

PERFORMANCE AUDIT

Midland Borough School District Beaver County, Pennsylvania

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Sean Tanner, Superintendent
Midland Borough School District
173 7th Street
Midland, Pennsylvania 15059

Mr. David Vuckovich, Board President
Midland Borough School District
173 7th Street
Midland, Pennsylvania 15059

Dear Mr. Tanner and Mr. Vuckovich:

We have conducted a performance audit of the Midland Borough School District (District) for the period July 1, 2016 through June 30, 2020, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in Appendix A of this report:

- Governance
- Transportation Operations
- Bus Driver Requirements

We also evaluated the application of best practices and determined compliance with certain requirements in the area of school safety, including compliance with fire and security drill requirements. Due to the sensitive nature of this issue and the need for the results of this review to be confidential, we did not include the full results in this report. However, we communicated the full results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate officials as deemed necessary.

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 identified areas of noncompliance in the area of governance and noncompliance and significant internal control deficiencies in the area of transportation operations. These deficiencies are detailed in the two findings of this report. A summary of the results is presented in the Executive Summary section of this report.

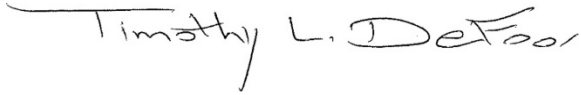
In addition, we identified internal control deficiencies in the areas of bus driver requirements that were not significant but warranted the attention of District management and those charged with governance. The deficiencies were communicated to District management and those charged with governance for their consideration.

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

Mr. Sean Tanner
Mr. David Vuckovich
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We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor
Auditor General

January 4, 2022

cc: **MIDLAND BOROUGH 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 Midland Borough 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, 2016 through June 30, 2020, except as otherwise indicated in the audit scope, objectives, and methodology section of the report (see Appendix A). Compliance specific to state subsidies and reimbursements was determined for the 2016-17 through the 2019-20 school years.

Audit Conclusion and Results

Our audit found areas of noncompliance and significant internal control deficiencies as detailed in the two findings in this report.

Finding No. 1: The District Failed to Comply with PSC Provisions Related to the Superintendent's Employment Contract and Performance Assessments.

Our review of the current Superintendent's employment contracts revealed that the contracts did not contain elements required by the Public School Code (PSC) in the areas of performance standards, assessments, and termination provisions. In addition, there were no provisions in the contracts concerning performance assessments to align with the requirements of the PSC (see page 7).

Finding No. 2: The District's Failure to Implement an Adequate Internal Control System Resulted in an Unauditable \$369,388 in Transportation Reimbursements.

We found that the District did not implement an adequate internal control system over obtaining, inputting, calculating, and reporting regular transportation data. Additionally, the District did not comply with the record retention provisions of the PSC when it failed to obtain and retain adequate documentation for the regular transportation reimbursements received for the 2016-17 through 2019-20 school years. Therefore, we could not determine the accuracy of the \$369,388 the District received in regular transportation reimbursements (see page 12).

Status of Prior Audit Findings and Observations.

We found that the District took appropriate corrective action in implementing all of our prior audit recommendations pertaining to the decrease in the District's General Fund balance.

We also found that the District implemented three out of four of our recommendations pertaining to governance issues.

Background Information

School Characteristics 2020-21 School Year*	
County	Beaver
Total Square Miles	2
Number of School Buildings	1
Total Teachers	18
Total Full or Part-Time Support Staff	11
Total Administrators	3
Total Enrollment for Most Recent School Year	260
Intermediate Unit Number	27
District Career and Technical School	N/A ¹

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

Mission Statement*

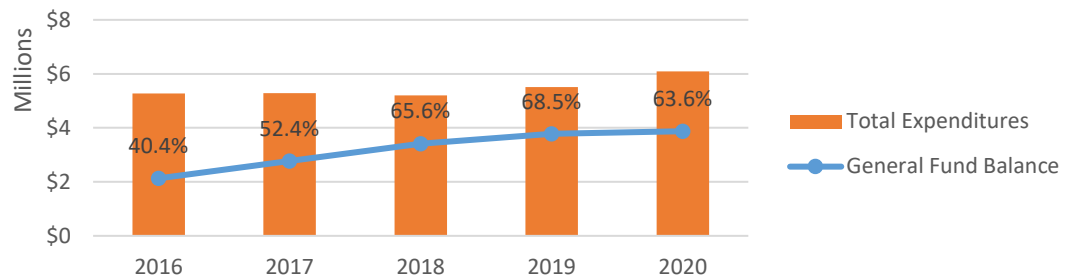
To provide an academic environment in which our children may reflect upon their heritage and prepare themselves for both the challenges of the 21 Century and their future success.

Financial Information

The following pages contain financial information about the Midland Borough School 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**.

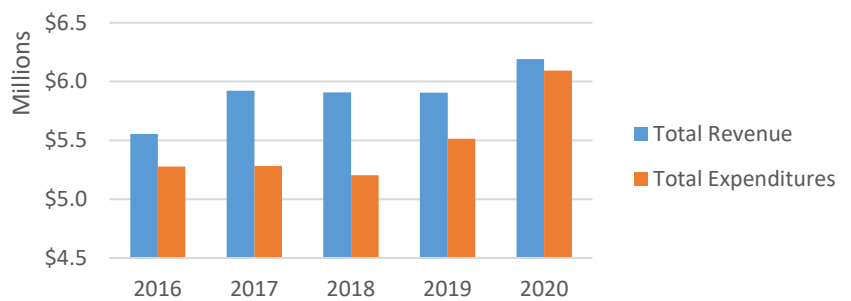
General Fund Balance as a Percentage of Total Expenditures

	General Fund Balance
2016	\$2,130,177
2017	\$2,767,615
2018	\$3,413,084
2019	\$3,777,159
2020	\$3,875,546



Revenues and Expenditures

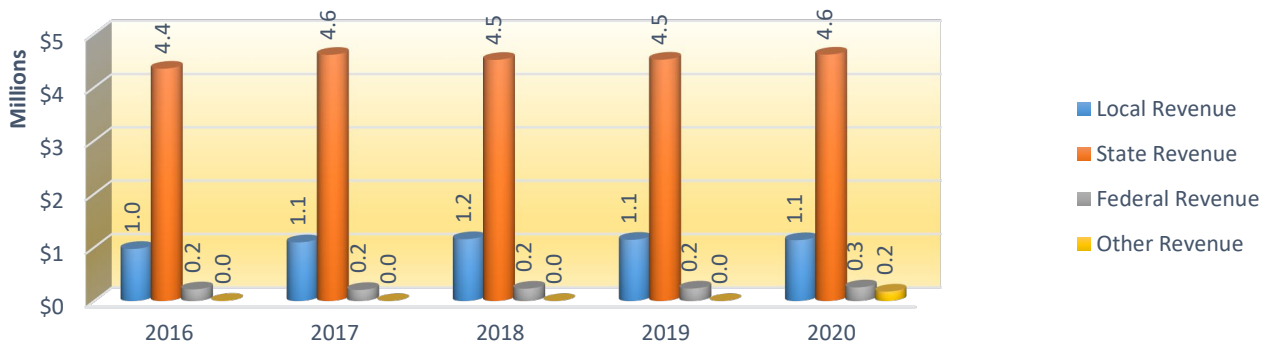
	Total Revenue	Total Expenditures
2016	\$5,554,784	\$5,276,573
2017	\$5,920,749	\$5,283,312
2018	\$5,909,777	\$5,202,385
2019	\$5,905,130	\$5,541,056
2020	\$6,191,588	\$6,093,201



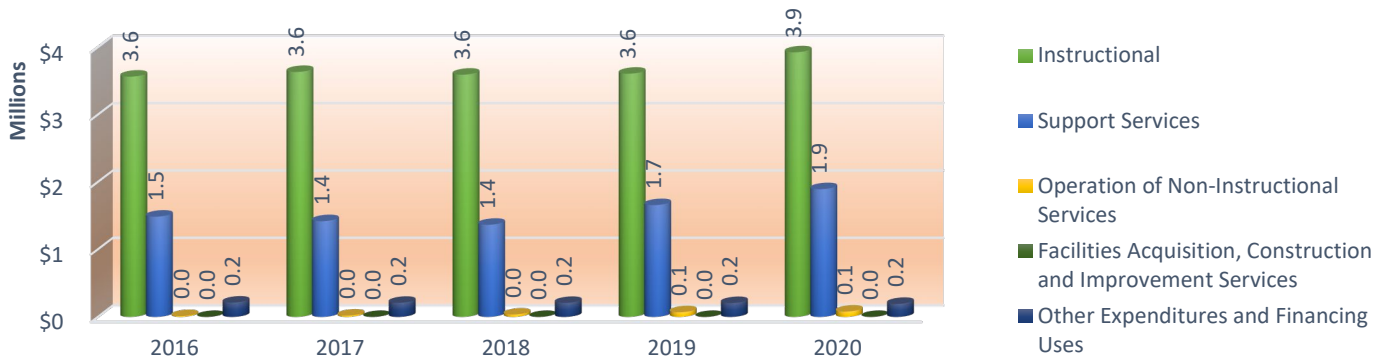
¹ Since the District does not have a high school, students in grades 9-12 were educated at the Beaver Area School District.

Financial Information Continued

Revenues by Source

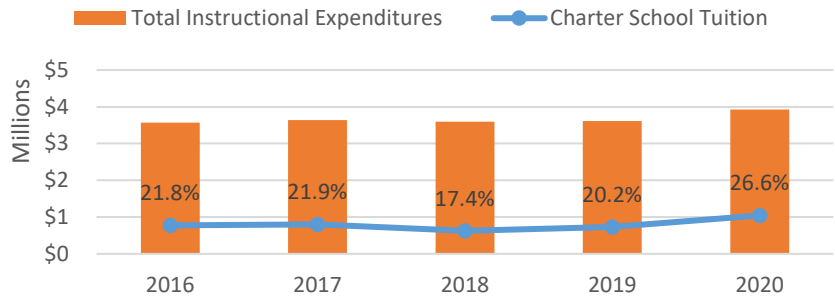


Expenditures by Function

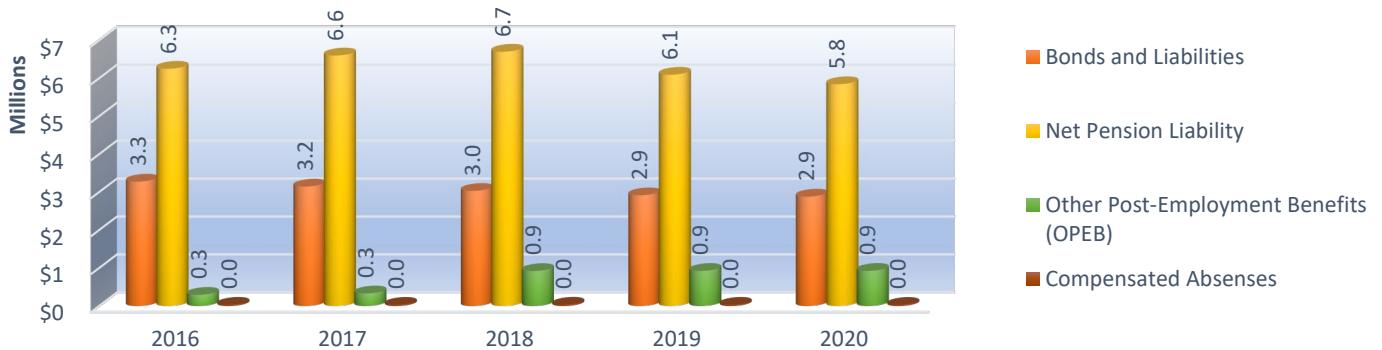


Charter Tuition as a Percentage of Instructional Expenditures

	Charter School Tuition	Total Instructional Expenditures
2016	\$775,664	\$3,565,212
2017	\$797,320	\$3,634,906
2018	\$626,428	\$3,593,965
2019	\$729,064	\$3,608,674
2020	\$1,044,308	\$3,926,474



Long-Term Debt

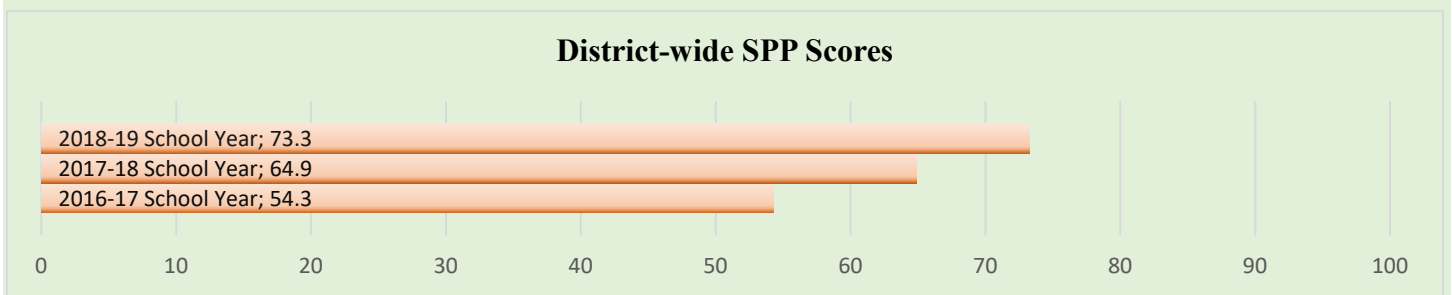


Academic Information²

The graphs on the following pages present the District-wide School Performance Profile (SPP) scores and Pennsylvania System of School Assessment (PSSA) scores results for the District obtained from PDE's data files for the 2016-17, 2017-18, and 2018-19 school years.³ The District's individual school building scores are presented in Appendix B. These scores are provided in this audit report for **informational purposes only**, and they were not audited by our Department.

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 annually using a 0-100 scale for all school buildings in the Commonwealth, which is calculated based on standardized testing (i.e., PSSA exam scores), 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.



² PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

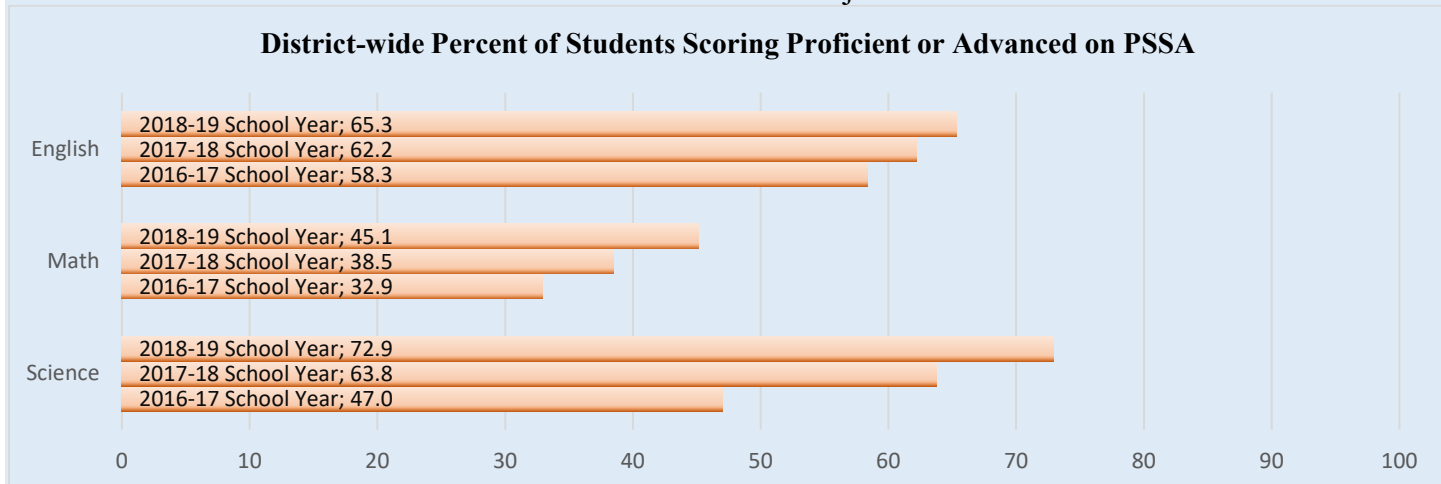
³ Due to the COVID-19 pandemic the PSSA requirements were waived for the 2019-20 school year; therefore, there is no academic data to present for this school year.

Academic Information Continued

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, Math and Science. 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.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards. 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 the 2020-21 school year.⁴ 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.

The Midland Borough School District educates students through grade 8 only; therefore, no Keystone Exam scores exist. For that reason, the Keystone Exam graph has been removed from this section.

⁴ Act 158 of 2018, effective October 24, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement until the 2021-22 school year. See 24 P.S. § 1-121(b)(1).

Academic Information Continued

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.

The Midland Borough School District educates students through grade 8 only; therefore, no 4-Year cohort graduation rate exist. For that reason, the 4-Year cohort graduation rate graph has been removed from this section.

Findings

Finding No. 1

The District Failed to Comply with PSC Provisions Related to the Superintendent's Employment Contract and Performance Assessments

Criteria relevant to the finding:

Subsection (e) of Section 1073 (relating to Manner of election or approval [and Written Employment Contract Provisions]) of the Public School Code (PSC) provides as follows, in part:

“(e) The following shall apply:

(1) Notwithstanding any other provision of law, no individual shall be employed as a district superintendent or assistant district superintendent by a school district except pursuant to a written contract of employment expressly stating the terms and conditions of employment.

(2) A contract for the employment of a district superintendent or assistant district superintendent shall do all of the following:***

(ii) Consistent with State Board of Education certification requirements, specify the duties, responsibilities, job description and performance expectations, including performance standards and assessments provided for under section 1073.1.

(iii) Incorporate all provisions relating to compensation and benefits to be paid to or on behalf of the district superintendent or assistant district superintendent.***

Our review of the Midland Borough School District's (District) current Superintendent's employment contracts revealed that the contracts did not contain elements required by the Public School Code (PSC) in the areas of performance standards, assessments, and termination provisions. Failure to include the required provisions in these contracts resulted in reduced transparency and reduced accountability of the Board of School Directors (Board) and Superintendent to the taxpayers. In addition, the lack of required termination provisions in these contracts leaves the District financially vulnerable to additional and unnecessary costs in the event that the Superintendent separates employment from the District prior to the completion of his current employment contract. We also found that the District amended the annual salary increase without formally documenting the change to the signed contract and without discussing the salary increase in a public board meeting. Finally, we found that the Superintendent received annual salary adjustments that were not specifically approved by the Board at a public meeting.

Lack of Performance Assessments

With regard to superintendent employment, the PSC has specific requirements for the contracts and performance assessments that include, but are not limited to, the following:

1. Superintendent contracts must include written, mutually agreed upon objective performance standards.⁵
2. The mutually agreed upon objective performance standards contained in the contracts must be posted on the District's publicly accessible internet website.⁶
3. The Board must annually conduct a formal written performance assessment of the District's Superintendent.⁷

⁵ 24 P.S. § 10-1073.1(a).

⁶ 24 P.S. § 10-1073.1(b.1).

⁷ 24 P.S. § 10-1073.1(b).

*Criteria relevant to the finding
(continued):*

(v) Specify the termination, buyout and severance provisions, including all postemployment compensation and the period of time in which the compensation shall be provided. Termination, buyout and severance provisions may not be modified during the course of the contract or in the event a contract is terminated prematurely....” See 24 P.S. § 10-1073(e).

Subsections (a), (b), and (b.1) of Section 1073.1 (relating to Performance Review) of the PSC provide as follows, in part:

(a) In addition to any other requirements provided for under this act, the employment contract for a district superintendent or assistant district superintendent shall include objective performance standards mutually agreed to in writing by the board of school directors and the district superintendent or assistant district superintendent.***

(b) The board of school directors shall conduct a formal written performance assessment of the district superintendent and assistant district superintendent annually. A time frame for the assessment shall be included in the contract.

4. The date of these performance assessments and whether or not the Superintendent met the agreed upon performance standards must be posted on the District’s publicly accessible internet website.⁸

Based on our review of the two Superintendent contracts in effect during our audit period and the District’s website, as well as interviews with District officials, we found that the District failed to comply with any of the four PSC requirements noted above.⁹ The District’s employment contracts with the Superintendent did not include performance standards. In addition, written performance assessments were not performed for the Superintendent; therefore, performance standards and assessments were not posted on the District’s publicly accessible website.

Mutually agreed upon performance standards are an integral component to ensuring that the Board and Superintendent are working towards common goals and objectives. Publicly posting these standards and the results of annual performance reviews complies with the General Assembly’s intent of these PSC provisions and helps to increase transparency to the public, as well as providing assurance that the Board is holding the administrators to accountability standards.

Lack of Termination Provisions in Superintendent Contracts

The District failed to include PSC-required termination, buyout, and severance provisions in its contracts with the current Superintendent. The PSC requires that all contracts with superintendents specify the termination, buyout, and severance provisions, including all postemployment compensation and the period of time in which the compensation shall be provided.¹⁰ Termination provisions are vitally important and integral components of employment contracts with top District administrators to ensure that the District is financially protected in situations in which a top administrator separates employment with the District prior to the end of the contract.

Superintendent Compensation

Although the Board did not establish performance standards and did not conduct annual performance evaluations of the Superintendent, the Superintendent received a three percent annual increase to his base salary beginning with the 2017-18 school year. Since the contract did not specifically provide for a three percent annual increase, we inquired about its origin. District officials informed us that the Board decided to provide for a three percent increase to the base salary to align the Superintendent’s increase with the increases provided in other district administrator

⁸ 24 P.S. § 10-1073.1(b.1).

⁹ The District entered into two contracts with their current Superintendent during our audit period. The first employment contract covered July 1, 2015 through June 30, 2020. The second contract began on July 1, 2020 and ends on June 30, 2025.

¹⁰ 24 P.S. § 10-1073(e)(2)(v).

*Criteria relevant to the finding
(continued):*

(b.1) The board of school directors shall post the mutually agreed to objective performance standards contained in the contract on the school district's publicly accessible Internet website. Upon completion of the annual performance assessment, the board of school directors shall post the date of the assessment and whether or not the district superintendent and assistant district superintendent have met the agreed-to objective performance standards on the school district's publicly accessible Internet website....” See 24 P.S. § 10-1073.1(a)-(b.1).

Section 508 (relating to Majority vote required; recording) of the PSC provides as follows, in part:
The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member **voted**, shall be required in order to take action on the following subjects:--***.

Entering into contracts of any kind...where the amount involved exceeds one hundred dollars (\$100).
Fixing salaries or compensation of officers, teachers, or other appointees of the board of school directors....

Failure to comply with the provisions of this section shall render such acts of the board of school directors void and unenforceable. See 24 P.S. § 5-508.

individual employment contracts. However, the District could not provide an amended signed contract incorporating all provisions relating to compensation to be paid to or on behalf of the Superintendent and it could not provide evidence that this salary increase was included on a Board meeting agenda, officially approved during a public meeting, and documented in the board meeting minutes.¹¹ The only document noting the three percent increase that the District could provide was an unsigned, untitled document with recommendations for the Board to approve the Superintendent’s five-year contract with an annual two percent increase and someone crossed out the two percent and handwrote in three percent.

Furthermore, we found that both contracts in effect during the audit period provided for annual salary “adjustments” that were also not contingent on performance.¹² The adjustment was calculated as the difference between the Superintendent’s base salary and the average salary of all chief school administrators in Beaver County.¹³ The Superintendent received the annual salary adjustment as a lump sum payment at the end of each fiscal year. The following table depicts the Superintendent’s salary adjustments for each year:

Midland School District Superintendent Salary Adjustments			
Fiscal Year	Base Salary	Adjustment	Total Annual Salary
2015-16	\$115,861	\$11,782	\$127,643
2016-17	\$115,861	\$14,509	\$130,370
2017-18	\$119,336	\$15,507	\$134,843
2018-19	\$122,917	\$14,558	\$137,475
2019-20	\$126,604	\$13,101	\$139,705
Total Adjustments		\$69,457	

The adjustment amount is calculated by the school principal each year. The principal obtains the other superintendents' salary amounts from the intermediate unit and calculates the average salary. The District could not provide any evidence that the adjustment calculations were reviewed by the Board.¹⁴ We also found that the adjustment payments were not specifically Board approved.¹⁵ District officials informed us that the adjustment payments are not specifically approved because the payments were in accordance with the Superintendent’s contract which was approved by the Board. To ensure compliance with the PSC, and in the interest of full transparency and accountability, the Board should publically disclose the annual additional payments made to the Superintendent.

¹¹ 24 P.S. § 10-1073(e)(2)(iii) and 24 P.S. § 5-508.

¹² See 24 P.S. §§ 10-1073 and 10-1073.1.

¹³ There are 13 other school districts in Beaver County.

¹⁴ 24 P.S. § 5-508.

¹⁵ Ibid.

Recommendations

The *Midland Borough School District* should:

1. Ensure that employment contracts with the Superintendent comply with the PSC. Specifically, ensure that all such contracts contain termination, buyout, and severance provisions, as well as mutually agreed upon performance standards.
2. Conduct annual performance assessments of the Superintendent based on mutually agreed upon performance standards.
3. Post on the District's publicly accessible website the mutually agreed upon performance standards for the Superintendent as well as the results of the annual performance assessments.
4. Ensure any changes to the Superintendent's contract are included as an amendment to the signed employment contract and are formally board approved.
5. Ensure that all additional payments or bonuses to the Superintendent are presented to the Board for approval during a public meeting.

Management Response

District management provided the following response:

"The District is accepting of the recommendations as well will continue to comply with PSC provisions related to the Superintendent Employment Contract and Performance Assessments.

"The District will have the Solicitor review all contracts to comply with the PSC, insuring that they contain termination, buyout, severance and performance standards as per your recommendation.

"The District Board of Directors will conduct a written annual performance assessment of the District Superintendent based upon performance standards. This written assessment will be posted to the District website annually.

"Any changes to the Superintendent's contract will be made as an amendment to the contract for formal board approval and inclusion of the minutes. Any supplementary payments eligible to the Superintendent as per the Superintendent contract will be reaffirmed by board approval during a public meeting."

Auditor Conclusion

We are encouraged that the District provided a detailed corrective action plan to address all of our recommendations. The Board's commitment to ensuring any supplementary payments pursuant to the Superintendent contracts will be approved by the Board during a public meeting will allow for the necessary transparency. We will review the effectiveness of the District's corrective actions during our next audit of the District.

Finding No. 2

The District's Failure to Implement an Adequate Internal Control System Resulted in an Unauditable \$369,388 in Transportation Reimbursements

Criteria relevant to the finding:

Student Transportation Subsidy

The PSC provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 (relating to Payments on account of pupil transportation) of the PSC specifies the transportation formula and criteria. *See* 24 P.S. § 25-2541.

Total Students Transported

Section 2541(a) of the PSC 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 mileages and the utilized passenger capacity of vehicles for reimbursement purposes..." *See* 24 P.S. § 25-2541(a).

We found that the District did not implement an adequate internal control system over obtaining, inputting, calculating, and reporting regular transportation data. Additionally, the District did not comply with the record retention provisions of the PSC when it failed to obtain and retain adequate documentation supporting the regular transportation reimbursements received for the 2016-17 through 2019-20 school years. Therefore, we could not determine the accuracy of the \$369,388 the District received in regular transportation reimbursements.

Background: School districts receive two separate transportation reimbursement payments from the Pennsylvania Department of Education (PDE). The **regular** transportation reimbursement is broadly based on the number of students transported, the number of days each vehicle was used for transporting students, and the number of miles that vehicles are in service, both with and without students. The **supplemental** transportation reimbursement is based on the number of nonpublic school and charter school students transported. The issues identified in this finding pertain to the District's regular transportation reimbursement.

It is absolutely essential that records related to the District's transportation reimbursements be retained in accordance with the PSC's record retention provisions (for a period of not less than six years) and be readily available for audit. Periodic auditing of such documents is extremely important for District accountability and verification of accurate reporting. Therefore, the District should have a strong system of internal control over its regular and supplemental transportation operations that should include, but not be limited to, the following:

- Segregation of duties.
- Comprehensive written procedures.
- Training on PDE reporting requirements.

It is also important to note that the PSC requires that all school districts annually file a sworn statement of student transportation data for the prior and current school years with PDE in order to be eligible for transportation reimbursements.¹⁶ The sworn statement includes the Superintendent's signature attesting to the accuracy of the reported data. Because of this

¹⁶ *See* 24 P.S. § 25-2543.

*Criteria relevant to the finding
(continued)*

Sworn Statement and Annual Filing Requirements

Section 2543 of the PSC, which is entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” 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 the Pennsylvania Department of Education (PDE) in order to be eligible for the transportation subsidies and 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.) See 24 P.S. § 25-2543.

statutorily required attestation, the District should ensure it has implemented an adequate internal control system to provide it with the confidence it needs to sign the sworn statement.

Unauditable Regular Transportation Reimbursements of \$369,388

The District was unable to provide source documents to support the transportation data (days, miles, and students) it reported to PDE for all years of the audit period. Without this supporting documentation, we were unable to determine the accuracy of the data reported to PDE and therefore, could not conclude if the District’s regular transportation reimbursements were appropriate and accurate.

The District accepted the transportation data provided by its two contractors without verifying the accuracy of that data. In addition to the contractors, the District utilized two district-owned vehicles to transport students during the audit period. The District also did not retain adequate supporting documentation for these vehicles. District officials stated they were unaware of the requirements to obtain and maintain source documentation to support the data reported to PDE.

Even though we were unable to audit the reported data, a cursory review of the reported data, as detailed in the table below, shows potential irregularities that warranted further review. For example, we noted that the District reported that it transported 67 fewer students in the 2018-19 school year than in the 2017-18 school year but used the same number of vehicles. Furthermore, the District reported that its vehicles traveled an additional 20,144 miles in the 2018-19 school year. The District’s reporting of fewer students but more miles traveled contributed to the significant increase in its reimbursement for the 2018-19 school year.

Table

Midland Borough School District Transportation Data Reported to PDE				
School Year	Reported Number of Students Transported	Reported Number of Vehicles	Reported Approved Annual Miles	Regular Transportation Reimbursement Received
2016-17	210	9	43,917	\$ 63,668
2017-18	205	9	58,753	\$ 89,099
2018-19	138	9	78,897	\$124,794
2019-20	110	8	47,885	\$ 91,827
Total:	663	35	229,452	\$369,388

Irregularities in Hazardous Route and Non-Reimbursable Student Reporting

Students transported fall into multiple reporting categories including, but not limited to, (1) students transported and eligible for reimbursement due to residing on a Pennsylvania Department of Transportation (PennDOT) determined public hazardous walking route and (2) students transported who are not eligible for reimbursement. Elementary students residing within 1.5 miles of their respective school or secondary students residing within 2 miles of their school are not eligible to be reported as reimbursable unless the student resides on a PennDOT determined hazardous walking route.

We found that the District reported to PDE that it transported 476 students that resided on a hazardous walking route; however, the District did not obtain the required determinations from PennDOT. Instead, the District classified and reported students as living along hazardous routes based on an internal hazardous route determination made by District officials. According to District personnel, the determinations were based on factors such as if the student had to walk on poor sidewalk conditions or cross a busy intersection on their route to their respective school. Because the District did not obtain hazardous route determinations from PennDOT as required, technically, none of the students reported in this category over the four-year period were eligible for reimbursement.

Additionally, the District reported a total of 57 students as non-reimbursable during the audit period; however, the District was unable to provide the names and addresses of these students to support this reported data.

*Criteria relevant to the finding
(continued)*

Record Retention Requirement

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

PDE Instructions for Local Education Agencies on how to complete the PDE-2089.

<https://www.education.pa.gov/Documents/Teachers-Administrators/Pupils%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE-2089%20SummPupilsTransp.pdf> (Accessed on August 3, 2021).

Non-reimbursable Students

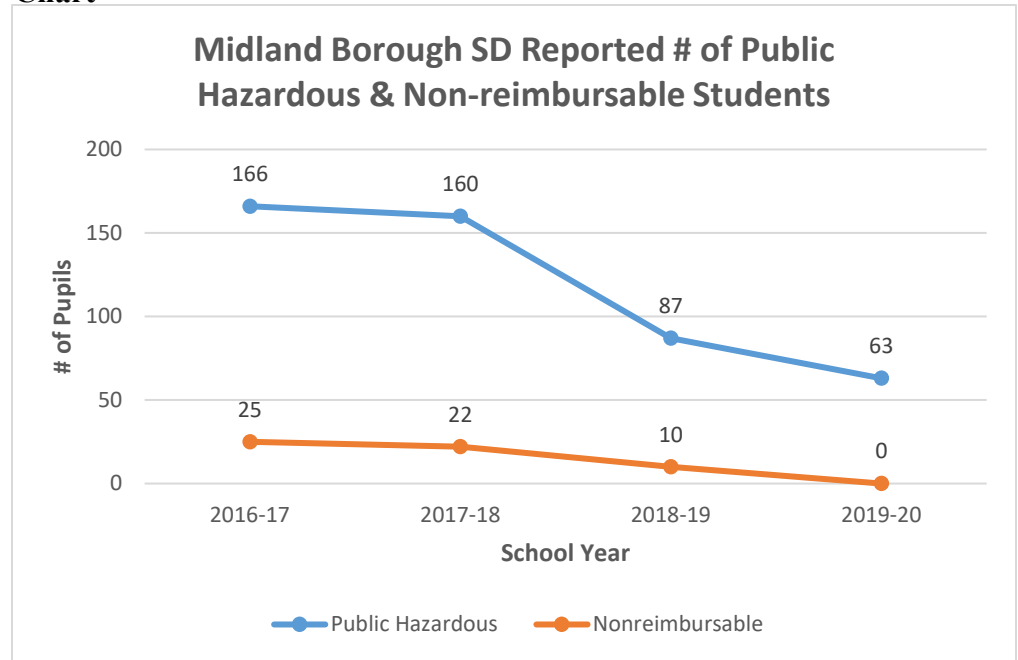
Non-reimbursable students are elementary students who reside within 1.5 miles of their elementary school and secondary students who reside within 2 miles of their secondary schools. Non-reimbursable students do not include special education students or students who reside on routes determined by Pennsylvania Department of Transportation (PennDOT) to be hazardous. See 24 P.S. § 25-2541(c)(1) and (c)(2).

Hazardous route – Route certified by PennDOT as having conditions, i.e., heavy traffic, no sidewalks, etc., which make it dangerous for pupils to walk along the road to school or to a bus stop.

Hazardous pupil – Any pupil living in an area where the highway, road, or traffic conditions are such that walking constitutes a hazard to the safety of the child, as so certified by PennDOT.

The chart below shows the variances in the reported number of hazardous walking route students and non-reimbursable students during the audit period. Without the detailed documentation, we were unable to verify the accuracy of this reported data.

Chart



Significant Internal Control Deficiencies

Our review revealed that the District did not have adequate controls over the process of obtaining, inputting, maintaining, and reporting regular transportation data to PDE. Specifically, we found that the District did not do the following:

- Ensure that the employee responsible for reporting transportation data to PDE was adequately trained on PDE's reporting requirements and the supporting documentation required to be obtained and retained.
- Implement adequate segregation of duties when it assigned responsibility to one employee for reporting regular transportation data to PDE without having a different employee review the data before it was submitted to PDE.
- Develop detailed written procedures for obtaining and maintaining the documentation needed to accurately report vehicle data to PDE.
- Ensure it obtains adequate source documentation to support the vehicle data reported to PDE.

All of the above control deficiencies resulted in our inability to fully audit the regular transportation reimbursements.

Recommendations

The *Midland Borough School District* should:

1. Develop and implement an internal control system over its regular transportation operations. The internal control system should include, but not be limited to, the following:
 - All personnel involved in regular transportation data reporting are trained on PDE's reporting requirements.
 - A review of transportation data is conducted by an employee other than the employee who prepared the data before it is submitted to PDE.
 - Comprehensive written procedures are developed to ensure accurate reporting of the regular transportation operations.
2. Ensure that complete supporting documentation for all regular transportation data, including hazardous walking routes, is obtained, reviewed, and retained in accordance with PSC requirements. Record retention procedures should be documented and staff should be trained on these procedures.
3. Submit a request to PennDOT to obtain determinations of hazardous walking routes within the District.

Management Response

District management provided the following response:

“The District is accepting of the recommendations as well as will work to create and implement an internal control system over our regular transportation operations. The internal control system shall consider the following, all personnel involved in regular transportation data reporting are trained on the PDE's reporting requirements; and, a review of transportation data is conducted by employees other than the employee who prepared the data before it is submitted to the PDE; create comprehensive written procedures to ensure accurate reporting of regular transportation operations; ensure that complete supporting documentation for all regular transportation data, including hazardous walking routes, is obtained, reviewed, and retained in accordance with PSC requirements. Remind employees as to the laws on record retention procedures; as well as document said trainings/reminders.

“Furthermore, the District will contact PennDOT to obtain determinations of hazardous walking routes within the District.”

Auditor Conclusion

We are encouraged that the District provided a detailed corrective action plan to address all of our recommendations. The District's commitment to strengthening their internal controls, implementing a segregation of duties, and seeking training on the reporting of transportation data will help ensure that the reported data to the PDE is accurate and complete. We will review the effectiveness of the District's corrective actions during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Midland Borough School District (District) released on September 21, 2016, resulted in two findings, as summarized 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 21, 2016

Prior Finding No. 1: The District's General Fund Balance Decreased by \$1.0 Million from June 30, 2010 through June 30, 2015, Due to a Cumulative Operating Deficit

Prior Finding Summary: During our prior review, we assessed the District's financial stability by reviewing several financial benchmarks to evaluate changes in its financial position over a period of six years from fiscal years ending June 30, 2010 through June 30, 2015. We found that the District's General Fund balance decreased from \$2.91 million as of June 30, 2011 to \$1.85 million as of June 30, 2015. The decreasing balance was the direct result of operational deficits posted for three of the six years.

Prior Recommendations: We recommended that the District should:

1. Amend its fund balance policy to discuss optimum fund balance levels and to set policy for maximum levels of fund balance, minimum acceptable levels of fund balance, and the planned drawdown of excessive levels of fund balance.
2. Develop a business plan that aligns District expenditures to total District revenues.
3. Monitor the costs and student information on all charter school invoices to ensure that only District students are being invoiced to the District and that the proper number of days and tuition are reported on the invoices.

Current Status: We found that the District took corrective action to address all three of our recommendations. In doing so, the District was able to achieve a positive operating position and increase its General Fund balance for each of the fiscal years ending June 30, 2016 through June 30, 2020. The District updated its fund balance policy on June 12, 2017 and began internal reviews for charter school enrollment and invoices shortly after the release of the prior audit in September 2016.

Prior Finding No. 2: The District and its Board Conducted Transactions with Related Organizations Which May Not Have Been Fiscally Responsible and Indicated Ineffective Governance and Lack of Transparency.

Prior Finding Summary: As of June 30, 2015, the District had a \$1.5 million balance on a long-term, prepaid lease with a related local performing arts center (Arts Center). The prepaid lease was originated in 2005 for \$3 million and amortized annually over 20 years at \$150,000 for the use of space to host arts classes and occasional special events for District students, high school students who reside in Midland, and the community.

We believed that entering into this prepaid lease was not a fiscally responsible decision by the Board of School Directors (Board). As part of their key governance and management responsibilities, the District's governing Board and administrators have the duty of closely vetting and monitoring any of their contracts and leases, as well as any questionable related party transactions that could lead to actual or perceived conflicts.

Prior Recommendations: We recommended that the District should:

1. Re-evaluate its prepaid lease agreement to determine whether the agreement aligned with best business practices and whether its actual use of the Arts Center's space warrants the amortized cost of \$150,000 per year. It should consider requiring repayment of the \$1.5 million balance from the Arts Center.
2. Review its own space requirements along with its gymnasium rental agreement with a performing arts charter school (Arts Charter School) and its use of the Arts Center's space to determine whether it is implementing best practices.
3. Develop and approve detailed procurement procedures for goods and services, including professional services as a best business practice.
4. Conduct an open and public process that includes ample transparency to the taxpayers of business management services.

Current Status: We found that the District implemented three of our four recommendations. The District and Board annually evaluate the agreement with the Arts Center along with the rental agreement with the Arts Charter School. District officials stated that the District does not intend to enter into another long term lease when the current lease with the Arts Center expires in 2025. In July 2020, the Board approved the only business management agreement since the last audit. The District has not developed and approved detailed procurement procedures for goods and services, including professional services as a best business practice.

Appendix A: 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,¹⁷ 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.

Our audit focused on the District's effectiveness and/or compliance with applicable statutory provisions and related regulations in the areas of Governance, Transportation Operations, Bus Driver Requirements, and School Safety, including fire and security drills. The audit objectives supporting these areas of focus are explained in the context of our methodology to achieve the objectives in the next section. Overall, our audit covered the period July 1, 2016 through June 30, 2020. The scope of each individual objective is also detailed in the next section.

The District's management is responsible for establishing and maintaining effective internal control to provide reasonable assurance that the District's objectives will be achieved.¹⁸ *Standards for Internal Control in the Federal Government* (also known as and hereafter referred to as the Green Book), issued by the Comptroller General of the United States, provides a framework for management to establish and maintain an effective internal control system. The Department of the Auditor General used the Green Book as the internal control analysis framework during the conduct of our audit.¹⁹ The Green Book's standards are organized into five components of internal control. In an effective system of internal control, these five components work together in an integrated manner to help an entity achieve its objectives. Each of the five components of internal control contains principles, which are the requirements an entity should follow in establishing an effective system of internal control. We illustrate the five components and their underlying principles in Figure 1 on the following page.

¹⁷ 72 P.S. §§ 402 and 403.

¹⁸ District objectives can be broadly classified into one or more of the following areas: effectiveness of operations; reliability of reporting for internal and external use; and compliance with applicable laws and regulations, more specifically in the District, referring to certain relevant state laws, regulations, contracts, and administrative procedures.

¹⁹ Even though the Green Book was written for the federal government, it explicitly states that it may also be adopted by state, local, and quasi-government entities, as well as not-for-profit organizations, as a framework for establishing and maintaining an effective internal control system. The Green Book is assessable at <https://www.gao.gov/products/GAO-14-704G>

Figure 1: Green Book Hierarchical Framework of Internal Control Standards

Principle	Description
Control Environment	
1	Demonstrate commitment to integrity and ethical values
2	Exercise oversight responsibility
3	Establish structure, responsibility, and authority
4	Demonstrate commitment to competence
5	Enforce accountability
Risk Assessment	
6	Define objectives and risk tolerances
7	Identify, analyze, and respond to risks
8	Assess fraud risk
9	Identify, analyze, and respond to change

Principle	Description
Control Activities	
10	Design control activities
11	Design activities for the information system
12	Implement control activities
Information and Communication	
13	Use quality information
14	Communicate internally
15	Communicate externally
Monitoring	
16	Perform monitoring activities
17	Evaluate issues and remediate deficiencies

In compliance with generally accepted government auditing standards, we must determine whether internal control is significant to our audit objectives. We base our determination of significance on whether an entity's internal control impacts our audit conclusion(s). If some, but not all, internal control components are significant to the audit objectives, we must identify those internal control components and underlying principles that are significant to the audit objectives.

In planning our audit, we obtained a general understanding of the District's control environment. In performing our audit, we obtained an understanding of the District's internal control sufficient to identify and assess the internal control significant within the context of the audit objectives. Figure 2 represents a summary of the internal control components and underlying principles that we identified as significant to the overall control environment and the specific audit objectives (denoted by an "X").

Figure 2 – Internal Control Components and Principles Identified as Significant

	Internal Control Significant ?	Control Environment					Risk Assessment				Control Activities			Information and Communication			Monitoring	
Principle →		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
General/overall	Yes	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
Transportation	Yes				X			X	X		X		X	X	X	X	X	
Bus Drivers	Yes										X		X			X	X	
Safe Schools	No																	
Governance	No																	

With respect to the principles identified, we evaluated the internal control(s) deemed significant within the context of our audit objectives and assessed those controls to the extent necessary to address our audit objectives. The results of our evaluation and assessment of the District's internal control for each objective is discussed in the following section.

Objectives/Scope/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, the District's annual financial reports, annual General Fund budgets, and the independent audit reports of the District's basic financial statements for the July 1, 2016 through June 30, 2020 fiscal years. We conducted analytical procedures on the District's state revenues and the transportation reimbursement data. We reviewed the prior audit report and we researched current events that possibly affected District operations. 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 effectiveness in four areas as described below. As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives.

Governance

- Did the District's Board of School Directors (Board) and administration ensure compliance with applicable laws and regulations regarding the Superintendent's contract?²⁰
 - ✓ To address this objective, we reviewed the employment contracts for the District's Superintendent for the period July 1, 2016 through June 30, 2021 to ensure that they were in compliance with the Public School Code. We conducted interviews with the District personnel and the Board President regarding the contract review, approval, and monitoring process. We obtained District payroll records and reviewed all 27 payments made to the Superintendent from July 1, 2020 through June 30, 2021 to determine if the payments were in accordance with the contract. We reviewed the board meeting minutes to determine if the Board approved the Superintendent's contracts. We also obtained and reviewed the District's calculation of the Superintendent's salary adjustments for each year during the period July 1, 2016 through June 30, 2021.

Conclusion: The results of our procedures identified noncompliance with the PSC. Those results are detailed in Finding No. 1 beginning on page 7 of this report.

Transportation Operations

- 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?²¹
 - ✓ To address this objective, we assessed the District's internal controls for obtaining, processing, and reporting transportation data to PDE. We requested vehicle odometer readings, student rosters, school calendars, and vehicle invoices for all 44 vehicles used to transport District

²⁰ 24 P.S. § 10-1073.1(a) and 24 P.S. § 10-1073.1(b.1).

²¹ See 24 P.S. § 2541(a).

students during the 2016-17 through 2019-20 school years. However, the District was unable to provide the documentation we requested. Therefore, we could not determine if the District accurately reported transportation data to PDE and was reimbursed appropriately.

- ✓ In addition, we assessed the District's internal controls for identifying, processing, and reporting non-reimbursable students and students transported who were eligible for reimbursement due to residing on a hazardous walking route. We requested the Pennsylvania Department of Transportation certified hazardous walking routes within the District, student rosters for the 476 hazardous walking route students, and the 57 non-reimbursable students the District reported to PDE for the 2016-17 through 2019-20 school years. However, the District was unable to provide the documentation we requested. Therefore, we could not determine if the District accurately reported this data to PDE and was reimbursed appropriately.

Conclusion: The results of our procedures identified noncompliance and significant internal control deficiencies related to this objective. These results are detailed in Finding No. 2 beginning on page 12 of this report.

Bus Driver Requirements

- Did the District ensure that all bus drivers transporting District students are approved by the Board and had the required driver's license, physical exam, training, background checks, and clearances²² as outlined in applicable laws?²³ Also, did the District adequately monitor driver records to ensure compliance with the ongoing five-year clearance requirements and ensure it obtained updated licenses and health physical records as applicable throughout the school year?
- ✓ To address this objective, we assessed the District's internal controls for reviewing, maintaining, and monitoring the required bus driver's qualification documents. We determined if all drivers were approved by the District's Board. We selected all 14 drivers transporting District students as of May 21, 2021. We reviewed documentation to ensure the District complied with the requirements for those drivers. We also determined if the District had monitoring procedures to ensure that all drivers had updated clearances, licenses, and physicals.

Conclusion: The results of our procedures did not identify any reportable issues; however, we did identify internal control deficiencies that were not significant to our objective but warranted the attention of District management and those charged with governance. These deficiencies were communicated to District management and those charged with governance for their consideration.

²² Auditors reviewed the required state, federal, and child abuse background clearances that the District obtained from the most reliable sources available, including the FBI, the Pennsylvania State Police, and the Department of Human Services. However, due to the sensitive and confidential nature of this information, we were unable to assess the reliability or completeness of these third-party databases.

²³ PSC 24 P.S. § 1-111, CPSL 23 Pa.C.S. § 6344(a.1), PSC (Educator Discipline) 24 P.S. § 2070.1a *et seq.*, State Vehicle Code 75 Pa.C.S. §§ 1508.1 and 1509, and State Board of Education's regulations 22 *Pa. Code Chapter 8*.

School Safety

- Did the District comply with requirements in the Public School Code and the Emergency Management Code related to emergency management plans, bullying prevention, and memorandums of understanding with local law enforcement?²⁴ Also, did the District follow best practices related to physical building security and providing a safe school environment?

- ✓ To address this objective, we obtained and reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and memorandums of understanding with local law enforcement.

Conclusion: Due to the sensitive nature of school safety, the results of our review for this objective are not described in our audit report, but they are shared with District officials, PDE's Office of Safe Schools, and other appropriate law enforcement agencies deemed necessary.²⁵

- Did the District comply with the fire and security drill requirements of Section 1517 of the Public School Code?²⁶ Also, did the District accurately report the dates of drills to PDE and maintain supporting documentation to evidence the drills conducted and reported to PDE?

- ✓ To address this objective, we obtained and reviewed fire and security drill records for elementary/middle school building to determine whether drills were conducted as required for the 2018-19 and 2019-20 school years.²⁷ We determined if a security drill was conducted within 90 days of the school year for the school building and if monthly fire drills were conducted in accordance with requirements. We also obtained the *Accuracy Certification Statement* that the District filed with PDE and compared the dates reported to the supporting documentation.

Conclusion: The results of our procedures for this objective did not identify any reportable issues.

²⁴ Safe Schools Act 24 P.S. § 13-1301-A *et seq.*, Emergency Management Services Code 35 Pa.C.S. § 7701.

²⁵ Other law enforcement agencies include the Pennsylvania State Police, the Attorney General's Office, and local law enforcement with jurisdiction over the District's school buildings.

²⁶ Public School Code (Fire and Security Drills) 24 P.S. § 15-1517.

²⁷ The Midland Borough School District educates students through 8th grade only, who are educated in the elementary/middle school.

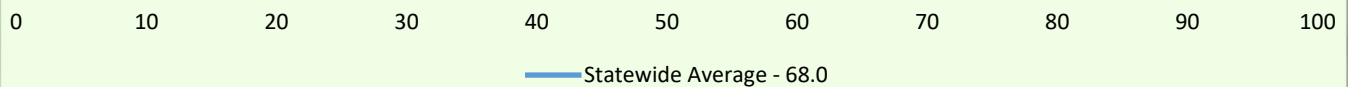
Appendix B: Academic Detail

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.²⁸ 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 graph.²⁹

SPP School Scores Compared to Statewide Averages

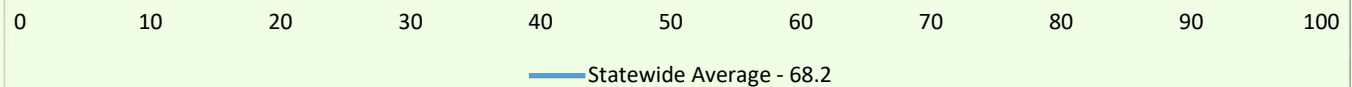
2018-19

Midland Elementary/Middle School, 73.3



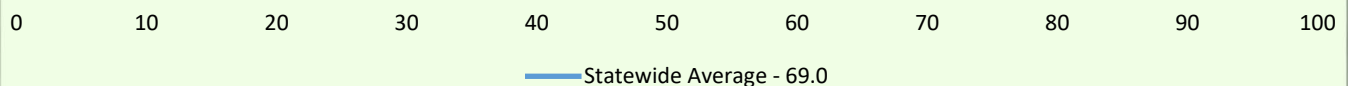
2017-18

Midland Elementary/Middle School, 64.9



2016-17

Midland Elementary/Middle School, 54.3

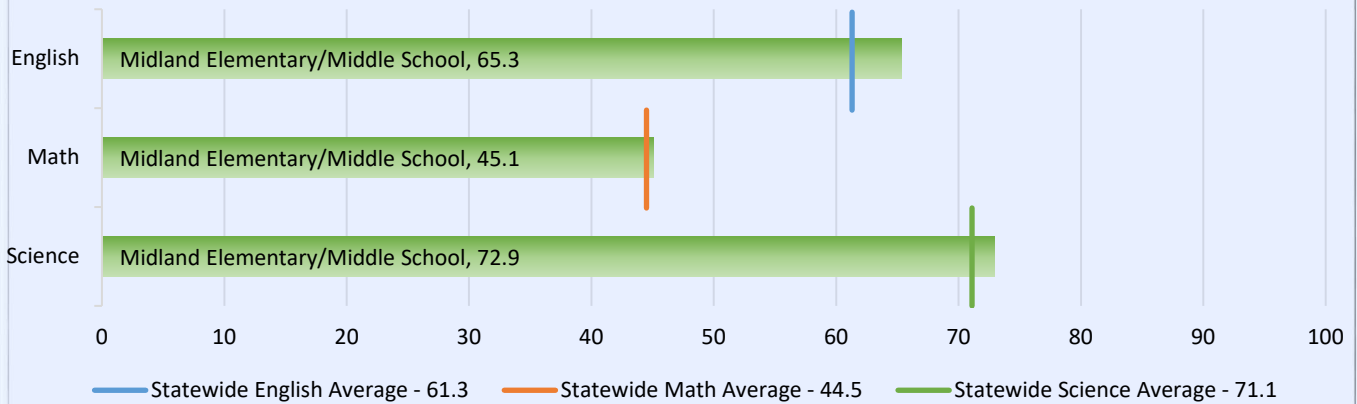


²⁸ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

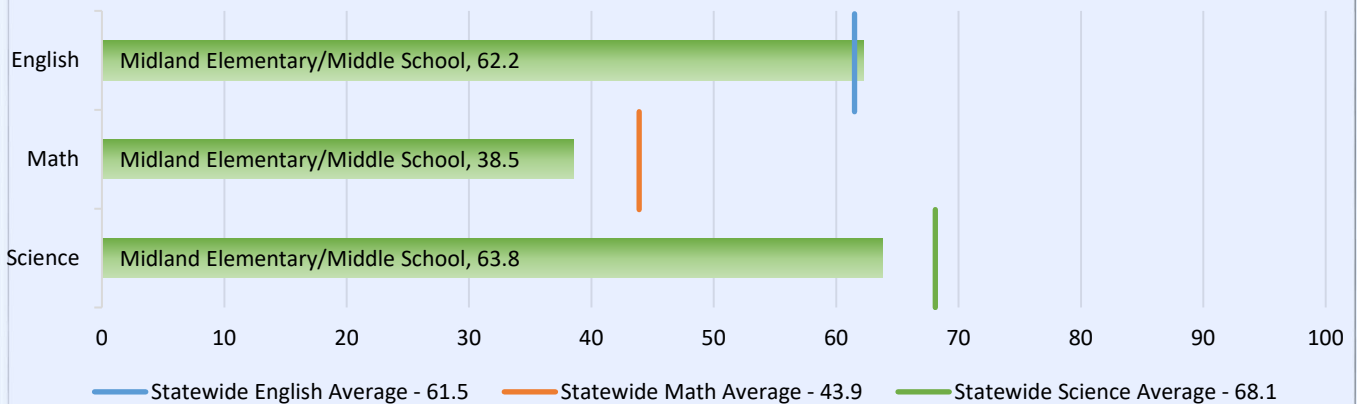
²⁹ PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

PSSA Advanced or Proficient Percentage School Scores Compared to Statewide Averages

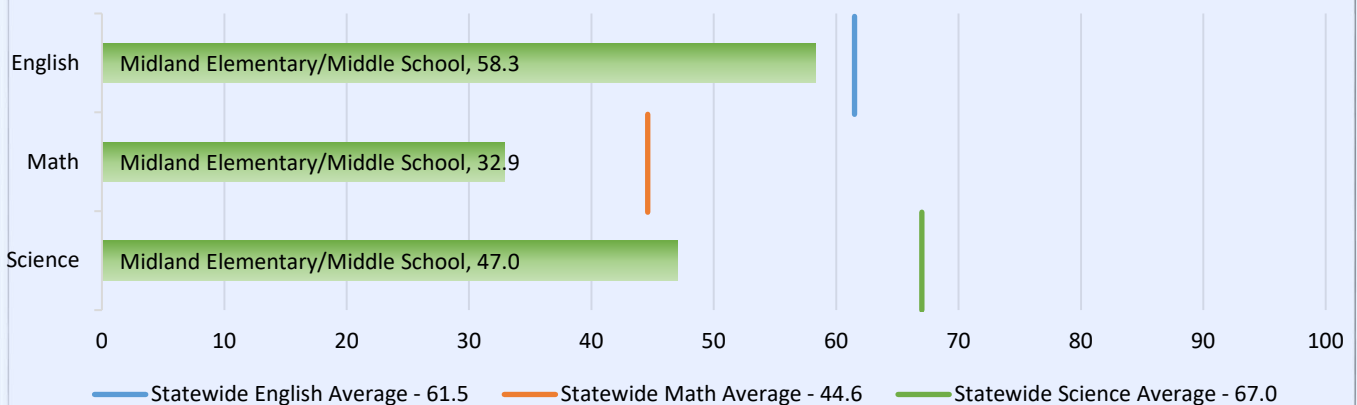
2018-19



2017-18



2016-17



**Keystone Advanced or Proficient Percentage
School Scores Compared to Statewide Averages**

The Midland Borough School District educates students through grade 8 only; therefore, no Keystone Exam scores exist. For that reason, the Keystone Exam graphs have been removed from this section.

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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