

PERFORMANCE AUDIT

Morrisville Borough School District Bucks County, Pennsylvania

October 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Jason B. Harris, Superintendent
Morrisville Borough School District
550 West Palmer Street
Morrisville, Pennsylvania 19067

Mr. Damon Miller, Board President
Morrisville Borough School District
550 West Palmer Street
Morrisville, Pennsylvania 19067

Dear Mr. Harris and Mr. Miller:

Our performance audit of the Morrisville Borough School District (District) evaluated the application of best practices in the area of finance. 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, 2013 through June 30, 2017, 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.

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

We also evaluated the application of best practices in the area of school safety. 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 results in this report. However, we communicated the results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate officials as deemed necessary.

Mr. Jason B. Harris

Mr. Damon Miller

Page 2

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. We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale

Auditor General

October 1, 2019

cc: **MORRISVILLE 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 Morrisville 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. We also determined the status of the District's corrective action taken in response to our prior audit recommendations.

Our audit scope covered the period July 1, 2013 through June 30, 2017, 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 2013-14 through 2016-17 school years.

Audit Conclusion and Results

During our audit, we found that the District applied best practices and complied, in all significant respects, with certain relevant state laws, regulations, contracts, and administrative procedures, except for two findings.

Finding No. 1: The District's General Fund Balance Decreased Significantly During the 2017-18 Fiscal Year and was Below the Recommended Level.

Our review of the District's financial position over a five-year period revealed that the District's General Fund balance increased in the first two fiscal years before

decreasing during the subsequent three fiscal years. On July 1, 2013, the District's General Fund balance was \$597,741. After increasing to \$2,676,414, on June 30, 2015, the District's General Fund balance decreased in the subsequent three fiscal years. As of June 30, 2018, the District's General Fund balance was \$810,253, significantly less than the fund balance levels recommended by the Government Finance Officers Association. (See page 10).

Finding No. 2: The District Failed to Retain Required Documentation to Support More than \$160,000 Received in Transportation Reimbursements.

The District did not comply with the record retention provisions of the Public School Code when it failed to retain adequate source documentation to verify the accuracy of more than \$160,000 it received in transportation reimbursements from the Pennsylvania Department of Education for the 2013-14 through 2016-17 school years. (See page 22).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations, we found the District has taken appropriate corrective action in implementing our recommendations pertaining to the lack of documentation necessary to verify bus drivers qualifications. (See page 27).

Background Information

School Characteristics 2018-19 School Year ^A	
County	Bucks
Total Square Miles	1.8
Number of School Buildings	2 ^B
Total Teachers	68
Total Full or Part-Time Support Staff	47
Total Administrators	7
Total Enrollment for Most Recent School Year	858
Intermediate Unit Number	22
District Vo-Tech School	Bucks County Technical HS

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

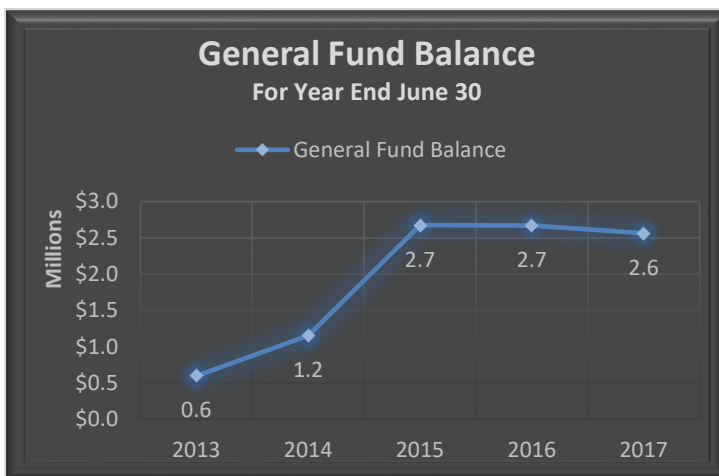
B - Intermediate and high school are located in the same building. However, academic data is presented separately.

Mission Statement^A

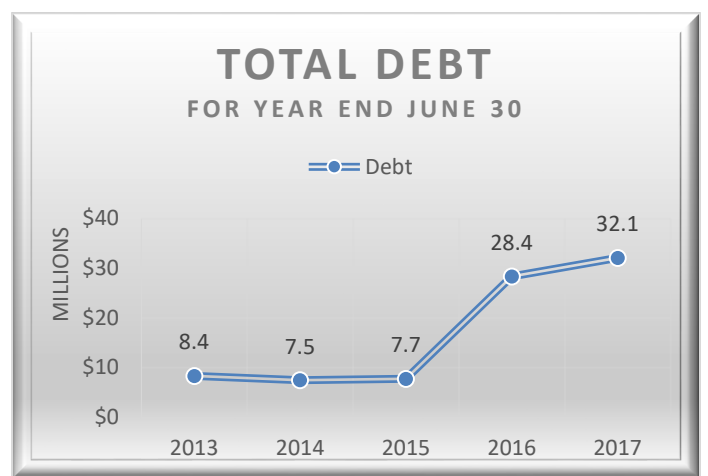
Our Mission is to provide all students with rigorous curriculum and the social skills necessary to become confident, productive and responsible citizens in a global society.

Financial Information

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

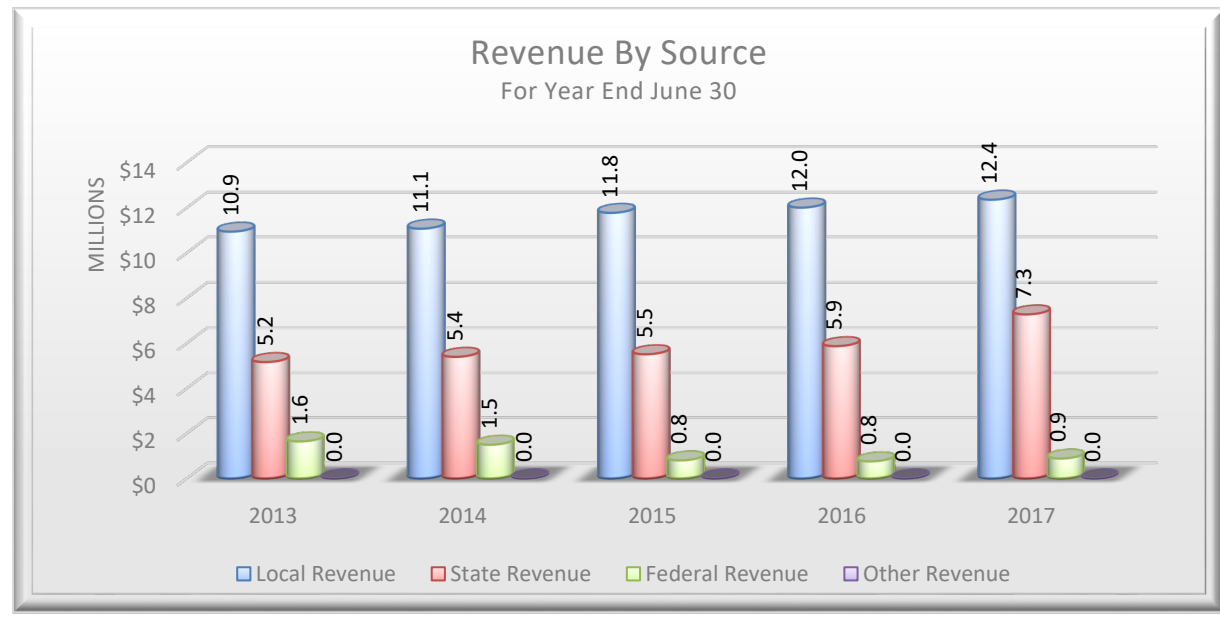
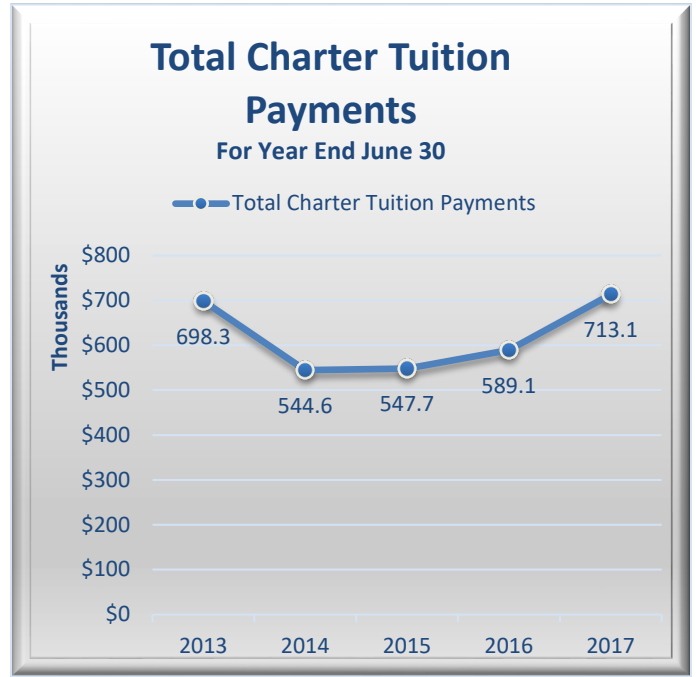
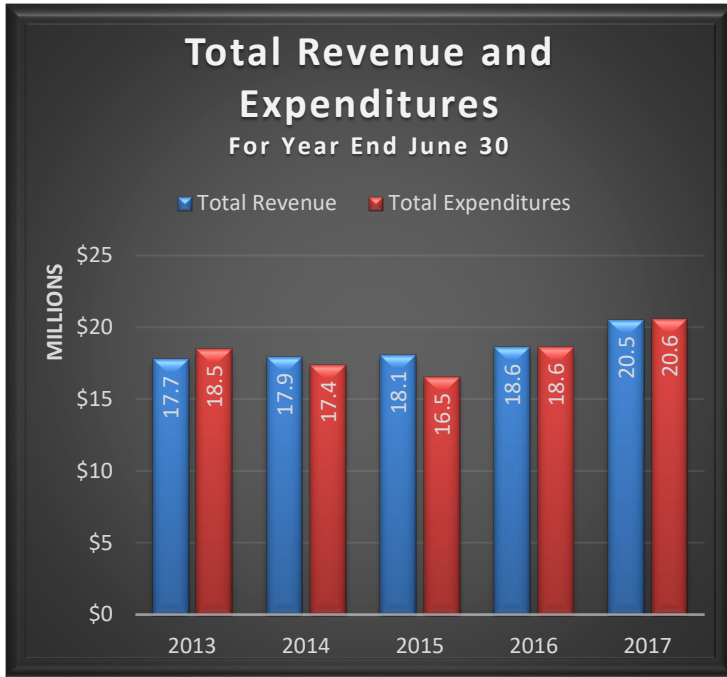


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15, 2015-16 and 2016-17 school years.¹ 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 graph.² 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.³

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 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.

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.⁴ PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

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.⁵ 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.

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

² 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.

³ 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.

⁴ 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 the PSSA exams to align with PA 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.

⁵ Act 39 of 2018, effective July 1, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement for an additional year until the 2020-21 school year. *See* 24 P.S. § 1-121(b)(1).

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.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁶ 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.

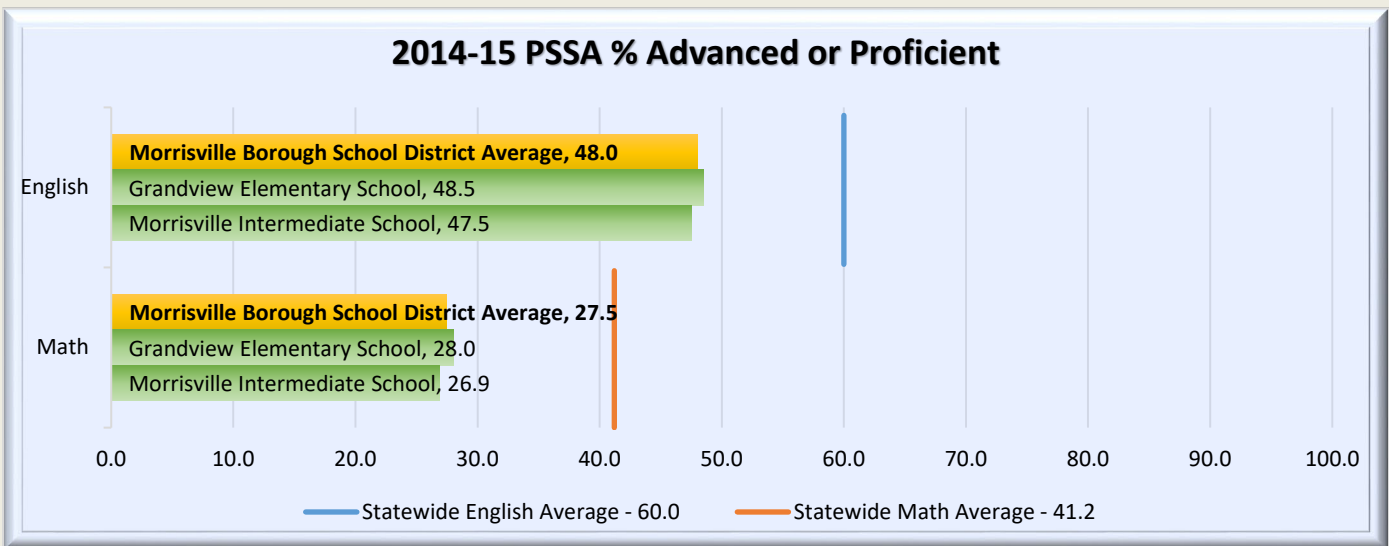
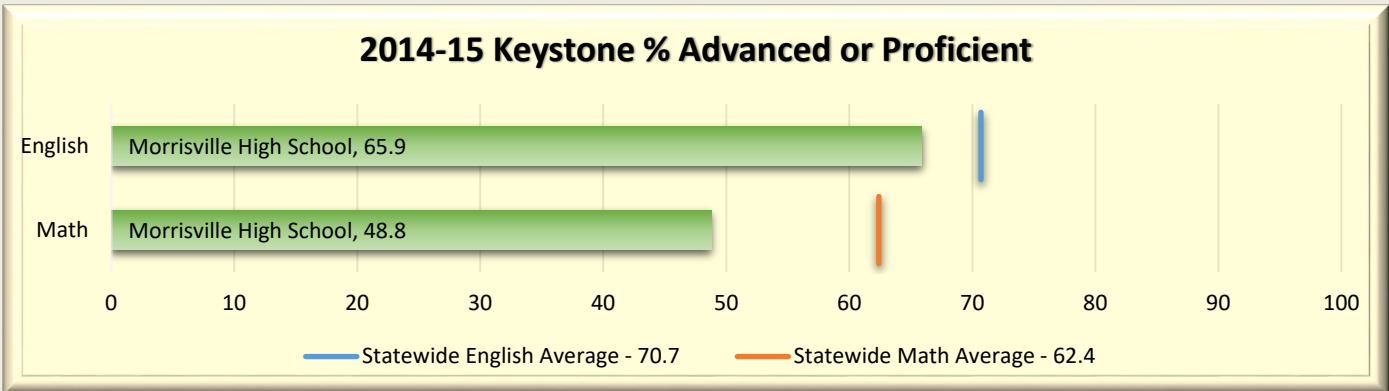
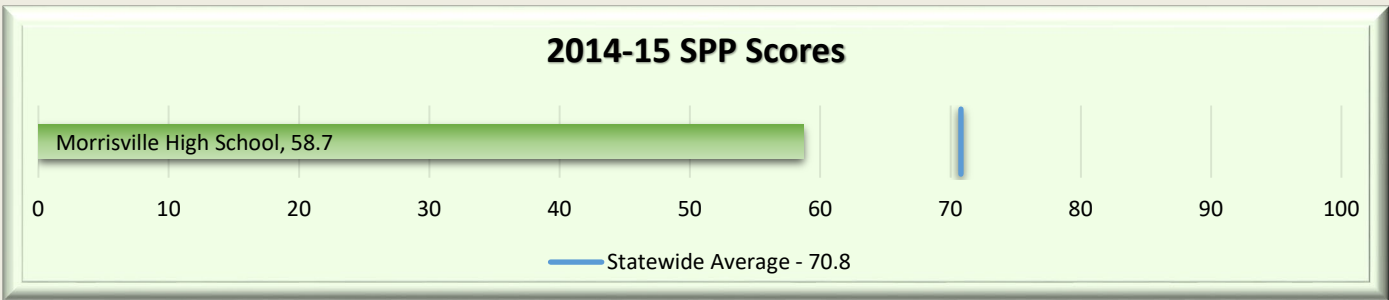
What is a 4-Year Cohort Graduation Rate?

PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.⁷

⁶ 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.

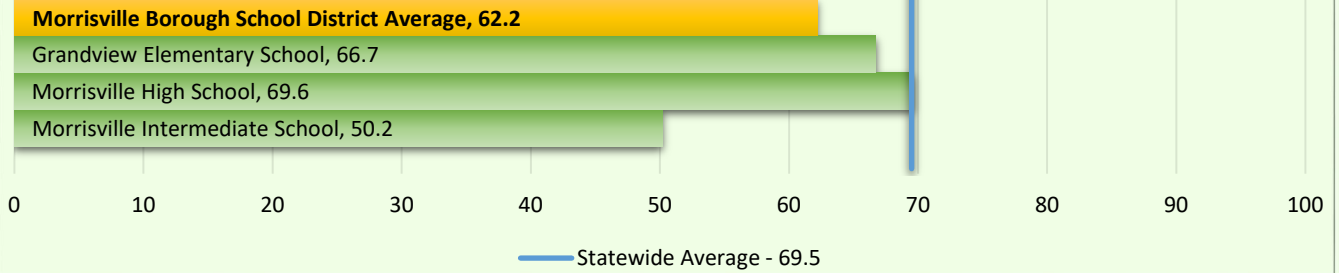
⁷ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

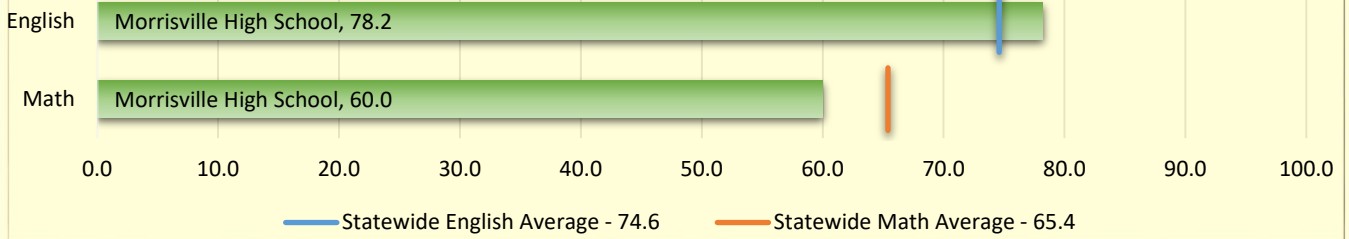


2015-16 Academic Data
School Scores Compared to Statewide Averages

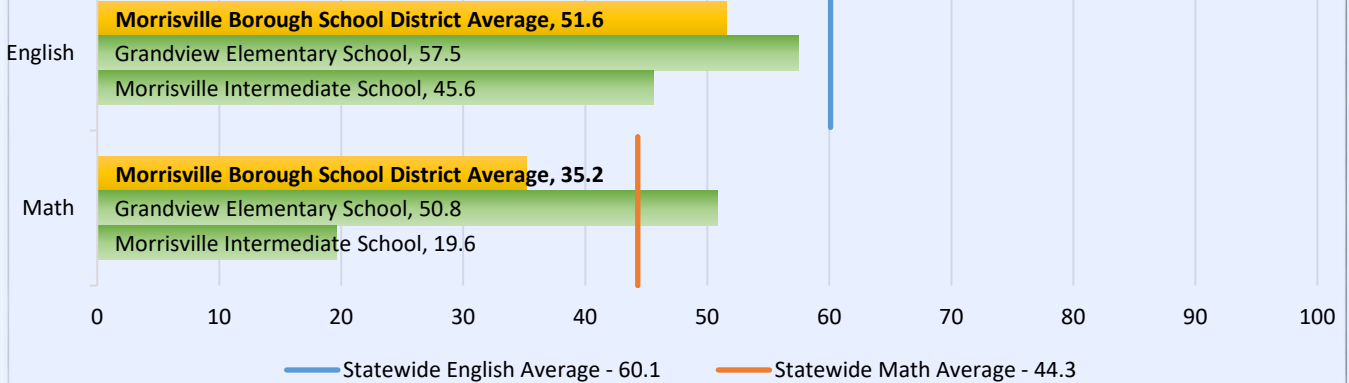
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

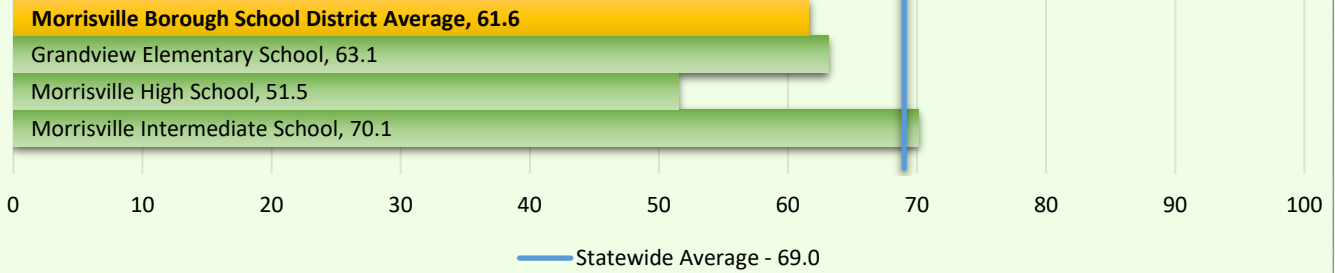


2015-16 PSSA % Advanced or Proficient

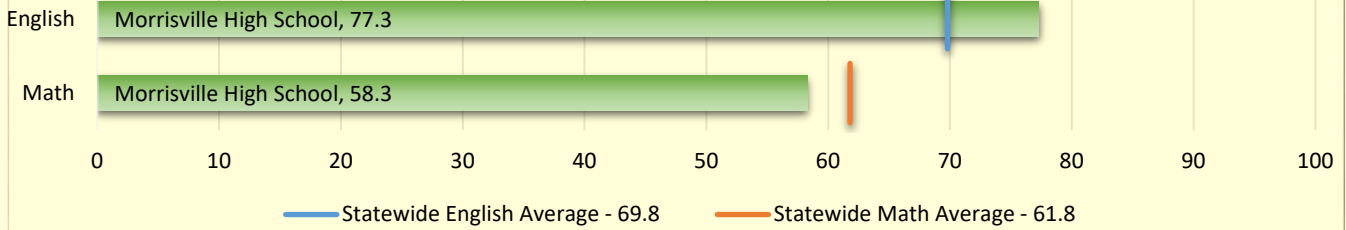


2016-17 Academic Data
School Scores Compared to Statewide Averages

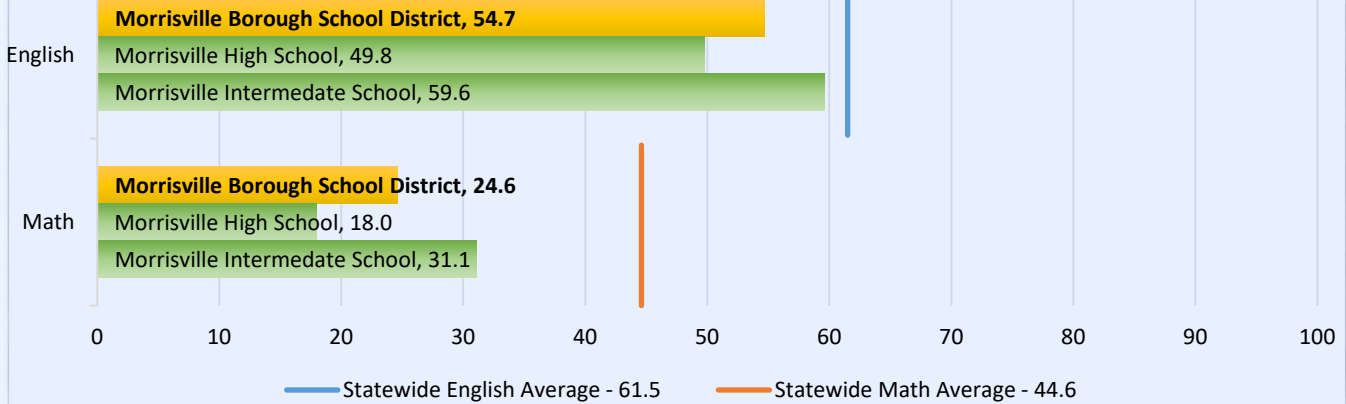
2016-17 SPP Scores



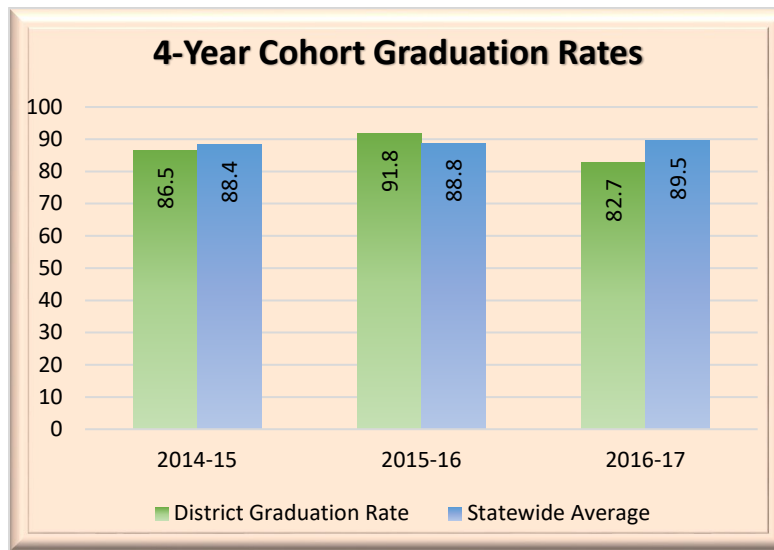
2016-17 Keystone % Advanced or Proficient



2016-17 PSSA % Advanced or Proficient



Graduation Data
District Graduation Rates Compared to Statewide Averages



Findings

Finding No. 1

The District's General Fund Balance Decreased Significantly During the 2017-18 Fiscal Year and was Below the Recommended Level

Criteria relevant to the finding:

Section 609 of the Public School Code (PSC) provides, in part:

“No work shall be hired to be done, no materials purchased and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.” See 24 P.S. § 6-609.

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

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

The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating expenditures and operating transfer out.

Our review of the Morrisville Borough School District's (District) financial position over a five-year period revealed that the District's General Fund balance increased in the first two fiscal years before decreasing during the subsequent three fiscal years. On July 1, 2013, the District's General Fund balance was \$597,741. After increasing to \$2,676,414, on June 30, 2015, the District's General Fund balance decreased in the subsequent three fiscal years. As of June 30, 2018, the District's General Fund balance was \$810,253, significantly less than the fund balance levels recommended by the Government Finance Officers Association (GFOA).

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of five years from July 1, 2013 through June 30, 2018. The following benchmarks raised concerns related to the District finances and are discussed in the remainder of the finding:

- General Fund Balance
- Operating Position
- Revenues
- Expenditures
 - Special Education Expenditures
 - Charter School Costs
- Budgeted Expenditures

General Fund Balance

The District's General Fund balance consisted of two classifications: 1) committed and 2) unassigned.⁸ The total of these two classifications comprised the District's unrestricted General Fund balance since the only constraint

⁸ The District committed funds during the audit period for an early retirement incentive, compensated absences, employee retirement and healthcare rate stabilization, and special education contingencies.

Criteria relevant to the finding (continued):

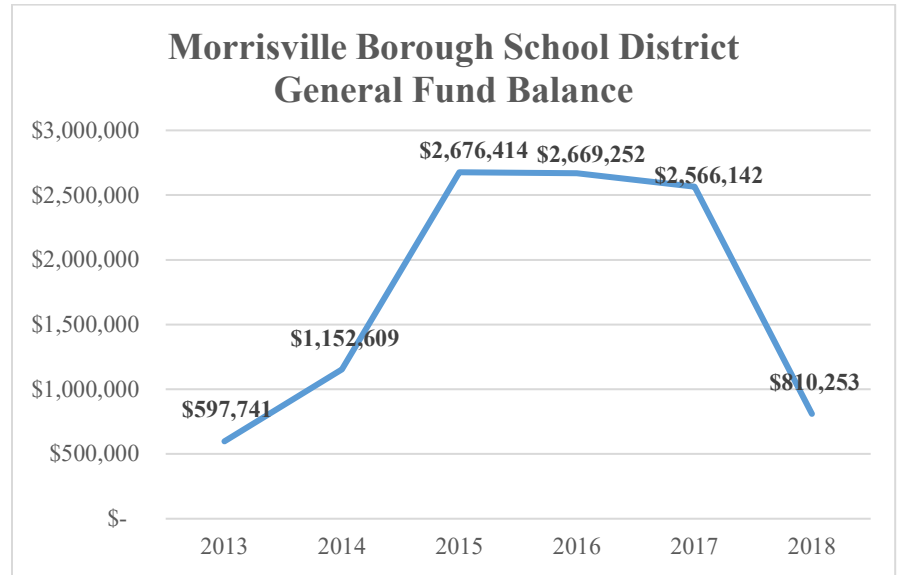
Budgeting and maintaining adequate fund balances allow school boards and superintendents to maintain their educational programs and services with level tax adjustments. They also provide financial stability in emergency situations so that it is certain that employees and vendors are paid on time. Fund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

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

- Financial industry guidelines recommend that fund balances be between five percent and ten percent of annual expenditures.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

on spending is imposed by the District itself. We discuss the District’s total General Fund balance in this finding. Chart No. 1 below illustrates the District’s General Fund balances as of June 30/July 1 of each fiscal year of our audit period.

Chart 1



As detailed in the criteria box, it is considered a best practice for school districts to maintain an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures plus operating transfers out. The Morrisville Borough School District did not meet best practices in each of the five years. The District’s expenditures increased during the audit period and the District did not generate sufficient revenue to offset these increasing expenditures. Due to the District’s low General Fund balance, it is not in a position to fund future operating deficits with its General Fund balance.

Operating Position

A school district’s operating position is an important indicator of a district’s financial health and is determined by comparing total operating revenues to total operating expenditures. The result of total expenditures and other financing uses exceeding total revenues and other financing sources is an operating deficit.⁹ The following table shows

⁹ Other financing sources and uses are more variable in nature and are commonly referred to as one time revenue or expenditures. Common examples are borrowings and transfers from other district funds.

the District’s operating position for the five-year period and the cumulative operating deficit.

Table 1¹⁰

Morrisville Area School District					
General Fund Operating Position					
		Expenditures			
Fiscal Year Ended June 30	Total Revenue	Instructional, Support Services, Nonsupport services	Debt Service and Capital Outlay	Other Financing Sources/(Uses)	Operating Surplus/(Deficit)
2014	\$17,946,754	\$16,548,467	\$808,047	(\$35,372)	\$554,868
2015	\$18,065,945	\$15,701,096	\$802,508	(\$38,536)	\$1,523,805
2016	\$18,613,525	\$17,797,078	\$814,036	(\$9,573)	(\$7,162)
2017	\$20,493,906	\$19,169,845	\$759,278	(\$667,893)	(\$103,110)
2018	\$20,642,670	\$21,529,683	\$838,311	(\$30,565)	(\$1,755,889)
Total:	\$95,762,800	\$90,746,169	\$4,022,180	(\$781,939)	(\$212,512)

As shown in the table above, the District experienced operating deficits during the 2015-16 through 2017-18 fiscal years. These operating deficits were due to expenditures increasing at a higher rate than revenues. The District’s expenditures are largely operational and not the result of capital outlays, which are typically more variable from year to year. On a positive note, the District’s debt service payments were under 5 percent of total General Fund expenditures for the period.

The District raised taxes during the 2013-14 through 2016-17 fiscal years. During the 2017-18 fiscal year, the District raised taxes by 1.7 percent, which was less than the 3.1 percent allowed by the Act 1 index.¹¹

¹⁰ Information obtained from the District’s Independent Auditor’s Report, Statement of Revenue, Expenditures and Changes in Fund Balance, fiscal years ending 2014 through 2018. We did not perform procedures to verify the accuracy of the amounts presented.

¹¹ According to the Pennsylvania Department of Education, Act 1 of 2006 as amended, entitled the Taxpayer Relief Act, “eases the financial burden of home ownership by providing school districts the means to lower property taxes to homeowners, especially senior citizens, via the funding provided by gaming revenue. It is anticipated that, ultimately, gaming will generate \$1 billion each year for local property tax relief.”

<https://www.education.pa.gov/Teachers%20-%20Administrators/Property%20Tax%20Relief/Pages/default.aspx> (Accessed July 13, 2019).

Revenues

The District's total revenues are comprised of local, state, and federal sources. Total revenues increased by 15 percent or more than \$2.6 million during the audit period. Revenue from local sources comprised 59 percent of the District's total revenues during the 2017-18 fiscal year. As previously discussed, the District has raised taxes, but District officials are concerned that continuing to raise taxes in accordance with the Act 1 index will reduce the tax collection percentage and could ultimately result in less local revenue received. The District's state revenue increased significantly due to the District receiving a \$1 million dollar legislative grant in both the 2016-17 and 2017-18 fiscal years. However, this legislative grant is variable in nature and is not funding that the District can rely on in future years.

The District received additional retirement subsidies of \$700,000 from the Commonwealth to offset the rising employer contribution rate required by the Public School Employees' Retirement System. The Commonwealth provided 37 percent of total revenues during the 2017-18 fiscal year, and the remaining amount of approximately 4 percent was from federal funding. See the table below for a breakdown of the District's total revenue.

Table 2

Morrisville Borough School District					
Composition of Total Revenue					
	Fiscal Year Ending June 30, 2014	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2016	Fiscal Year Ending June 30, 2017	Fiscal Year Ending June 30, 2018
Local	\$10,889,928	\$11,578,661	\$11,795,924	\$12,145,271	\$12,145,982
State	\$5,390,240	\$5,504,383	\$5,863,398	\$7,266,824	\$7,547,633
Federal	\$1,666,586	\$982,901	\$954,203	\$1,081,811	\$949,055
Totals:	\$17,946,754	\$18,065,945	\$18,613,525	\$20,493,906	\$20,642,670

Despite concerns that raising local taxes will result in a lower collection percentage, the District intends to increase the tax rate in hopes of increasing total revenues. District officials believe this is also needed because the District may not continue to receive a \$1 million dollar legislative grant that was received from the Commonwealth for both the 2016-17 and 2017-18 fiscal years.

Expenditures

District expenditures are categorized into four major functions: instructional,¹² support services,¹³ non-instructional,¹⁴ and debt service. These expenditures are detailed in the table below. The District's instructional expenditures comprised 69 percent of the District's total expenditures during the audit period, and this expenditure category increased by 29 percent during the audit period, from \$12.1 million in the 2013-14 fiscal year to \$15.7 million in the 2017-18 fiscal year.

Table 3¹⁵

Morrisville Borough School District Expenditures by Fiscal Year						
Total Expenditures per IAR	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015	Fiscal Year, Ended June 30, 2016	Fiscal Year, Ended June 30, 2017	Fiscal Year Ended June 30, 2018	Totals
Instructional	\$12,154,208	\$11,211,780	\$12,844,284	\$13,905,939	\$15,656,992	\$65,773,203
Support Services	\$4,007,548	\$4,068,787	\$4,492,029	\$4,728,403	\$5,282,363	\$22,579,130
Non-Instructional Services	\$386,711	\$420,529	\$460,765	\$535,503	\$590,328	\$2,393,836
Debt Service	\$808,047	\$802,508	\$814,036	\$759,278	\$838,311	\$4,022,180
Total:	\$17,356,514	\$16,503,604	\$18,611,114	\$19,929,123	\$22,367,994	\$94,768,349

The largest dollar contributor to the increase in the District's total expenditures was increases in instructional expenditures, particularly during the 2017-18 fiscal year. One of the primary drivers of the District's increasing instructional expenditures was the District's special education costs.

Special Education Expenditures

The District experienced a steady increase in special education expenditures over the five-year period reviewed. The District's special instructional expenditures increased

¹² Includes all activities dealing directly with the interaction between teachers and students and related costs (salaries, contracted services, travel expenses, equipment rental, supplies, books), which can be directly attributed to a program of instruction.

¹³ Those services that provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction.

¹⁴ Activities concerned with providing non-instructional services to students, staff, or the community. Examples include food services, student activities, and community services.

¹⁵ The information was obtained from the District's Independent Auditor's Report, *Statement of Revenues, Expenditures, and Changes in Fund Balances*, for fiscal years ending 2014 through 2018. We did not perform procedures to verify the accuracy of the amounts presented.

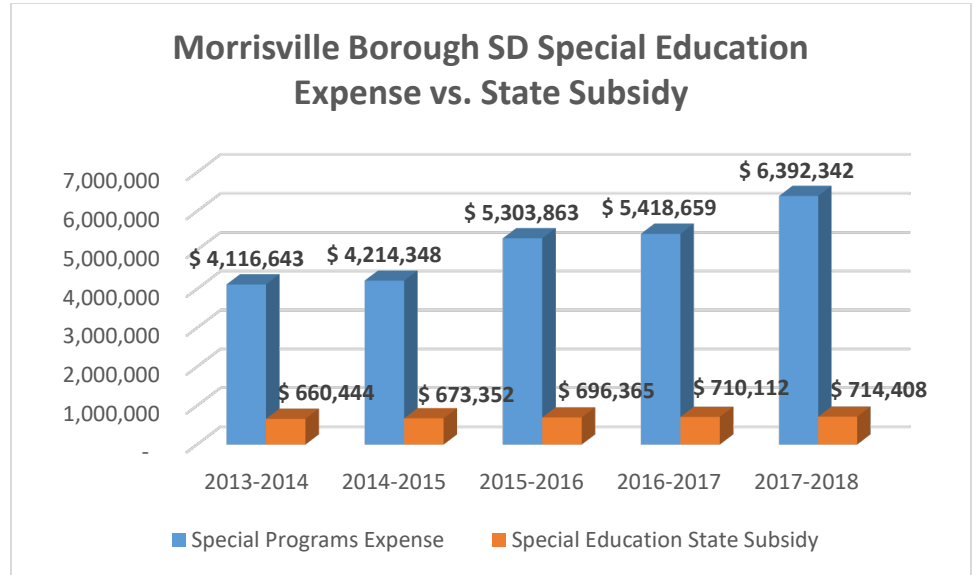
by 55 percent, from \$4.1 million in the 2013-14 fiscal year to \$6.4 million in the 2017-18 fiscal year. The number of special education students and types of services provided and/or institutions attended, based on each individual student's level of need, fluctuates from year-to-year and may even fluctuate significantly within the same school year as students' needs change. The District's enrollment for special education students increased slightly from 189 in the 2013-14 fiscal year to 200 in the 2017-18 fiscal year. However, charter school tuition for special education students more than doubled in that time period from \$200,827 to \$422,249. Additionally, tuition for private schools increased from \$376,543 to \$882,968.¹⁶ The District stated that it places a significant number of special education students in programs outside of the District. Given the number of special education students being served each year and rising program and personnel costs, the District expects special education expenditures to continue rising.

While the District's special education expenditures increased by 55 percent, Commonwealth reimbursements for special education expenditures were relatively flat, increasing by only 8 percent. Without a healthy General Fund balance to absorb these increasing costs, it is imperative for the District to reduce other operational expenditures or generate additional revenue to offset this cost.

¹⁶ The District chooses to educate some special education students outside of the District due to the individual need of each student.

The following chart illustrates the District’s special education expenditures and the amount of reimbursements received by the District.

Chart 2



The District’s special education expenditures exceeded the amount budgeted for each year of the audit period. Special education enrollment comprised 21 percent of the District’s total enrollment during the 2017-18 fiscal year, so it is important that special education expenditures are accurately budgeted. The table below illustrates the District’s special education expenditures and budgeted amounts.

Table 4

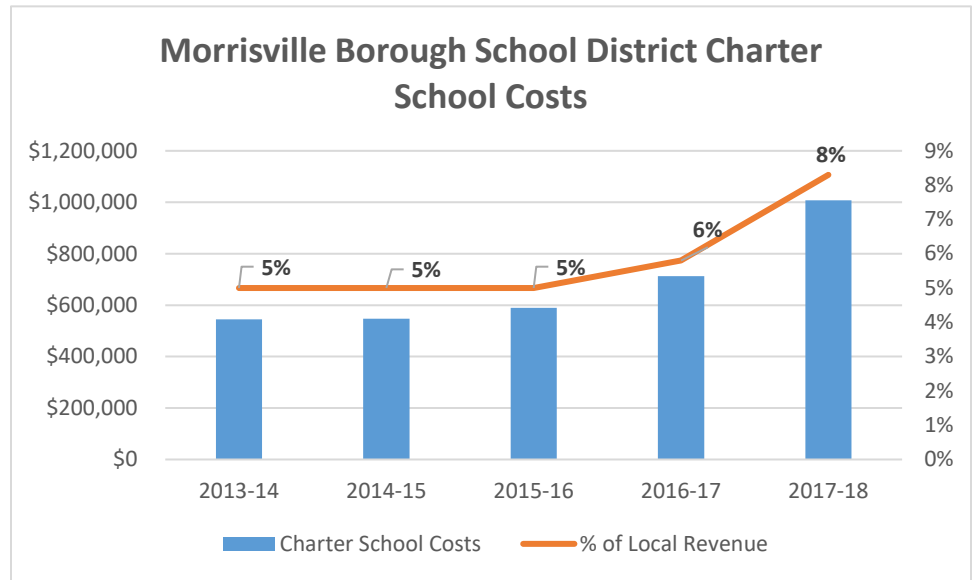
Morrisville Borough School District			
Budgeted vs. Actual Special Education Expenditures			
Fiscal Year Ending June 30	Budgeted Special Education Expenditures	Actual Special Education Expenditures	Amount Actual Exceeded Budget
2014	\$3,814,859	\$4,116,643	\$301,784
2015	\$4,211,357	\$4,214,348	\$2,991
2016	\$4,228,688	\$5,303,863	\$1,075,175
2017	\$4,867,617	\$5,418,659	\$551,042
2018	\$5,059,174	\$6,392,342	\$1,333,168
Total	\$22,181,695	\$25,445,855	\$3,264,160

As shown in the chart above, the District increased the amount budgeted for this expenditure each year, but during the 2016-17 and 2017-18 fiscal years, the District failed to budget the amount expended the previous year, and unsurprisingly, spent significantly more than budgeted during those fiscal years.

Charter School Costs

Charter school tuition costs almost doubled from \$544,624 in the 2013-14 fiscal year to \$1,008,178 in the 2017-18 fiscal year, with the largest increases occurring during the last two years of the audit period. The District is concerned about increasing charter school costs and, based on recent history, it expects charter school tuition costs to increase in the future. The chart below illustrates the District’s charter school tuition costs and the percentage of charter school tuition costs to the District’s local revenue.¹⁷

Chart 3



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

Table 5

Morrisville Borough School District Public and Charter School Enrollment						
	2013-14	2014-15	2015-16	2016-17	2017-18	% Change
Public	881	876	860	846	846	-4%
Charter	33	41	36	37	45	36%
<i>Total</i>	914	917	896	883	891	-3%

¹⁷ Districts must use local revenue to meet charter school costs since there is no additional Commonwealth or federal revenue that is received for charter school students.

Charter school growth has the possibility of creating a negative feedback loop, wherein the diversion of limited resources to charter schools threatens the quality of District schools, further driving students to charter schools and exerting more financial pressure on the District. Essentially, charter school tuition payments are “contra” revenues that effectively reduce state aid and local revenue to the district by redirecting it to charter schools.¹⁸

Budgeted Expenditures

The Public School Code (PSC) requires that all school districts develop a balanced General Fund budget each year. In addition, the PSC prohibits districts from spending more than the amount budgeted. The District developed a balanced General Fund balance for each year of our audit period. The District’s actual expenditures were less than the budgeted amounts during the 2013-14 and 2014-15 fiscal years. This period of time corresponds to the time period when the District experienced operating surpluses and its General Fund balance increased.

The table below illustrates the District’s actual expenditures compared to the District’s budgeted expenditures.

Table 6¹⁹

Morrisville Borough School District			
Budgeted vs. Actual Expenditures			
Fiscal Year Ending June 30	Budgeted Expenditures	Actual Expenditures	(Under)/Over Budget
2014	\$17,520,630	\$17,356,514	(\$164,116)
2015	\$17,397,770	\$16,503,604	(\$894,166)
2016	\$18,260,527	\$18,611,114	\$350,587
2017	\$19,276,833	\$19,929,123	\$652,290
2018	\$20,871,896	\$22,367,994	\$1,496,098
Total	\$93,327,656	\$94,768,349	\$1,440,693

It is important for the District to accurately budget expenditures since this has a direct effect on the budgeted General Fund balance. Given that the budgeted General Fund balance is integral to the discussion of millage rate

¹⁸ “Contra revenue is a deduction from the gross revenue reported by a business, which results in net revenue. Contra revenue transactions are recorded in one or more contra revenue accounts, which usually have a debit balance (as opposed to the credit balance in the typical revenue account).”

<https://www.accountingtools.com/articles/what-is-contra-revenue.html> accessed August 6, 2019.

¹⁹ The information was obtained from the District’s Independent Auditor’s Report, *Budgeted Statement of Revenues, Expenditures, and Changes in Fund Balances*, for fiscal years ending 2014 through 2018. We did not perform procedures to verify the accuracy of the amounts presented.

modifications and operational changes, it is essential that this number is as accurate as possible.

We found that the primary reason expenditures exceeded budgeted amounts in the 2015-16 through 2017-18 fiscal years was due to instructional expenditures exceeding the budgeted amounts. The District's instructional expenditures include costs associated with pre-kindergarten, regular, special, and vocational education programs. The District's actual instructional expenditures exceeded the budgeted amount for each fiscal year in the audit period except for the 2014-15 fiscal year. The District attributed the increases in these categories to the increase in retirement and health care costs for employees' special education, and charter school costs. Charter school tuition rates are significantly higher for special education students, and as more students with special needs transfer to charter schools, the District's instructional expenditures increase. This is part of the negative feedback loop discussed earlier in the charter school costs section of this finding.

Conclusion

The District's General Fund balance decreased significantly during the 2017-18 school year. This was primarily due to rising instructional expenditures that can be attributed to increasing special education and charter school costs. The District failed to adequately plan to generate sufficient revenue or reduce other expenditures to meet these increasing costs. Additionally, the District's inability to accurately budget expenditures led the District to be in noncompliance with the PSC when it over spent its budget during the 2015-16 through 2017-18 fiscal years. The District must institute vital operational changes to build its General Fund balance, which would be critically needed if unexpected expenditures or unexpected decreases in revenues occur in the future.

Recommendations

The *Morrisville Borough School District* should:

1. Prepare a multi-year budget that includes a strategy to increase revenue and/or reduce expenditures or the growth of expenditures in order to achieve operating surpluses and increase its General Fund balance to meet the criteria suggested by the GFOA.

2. Display the multi-year budget prominently on its website for the public so that taxpayers and District officials can publicly discuss the details of the budget at open meetings.
3. Ensure that the District considers actual special education expenditures from the previous fiscal year when budgeting for this expenditure.

Management Response

District management provided the following response:

“The district did have a significant reduction in fund balance during the 2017-18 Fiscal Year. The fund balance decreased by \$1,755,889. The main reason for this reduction was the large increase in special education expenses that year. Special Education expenses amounted to \$6,392,242 for 2017-18. This was \$1,333,169 over the budgeted amount of \$5,059,173. It is recommended that a district should maintain a fund balance in case it has an emergency or unexpected expenses are incurred in a given year. That is exactly what the District did. Special Education is an underfunded mandate that requires a district to provide the necessary curriculum and services to students that are necessary in order to comply with FERPA. It was unforeseen during the budget process that new students moving in the district were going to require expensive services to comply special education mandates. Additionally, charter school tuition also went over budget by \$217,478, amounting to \$1,008,178. This is an unfunded mandate that falls completely on the district to be in compliance. Here are steps the district did to balance the budget and lower escalating special education costs;

- Raised property taxes by 6.31%, significantly above the Act 1 Index of 2.3%.
- Created a classroom to bring students back from the Bucks County Intermediate Unit (BCIU) that will be more cost effective.
- Renegotiated services with the BCIU to achieve efficiencies and cost containment.
- Eliminated and [*sic*] administrative position saving \$103,000.
- In the process of refunding a portion of the 2014 Bond issue which will reduce the 2019-20 debt service by \$288,313. This is approximately

\$100,000 lower than the amount built into the budget.

- Significantly cut supplies, training, and department budgets.
- Balanced the budget without utilizing fund balance.”

Auditor Conclusion

We are encouraged that the District is taking proactive measures to increase its General Fund balance. We continue to stress that the District use a more conservative approach in budgeting for its expenditures. We will determine the effectiveness of the District’s corrective actions during our next audit of the District.

Finding No. 2

The District Failed to Retain Required Documentation to Support More than \$160,000 Received in Transportation Reimbursements

Criteria relevant to the finding:

Record Retention Requirement

Section 518 of the PSC requires that 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.

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).

The District did not comply with the record retention provisions of the PSC when it failed to retain adequate source documentation to verify the accuracy of more than \$160,000 it received in transportation reimbursements from the Pennsylvania Department of Education (PDE) for the 2013-14 through 2016-17 school years.²⁰

Without proper documentation, we were unable to determine the appropriateness of the regular transportation reimbursement received by the District. It is absolutely essential that records related to the District's transportation expenses and reimbursements be retained in accordance with the PSC's record retention provision (for a period of not less than six years) and be readily available for audit.²¹ As a state auditing agency, it is extremely concerning to us that the District did not have the necessary and legally required documents available for audit. Periodic auditing of such documents is extremely important for District accountability and verification of accurate reporting.

School districts receive two separate transportation reimbursement payments from PDE. The regular transportation reimbursement is broadly based on the number of students transported, the number of days each vehicle was used to transport 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 charter school and nonpublic school students transported at any time during the school year.

Regular Transportation Reimbursement

The number of students transported and miles driven are the basis for calculating the annual reimbursement amount. Therefore, it is essential for districts to document, verify, and retain odometer readings, student rosters, and changes

²⁰ *See* 24 P.S. § 5-518.

²¹ *Ibid.*

Criteria relevant to the finding (continued):

Annual Filing Requirement

Section 2543 of the PSC 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. *See* 24 P.S. § 25-2543.

Section 2543 of the PSC, which is entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” states, in part: “[A]nnually, 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.] Ibid.

that occur during the year for each vehicle transporting students.

However, the District did not maintain sufficient documentation of this information for the four years we reviewed. The table below shows the student and vehicle data reported to PDE and the regular reimbursement received for each school year during the audit period.

Table 1

Morrisville Borough School District Transportation Data Reported to PDE			
School Year	Reported Number of Students Transported	Reported Number of Vehicles	Total Reimbursement Received
2013-14	306	5	\$ 47,217
2014-15	141	4	\$ 28,799
2015-16	148	4	\$ 40,778
2016-17	150	4	\$ 46,904
Totals	745	17	\$ 163,698

As illustrated in the table above, the reported number of students transported decreased dramatically from the 2013-14 school year to the 2014-15 school year. However, the reported number of vehicles did not decrease at the same rate during this time period. Additionally, the District’s total reimbursement received increased by a significant amount from the 2014-15 school year to the 2015-16 school year despite the reported number of students transported and reported number of vehicles staying relatively the same. Based on past accumulative experience, reporting information of this nature indicates potential reporting errors. Likewise, the District’s official responsible for calculating and reporting transportation data during the audit period did not receive any formal training. These concerns warrant a detailed review of the reported information. In this case, we were unable to determine the accuracy of the reported information due to the District’s failure to retain appropriate supporting documentation.

Failure to Retain Source Documentation

Transportation data is submitted through an application on PDE’s secure website and is certified by the school

district's Superintendent.²² The Morrisville Borough School District reported its transportation data for each year of the audit period, and the District's Superintendent signed the certification statement attesting to the accuracy of the data.²³

Districts are responsible to retain source documentation (odometer readings) to calculate miles traveled with and without students and total annual miles for each vehicle used to transport students. PDE requires districts to use source documentation to calculate a monthly weighted or sample average for all vehicles. However, the Morrisville Borough School District was able to provide us with only one mileage reading for each vehicle used to transport students, so we were unable to verify the accuracy of the weighted or sample averages reported to PDE.

Additionally, the District failed to retain supporting documentation for the number of students transported. The District did not maintain or retain student rosters so we were unable to verify any changes in transportation service that occurred during the school year.

The District notifies students manually (phone or email) of their assigned bus, time, and location of pick up. The District does not electronically retain transportation data elements and therefore was unable to re-create information that we needed to review the accuracy of reported data.

Conclusion

The District failed in its fiduciary duties to taxpayers and did not comply with the PSC by not retaining this information consistent with the record retention requirements. Without the documentation, we could not determine whether the amount of regular transportation reimbursement received was appropriate. Transportation expenses and the subsequent transportation reimbursements are significant factors that can impact the District's overall financial position. Therefore, it is vital to taxpayers and in the best interest of the District to ensure that it regularly and consistently meets its fiduciary duties and complies with the PSC's record retention requirements.

²² As shown in the criteria box, PDE-1049 is the electronic form annually submitted to PDE by each LEA.

²³ The PSC requires that all school districts annually file a sworn statement of student transportation data for the prior and current school year with PDE including a certification that the District has complied with all applicable provisions of law or state regulations in order to be eligible for transportation subsidies. *See* 24 P.S. § 25-2543.

Recommendations

The *Morrisville Borough School District* should:

1. Immediately take the appropriate administrative measures to ensure that it retains all documentation supporting the transportation data reported to PDE, including odometer readings and student bus rosters, in accordance with the PSC's record retention requirements.
2. Establish a safe and adequate location to store all source documents and calculations supporting the transportation data submitted to PDE.
3. Ensure that record retention procedures are documented and staff are trained on the procedures.

Management Response

District management provided the following response:

“The District needs to improve the recording of the required documents and record retention that is required and necessary to receive transportation subsidy reimbursement from the state. The District will implement the following procedures;

- Provide the staff member in charge of transportation with the necessary training that is vital to create and maintain transportation records that are required to receive transportation subsidies from the state.
- Create and maintain monthly records for each vehicle that will include then following information; bus/van number, VIN number, year manufactured, pupil seating capacity, daily miles with students, daily miles without students, number of days the vehicle is used during the school year, and pupils assigned to the vehicle. These records will be updated monthly and kept on file.
- Bus evacuation and fire drills will be completed and filed per regulations.
- The Business Administrator will review the transportation files on a monthly basis to ensure compliance.”

Auditor Conclusion

We are encouraged that the District intends to implement our recommendations. We continue to emphasize that transportation reimbursement is a significant revenue source for the District, and it is critically important for the District to retain documentation for auditing purposes. We will review the corrective action stated by the District in our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Morrisville Borough School District (District) released on February 27, 2015, resulted in one finding, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations, interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on February 27, 2015

Prior Finding: **Lack of Documentation Necessary to Verify Bus Drivers' Qualifications.**

Prior Finding Summary: During our prior audit, we determined whether four of the District's bus drivers were properly qualified to transport the students. During our audit, we found that three of the District's bus drivers were transporting students without the required Act 114 Federal background documentation on file. The District had copies of receipts for payments for the clearances. However, the actual clearances or evidence of review by any District administrator/employee were lacking.

Prior Recommendations: We recommended that the District should:

1. Establish policies and procedures to ensure that a District administrator/employee reviews each driver's qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete prior to the start of the school year.

Current Status: In August 2014, the District implemented a system where the transportation department reviews and retains all drivers' clearances. The District's Human Resource department also retains a copy of each driver's clearance in the employee's personal file. We were glad to find that the District implemented policies and procedures to ensure that a District administrator/employee reviews each driver's qualifications prior to that person transporting students.

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,²⁴ 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, 2013 through June 30, 2017. In addition, the scope of each individual audit objective is detailed on the next page.

The Morrisville Borough School District's (District) management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements).²⁵ In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, if applicable, that we considered 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.

²⁴ 72 P.S. §§ 402 and 403.

²⁵ 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, 2013 through June 30, 2017. We also determined if the District had key personnel or software vendor changes since the prior audit.

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

- ✓ Financial Stability
- ✓ Transportation Operations
- ✓ Administrator Separations
- ✓ Nonresident Student Data
- ✓ Bus Driver Requirements
- ✓ School Safety

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

- ✓ Based on an assessment of financial indicators, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - To address this objective, we reviewed the District's annual financial reports, General Fund budgets, and independent auditor's reports for the 2013-14 through 2017-18 fiscal years. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, debt ratio, and current ratio. These financial indicators were deemed appropriate for assessing the District's financial stability. The financial indicators are based on best business practices established by several agencies, including Pennsylvania Association of School Board Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. The results of our review of this objective can be found in Finding No. 1 on page 10 of this report.

- ✓ 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?²⁶
 - To address this objective, we interviewed District personnel to get an understanding of the District’s procedures concerning reporting transportation data to PDE. We attempted to determine the accuracy of the District’s mileage calculations, the number of students reported as transported, and the number of days students were transported reported to PDE. However, the District did not retain sufficient documentation for us to verify its transportation reimbursements. The results of our review of this objective can be found in Finding No. 2 on page 22 of this report.

- ✓ 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(s) comply with the Public School Code²⁷ and Public School Employees’ Retirement System guidelines?
 - To address this objective, we reviewed the contracts, board meeting minutes, board policies, and payroll records for two administrators who separated employment from the District during the period July 1, 2013 through June 30, 2017. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District accurately report nonresident students to PDE? Did the District receive the correct reimbursement for these nonresident students?²⁸
 - To address this objective, we reviewed all 12 nonresident foster students that the District reported to PDE for the 2013-14, 2014-15, 2015-16, and 2016-17 schools years. We obtained documentation to verify that the custodial parent or guardian was not a resident of the District and that the foster parent received a stipend for caring for the student. The student listings were compared to the total days reported on the Membership Summary and Instructional Time and Membership Report to ensure that the District received the correct reimbursement for these students. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver’s license, physical exam, training, background checks, and clearances²⁹ as outlined in applicable laws?³⁰ Also, did the District have written policies and procedures

²⁶ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

²⁷ 24 P.S. § 10-1073(e)(2)(v).

²⁸ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

²⁹ Auditors reviewed the required state, federal and child abuse background clearances 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.

³⁰ 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.

governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?

- To address this objective, we reviewed all of the eight bus drivers transporting District students as of February 21, 2019. We 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 would ensure, when followed, compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

✓ Did the District take actions to ensure it provided a safe school environment?³¹

- 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 both of the District's school buildings to assess whether the District had implemented basic safety practices.³² Due to the sensitive nature of school safety, the results of our review for this objective area are not described in our report. The results of our safety review were shared with District officials, PDE, and other appropriate agencies deemed necessary.

³¹ 24 P.S. § 13-1301-A *et seq.*

³² 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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