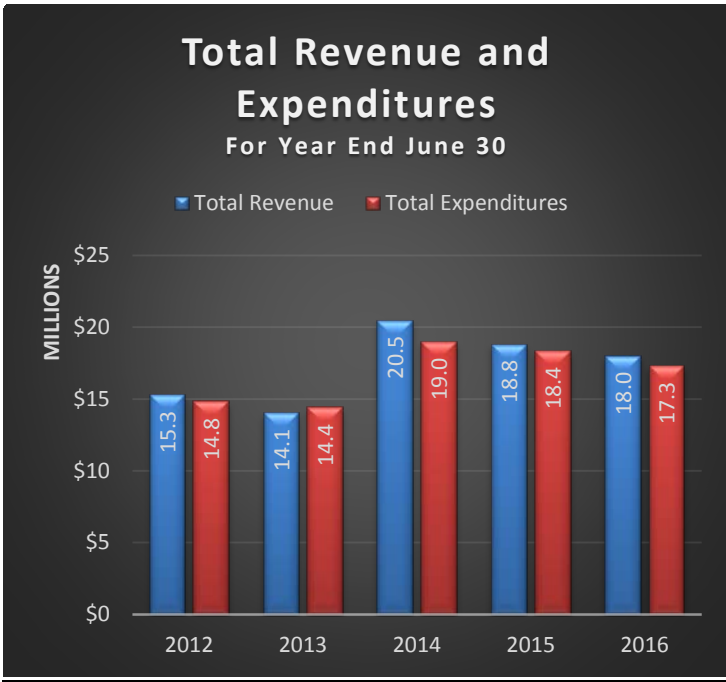


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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 SPP scores and Pennsylvania System of School Assessment (PSSA) for the District obtained from PDE's data files for the 2014-15 and 2015-16 school years.⁶ 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.⁷ 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.⁸

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.⁹ 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.

⁶ PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

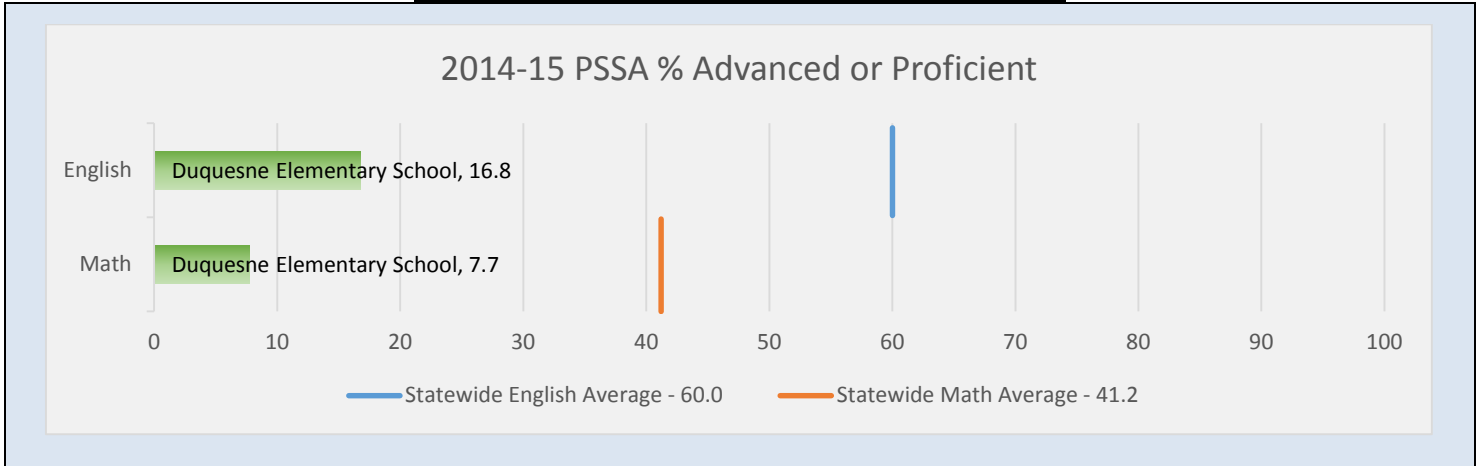
⁷ PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

⁸ 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.

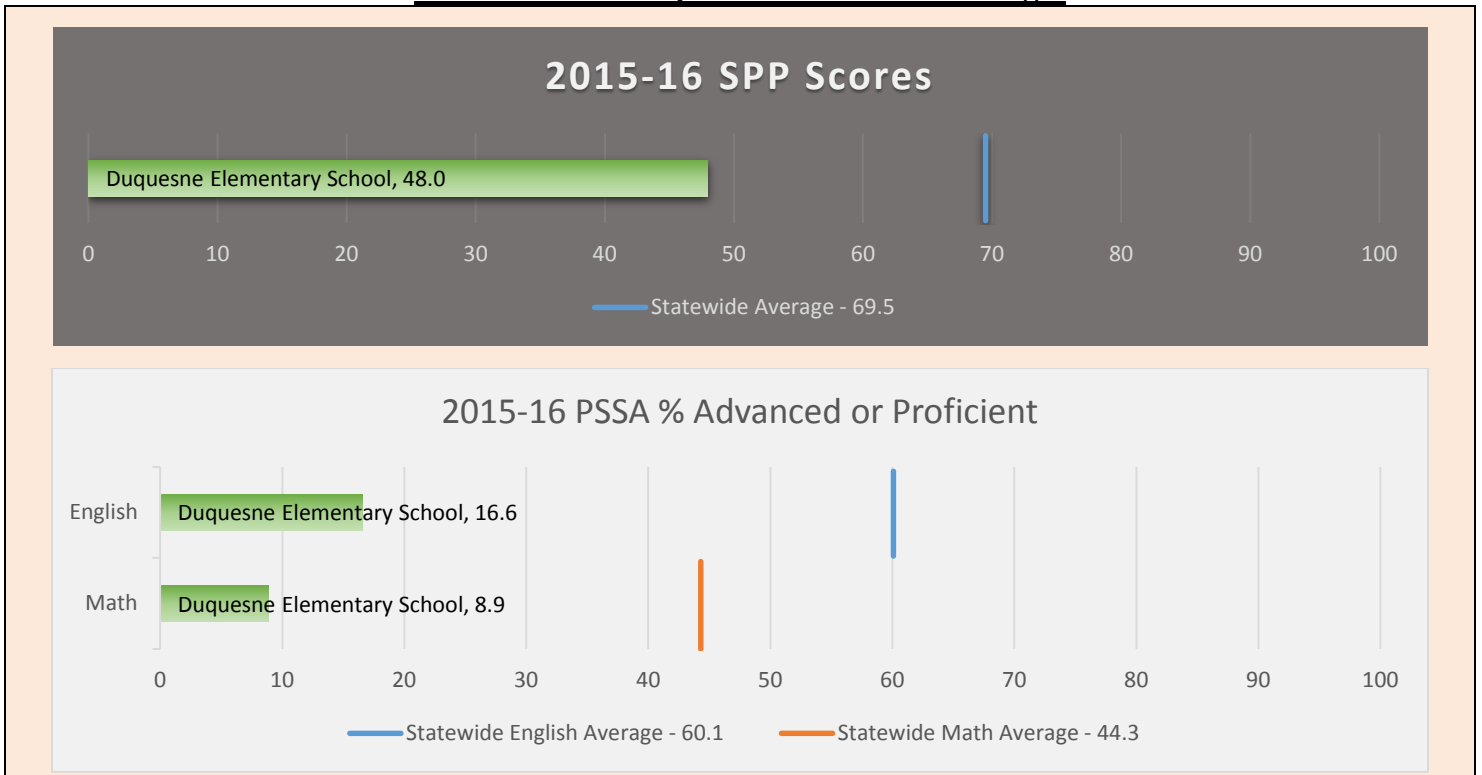
⁹ According to PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of PSSA exams to align with state Common Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important 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.¹⁰ 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.

2014-15 Academic Data
School Scores Compared to Statewide Averages



2015-16 Academic Data
School Scores Compared to Statewide Averages



¹⁰ 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).

Finding(s)

Finding No. 1

Four Individuals Employed by the District, Including the Superintendent, Received 22 Interest-Free Loans over a 4-Year Period, Resulting in a Possible Misuse of Public Funds Under the Ethics Act

Criteria relevant to the finding:

The “Purpose” (preamble) of the Ethics Act provides as follows, in part:

(a) *Declarations.*—The Legislature hereby declares that public office is a **public trust** and that **any effort to realize personal financial gain** through public office other than compensation provided by law **is a violation** of that trust. . . . Because public confidence in government can best be sustained by assuring the people of the **impartiality and honesty of public officials**, this chapter shall be liberally construed to promote complete financial disclosure as specified in this chapter. (Emphases added.) *See* 65 Pa.C.S. § 1101.1(a).

Beginning in fiscal year 2013-14 and continuing through 2016-17, the Duquesne City School District’s (District) Superintendent, a public official, authorized interest-free personal loans to four individuals employed by the District, including herself. In that four-year time span, 22 loans were issued, and 11 of them, or half, were issued to the Superintendent. The loans were paid from the District’s General Fund, but were issued outside of public view—without authorization by the District’s Receiver, Chief Recovery Officer (CRO), or Board of School Directors (Board).

These personal loans represented a possible misuse of public funds under the *Pennsylvania Public Official and Employee Ethics Act* (Ethics Act), which prohibits public officials and employees from realizing personal financial gain through their public office. More specifically, the Ethics Act clearly prohibits public officials and employees from entering into the following:

. . . any contract valued at \$500 or more with the governmental body with which the public official or public employee is associated or any subcontract valued at \$500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, **unless the contract has been awarded through an open and public process . . .**¹¹ (Emphasis added.)

¹¹ 65 Pa.C.S. § 1103(f).

Criteria relevant to the finding:

A “Conflict” or “conflict of interest” under the *Ethics Act* is defined as follows:

Use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated. The term does not include an action having a de minimis economic impact or which affects to the same degree a class consisting of the general public or a subclass consisting of an industry, occupation or other group which includes the public official or public employee, a member of his immediate family or a business with which he or a member of his immediate family is associated. *See* 65 Pa.C.S. § 1102.

Background

The District has been in financial recovery status for several years, meaning that it was being monitored and assisted by the Pennsylvania Department of Education (PDE) in an effort to improve both its financial condition and academic performance. While the District was still in a weak financial position, these personal loans were issued without authorization from the PDE-appointed Receiver or the CRO, and thus, without any check on the authority of the Superintendent. As a result, the Superintendent, as a public official,¹² and the Principal and two other employees, as public employees,¹³ enjoyed an ongoing personal benefit that others employed by the District did not receive.

Table 1 below illustrates the trend of personal loan activity over the four-year period, which reveals a gradual increase in the number of loans per year. As the number of loans increased over the four-year period, the total amount borrowed increased as well.

Table 1

Duquesne City School District Summary of Personal Loans										
	2013-14		2014-15		2015-16		2016-17		Total	
	#	\$	#	\$	#	\$	#	\$	#	\$
Superintendent	1	2,000	3	3,500	5	10,050	2	7,600	11	23,150
Principal	2	3,000	1	3,000	1	2,000	1	2,000	5	10,000
Clerk	-	-	1	2,040	-	-	3	4,900	4	6,940
Administrative Staff Member	-	-	-	-	-	-	2	1,160	2	1,160
Total	3	5,000	5	8,540	6	12,050	8	15,660	22	41,250

¹² A “public official” under the *Ethics Act* is defined as follows, in part: “Any person elected by the public or elected or **appointed by** a governmental body or an appointed official in the executive, legislative or judicial branch of this Commonwealth or **any political subdivision thereof**. . . .” [Emphases added.] *See* 65 Pa.C.S. § 1102.

¹³ A “public employee” under the *Ethics Act* includes, in part: “Any individual employed by the Commonwealth or **a political subdivision** who is responsible for taking or recommending official action of a nonministerial nature (1) contracting or procurement; (2) administering or monitoring grants or subsidies; (3) planning or zoning; (4) inspecting, licensing, regulating or auditing any person; or (5) any other activity where the official action has an economic impact of greater than a de minimis nature on the interests of any person. . . .” (Emphasis added.) *Ibid.*

*Criteria relevant to the finding
(continued):*

Section 1103 (relating to *Restricted activities*) of the Ethics Act, states, in part:

(a) Conflict of interest.--No public official or public employee shall engage in conduct that constitutes a **conflict of interest**.

(f) Contract.--No public official or public employee or his spouse or child or any business in which the person or his spouse or child is associated **shall enter into any contract valued at \$500 or more** with the governmental body with which the public official or public employee is associated or any subcontract valued at \$500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, unless the contract has been awarded **through an open and public process**, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract. Any contract or subcontract made in violation of this subsection shall be voidable by a court of competent jurisdiction if the suit is commenced within 90 days of the making of the contract or subcontract. [Emphases added.] See 65 Pa.C.S. § 1103(a) and (f).

The District stated that the loans were “collateralized” by the employee’s compensation.¹⁴ The loans were repaid by payroll deductions from future wages earned.

No Oversight by Financial Recovery Officials¹⁵

Since April 2013, the District had both a CRO *and* a Receiver.¹⁶ The appointment of the Receiver meant that the Receiver’s authority replaced the authority of the Board in its typical process of formally voting on fiscal matters. The Board itself was limited to imposing taxes and incurring debt. Therefore, the fact that these personal loans were executed without authorization by the Receiver seriously impaired the transparency of the transactions.

Until our audit, the Receiver was unaware of the personal loans issued out of the District’s General Fund. The current CRO, who took over in November 2014, was aware of the past practice of some employees obtaining personal loans, but was not aware of the specifics, i.e., who requested loans, who approved the loans, how much the loans were for, and how many loans were being issued from year to year.

Weak Processing Controls

The District did not have any policies and procedures related to the interest-free personal loans. After we inquired about the procedures for issuing these loans, the District prepared a written list of procedures. These procedures stated that to obtain a loan, the employee had to submit a written request to the Superintendent. The Superintendent would review the request and then send it to the Business Manager for approval. The Business Manager would then forward the request to the payroll clerk who would inform the business consultant.¹⁷ The business consultant then

¹⁴ The District’s pay schedule is two weeks behind actual work performed.

¹⁵ On November 16, 2012, the Duquesne City School District was declared to be in “financial recovery status” as defined in Section 621-A of the Public School Code (PSC), 24 P.S. § 6-621-A. Section 631-A(a) of the PSC, 24 P.S. § 6-631-A(a), instructs the secretary of education to appoint a CRO for the District. The CRO has the duties and responsibilities of directing the District through the recovery process. Once the Receiver has been appointed, the CRO is in the position as an advisor to the Receiver. See 24 P.S. § 6-672-A(a)(3).

¹⁶ Source: The title page of the District’s *Recovery Plan Second Amendment*, dated November 17, 2014, lists both a CRO and a Receiver. The background section also refers to the appointment of a Receiver in October 2013.

¹⁷ During the time period reviewed, the District had a business consultant, whose responsibilities included helping the District report financial information, accurately submit financial documents to PDE, and help the District implement their recovery plan.

developed an informal repayment schedule for the employee.

We reviewed the written requests and found they were in the form of emails or typed letters addressed to the Superintendent. For her own loans, the Superintendent addressed her personal loan requests directly to the payroll clerk, who was one of the other three employees who received loans during the four-year period.

While District officials told us that these loans were offered to assist with “financial hardships,” we found that in most instances during the four years reviewed, the Superintendent, the Principal, and the other employees were merely requesting a specific amount of money without any reason given for the advance. In one instance, a request from the Superintendent stated “I would like to borrow \$1000 against myself to assist with the holidays and my daughter.”

Our review of the personal loan procedures identified the following issues that created a circular loan approval process that raises red flags about possible fraud, waste, and abuse:

- The Superintendent submitted her loan requests to a subordinate (the clerk), thereby essentially approving her own loans.
- The Business Manager was approving loans for an immediate family member (the clerk).¹⁸
- The repayment schedules were not memorialized in writing.

While the repayment schedules set up by the business consultant did not allow the employees to realize any tax benefits and required repayment in the fiscal year of the loan, this was not a good use of the business consultant’s time. The process of developing loan repayment schedules took valuable time away from the consultant’s primary duties and responsibilities, which were to help the District get out of its “distressed” status and improve its financial position.

¹⁸ We believe that at minimum, the Business Manager engaged in a conflict of interest when she approved a loan for her immediate family. An “immediate family” under the *Ethics Act* is defined as follows: “A parent, spouse, child, brother or sister.” See 65 Pa.C.S. § 1102.

We verified that all of the personal loans had been paid in full by their respective due dates, and thus the loans were never outstanding at the close of the fiscal year when the District's independent auditors might have potentially discovered them. We also found that proper payroll taxes and deductions had been made from gross payroll amounts *prior* to the loan repayment deduction, so that at least the employees realized no tax benefits related to these loans.

Conclusion

The practice of providing interest-free loans outside of public view and without seeking authorization from financial recovery officials represented a possible misuse of public funds and possible noncompliance with the Ethics Act. These loans not only provided a benefit to a small, select group of individuals, who received a benefit that others did not, but also created an added risk to the District of a permanent loss of public funds. Finally, the business of lending is tightly controlled and monitored by federal statutes and regulations. Any school district, and especially one that was in financial recovery, should not have been engaged in such practices.

Recommendations

The *Duquesne City School District* should:

1. Adopt a board policy prohibiting the practice of issuing personal loans to employees and administrative officials.
2. Review both its cash disbursements and contracting procedures to determine whether it should implement more specific and stringent *review and approval procedures* that will not only maximize controls to prevent unauthorized transactions, such as these loans, from occurring, but also will allow for timely discovery of unauthorized activities so that they can be appropriately stopped and remedied.

Management Response

District management provided the following response:

The DCSD assisted employees by agreeing to make advances on their salaries when they experienced “financial hardships.” At no time was the intent to be fraudulent in nature, abuse District funds or violate ethical practices as is evidenced by the full repayment through payroll deductions of all salary advances in a timely manner.

On page 4 of 5, it states that the Business Manager approved a loan for an immediate relative. The Business manager did not approve the salary advance for the Clerk. The Superintendent approved the salary advance for the Clerk, as is evidenced by the Superintendent’s signature. Therefore, the business manager did not engage in a conflict of interest, as she was not the person who approved the advance. There (sic) both were merely following the direction of the Superintendent.

The Superintendent requested salary advances for “financial hardships.” More specifically, the financial hardships included a family member’s health care, college tuition and a theft of personal property. The Superintendent submitted her requests to the payroll clerk because that is the same procedure that was followed with the other requests which occurred before any request from the Superintendent. The intent was never to misuse authority as a public official, nor was the intent to misuse public funds.

The DCSD will adopt board policy prohibiting the practice of issuing any salary advances or personal loans to employees regardless of the circumstances.

The DCSD will review along with its’ independent local auditors both its cash disbursement and contracting procedures to determine whether it should implement more specific and stringent procedures that will not only maximize controls to prevent unauthorized transactions, such as salary advances and loans from occurring, but also will allow for timely discovery of unauthorized activities so that the can be appropriately stopped and remedied.

The DCSD will seek repayment on the interest accrued on the salary advances.

Auditor Conclusion

We are pleased that the District will discontinue this questionable practice immediately. We will review the board policy that the District stated that they will adopt to terminate this practice along with any other corrective action taken during our next audit of the District.

Our review of all of the “hardship” letters and repayment schedules did note the initials of the Business Manager, which appeared to indicate approval since the District did not have any other processing controls in place for this process. The District’s statement that the Business Manager was not “approving” payroll advances for a family member is disputed by our audit evidence.

Finding No. 2**The District Incorrectly Reported Transportation Data to PDE Resulting in an \$180,431 Overpayment***Criteria relevant to the finding:*

The PSC provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 of the PSC, 24 P.S. § 25-2541, specifies the transportation formula and criteria.

Section 2541(a) of the PSC, 24 P.S. § 25-2541(a), states, in part: “School districts shall be paid by the Commonwealth for every school year on account of pupil transportation which, and the means and contracts providing for which, have been approved by the Department of Education, in the cases hereinafter enumerated, an amount to be determined by multiplying the cost of approved reimbursable pupils transportation incurred by the district by the district’s aid ratio. In determining the formula for the cost of approved reimbursable transportation, the Secretary of Education may prescribe the methods of determining approved mileage and the utilized passenger capacity of vehicles for reimbursement purposes. . . .”

Section 2543 of the PSC, 24 P.S. § 25-2543, sets forth the requirement for school districts to annually file a sworn statement of student transportation data for the prior and current school year with PDE in order to be eligible for the transportation subsidies.

During our audit of the District’s student transportation data reported to PDE for the 2012-13 through 2015-16 school years, we found that the District did not maintain adequate source documents to verify over \$1.3 million in transportation reimbursements from PDE. Even with the lack of adequate supporting documentation, some reporting errors by the District were so blatant that we were able to easily calculate that the District was overpaid. These errors resulted in the District being overpaid \$129,996 for regular transportation reimbursement. Additionally, we found that the District incorrectly reported the number of nonpublic and charter school students transported by the District to PDE. Incorrectly reporting the number of nonpublic and charter school students resulted in overpayments of \$50,435 in nonpublic and charter school transportation reimbursements.

Districts receive two separate transportation reimbursement payments from PDE. One reimbursement is based on the number of students transported and the number of miles of vehicles in service both with and without students (regular transportation reimbursement). The other reimbursement is based on the number of charter school and nonpublic students transported (supplemental transportation reimbursement).

We found that the District did not take an active role in overseeing their transportation operations and relied exclusively on the District’s contractor to provide the data the District reported to PDE.

*Criteria relevant to the finding
(continued):*

Section 2543 of the PSC, which is entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” states, in part: “Annually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to pupil transportation for the prior and current school year. . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied **with the law or regulations** of the State Board of Education.” [Emphasis added.]

Section 518 of the PSC, 24 P.S. § 5-518, requires that financial records of a district be retained by the district for a period of not less than six years.

Section 1361(a) of the PSC, 24 P.S. § 13-1361(a), requires school districts to provide free transportation to their students attending a nonpublic school located within the school district or outside the school district not exceeding ten miles by the nearest public highway and Section 1726-A(a) of the Charter School Law (CSL), 24 P.S. § 17-1726-A(a), requires the same. These provisions also allows school districts to receive a supplemental, state transportation subsidy of \$385 per nonpublic and charter school student pursuant to Section 2509.3 of the PSC, 24 P.S. § 25-2509.3.

Lack of Supporting Documentation for Transportation Reimbursements Received

The District received a total of \$1,390,341 for regular student transportation reimbursements for the 2012-13 through the 2015-16 school years from PDE, detailed in the table below:

Table 2

Duquesne City School District Regular Transportation Reimbursements	
School Year	Reimbursement Received
2012-13	\$ 346,445
2013-14	\$ 377,363
2014-15	\$ 346,370
2015-16	\$ 320,163
Total:	\$1,390,341

Due to the District failing to maintain the necessary supporting documentation, we were unable to determine the accuracy of the total reimbursement received.

We asked District personnel for documentation that would support the data they reported to PDE. The District was unable to provide any documentation for the 2013-14 school year. For the other three school years of our review, the District maintained some transportation related documentation but not all the information needed to verify the accuracy of the data reported to PDE. The failure to maintain this documentation violates the State Board of Education Regulations, Title 22, Chapter 23 (relating to Pupil Transportation), which are noted in the criteria box to the left.

For the school years for which some documentation was available (2012-13, 2014-15, and 2015-16), we found that the documentation included the total number of students transported and the number of miles that vehicles were in service, both with and without students. However, the District could not provide the student rosters or bus odometer readings, so the total reimbursement received could not be verified.

Criteria relevant to the finding (continued):

State Board of Education Regulations, Title 22, Chapter 23 (relating to Pupil Transportation), Section 23.4: “The board of directors of a school district is responsible for all aspects of pupil transportation programs including . . . (3) The establishment of routes, schedules and loading zones which comply with laws and regulations, . . . (5) The furnishing of rosters of pupils to be transported on each school bus run and trip; (6) The maintenance of a record of pupils transported to and from school, including determination of pupils’ distances from home to pertinent school bus loading zones. . . .” See 22 Pa. Code § 23.4(3), (5), and (6).

Incorrect Reporting of Nonpublic and Charter School Students Transported

We found that the District incorrectly reported to PDE the number of nonpublic and charter school students transported by the District during the 2012-13, 2014-15, and 2015-16 school years. As a result of the incorrect reporting, the District was overpaid a cumulative total of \$50,435 as detailed in the following table:

Table 3

Duquesne City School District Summary of Incorrect Transportation Data Reported to PDE				
School Year	Number of Charter Students Under/ (Over) Reported	Number of Nonpublic Students (Over) Reported	Total Number of Students (Over) Reported	Total Amount of Overpayment (Total x \$385)
2012-13	(28)	(35)	(63)	\$ 24,255
2014-15	(15)	(9)	(24)	\$ 9,240
2015-16	5	(49)	(44)	\$ 16,940
Totals	48	93	141	\$ 50,435

The District over reported the number of nonpublic students transported by incorrectly reporting some special education students who were enrolled in an alternative education program as nonpublic students. In addition, the District incorrectly reported the number of charter school students transported due to incorrectly calculating the total number of charter school students on individual bus rosters.

Incorrect Reporting of Transportation Data Elements

The District did not report any non-reimbursable students¹⁹ for the 2012-13, 2014-15, and 2015-16 school years. We requested certified hazardous walking route documentation to determine whether the District had any routes determined to be hazardous, and in turn, to determine if the District correctly reported all students as reimbursable. The District did not provide documentation of hazardous streets or walking routes. Therefore, the District incorrectly reported 446 students as reimbursable during the 2012-13,

¹⁹ Non-reimbursable students are elementary students who reside within 1.5 miles of their school and secondary students who reside within 2 miles of their school. Non-reimbursable students do not include special education students or students who reside on routes determined by PennDot to be hazardous.

2014-15, and 2015-16 school years and this contributed to the District being overpaid transportation reimbursement for those years (see Table 4 below).

The District’s transportation contractor provides transportation services to both the Duquesne City and the West Mifflin Area school districts. We found that the information the contractor provided to the District to be used for reporting transportation data to PDE contained data for both districts. The District’s Business Manager was responsible for reporting the transportation data received from the contractor to PDE. Our review noted that while the contractor did provide transportation data to the District, the District’s Business Manager failed to perform a review of the data for accuracy prior to submitting the data to PDE.

We found that the District incorrectly reported 8 vehicles in the 2014-15 school year and 11 buses in the 2015-16 school year to PDE for reimbursement when these buses were not eligible for reimbursement since they were transporting students to West Mifflin Area School District. These buses should have been removed from the data provided by the contractor prior to the District submitting transportation data to PDE.

The combination of incorrectly reporting non-reimbursable students as reimbursable and incorrectly reporting buses not eligible for reimbursement resulted in the District being overpaid. The table below shows these errors and the resulting overpayment.

Table 4

School Year	Non-Reimbursable Students Under reported	Number of Vehicles Over-Reported	Total Paid to the District	Total Due the District Per Audit	Total Over Payment
2012-13	272	0	\$ 346,445	\$283,363	\$ 63,082
2014-15	77	8	346,370	318,593	27,777
2015-16	97	11	320,164	281,027	39,137
Total	446	19	\$1,012,979	\$882,983	\$129,996

Under the PSC, the District must provide PDE with a sworn statement of the amount expended for reimbursable transportation, which requires supporting documentation as justification of its requested reimbursements. By failing to retain reimbursable transportation documentation, the District's transportation reimbursements can't be fully verified for accuracy. Failing to maintain this documentation is in noncompliance with the PSC and could result in PDE withholding future transportation reimbursements.

Recommendations

The *Duquesne City School District* should:

1. Maintain all source documents and calculations supporting transportation data reports submitted for reimbursement in accordance with the PSC and PDE instructions.
2. Perform a reconciliation of all student bus rosters to requests for transportation for all nonpublic and charter school students.
3. Ensure all non-reimbursable students and buses are removed from transportation data prior to submitting this data to PDE for reimbursement.
4. Compare total reimbursement amounts calculated to amounts from previous school years to identify any unexpected fluctuations, and then determine the reason for any unexpected fluctuations.
5. Institute a second level review of transportation data prior to submitting this data to PDE.

The *Pennsylvania Department of Education* should:

6. Adjust the District's subsidy to correct the nonpublic overpayment of \$50,435 and the regular transportation overpayment \$129,996.
7. Require that the District produce evidence of supporting documentation before transportation reimbursements are paid.

Management Response

District management provided the following response:

The DCSD does not have a transportation department and/or director to track mileage or compare bus rosters to the number of students at each stop as required by the Pennsylvania School Code so we relied on our contractor to give us that data, as this has been the process since 2010.

The DCSD will continue to maintain all source documents and calculations supporting transportation data reports for all nonpublic and charter school students. In addition to an annual reconciliation of the nonpublic and charter school rosters the District will perform monthly comparisons of the nonpublic and charter school rosters to the documentation received requesting transportation.

DCSD will also perform a more thorough review of the end of the year data file received from the bus contractor and will institute a second level of verification prior to submitting reports to PDE. The District will also compare total reimbursements to prior year information in order to identify any fluctuations.

The DCSD would like the opportunity to obtain information from the Pennsylvania Department of Transportation which can be used to identify roads in our area as hazardous walking routes so we can further review and possibly revise our transportation data for the years in question. Background: During the 2010-11 school term the Allegheny Intermediate Unit and the State Board of Control entered into a transportation contract with [transportation vendor]. Unfortunately, they did not leave behind any of the supporting documentation.

Auditor Conclusion

We are encouraged that the District will implement additional internal reviews to verify the accuracy of data reported to PDE for transportation reimbursement. We note that the District will need to be significantly more proactive in regard to obtaining, reviewing, and maintaining *all* transportation documents.

As clearly shown in the criteria boxes to the left of this finding, it is the District's responsibility to obtain and maintain all transportation supporting documentation. Without this required documentation, it is impossible for the District's transportation reimbursement to be verified for accuracy.

The failure to maintain this documentation for audit purposes displays a lack of accountability and transparency that cannot be merely attributed to the District's lack of a "transportation department."

Additionally, the PSC is quite clear about what documentation is needed to report a student transported by the District as reimbursable. While we are encouraged that the District will now seek clarification in regard to reimbursable students, we are concerned that this only occurred after our review, which showed that the District was receiving transportation reimbursement that it was ineligible to receive.

Finding No. 3

The District Failed to Ensure School Bus Drivers Met All Employment Requirements

Criteria relevant to the finding:

Chapter 23 (relating to Pupil Transportation) of the State Board of Education Regulations, among other provisions, provides that the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations. *See*, in particular, 22 Pa. Code § 23.4. In this District, which is under a Receiver and is in Severe Financial Recovery status, pursuant to Section 672-A of Article VI—a, relating to School District Financial Recovery to the PSC, the Receiver is to “assume **all powers and duties** of both the chief recovery officer [if applicable] and **the board of school directors.**” [Emphases added.] *See* 24 P.S. § 6-672-A(a)(1). Section 111 of the PSC, 24 P.S. § 1-111, as amended, requires state and federal criminal background checks. Section 6344 of the State Child Protective Services Law (CPSL), 23 Pa. C.S. § 6344, as amended, requires a child abuse clearance.

The District did not ensure that all bus drivers had the required credentials and criminal history clearances *before* they transported students at the beginning of the 2016-17 school year. Specifically, we found that the District failed to review documentation for completeness and verification that all bus drivers were qualified and suitable to transport District students. In addition, the District’s existing board policy regarding transportation fails to include a requirement to have credentials reviewed by District personnel before drivers are permitted to transport District students. Finally, we also found the District’s Receiver did not approve the list of bus drivers for the 2014-15, 2015-16, and 2016-17 school years.

The District explained that it relied on the contractor to obtain licenses and clearances and to provide that documentation to the District. However, once the District received the documentation, there was no procedure to review it for completeness and to verify that each of the contractor’s drivers met the requirements to transport District students. When we asked why the drivers were not approved by the Receiver, he stated that it was an oversight on his part. It is the Receiver’s responsibility to approve items that are normally the Board’s responsibility.²⁰ After we brought this issue to the Receiver’s attention, the drivers transporting District students in the 2017-18 school year were approved on August 17, 2017.

Ensuring that required credentials and clearances are satisfied and approving bus drivers and any others having direct contact with students are critical student protection responsibilities placed on the District and its Receiver in lieu of the Board. The ultimate purpose of bus driver requirements is to ensure the safety and welfare of students transported in school buses. The use of a contractor to provide student transportation does not negate these responsibilities.

²⁰ *See* 24 P.S. § 6-672-A(a)(1).

*Criteria relevant to the finding
(continued):*

Specifically, Sections 111(b) and (c.1) of the PSC require prospective school employees who have direct contact with children to submit a report of criminal history record information (CHRI) obtained from the Pennsylvania State Police, as well as a report of federal CHRI records obtained from the Federal Bureau of Investigations. These provisions also require school administrators to obtain the required records prior to employment and to maintain a copy on file with the employment application, including documentation for individuals hired by a contractor pursuant to Section 111(a.1). *See* 24 P.S. § 1-111(a.1), (b), and (c.1).

Section 111(a.1) specifies that bus drivers employed by a school entity through an independent contractor who have direct contact with children must comply with Section 111 of the PSC. *See* 24 P.S. § 1-111(a.1).

Section 111(c.4) further requires administrators to review the reports and determine if the reports disclose information that may require further action. *See* 24 P.S. § 1-111(c.4).

Administrators are also required to review the required documentation according to Section 111(g)(1) of the PSC. This section provides that an administrator, or other person responsible for employment decisions in a school or institution under this section who willfully fails to comply with the provisions of this section commits a violation of this act, subject to a hearing conducted by PDE, and shall be subject to a civil penalty up to \$2,500. *See* 24 P.S. § 1-111(g)(1).

Our review of the 2016-17 bus drivers disclosed the District failed to meet the requirements related to the employment of drivers having direct contact with students.

School districts are required to verify and have on file a copy of the following information for all employees and contracted employees who transport the District's students:

1. Driver qualifications credentials,²¹ including:
 - a. Valid commercial driver's license with an "S" endorsement permitting the operation of a school bus
 - b. Annual physical examination
2. Criminal history reports/clearances:
 - a. State Criminal Background Record
 - b. Federal Criminal History Record
 - c. Pennsylvania Child Abuse History Clearance
 - d. Arrest/Conviction Report and Certification Form PDE-6004

For the 2016-17 school year, we reviewed documentation for all 18 contracted bus drivers and found that six drivers, or 33 percent, did not have the federal background checks on file. Of those six drivers, four drivers had their fingerprints submitted, but neither the District nor the contractor printed the results before the 365 day review period lapsed. Two drivers were never fingerprinted. All six drivers were fingerprinted on May 3, 2017, as a result of our meeting with the District and the contractor to discuss these deficiencies. As of July 13, 2017, all bus drivers' records are complete and on file at the District. We reviewed the records and found nothing indicating that any of the bus drivers were not qualified to transport students.

Because the District did not sufficiently review bus driver records or have adequate policies and procedures in place, the District was not aware that six drivers did not have the required credentials on file. By not maintaining complete and satisfactory background clearances, the District increased the risk that unsuitable drivers may have been transporting District students, thereby, potentially risking the safety and welfare of its students.

²¹ Pennsylvania Vehicle Code, 75 Pa.C.S. § 1509(a).

*Criteria relevant to the finding
(continued):*

*See also PDE Basic Education
Circular on Background Checks,
issued December 12, 2011.*

*Section 6344.4 of the CPSL, now
requires recertification of the
required state and federal background
checks and the child abuse clearance
every 60 months. See 23 Pa.C.S. §
6344.4.*

Recommendations

The *Duquesne City School District* should:

1. Develop written procedures requiring the timely review and approval of bus drivers and the maintenance of required records, including licenses and background clearance reports.
2. The procedures should include a requirement to timely report the results of the review to the Receiver.
3. Revise its existing transportation board policy to add a requirement for reviewing and approving a District report on the status of each bus driver's qualification prior to the start of each school year.

Management Response

District management provided the following response:

The DCSD relied on the contractor to obtain licenses and clearances and to provide that documentation to the District. Once this information was received, procedures were not in place to verify that each driver met the requirements to transport the District's students.

The DCSD will develop written procedures requiring timely review and approval of bus drivers and the maintenance of required records, including licenses and background clearance reports.

The DCSD will develop procedures that require timely reporting of the results to be reviewed by the Receiver.

The DCSD will revise its existing transportation policy to add a requirement for reviewing and approving a District report on the status of each bus driver's qualifications prior to the start of each school year.

Auditor Conclusion

We are pleased that the District has taken our recommendations seriously and are in the process of implementing corrective actions. Merely relying on a contractor to obtain licenses and clearances, reviewing the clearances, and providing that documentation to the District does not satisfy the District's legal obligations under Pennsylvania law and its associated regulations.

We will review the effectiveness of those actions and any other corrective action taken during our next audit of the District.

Finding No. 4**Inadequate Documentation to Support Over \$104,340 in Commonwealth-paid Tuition for Orphans and Children Placed in Private Homes***Criteria relevant to the finding:*

Section 1305(a) of the PSC, 24 P.S. § 13-1305(a), provides for Commonwealth payment of tuition for nonresident children placed in private homes as follows:

“When a non-resident child is placed in the home of a resident of any school district by order of court or by arrangement with an association, agency, or institution having the care of neglected and dependent children, such resident being compensated for keeping the child, any child of school age so placed shall be entitled to all free school privileges accorded to resident school children of the district, including the right to attend the public high school maintained in such district or in other districts in the same manner as though such child were in fact a resident school child of the district.” [Emphasis added.]

During our audit of the District’s nonresident pupil membership records for the 2011-12, 2012-13, 2013-14, and 2014-15 school years, we found that the District did not maintain adequate documentation to support the students reported to PDE as nonresident students placed in private homes (foster children). Consequently, we were unable to verify the accuracy of the Commonwealth-paid tuition totaling \$104,340 for the years reviewed. It is important to note that this has been a recurring finding in the last four consecutive audits of the District, and the District has failed to correct the problem and implement our prior recommendations.

The integrity and accuracy of student membership data reported to PDE is important because it is a major factor in determining state subsidies and reimbursements. Without proper documentation, there is no guarantee that the District received the correct amount of state tuition reimbursement for nonresident foster students.

During an interview with District personnel, we were informed that the District did not request the information for the foster placing agency for the nonresident secondary students.

The following table details the annual Commonwealth-paid tuition reimbursements totaling \$104,340 that could not be verified due to a lack of documentation.

Table 5

Duquesne City School District		
School Year	Days Reported	Reimbursement Received
2011-12	180	\$ 21,366
2013-14	457	55,535
2014-15	<u>229</u>	<u>27,439</u>
Total	866	\$104,340

*Criteria relevant to the finding:
(continued):*

Section 2503(c) of the PSC, 24 P.S. § 25-2503(c), specifies the amount of Commonwealth-paid tuition on behalf of nonresident children placed in private homes by providing, in part:

“Each school district, regardless of classification, which accepts any nonresident child in its school under the provisions of section one thousand three hundred five . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per secondary pupil as the case may be. . . .”

State Board of Education regulations and PDE guidelines govern the classification of nonresident children placed in private homes.

Background – District Students Attend Other Secondary Schools

Because of the financial situation of the District and as part of its recovery plan, the District no longer provides education to students in grades 7 through 12. Instead, these secondary students attend either East Allegheny or West Mifflin Area school districts.

According to a letter from PDE, these educating districts are responsible for the reporting of student membership days to PDE, and they are to identify the Duquesne City School District as the “Funding District” since the District must pay tuition to these districts for its students to attend their schools. With regards to nonresident foster students, the District is still entitled to receive state tuition reimbursement for its foster students attending another district.

For three of the four years reviewed, all of the District’s foster students were secondary students being educated by the West Mifflin Area School District. For the 2012-13 school year, the District was able to provide the documentation for the one elementary student being educated at the District’s elementary school.

Lack of Oversight and Documentation

We found that the District failed to obtain confirmation letters from child placement agencies or the educating district (West Mifflin Area School District) to verify the residences of the natural parents/legal guardians of the nonresident foster students.

In addition, the District did not obtain verification that foster parents were being compensated. This verification is necessary because if foster parents are not compensated, then the District is not entitled to tuition from the Commonwealth for children placed in private homes.

Summary

Student membership data must be maintained and reported in accordance with PDE guidelines and instructions. The integrity and accuracy of this data reported to PDE is the responsibility of the District’s management. Student membership data is a major factor in determining the

*Criteria relevant to the finding
(continued):*

Subsection (a) of Section 11.19 (relating to Nonresident child living with a district resident) of the State Board of Education regulations, 22 Pa. Code § 11.19(a), provides as follows, in part:

District’s state reimbursement for tuition for nonresident foster students. Maintaining complete and accurate documentation to support data reported to PDE is imperative to ensuring that the correct amount of state money is received by the District.

Recommendations

The *Duquesne City School District* should:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data, which we have recommended in our last four audits of the District. This training should stress the importance of maintaining complete and accurate records and the relationship of membership data to state subsidies and reimbursement.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or nonresident students, or in neighboring educating districts, and document the district of residence of the natural parent or guardian.

Management Response

District management provided the following response:

The DCSD implemented the recommendations of the prior audit and continues to provide on-going training in the area of child accounting.

Under “Lack of Oversight of Documentation,” the comments are valid only in regard to secondary students, they are not valid in regard to Duquesne’s elementary students.

The DCSD did not obtain information from child placement agencies or the educating district (West Mifflin) Area to verify the residence of the natural parents/legal guardians of the nonresident secondary foster students because the educating Districts are considered the LEA. At no time was the DCSD informed of nonresident secondary foster students.

The DCSD will develop proper procedures to ensure the proper classification and collection of supporting documentation of secondary nonresident foster students enrolled in neighboring educating districts.

Auditor Conclusion

The District was most definitely “informed” of the nonresident secondary students. On an annual basis, PDE provides the District with the Summary of Child Accounting report. This report gives the detail of all membership data reported by the District and by any district who are providing education services to the District’s students.

If District personnel had performed a review of this information they certainly would have been aware that the West Mifflin Area School District was educating nonresident foster students. In addition, the District certainly was aware they were receiving tuition from the Commonwealth for these students.

We are encouraged that the District will implement additional corrective action as noted above. We are still concerned; however, since this has been a recurring issue with the District. We continue to recommend that the District ensure it has adequate documentation before reporting students to PDE as nonresident students.

Status of Prior Audit Findings and Observations

Our prior audit of the Duquesne City School District (District) released on September 13, 2013, resulted in one finding and two observations, 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 September 13, 2013

Prior Finding: **Inadequate Documentation to Support Commonwealth-paid Tuition for Orphans and Children Placed in Private Homes**

Prior Finding Summary: During our prior audit of the District's pupil membership records, we found that for the 2008-09 and 2009-10 school years the District did not maintain adequate documentation to support the students reported to PDE as nonresident students. As a result, we were unable to verify the accuracy of Commonwealth-paid tuition of \$191,942 and \$54,485, respectively, for our audit years. This had been a recurring finding in the previous three audits.

Prior Recommendations: We recommended that the District should:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate and complete records, and the relationship of membership data to state subsidies and reimbursements.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or nonresident students and document the district of residence of the natural parent or guardian

Current Status: During our current review, we noted that the District did not fully implement our prior recommendations.

We acknowledge that the District has a registration process, but there has been no corrective action regarding the maintenance of documentation supporting secondary nonresident students who are educated at the West Mifflin Area School District. The lack of proper and complete support documentation for nonresident

students placed in foster homes continues to be a reportable issue. See Finding No. 4 in this report.

Prior Observation No. 1: District Continues to be in a Financially Declining Position

Prior Observation Summary:

During our prior audit of the District, we reviewed several financial indicators in an effort to assess the District's financial stability. We found that the District continues to be in a financially declining position. These indicators demonstrated that if the District does not address its ongoing serious financial problems, further reductions in educational services and programs may be necessary and the District will most likely be unable to be discharged from Act 141 recovery status.

Prior Recommendations:

We recommended that the District should:

Continue to monitor the operating position of the District and the other benchmarks with negative outcomes listed in the observation.

Current Status:

Our current audit of the District's financial position determined that over the five-year trend period (2012-16) revenues and expenditures have increased at roughly the same rate (17 percent), while the General Fund balance has increased from \$1,883,385 to \$4,690,525. Even as the General Fund balance has shown the aforementioned increase, the "unassigned" portion of the fund balance has fallen below 8 percent of total expenditures. While this would indicate the possible need for an increase in the tax millage rate, the City of Duquesne is under Act 47, designating it as a financially distressed community, and placing severe limits on the District's ability to increase property taxes. Finally, our analysis notes that the District has done a much better job in accurately budgeting both revenues and expenditures. The District has implemented our prior audit recommendation.

Prior Observation No. 2: The District Lacks Sufficient Internal Control Over Its Student Data

Prior Observation Summary:

PDE bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

During our prior audit, we reviewed the District's student information that is entered into PIMS. Our review of the LEA's controls over data integrity found weaknesses in the controls over student information. We also found that internal controls needed to be improved.

Prior Recommendations:

We recommended that the District should:

1. Retain a permanent record folder for each student.
2. Retain registration forms and withdrawal forms for each student.
3. Revise the Child Accounting Vendor software when the District makes revisions.
4. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit reviewed reports to PDE.

Current Status:

The District has implemented our prior audit recommendations. The District now retains a permanent record folder for each student enrolled at the District. The permanent record folder contains the necessary registration and withdrawal forms for students educated at the District. In addition, the PIMS administrator now makes all corrections and revisions to the child accounting vendor software as necessary. The District submits revised reports to PDE whenever revisions are necessary.

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, the Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,²² 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 Duquesne City School District's (District) management is responsible for establishing and maintaining effective internal controls²³ 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.

²² 72 P.S. §§ 402 and 403.

²³ 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:

- ✓ Personal Loans
- ✓ Transportation Operations
- ✓ Bus Driver Requirements
- ✓ Data Integrity
- ✓ Right to Know Law
- ✓ Administrator Contract Buyout
- ✓ School Safety

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

- ✓ Did the District engage in the practice of providing interest free personal loans to select employees and administrators?
 - We conducted interviews with District staff and administrators. As a result of these interviews, we reviewed payroll reports for the school and fiscal years 2012-13 through 2016-17 to determine in which school years personal loans were granted from District funds. Our review noted that a total of 22 loans were granted to 4 of 78 District employees, beginning with the 2013-14 school year through the 2016-17 school year. Our interviews also documented the informal procedure of an employee submitting a letter of hardship to request the loan. We reviewed all 22 letters of hardship for the loans requested by the 4 employees involved. We also reviewed the informal written procedures made available to us during the audit, which documented the approval process and repayment process. Finally, we reviewed repayment schedules to ensure that no outstanding balances existed at the end of each school year, as stipulated in the informal written procedures. The results of our review of this objective can be found in Finding No. 1.

- ✓ Did the District ensure compliance with applicable laws and regulations governing transportation operations, and did the District receive the correct transportation reimbursement from the Commonwealth?²⁴
 - To address this objective, we requested rosters of students being transported on each District bus. We also requested all nonpublic and charter school students reported by the District to PDE as transported during our audit period. For the 2014-15 school year, we selected 8 of 69 District buses, and for the 2015-16 school year, we selected 11 of District 73 buses that were identified as buses that shared service with a neighboring school district. For each vehicle tested, we reviewed the route to determine whether the bus was correctly reported to PDE as a bus that shared service with a neighboring district.
 - To verify the accuracy of the District's nonpublic/charter school transportation reimbursement for the 2012-13, 2014-15, and 2015-16 school years, we reviewed supporting documentation for all nonpublic and charter school students reported to PDE by the District.²⁵
 - Additionally, in each of the above school years, we reviewed supporting documentation to determine if the District accurately reported all non-reimbursable students.²⁶

The results of our review of this objective can be found in Finding No. 2.

- ✓ 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?²⁷ 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 selected all 18 of the bus drivers hired by the contractor, during the school year July 1, 2016, through June 30, 2017, and reviewed documentation to ensure the District complied with 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,

²⁴ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

²⁵ The District reported 123 charter school students and 65 nonpublic students for the 2012-13 school year. The District did not have documentation for the 2013-14 school year. The District reported 176 charter school students and 63 nonpublic students for the 2014-15 school year. The District reported 206 charter school students and 63 nonpublic students for the 2015-16 school year.

²⁶ The District reported 273 non-reimbursable students in the 2012-13 school year, 77 as non-reimbursable for the 2014-15 school year, and 97 as non-reimbursable for the 2015-16 school year. The District did not have documentation for the 2013-14 school year.

²⁷ 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.

when followed, with bus driver hiring requirements.²⁸ The results of our review of this objective can be found in Finding No. 3.

- ✓ Did the District accurately report nonresident students to PDE? Did the District receive the correct reimbursement for these nonresident students?²⁹
 - To address this objective, we requested confirmation letters from placement agencies and proof of residence for the natural parents/legal guardians of all seven nonresident foster students. The District reported to PDE one nonresident student in 2011-12, one nonresident student in 2012-13, three nonresident students educated in 2013-14, and two nonresident students in the 2014-15 school year. The results of our review of this objective can be found in Finding No. 4.

- ✓ Did the District adhere to established policies and procedures in accordance with the Right-to-Know Law?
 - To address this objective, we requested and reviewed the four most recent Right-to-Know requests received by the District. These requests were submitted in the current year beginning with January 24, 2017, and ending with a request received on April 11, 2017. We reviewed the District's current policies and procedures regarding open records and documented that these procedures were followed in the handling of these four requests. We also verified that District contact information was available on the Office of Open Records' website. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the employment contract comply with the Public School Code?
 - To address this objective, we reviewed the Act 93 Administrator Employment Contract, settlement agreement, board meeting minutes, and payroll records for the only administrator who resigned from the District during our July 1, 2012, through June 30, 2016 audit period. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District take actions to ensure it provided a safe school environment?³⁰
 - 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 on-site reviews at the District's one school building to

²⁸ The District reported 273 non-reimbursable students in the 2012-13 school year, 77 as non-reimbursable for the 2014-15 school year, and 97 as non-reimbursable for the 2015-16 school year. The District did not have documentation for the 2013-14 school year.

²⁹ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

³⁰ 24 P.S. § 13-1301-A *et seq.*

assess whether the District had implemented basic safety practices.³¹ Due to the sensitive nature of school safety, the results for our review of this objective area are not described in our audit report. The results of our review of school safety are shared with District officials, and, if deemed necessary, with PDE.

³¹ Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

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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