

PERFORMANCE AUDIT

Old Forge School District Lackawanna County, Pennsylvania

July 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Dr. Erin Keating, Superintendent
Old Forge School District
300 Marion Street
Old Forge, Pennsylvania 18518

Mrs. Jenna Shotwell, Board President
Old Forge School District
300 Marion Street
Old Forge, Pennsylvania 18518

Dear Dr. Keating and Mrs. Shotwell:

Our performance audit of the Old Forge School District (District) evaluated the application of best practices in the area of financial stability. 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, 2014 through June 30, 2018, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

During our audit, we found significant instances of failing to apply best practices and noncompliance with the Public School Code and its associated regulations as detailed in our five findings. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations for the District.

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.

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".

Eugene A. DePasquale
Auditor General

March 31, 2020

cc: **OLD FORGE 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 Old Forge 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 covered the period July 1, 2014 through June 30, 2018, 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 2014-15 through 2017-18 school years.

Audit Conclusions and Results

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

Finding No. 1: The District Had Significant Governance Weaknesses That Negatively Impacted the District. Our review of the District's governance practices found weaknesses that set a poor tone for overall district operations and resulted in financial hardships for and a negative perception of the District. These weaknesses included the failure to update or comply with board policies; a lack of written administrative procedures; a lack of transparency and cooperation among board members; insufficient training for board members; and poor financial oversight. The finding details our review procedures and results related to the District's governance practices and offers six recommendations for improvement that the District should consider. (See page 8).

Finding No. 2: The District Failed to Adequately Budget for Expenditures and Depleted Its General Fund Balance. Our review of the District's financial position over a four-year period revealed poor budgeting practices and a declining General Fund balance. Cash flow limitations led to the District issuing Tax Anticipation Notes each year. At the start of the audit period, the District had a deficit General Fund balance of **\$264,582** and four years later the District's total fund balance was \$15,396 but its unassigned General Fund balance was negative **\$522,957**. The District masked its true financial picture when it transferred bond proceeds to the General Fund during the 2015-16 fiscal year. The transfer of funds increased the total General Fund balance but much of that balance was restricted for capital asset acquisitions. (See page 15).

Finding No. 3: The District Failed to Retain Required Documentation to Support More Than \$330,000 in Regular Transportation Reimbursements. The District failed to retain adequate source documents to verify the accuracy of the over \$330,000 it received in regular transportation reimbursements from the Pennsylvania Department of Education for the 2014-15 through 2017-18 school years. Without proper documentation, we were unable to determine the appropriateness of the regular transportation reimbursement received by the District. (See page 27).

Finding No. 4: The District Paid its Secondary Transportation Providers More Than \$300,000 Without Contracts. We found that the District did not have a written contract with three of its transportation providers. Without a contract, the District lacked key accountability provisions and financially agreed upon terms to ensure that it received the most cost effective transportation service. It is vitally important that all districts have a written transportation contract for all transportation providers that contain clear and

concise terms detailing the requirements of the transportation provider. (See page 33).

Finding No. 5: The District Reported Unqualified Earnings to PSERS for Three Former Administrators.

The District incorrectly reported *unqualified earnings* to the Public School Employees' Retirement System (PSERS) for three administrators. Since PSERS retirement benefits are calculated using a formula that factors in an employee's final average salary, the reported unqualified earnings of \$7,108 may improperly inflate the administrators' retirement benefits. (See page 37).

Status of Prior Audit Findings and Observations.

We found the District did not take appropriate corrective action in implementing all of our prior audit recommendations pertaining to the District's financial position. (See page 39).

Background Information

School Characteristics 2018-19 School Year ^A	
County	Lackawanna
Total Square Miles	3.7
Number of School Buildings ¹	1
Total Teachers	72
Total Full or Part-Time Support Staff	39
Total Administrators	7
Total Enrollment for Most Recent School Year	982
Intermediate Unit Number	19
District Vo-Tech School	Wilkes-Barre Area Career and Technology Center

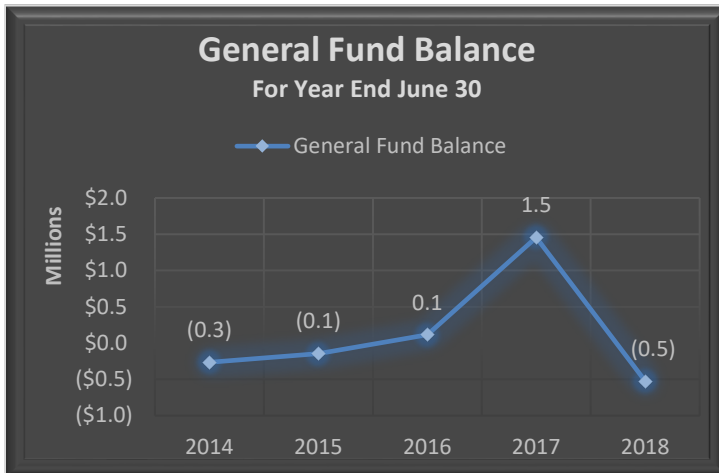
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

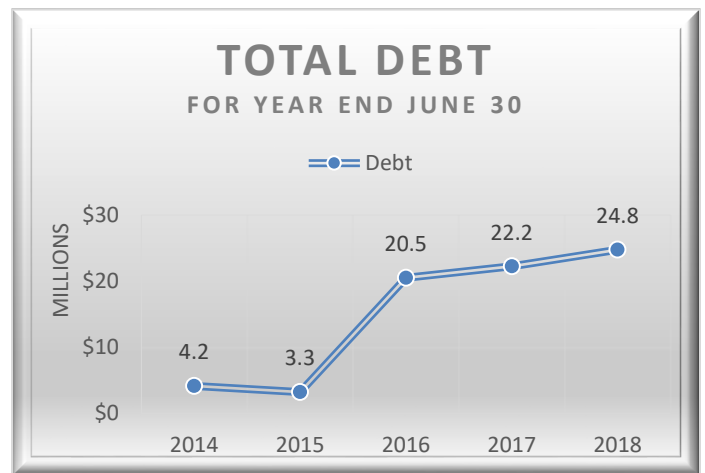
The mission of the Old Forge School District is to be an advocate of change and self-sustaining leader of education. We will prepare our students to be productive, responsible citizens by promoting a community-oriented school that encourages a passion for learning, fosters individual relationships, and provides a safe environment which supports individual differences. Our students will exceed academic challenges with openness, enthusiasm, and a willingness to solve problems.

Financial Information

The following pages contain financial information about the Old Forge 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**.



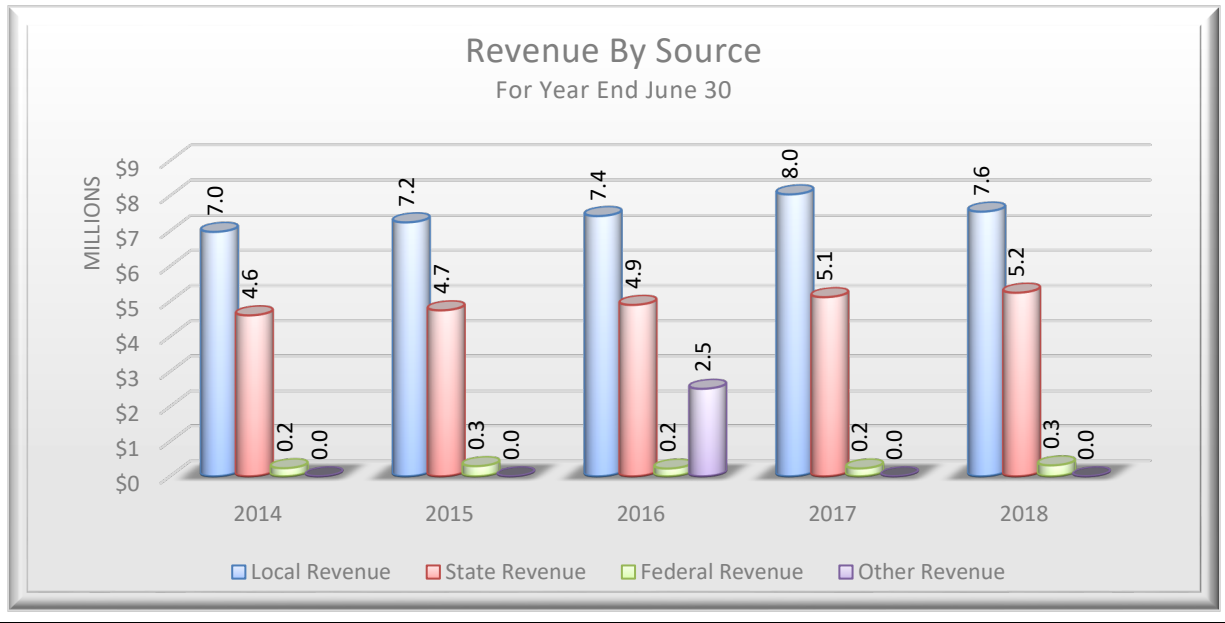
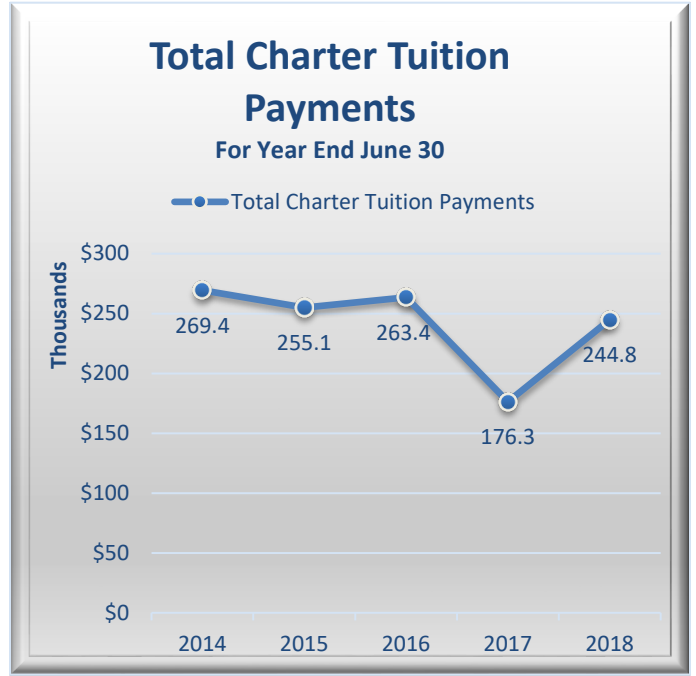
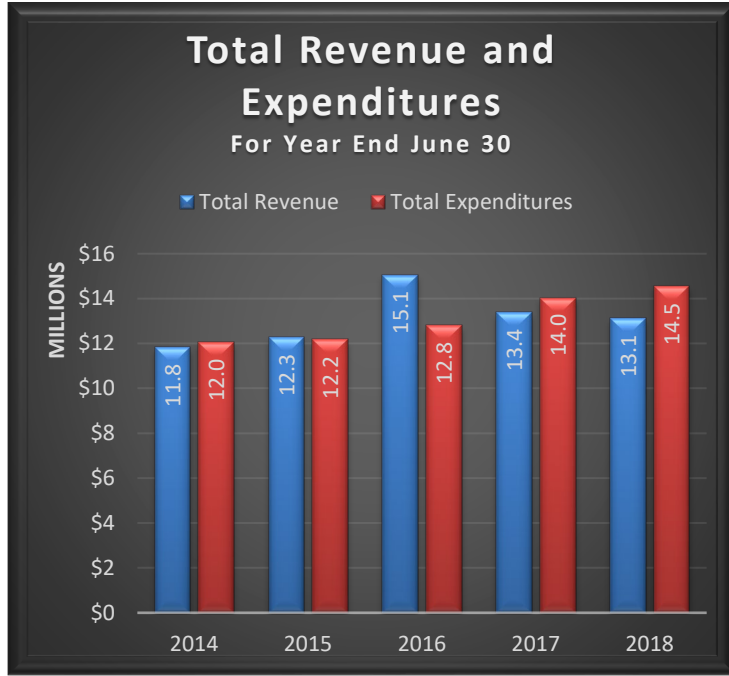
Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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.

¹ The District has one junior/senior high school and one elementary school that are connected and considered to be one building. However, it should be noted for purposes of reporting academic data in this report, the Pennsylvania Department of Education (PDE) identifies the two school buildings separately.

Financial Information Continued

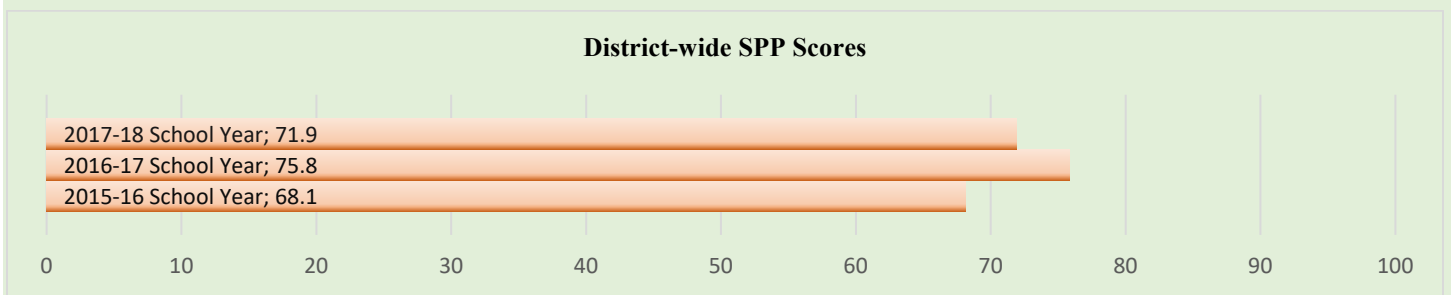


Academic Information

The graphs on the following pages present the District-wide 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 2015-16, 2016-17, and 2017-18 school years.² 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 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.



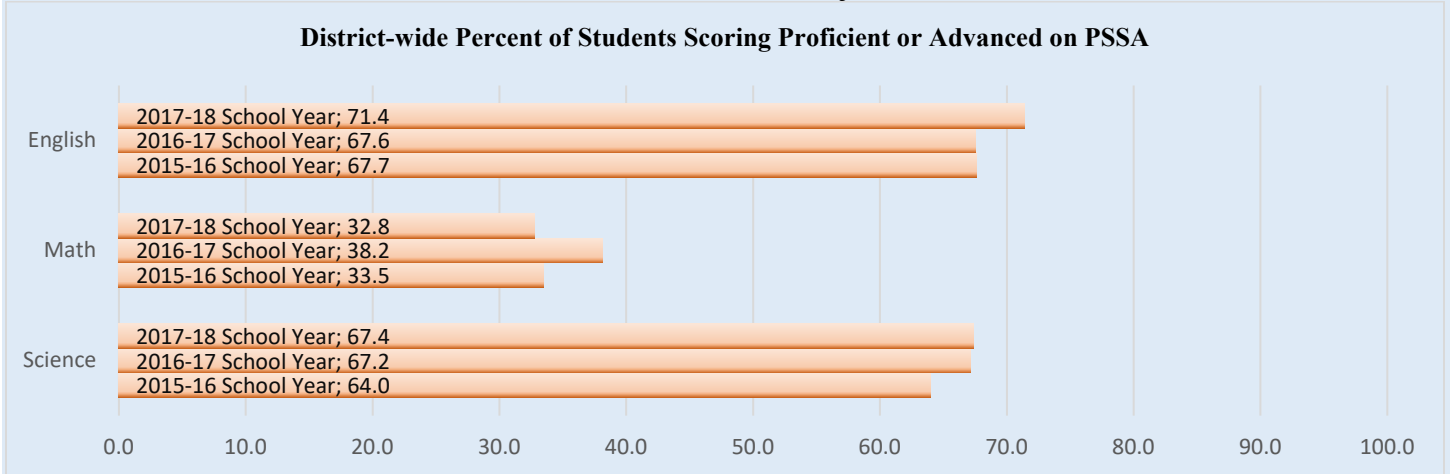
² PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

Academic Information Continued

What is the PSSA?

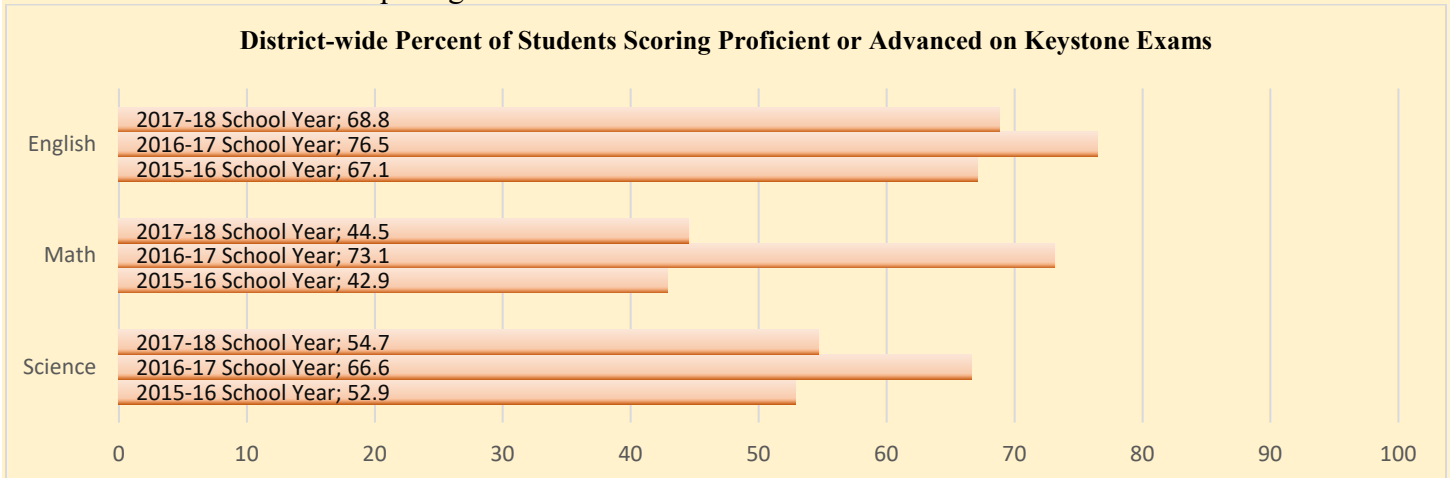
The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English, Math and Science. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders,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

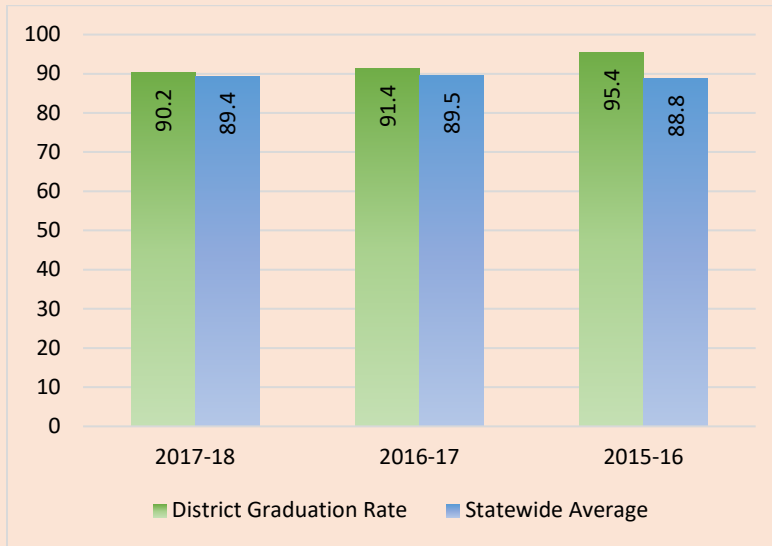


³ Act 158 of 2018, effective October 24, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement until the 2021-22 school year. See 24 P.S. § 1-121(b)(1).

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. Data specific to the 4-year cohort graduation rate is presented in the graph below.⁴



⁴ 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>.

Findings

Finding No. 1

The District Had Significant Governance Weaknesses That Negatively Impacted the District

Criteria relevant to the finding:

District Board Policy No. 002 –
Authority and Powers

2. Powers (in relevant part):

The Board shall adopt Board procedures for its own operation, and policies for the guidance of the Superintendent in the operation of the school district. Board procedures and policies shall be consistent with law...

District Board Policy No. 004 –
Membership

8. Orientation (in relevant part):

The Board believes that the preparation of each Board member for the performance of duties is essential to the effectiveness of the Board's functioning. The Board shall encourage each new Board member to understand the functions of the Board, acquire knowledge of matters related to the operation of the schools, and review Board procedures and policies.

Our review of the Old Forge School District's (District) governance practices found weaknesses that set a poor tone for overall district operations. This resulted in both financial hardships for the District and a general negative perception of its governance. As we began our planning for this audit, numerous citizens contacted us with their concerns related to how the District and its Board of School Directors (Board) were operating. We found news articles detailing the dysfunction of the Board, high-profile legal actions against the District, and the abrupt resignation of its long-time solicitor.

This finding details our review procedures and results related to the District's weak governance practices and offers six recommendations for improvement that the District should consider.

Background

In Pennsylvania, school districts are governed by a board of nine elected directors. These directors represent the community and must deal with a wide array of issues including but not limited to: taxation, budgeting/finances, labor, administration, and general education policy. The board of directors also appoints and directs the school district's superintendent who is responsible for all district operations and for overseeing the professional staff who carry out the day-to-day operations of the district.⁵

Similar to other organizations, a school district's success starts with good governance and strong leadership by its board of directors. The board of directors is responsible for setting a school district's "tone at the top," which is a term used to describe an organization's general guiding values and ethical climate. Poor leadership and not having a good tone at the top has a negative effect on all other areas of an organization's operations.

For example, some of the many ways that the success of a school district is reflected are its fiscal soundness, student's academic accomplishments, and its transparency and accountability to taxpayers. Without good governance and a solid tone at the top, school districts are at increased

⁵ Article X (District Superintendents and Assistant District Superintendents) of the Public School Code (PSC), 24 P.S. § 10-1001 *et seq.* See in particular 24 P.S. §§ 10-1073(e), 10-1073.1(a), and 5-510. Article XI (Professional Employees) of the PSC, 24 P.S. § 11-1001 *et seq.*

Criteria relevant to the finding (continued):

9. Conferences (in relevant part):

In keeping with its philosophy on the need for continuing in-service training and development for its members, the Board encourages the participation of all members at appropriate school board conferences, workshops, and conventions.

10. Code of Ethics (in relevant part):

As a member of the Board of Education representing all the citizens of my school district...it shall be my constant endeavor:

- To work with my fellow board members in a spirit of harmony and cooperation in spite of differences of opinion that arise during vigorous debate of points at issues.
- To base my personal decision upon all available facts in each situation, to vote my honest conviction in every case, unswayed by partisan bias of any kind...
- To remember at all times that as an individual I have no legal authority outside the meetings of the Board, and to conduct relationships with the school staff, local citizenry, and all media of communication on the basis of this fact.
- To strive step by step toward ideal conditions for most effective school board service to my community, in a spirit of teamwork and devotion to public education as the greatest instrument for the preservation and perpetuation of our respective democracy.

risk of financial hardships, program cuts, declining enrollment, high staff turnover, and facility closures.

Governance Weaknesses

To assess the effectiveness of the District's governance practices, we provided the District's nine board members the opportunity to interview with us in order to gain each individual's perspective on their role in governance and in the general operations of the District. Seven out of the nine members agreed to an interview and were asked the same questions. In addition to the board member interviews, we reviewed the District's policies and procedures and interviewed other District personnel, including the Superintendent and the Business Manager.

Our review identified several weaknesses, which are discussed in further detail in the following sections:

- Failure to update or comply with board policies
- Lack of written administrative procedures
- Lack of transparency and cooperation among board members
- Insufficient training for board members
- Poor financial oversight

While we did find significant weaknesses in the District's governance practices throughout the audit period, it should be noted that the current Superintendent, hired in June 2019, is working with the Board to make improvements to the weaknesses identified during the course of the audit. Where applicable, those improvements are noted below.

Failure to update or comply with board policies

Policy making is a key function of a school's board of directors and, in compliance with state and federal laws and associated regulations, school boards establish rules and regulations, including policies and certain administrative procedures, by which their schools are governed.⁶ School boards must also continually review and update their policies to reflect procedural changes and/or amendments, additions, or revocations of state and federal laws and associated regulations and other forms of education agency guidance.⁷

Our review of the District's policies not only revealed that several of its key policies had not been updated, but also that the Board was not complying with many of its own policies. As we obtained policies to review as part of our various audit objectives, we found that many of the policies had revision dates ranging from 2002 through 2010. For example,

⁶ See 24 P.S. § 5-510.

⁷ The term education agency refers to U.S. Department of Education and PDE.

*Criteria relevant to the finding
(continued):*

District Board Policy No. 249 –
Bullying (Adopted January 21, 2009,
revised July 8, 2015)

4. Delegation of Authority (in
relevant part);

The superintendent or designee, in
cooperation with other appropriate
administrators, shall review this
policy every two years and
recommend necessary revisions to
the Board.

the *Fiscal Objective* and *Budget Planning* Policies were last reviewed in 2002, and the *Budget Adoption* Policy has not been updated since 2007.

During the board member interviews, it became apparent that the Board’s policy review process was not handled in a proactive manner. Board members stated that the Board does not have a schedule or a plan to update board policies to reflect changes in the law or to reflect any changes in District operations. Board members further indicated the policy revisions that have been made were more reactionary than proactive, noting policy revisions are usually only made as the result of a policy being questioned or to address a particular issue that arose, such as the filing of a grievance. The board members also noted that even these reactionary revisions have been minimal.

Further, the Board is a member of the Pennsylvania School Boards Association (PSBA). PSBA offers policy services and resources for its members. However, according to the District officials, the Board has not utilized this service. Although the District does receive PSBA policy update newsletters, it has not consistently acted upon those reminders as policy updates have not been a priority for the Board.

Compliance with existing policies is also an issue for the Board. Some noncompliance issues stem directly from the failure to update policies. For example, Board Policy No. 002, *Authority and Powers* indicates that the Board should adopt policies for the Superintendent and staff to follow in the day-to-day operation of the District. As previously stated, the Board did not have a process to routinely develop or revise policies and, therefore, it was not complying with its own policy. The Board failed to establish a good tone at the top when it did not effectively implement its own policies.

One compliance issue we found related directly to tone at the top is the Board’s noncompliance with its own ethics policy.⁸ In pertinent part, the policy states that board members should work together “in a spirit of harmony and cooperation in spite of differences of opinion that arise during vigorous debate of points at issue.” During the interviews, some board members indicated that at least one board member used the media as a tool to draw negative attention to other members. Our review confirmed these allegations and found media articles shined negative attention on the District, with some articles even focusing on feuds between and among certain board members.

Another example of noncompliance we identified was related to Policy No. 249, *Bullying*. The Board adopted its bullying policy in January 2009 and did not review it again for six years. Then in July 2015, the Board revised the policy and included a provision requiring a review of the policy every two years. However, the bullying policy wasn’t updated

⁸ Board Policy No. 004, *Membership*, Section 10.

again for four more years until December 2019. The Board failed to comply with the two-year update provision in its own policy.

Improvements being made:

- According to the board members we interviewed, the Superintendent and administrative staff are working with the Board to update all board policies, starting with the 2019 PSBA revisions and working backwards.

Lack of written administrative procedures

Administrative procedures are explicit rules that govern the procedures for managing an organization. These rules establish structure, provide accountability, and delegate specific responsibilities and authority to individuals in charge of the District's day-to-day operations.

We found that the District does not have written procedures for many of its essential administrative tasks, such as documenting grievances, maintaining records, reviewing data prior to submission to the Pennsylvania Department of Education (PDE), or reporting wages to the Public School Employees' Retirement System (PSERS).

The lack of written administrative procedures was a cause of other findings discussed in this report. Specifically, the District's erroneous reporting of retirement wages to PSERS and the District's failure to retain documentation to support the data reported to PDE in order to receive a transportation reimbursement were, in part, due to a lack of procedures (see Finding Nos. 3 and 4).

Improvements being made:

- The Superintendent indicated that she is developing an employee handbook and business office handbook to address job duties and reporting procedures.

Lack of transparency and cooperation among board members

Part of setting a good tone at the top requires board members to work together, share all important information regarding district operations, and communicate with each other and with the members of the Administration.

Most board members noted that prior to the 2017-18 school year, information that had a financial impact on the District—such as information about critical contract negotiations, personnel decisions, grievances, and special education issues—was not always shared with all board members. Several board members who were on the Board during this time indicated that the lack of information and lack of transparency

left them without the needed knowledge to cast informed votes on vital school district matters and issues.

For example, several board members indicated that in the past, information regarding special education settlements was often provided at board meetings, rather than prior to the meetings. Receiving this information only a short time before voting on the terms of the settlement did not give the board members adequate time to review the information or to discuss any possible concerns. When asked why the board members were not receiving the information timely, we were informed that the District did not utilize an electronic file sharing tool which contributed to the issues related to the untimely distribution of information to all board members.

Improvements being made: According to the current Superintendent, to address this issue, the following actions have been implemented:

- Agendas for all regular and executive session meetings are finalized and distributed approximately one week prior to the meeting.
- All communications are sent to all nine board members from the District's administrative office.
- The District intends to fully utilize a comprehensive file sharing eGovernance tool for paperless board meeting management.

Insufficient training for board members

Good governance requires school board members to be knowledgeable about all aspects of district operations, as well as about financial management and applicable laws and regulations. In fact, the General Assembly recently recognized the importance of ensuring board members are adequately prepared to carry out their duties and responsibilities. Pursuant to Act 55 of 2017, all Pennsylvania school board directors and charter school trustees are now required to complete specific training programs.⁹

We found that during the audit period—which was before the enactment of Act 55—the seven board members interviewed indicated that they did not receive training when elected/appointed or at any time during service. Several board members indicated that the prior administration mentioned training but did not emphasize it. All of the board members interviewed agreed that they would benefit from training, especially training addressing the Board's role in budgeting and financial oversight, because

⁹ New Section 328 of the PSC requires board members appointed as of July 1, 2018 to complete the initial *four-hour* training program within the first year of office. Incumbent board members must complete *two hours* of training within the year. (Emphases added.) See 24 P.S. § 3-328, as added by Act 55 of 2017 (effective Nov. 6, 2017) and as further amended by Act 18 of 2019 (effective August 27, 2019, now requiring training on best practices related to trauma-informed approaches, which must comprise a minimum of one hour of instruction.).

they do not have sufficient financial expertise to properly oversee the District's finances.¹⁰

Poor financial oversight

Budgeting and financial oversight is one of the most important roles of a school district's board of directors. However, most of the District's board members interviewed admitted that, in the past, the Board had been overly reliant on the Business Manager in the handling of the District's finances. The board members noted that the Business Manager provided an overview of the key financial expenditures of the District, such as PSERS contributions, health care expenses, and salaries. Nonetheless, several board members indicated they had little to no outside financial expertise in these areas, so they did not have the requisite knowledge to extensively question the information presented. Additionally, as previously discussed, the board members did not receive training regarding financial oversight nor did the Board have updated policies to help guide its members regarding the Board's financial oversight role.

The combination of insufficient training, lack of current board policies, and overreliance on the District's Business Manager resulted in inconsistent under-budgeting for expenses and the inability of the District to maintain a healthy fund balance. More information regarding the District's declining financial position is discussed in Finding No. 2.

Summary

An effective governance framework starts with strong leadership and a good tone at the top. We identified governance weaknesses that resulted from the Board setting a poor tone at the top. The effect of these governance weaknesses resulted in poor fiscal health and a negative public perception of the District for many people in the community. With a new Superintendent working more closely with the current Board, the District is on a good path towards correcting the weaknesses detailed in this finding. We strongly encourage the District and its Board (both as individual members and as a whole) to implement the recommendations below to help improve the efficiency and effectiveness of District operations.

¹⁰ While board members do not have to have an extraordinary expertise in taxation, budgeting/finances, labor, administration, and general education policy, they should have an adequate amount of knowledge in these fields. (Note that although the PSC does not refer to an explicit fiduciary duty prudence standard, we believe that is implied in the PSC that board members must follow a prudent-man or reasonable person standard.)

Recommendations

The Old Forge School District should:

1. Utilize the District's PSBA member services to review and update board policies to ensure compliance with updates to laws, regulations, PDE guidelines, and other requirements.
2. Properly follow board policies as written and refer to policies when situations arise and when guidance is needed.
3. Develop written administrative procedures to ensure compliance with board policy and provide guidance for day-to-day operations.
4. Provide all board members with the ability to access information needed to make decisions in a timely and transparent manner by utilizing a publicly shared file system for posting information in ample time prior to board meetings.
5. Ensure that all board members receive sufficient training regarding school district budgeting practices and financial oversight.
6. Ensure that budgeting and financial documentation is provided and thoroughly explained so board members can more efficiently and effectively fulfill their responsibilities pertaining to the District's financial position.

Management Response

District management agreed with our finding and provided a detailed response to each of the five governance weaknesses identified in the finding. The response included the steps the administration and the Board are taking to address our recommendations. See Appendix C (beginning on page 48) for management's response in its entirety.

Auditor Conclusion

We are pleased that the current Superintendent has already implemented strategies to address our recommendations. In addition, it is encouraging that the Superintendent noted the current board members are cooperative and transparent in actions and complying with governance changes without dispute. We will evaluate the effectiveness of the District's corrective actions during our next audit.

Finding No. 2

The District Failed to Adequately Budget for Expenditures and Depleted Its General Fund Balance

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.

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.

Our review of the District’s financial position over a four-year period revealed poor budgeting practices and a declining General Fund balance. Cash flow limitations led to the District issuing Tax Anticipation Notes each year. At the start of the audit period, the District had a deficit General Fund balance of **\$264,582** and four years later the District’s total fund balance was \$15,396 but its unassigned General Fund balance was negative **\$522,957**. The District masked its true financial picture when it transferred bond proceeds to the General Fund during the 2015-16 fiscal year. The transfer of funds increased the total General Fund balance but much of that balance was restricted for capital asset acquisitions.

The transfer of a portion of the bond proceeds into the General Fund resulted in positive total fund balances for fiscal years ended June 30, 2016, 2017, and 2018. However, the total fund balances were considerably less than the fund balance recommended by the Government Finance Officers Association (GFOA). In addition, the District’s failure to budget for capital outlay expenditures, rising special education costs, and required retroactive salary payments to its educational staff forced the District to borrow and transfer funds to its General Fund. The District’s issuance of bonds during the 2015-16 fiscal year for various capital projects and the refinancing of previous debt masked the District’s financial shortcomings and inflated the District’s total General Fund balance.

In order to assess the District’s financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position from July 1, 2014 through June 30, 2018. The benchmarks below raised concerns about the District’s financial stability and are discussed in further detail in the following sections of the finding.

- General Fund Balance
- Operating Position
 - Revenues
 - Expenditures
- Current Ratio
- General Fund Budgeting

General Fund Balance

The District's General Fund balance during the audit period consisted of two distinct classifications: restricted and unassigned. As illustrated in Table 1 below, the District's total General Fund balance fluctuated significantly during the audit period. The District's unassigned fund balance was negative \$145,695 as of June 30, 2015, and it further decreased to a negative \$522,957 as of June 30, 2018.

Table 1

Old Forge Area School District General Fund Balance Composition			
Fiscal Year Ended June 30	Restricted ¹¹	Unassigned/Unrestricted	Total
2015	\$ 0	(\$145,695)	(\$ 145,695)
2016	\$1,999,042	\$113,765	\$2,112,807
2017	\$1,194,993	\$260,759	\$1,455,752
2018	\$ 538,353	(\$522,957)	\$ 15,396

Criteria relevant to the finding
(continued):

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 *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).

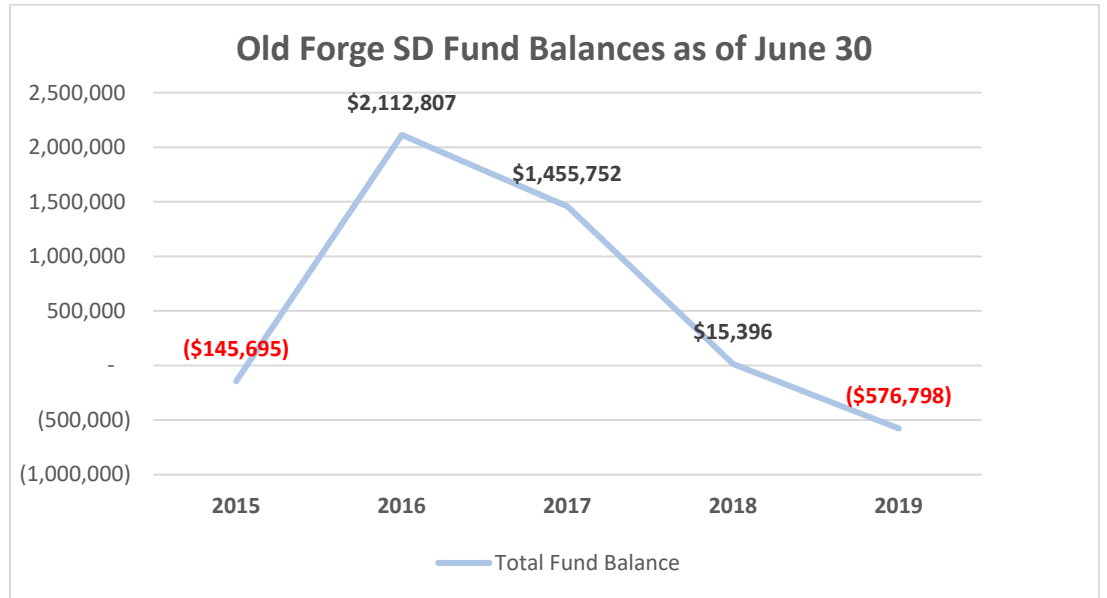
While a transfer of funds in the 2015-16 fiscal year propped up the total General Fund, much of those funds were restricted, leaving the District with a low unassigned fund balance to use for daily operations. The District's General Fund balance did not meet fund balance best practices recommended by GFOA (i.e., two months of regular general fund operating revenues or regular general operating expenditures and operating transfers out). For the fiscal year ended June 30, 2018, the District's operating expenditures and transfers out were more than \$14.5 million, which equates to an estimated \$1.2 million in monthly expenditures. As of June 30, 2018, the District's unassigned/unrestricted General Fund balance was negative \$522,957, significantly less than the recommended \$2.4 million.

The District's financial position continued to decline after the audit period. As we prepared to release this report, the District's Independent Auditor's Report (IAR) for June 30, 2019 became available.¹² According to the 2019 IAR, the District's total year-end General Fund balance decreased from \$15,396 to a negative \$576,798. As shown in Chart 1, the District had a negative fund balance in 2015 and, despite one-time revenues from the bond proceeds in the intervening years, the District was unable to maintain a positive fund balance and by June 30, 2019, it had a deficit General Fund balance of more than a half million dollars.

¹¹ In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, the District classifies some of its governmental fund balance as *Restricted*, which includes fund balance amounts that are constrained for specific purposes that are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. According to the District's IAR, the restricted fund balance was for capital asset acquisitions.

¹² We presented the General Fund balance at June 30, 2019 to further illustrate the District's declining financial position. Since the 2019 IAR only became available after the conclusion of our fieldwork, we did not conduct a full review and analysis of the 2019 IAR.

Chart 1



School districts, like individuals, should have financial resources to deal with emergencies or unforeseen needs, unanticipated expenses, and disruptions to revenue. The lack of available reserve funds compelled the District to regularly obtain Tax Anticipation Notes to deal with disruptions in the receipt of revenue and be able to pay its expenses. It is important to note that insufficient reserve funds results in increased borrowing costs for the District.

Ultimately, if the District’s fund balance continues to decrease, the District is in danger of being placed on *financial watch status* by PDE.¹³ Financial watch status is a precursor to being placed in *financial recovery status* for districts that do not improve financially.¹⁴ A district placed in *financial recovery status* loses local control of district operations. In these instances, the District’s board of school directors would no longer have the authority to provide oversight of District operations. Further, school districts in *financial recovery status* have a PDE-appointed chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.¹⁵

Operating Position

The District’s operating expenditures are its instructional expenditures, support services, and non-instructional services. The District’s total revenue exceeded operating expenditures each year; however, its

¹³ 24 P.S. § 6-611-A; see also Pennsylvania Code, Chapter 731. Early Warning System--Statement of Policy and 22 Pa. Code § 731.2 (“Early Warning System”).

¹⁴ 24 P.S. § 6-601-A *et seq.*; see also <https://www.education.pa.gov/Documents/Teachers-Administrators/School%20Finances/Financial%20Recovery%20for%20School%20Districts/Early%20Warning%20System.pdf>, accessed July 18, 2019.

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

operating surplus was significantly less during the 2017-18 fiscal year due to rising operating expenditures as illustrated in the Table 2 below.

Table 2

Old Forge School District General Fund Operating Position						
Fiscal Year Ended June 30	(a) Total Revenue	(b) Operating Expenditures	(c) [(a)-(b)] Operating Surplus	(d) Capital Outlay	(e) Other Financing Sources/(Uses)¹⁶	(f) [(c)-(d)+(e)] Total Surplus/(Deficit)
2015	\$12,278,771	\$11,316,364	\$ 962,407	\$ 4,535 ¹⁷	(\$ 838,985)	\$ 118,887
2016	\$12,544,552	\$11,456,228	\$1,088,324	\$ 514,347	\$1,684,525	\$2,258,502
2017	\$13,383,272	\$12,416,465	\$ 966,807	\$ 804,639	(\$ 819,223)	(\$ 657,055)
2018	\$13,107,693	\$13,070,617	\$ 37,076	\$ 656,641	(\$ 820,791)	(\$1,440,356)
Total:	\$51,314,288	\$48,259,674	\$3,054,614	\$1,980,162	(\$ 794,474)	\$ 279,978

The District's total revenues exceeded total operating expenditures by an average of approximately \$1 million from the 2014-15 through 2016-17 fiscal years, in part due to relatively stagnant instructional salaries from the 2010-11 through 2015-16 fiscal years. Operating expenditures increased significantly during the 2016-17 and 2017-18 fiscal years due to increasing special education expenditures and a required retroactive salary increase to the District's educational staff, which is explained further below.

As previously discussed, during the 2015-16 fiscal year, the District issued a bond to refund bonds issued in 2010 and 2011 and to finance various capital projects. A portion of the proceeds from the bond, \$2,508,710, was transferred to the General Fund. The bond proceeds were then used to finance the nearly \$2 million in capital outlay costs (see Table 2). Other financing uses for the District were its transfers out for debt service payments. Table 3 shows the total transfers in and out of the General Fund during fiscal years 2015 through 2018.

¹⁶ See Table 3 for details of Sources and Uses.

¹⁷ This amount was for debt service payments in the 2014-15 fiscal year and did not represent capital outlay expenditures.

Table 3

Old Forge School District General Fund Sources and Uses					
	Fiscal Year Ended June 30				
	2015	2016	2017	2018	Totals
Transfers (Out) of General Fund to Debt Service Fund	(\$838,985)	(\$824,185)	(\$819,223)	(\$820,791)	(\$3,303,184)
Transfers Into General Fund from Debt Service Fund		\$2,508,710			\$2,508,710
Net Transfers In (Out)	(\$838,985)	\$1,684,525	(\$819,223)	(\$820,791)	(\$794,474)

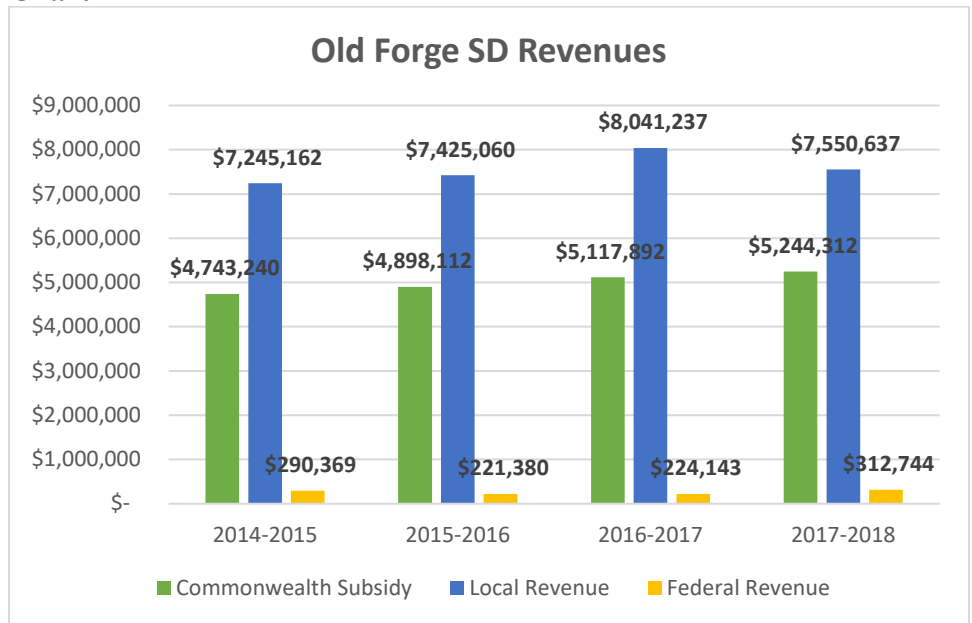
The District transferred a total of \$3,303,184 from its General Fund to the Debt Service Fund to meet its annual debt service requirements. These debt service requirements will continue through the 2022-23 fiscal year.

Revenues

The District relies on two main revenue sources: Commonwealth subsidies and local revenues. Revenue from the Commonwealth comprised 40 percent of the District's total revenues in the 2017-18 fiscal year. The District's Commonwealth subsidy increased by approximately \$501,000 from the 2014-15 to 2017-18 fiscal years. Local revenues are primarily generated from property taxes and comprised 58 percent of the District's total revenue in the 2017-18 fiscal year. The District's local revenue increased by approximately \$305,000 from the 2014-15 to 2017-18 fiscal years. The increases in local revenue were due to tax increases in the 2014-15 and 2015-16 fiscal years and a one-time health insurance consortium rebate received during the 2016-17 fiscal year.¹⁸ Federal revenue comprised only 2 percent of the District's total revenue during the 2017-18 fiscal year. Chart 2 shows the District's revenue sources for each year of the audit period.

¹⁸ The District participates in a health insurance consortium and is eligible for rebates if its total claims are below a certain threshold. The District received a rebate in 2016 of \$520,798.

Chart 2



Increasing Expenditures

District expenditures are categorized into five major functions: 1) instructional,¹⁹ 2) support services,²⁰ 3) non-instructional,²¹ 4) capital outlay, and 5) debt service. These expenditures are detailed in the table below. The District’s operational (instructional, support services, and non-instructional services) expenditures increased from \$11.3 million in the 2014-15 fiscal year to \$13.1 million in the 2017-18 fiscal year, or a 16 percent increase.

¹⁹ Instructional expenditures include all activities dealing directly with the interaction between teachers and students and related costs (e.g., salaries, contracted services, travel expenses, equipment rental, supplies, books, etc.), which can be directly attributed to a program of instruction.

²⁰ Support services expenditures include payment for services that provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction.

²¹ Non-instructional expenditures are for the provision of non-instructional services to students, staff, or the community. Examples include food services, student activities, and community services.

Table 4

Old Forge School District Total Expenditures					
Expenditures (per IAR)	Fiscal Year Ended June 30				Totals
	2015	2016	2017	2018	
Instructional	\$ 7,591,879	\$ 7,700,855	\$ 8,545,160	\$ 9,115,667	\$32,953,561
Support Services	\$ 3,341,435	\$ 3,323,827	\$ 3,438,076	\$ 3,537,824	\$13,641,162
Non-instructional Services	\$ 383,050	\$ 395,713	\$ 433,229	\$ 417,126	\$ 1,629,118
Total Operational Expenditures	\$11,316,364	\$11,420,395	\$12,416,465	\$13,070,617	\$48,223,841
Capital Outlay	\$ 0	\$ 514,347	\$ 804,639	\$ 656,641	\$ 1,975,627
Debt Service/Transfer out	\$ 838,985	\$ 824,185	\$ 819,223	\$ 820,791	\$ 3,303,184
Other	\$ 0	\$ 35,833	\$ 0	\$ 0	\$ 35,833
Grand Total	\$12,155,349	\$12,794,760	\$14,040,327	\$14,548,049	\$53,538,485

The increase in instructional expenditures between the 2016-17 fiscal year and 2017-18 fiscal year was primarily due to a 20 percent increase in special education costs. Special education costs increased from \$2,334,572 during the 2016-17 fiscal year to \$2,759,536 in the 2017-18 fiscal year. When questioned about the rising special education costs, District officials attributed it to an increase in the need to place special education students in educational facilities outside of the District.

It is important to note that instructional expenditures remained relatively steady in the 2014-15 and 2015-16 fiscal years due to the District's educational staff not receiving salary increases for several years.²² However, when the District entered into a new collective bargaining agreement with its educational staff in December 2016, it agreed to retroactive salary increases that totaled \$451,616. District officials stated that the retroactive pay was not anticipated, but became an obligation once the contract was ratified. These payments also contributed to the increased instructional expenses beginning in the 2016-17 fiscal year.

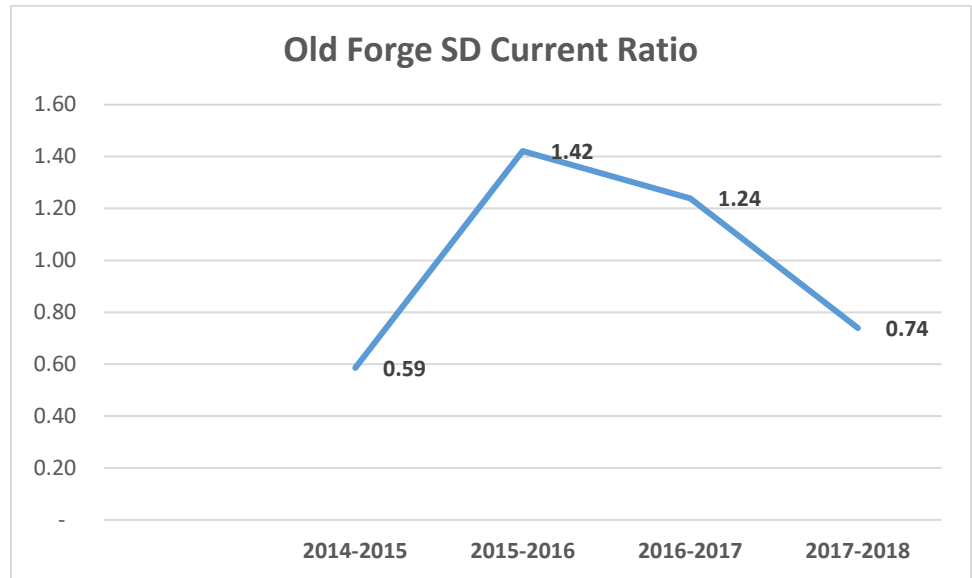
Low Current Ratios

One of the key measures of a District's financial condition is its current ratio, which is used to gauge a school district's ability to meet its current obligations (as opposed to long-term obligations). A current ratio of '1' indicates that a school district has current assets equal to its current liabilities and can theoretically pay all of its current bills on time without having any cash or other liquid assets remaining. When the current ratio

²² The District's educational staff worked without a contract from September 2010 until December 2016.

dips below ‘1’, a school district may have trouble paying its current obligations with the resources it has on hand. Potential creditors use this ratio to measure a district’s ability to pay its short-term debts, and it can affect the cost of borrowing. As shown in Chart 3, the District’s current ratio dipped below ‘1’ in three of the five years reviewed. The low current ratios, coupled with the District issuing Tax Anticipation Notes (discussed below) to assist with cash flow demands for each year of the audit period, is very concerning.

Chart 3



As shown in Chart 3, the District’s current ratio increased during the 2015-16 and 2016-17 fiscal years. This increase was primarily due to a \$2.5 million transfer from the Debt Service Fund to the General Fund. It is important to note, however, that the District utilized this additional cash on hand to fund capital projects and routine maintenance, and therefore, these funds were not available to fund the District’s day-to-day operations.

Tax Anticipation Notes: As a result of cash flow limitations, the District issued \$500,000 in Tax Anticipation Notes during each fiscal year in the audit period. Although the interest costs were less than \$5,100 annually, the lack of an adequate fund balance forced the District to seek short-term borrowing. One example of the District’s cash flow limitations was its inability to pay out the retroactive salary increases that resulted from the educational staff contract approved in December 2016. District officials stated that the District could not afford to pay the entire \$451,616 retroactive salary liability at the time the contract was approved. Therefore, this liability had to be negotiated and settled over three fiscal years. The District’s insufficient General Fund balance forced the District to regularly borrow funds to withstand disruptions in revenue and to pay for unexpected expenditures.

Poor Budgeting Practices

The Public School Code (PSC) requires that all school districts annually develop a balanced General Fund budget. In addition, the PSC prohibits districts from spending more than the amount budgeted. We found that the District failed to comply with the PSC when it spent more than it budgeted for each year of the audit period.

The following table shows the District's actual General Fund expenditures compared to budgeted amounts. Table 5 also shows that the District cumulatively overspent budgeted amounts by more than \$3.6 million during the four-year audit period.

Table 5

Old Forge School District General Fund Total Expenditures Budget to Actual Comparison			
Fiscal Year Ended June 30	Budget	Actual	(Under)/Over Budget
2015	\$11,036,717	\$11,320,899	\$ 284,182
2016	\$11,437,043	\$11,970,575	\$ 533,532
2017	\$11,925,161	\$13,221,104	\$1,295,943
2018	\$12,165,743	\$13,727,258	\$1,561,515
Total	\$46,564,664	\$50,239,836	\$3,675,172

The primary reason that actual expenditures exceeded the budgeted amount so significantly during the audit period was that the District failed to budget for capital outlay expenditures. The District expended nearly \$2 million for this category during the audit period without budgeting for this expenditure. District officials stated that they did not budget for capital outlay expenditures because the Board wanted to approve capital outlay expenditures on a case-by-case basis. However, budgeting a reasonable amount each year for needed capital outlay expenditures would not have precluded the Board from approving expenditures on a case-by-case basis and would have allowed the District to have a better understanding of its financial situation when the capital outlay expenditure was proposed.

A secondary reason that actual expenditures exceeded the budgeted amount was due to the District's actual special education and transportation expenditures consistently exceeding the budgeted amounts. Tables 6 and 7 illustrate the comparison of budgeted and actual expenditures for special education and transportation.

Table 6

Old Forge School District Special Education Expenditures Budget to Actual Comparison			
Fiscal Year Ended June 30	Budget	Actual	(Under)/Over Budget
2015	\$1,755,919	\$2,285,433	\$ 529,514
2016	\$2,122,611	\$2,422,557	\$ 299,946
2017	\$2,330,014	\$2,334,572	\$ 4,558
2018	\$2,293,078	\$2,759,536	\$ 466,458
Total	\$8,501,622	\$9,802,098	\$1,300,476

Table 7

Old Forge School District Transportation Expenditures Budget to Actual Comparison			
Fiscal Year Ended June 30	Budget	Actual	(Under)/Over Budget
2015	\$435,000	\$548,859	\$113,859
2016	\$435,000	\$573,052	\$138,052
2017	\$426,000	\$526,467	\$100,467
2018	\$423,000	\$480,574	\$57,574
Total	\$1,719,000	\$2,128,952	\$409,952

As shown in the two tables above, the District failed to budget an amount equal to the actual amount of the previous year's expenditure for both special education and transportation expenditures during the audit period. For example, the District's actual special education expenditures in 2014-15 were more than \$2.2 million which exceeded the budgeted amount by more than \$500,000, yet the District budgeted only \$2.1 million for this expenditure during the 2015-16 fiscal year.

While special education expenditures can be difficult to budget due to the array of student services needed, the District should give careful consideration to actual year-to-year expenditures for these significant budget line items.

The District's failure to use historical trend information when preparing its budgets was also illustrated during our review of transportation expenses. As shown in Table 7, actual transportation expenditures exceeded the budgeted amount by more than \$138,000 during the 2015-16 fiscal year; however, the District budgeted for transportation expenditures to decrease during the 2016-17 fiscal year.

During our discussions with District officials, it became apparent that the District intended to expend all available revenues during each fiscal year.

This practice is reasonable if a school district has an adequate General Fund balance and accurately budgets expenditures. However, the District did not maintain a General Fund balance in accordance with best practices and it overspent its General Fund budget each year of the audit period.

Finally, we noted that the District did not have a board policy outlining the guidelines for maintaining a stable General Fund balance. A board policy of this nature could have provided guidance to the District during its General Fund budgeting process and set requirements for the amount of reserve funds that the District should maintain.

Conclusion

The District's inability to generate sufficient revenue to meet total expenditures or to reduce expenditures to a level equal to available revenue resulted in the District needing to annually rely on Tax Anticipation Notes as its unrestricted/unassigned General Fund balance decreased to negative **\$522,957** as of June 30, 2018. It is imperative that the District make significant operational changes to reverse the financial downturn that occurred during the audit period. The District's negative General Fund balance puts it at risk of being placed on financial watch status by PDE.

Recommendations

The *Old Forge School District* should:

1. Prepare a multi-year budget that adequately reflects annual commitments to help ensure that the District is prepared to meet future obligations. This budget should include a line item for capital outlay expenditures.
2. Review the process for budgeting specific expenditures such as, special education and transportation expenditures, and take a more conservative approach when preparing the budgets going forward.
3. Develop a General Fund board policy that aligns with best practices as recommended by the GFOA and that will provide both the Board and District management with sound guidance on the optimum minimum General Fund balance to maintain.

Management Response

District management agrees with the audit finding and noted the District's financial position has been an up and down battle over the past ten years. The District agreed with the recommendations and has already begun the multi-year budget process and is currently examining special education and transportation needs for next school year. The District's detailed response offered a comparison of state funding, tax revenue, total

expenditures, and school performance profile test scores to other school districts of similar size. The response is offered not as a rebuttal to the Auditor General's Report, but more as an explanation and historical account of the years leading up to and included in this report. See Appendix C (beginning on page 48) for the District's management response in its entirety.

Auditor Conclusion

We are pleased that the District has begun the multi-year budget process and is evaluating special education and transportation needs for the next school year as these were two major areas which were under-budgeted for all four years of the audit review. We continue to stress the importance of a multi-year budget that will help the District identify the revenue needed to meet expenditures. Given the significant decreases in the District's General Fund balance during the 2017-18 and 2018-19 fiscal years, the District not only has to find a way to balance the budget, but also achieve operational surpluses to avoid the danger of being placed on *financial watch status* by PDE. We will evaluate the District's corrective actions during our next audit.

Finding No. 3

The District Failed to Retain Required Documentation to Support More Than \$330,000 in Regular 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**. [Emphasis added.] 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 utilized passenger capacity of vehicles for reimbursement purposes...” See 24 P.S. § 25-2541(a).

The District failed to retain adequate source documents to verify the accuracy of the over \$330,000 it received in regular transportation reimbursements from PDE for the 2014-15 through 2017-18 school years.

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 transportation 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.²³ As a state auditing agency, it is extremely concerning to us that the District did not have the necessary and 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 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 charter school and nonpublic school students transported. Although the PSC requires school districts to retain all financial records for a period of not less than six years, the District failed to maintain all source documents needed for us to verify the accuracy of the regular transportation reimbursement received.

Regular Transportation Reimbursement

The number of students transported, number of days transported, and miles driven are the basis for calculating the regular transportation reimbursement. Therefore, it is essential for districts to document, verify, and retain student rosters, odometer readings, and any changes that occur during the year for each vehicle transporting students.

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

²³ See 24 P.S. § 5-518.

Old Forge School District Transportation Data Reported to PDE				
School Year	Reported Number of Students Transported	Reported Number of Vehicles	Reported Total Approved Annual Miles	Total Reimbursement Received
2014-15	494	25	68,021	\$ 83,990
2015-16	402	27	69,086	\$ 86,520
2016-17	390	25	58,788	\$ 79,057
2017-18	602	24	58,248	\$ 80,918
Totals	1,888	101	254,143	\$330,485

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: “Annually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary 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.

As illustrated in the table above, the reported number of students transported fluctuated during the audit period. However, the reported number of vehicles did not vary at the rate expected with the changes in the reported number of students transported. Specifically, the District reported that 25 vehicles were used to transport 494 students in the 2014-15 school year and 24 vehicles were needed to transport 602 students in the 2017-18 school year. The District reported total approved annual miles of 68,021 during the 2014-15 school year and reported almost 10,000 fewer annual miles during the 2017-18 school year when 108 more students were reported as transported.

Additionally, despite the total reimbursement received remaining relatively consistent during the audit period, the District did not report miles traveled without students for any vehicles. District officials acknowledged that these vehicles traveled miles without students before the first student is picked up and after the last student is dropped off. Therefore, the District underreported total miles traveled when it failed to report the miles traveled without students.

Based on past accumulative experience, reported information of this nature coupled with the failure to report any miles traveled without students increased the risk of errors and, therefore, warranted 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 in accordance with the PSC.

*Criteria relevant to the finding
(continued):*

PDE instructions for Local Education Agencies (LEA) on how to complete the PDE-1049. The PDE-1049 is the electronic form used by LEAs to submit transportation data annually to PDE.

<http://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE%201049.pdf>
(Accessed on 8/13/19)

Form Completion Instructions – PDE 1049 Transportation Services Forms

Pupils Assigned

Report the greatest number of pupils assigned to ride this vehicle at any one time during the day. Report the number of pupils assigned to the nearest tenth. The number cannot exceed the capacity. If the number of pupils assigned changed during the year, calculate a weighted or sample average.

Daily Miles With

Report the number of miles per day, to the nearest tenth, that the vehicle traveled with pupils. If this figure changed during the year, calculate a weighted average or sample average.

Daily Miles Without

Report the number of miles per day, to the nearest tenth, that the vehicle traveled without pupils. If this figure changed during the year, calculate a weighted average or sample average.

Number of Days

Report the number of days (whole number) a vehicle provided transportation to and from school. Include nonpublic and other school calendars for Days in Service.

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. The Old Forge School District's Superintendent signed the certification statement attesting to the accuracy of the data for each year of the audit period in the District's annual sworn statements of student transportation data.²⁴

The District official responsible for reporting transportation data during the audit period assumed that role in July of 2013. This official did not receive training on how to report transportation data, and the District doesn't have written procedures regarding the collection, computing, and reporting of transportation data to PDE. This District official stated that he used the transportation data reported to PDE from the preceding school year as a starting point and manually made changes to the miles reported and numbers of students reported to PDE. The changes to the number of students were based on student information verbally provided by other District officials who annually enrolled students. This same District official told us that changes to the miles reported was based on the District annually re-creating bus routes to obtain mileage data. However, the District did not document and retain this information. It was clear from our discussions with District officials that they were unaware of the documentation needed to be retained to support the transportation data reported to PDE.

Conclusion

The District failed in its fiduciary duties to taxpayers when it did not retain the information that supported the transportation data reported to PDE. Without the documentation, we could not determine the accuracy of the regular transportation reimbursements the District received. A review of the applicable supporting documentation would have enabled us to determine if the District received too much, too little, or the appropriate amount of transportation reimbursements.

Further, any school district official who signs the annual sworn statement must ensure that the transportation data was double-checked for accuracy before he/she attests to the accuracy of the data. Transportation expenses, and the subsequent transportation reimbursements, are significant factors that can impact the District's overall financial position. Therefore, it is in the best interest of the District to ensure that it regularly and consistently meets its fiduciary duties of obtaining, reviewing, and retaining all documentation necessary to verify the accuracy of the transportation information reported to PDE.

²⁴ 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.

*Criteria relevant to the finding
(continued):*

**State Board of Education
Regulations**

Section 23.4 (relating to
Responsibilities of the district board
of school directors) of the State

Recommendations

The *Old Forge School District* should:

1. Immediately take the appropriate administrative measures to ensure that it obtains and retains all documentation supporting the transportation data reported to PDE, including student bus rosters, odometer readings, and school building calendars indicating days transportation was provided, 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.
4. Ensure personnel in charge of reporting transportation data to PDE are trained on PDE's transportation reporting requirements.

Management Response

District management provided the following response:

“While the District does not disagree with the DAG finding, it does offer some comments for clarification.

In August of 2019, the District contracted with Transfinder Corporation to license their software to manage student transportation service and compile, manage and retain the source documents necessary to prepare annual transportation reports and meet the PSC retention requirements where applicable. Transfinder software was placed into service at the start of the 2019-2020 school year. All District transportation providers are prepared to provide the necessary information regarding student transportation including, but not limited to, odometer readings and bus rosters. School calendars are received from out of district schools.

The District is in the process of working with PASBO and PDE to secure proper School Transportation training.

The District has contracted with PSBA for policy maintenance and Board Docs to begin the process of District-wide policy review including Student Transportation and the corresponding Administrative Regulations for transportation reporting and document retention.

While the District does not necessarily disagree with the Audit Team's finding, the District would like to offer some clarification.

It is worth noting that while the DAG's office found fault with the District's manner of completing the required PDE transportation reimbursement reports, at no time did the District inflate or overstate any of its data in an attempt to overstate subsidy reimbursement. In fact, the District understated the data and is now working to maximize its subsidy reimbursement.

24 P.S. § 5 -518 of PA School Code states: Every board of school directors shall retain as a permanent record of the district, the minute book, each annual auditor's report, and each annual financial report. All other financial records of the district, including financial account books, orders, bills, contracts, invoices, receipts, and purchase orders shall be retained by the district for a period of not less than six years. Records may be retained as recorded or copied in accordance with 53 Pa. C.S. 13 Subch. F (related to records).

Section 518 refers to financial records of a district and lists the types of records that are subjected to the six year retention period. The documents referred to in the Auditor General's report do not constitute "financial records" and therefore not subjected to the six year retention. In fact, later in the report, the authors refer to these documents as "source" documents. There is no retention period mentioned in the PA Public School Code for source documents.

The documents that the Audit Team refers to this finding are hand written, hand calculated mile tabulations generated by manually calculating the distance between bus stops and the District building, as well as distances between out of district placements and other calculations needed to complete the annual transportation reports. If this data was available for review, it would likely be seen as incomprehensible. This may seem like an exorbitant amount of work, but the District is comprised of 3.7 square miles and the majority of the stops have not changed in several years.”

Auditor Conclusion

We are pleased that the District purchased transportation software to compile, manage, and retain the source documents (odometer readings and student bus rosters) needed to prepare annual transportation reports. Furthermore, we are encouraged that the District is seeking training for its personnel to help ensure it accurately reports transportation data to PDE.

The District provided some “clarification” on two issues. **First**, the District stated that it did not overstate or inflate data reported to PDE. We could not verify the accuracy of this statement due to the lack of documents available for review. Furthermore, one cannot draw a conclusion that data was not overstated simply because the District failed to report all eligible mileage (miles without students for all vehicles was not reported for all four audit years).

Second, the District did not believe that source documents (i.e., odometer readings and pupil rosters) needed to report data to PDE for state reimbursements were included under Section 518 of the PSC. We firmly disagree with the District's interpretation of the PSC. Our position has always been that all financially-related documents, including source documents to support data submitted to PDE for reimbursement purposes, should be retained in accordance with Section 518 of the PSC. To argue otherwise would mean that a school district's request for financial reimbursement for a transportation subsidy pursuant to the PSC could be submitted without any verifiable support if there would be a question that would arise about a sworn statement submitted to PDE. Further, the District's transportation reimbursements are part of the revenues noted in the District's financial statements and, therefore, all documents to support that revenue should be retained by the District. We will evaluate the District's corrective actions during our next audit.

Finding No. 4

The District Paid Its Secondary Transportation Providers More Than \$300,000 Without Contracts

Criteria relevant to the finding:

State Board of Education Regulations

Section 23.4 (relating to Responsibilities of the district board of school directors) of the State Board of Education regulations states as follows, in part: “The board of directors of a school district is responsible for **all aspects of pupil transportation programs**, including the following: . . . (1) The selection of means of transportation in conformance with the law and regulations. (2) The selection and approval of appropriate vehicles for use in district service and eligible operators who qualify under the law and regulations. . . . (7) **The negotiation and execution of contracts or agreements with contractors, drivers of district’s vehicles and common carriers . . .**” (Emphasis added.) See 22 Pa. Code § 23.4(1), (2), and (7).

Public School Code

Section 427 (relating to Duties of the [Board] President) of the PSC states, in part: “[t]he [P]resident shall be executive officer of the board of school directors and as such he, together with the secretary, when directed by the board, shall execute any and all deeds, contracts, warrants to tax collectors, reports, and other papers pertaining to the business of the board, requiring the signature of the president.” See 24 P.S. § 4-427.

We found that the District did not have a written contract with three of its transportation providers. Without a contract, the District lacked key accountability provisions and financially agreed upon terms to ensure that it received the most cost-effective transportation service. It is vitally important that all districts have a written transportation contract for all transportation providers that contain clear and concise terms detailing the requirements of the transportation provider. As shown in the criteria box to the left, the State Board of Education’s regulations require that school district board of directors “are responsible for all aspects of pupil transportation programs, including: . . . [t]he negotiation and execution of contracts or agreements with contractors, drivers of district’s vehicles and common carriers. . . .”²⁵

Background

The District utilized **four** main transportation providers during our audit period. The District’s **primary transportation provider** transported students in kindergarten through sixth grade to District buildings, some special education programs located outside of the District, and nonpublic schools. The District solicited requests for proposals for this service and entered into written agreements with this contractor. The District paid its primary transportation contractor \$1,773,663 during the four-year audit period, 2014-15 through 2017-18. The District’s **three secondary transportation providers** were utilized for additional nonpublic and special education services and were paid a total of \$317,590 for transportation services during the audit period.

No Contracts with Secondary Transportation Providers

The District utilized its three secondary transportation providers for all four years of the audit period and continued doing so into the 2019-20 school year. The District and its Board, who are responsible for the transportation contracting process, spent more than \$300,000 on secondary transportation services during the audit period without properly executing contracts with the District’s transportation providers.

Without an executed contract detailing the terms and conditions of services and the payment rates, the District cannot be assured that it did not pay more than necessary for its transportation services. Additionally, a written contract would protect the District and allow for repercussions in

²⁵ See 22 Pa. Code § 23.4(7). (Emphases added.)

*Criteria relevant to the finding
(continued):*

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, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100).” (Emphasis added.) See 24 P.S. § 5-508.

Section 2541 of the PSC provides that school districts shall be paid by the Commonwealth for every school year for costs related to pupil transportation.

Daily miles traveled, the greatest number of pupils transported, days of service, and contractor cost are an integral part of the transportation reimbursement calculation. These factors must be reported accurately to PDE in order to receive the correct reimbursement. See 24 P.S. § 25-2541.

the event that the provider does not abide by the terms and conditions of the contract.

Insufficient Detail on Contractor Invoices

The District had unwritten agreements to pay each provider a daily rate for transportation services. The base daily rate was set by the previous administration. According to District officials, the daily rate is adjusted when the miles students are transported fluctuates significantly. This unwritten agreement to adjust the daily rate as needed is not documented by the District. The District also does not maintain documentation of the actual daily rate adjustments, including the effective date of the adjustment.

The secondary transportation providers billed the District monthly based on the services provided. According to District officials, its invoice review process includes reconciling days in service to daily rates. Since the District does not maintain documentation of the daily rate adjustments, it cannot be assured that it is being invoiced at the correct rate. Furthermore, our review of provider invoices disclosed that the invoices did not contain the key detail necessary for daily rate adjustments—total miles students were transported. Without proper mileage details, the District could not adequately verify daily rate adjustments based on mileage traveled. Reporting the mileage for all vehicles would help ensure the District can document the need for daily rate adjustments, the effective dates of those adjustments, and also help ensure accurate reporting of transportation data to PDE.

Recommendations

The *Old Forge School District* should:

1. Immediately enter into a Board approved agreement with all transportation contractors that contains clear and concise payment terms, service and driver requirements, and insurance and accountability provisions.
2. Require all contractors to provide necessary supporting documentation, including detailed mileage records, to help ensure accurate reporting of transportation data to PDE.
3. Maintain documentation to support daily rate adjustments and ensure that documentation is used to verify the accuracy of the daily rates on the monthly invoices.

Management Response

District management provided the following response:

“While the District does not disagree with the finding, it does offer the attached as clarification.

The District will enter into board approved agreements with its van transportation providers that include the daily rate per van run, payment terms, service language, driver requirements where applicable, and insurance and accountability provisions.

In the 2019-2020 school year, all transportation providers are to provide the needed transportation data for the District to report to PDE.

While the District does not disagree with the finding, it does offer the following as clarification.

Secondary transportation providers, in the scope of this audit, are van runs transporting special needs students to and from both the District and out-of-district placements, and to a lesser degree, borough residents attending private schools. The District's use of the three secondary transportation providers discussed in the audit finding preceded the current Business Manager. One of these providers is also currently under contract for bus service.

After review of the invoicing and cost of this secondary transportation service, the District determined that one of the providers price has remained constant throughout the audit time period. Another provider decreased one of their rates by 10% as the number of riders decreased. The third provider only adjusted rates as riders, and consequently stops increased. The third provider also showed a monthly increase in cost of a van when multiple stops and multiple destinations were added to one van. For instance, one van transported seven or eight students attending three different out of district placement schools located several miles apart. While the overall cost of this van increased by 10% or 12%, the cost of adding two other vans to facilitate these transportation needs would triple.”

Auditor Conclusion

We are pleased the District will enter into Board approved contracts with all of its van transportation providers. The District indicated that the contracts will require the providers to provide the needed transportation data to report to PDE for reimbursement, as well as identify the rate, payment terms, driver requirements, and accountability provisions.

The District noted in its response that one provider's rate decreased and the remaining two provider's rates increased and the District provided a reasonable explanation for those rate changes. However, without a written contract and mileage information on the invoices, we were unable to determine if the District was invoiced appropriately. We will evaluate the District's corrective actions during our next audit.

Finding No. 5**The District Reported Unqualified Earnings to PSERS for Three Former Administrators***Criteria relevant to the finding:*

The Public School Employees Retirement Code defines a “School employee” as: “[A]ny person **engaged in work** relating to a public school for any governmental entity and for which work he is receiving regular remuneration as an officer, administrator or employee excluding, however, any independent contractor or a person compensated on a fee basis.” (Emphasis added). See 24 Pa.C.S. § 8102.

According to the PSERS *Employers’ Retirement Manual*, PSERS allows only *qualified earnings* to be reported for the determination of retirement benefits. Qualified earnings include regular salary/wages, overtime, and wages paid for extracurricular activities. Payments made for unused vacation or sick time do not qualify as retirement-covered compensation. (See the ERM, Chapter 8, rev. 4/15/2016, page 4.)

The District incorrectly reported *unqualified earnings* to the Public Employees’ Retirement System (PSERS) for three administrators. Since PSERS retirement benefits are calculated using a formula that factors in an employee’s final average salary,²⁶ the reported unqualified earnings of \$7,108 may improperly inflate the administrators’ retirement benefits.

According to the PSERS *Employers’ Reference Manual* (ERM), only qualified earnings should be reported to PSERS. Defined broadly, qualified earnings include salary and wages paid to an employee for work performed. More specifically, the ERM states that wages paid to reimburse an employee for the unused accumulated sick, vacation, and/or personal leave days are not qualified earnings.²⁷

We reviewed the final payout documentation for the only three District administrators who received payouts during the period July 1, 2014 to June 10, 2019 and found that the District improperly reported to PSERS payments made for unused vacation days. Specifically, the District reported payments for 12 unused vacation days for Administrator A, 5 unused days for Administrator B, and 3 unused days for Administrator C. The District’s employment contracts with all three administrators stated that they were eligible for payments for unused vacation days. The District officials responsible for reporting payroll information to PSERS said they were aware that the payments were not PSERS qualified earnings; however, due to a clerical oversight, the improper reporting of wages went undetected until disclosed during our audit.

In addition to the District reporting unqualified earnings to PSERS, we found that it inappropriately submitted to PSERS both employee and employer contributions related to the unqualified earnings. School districts should not withhold employee contributions from unqualified earnings. The following table shows the details of the erroneous reporting and submissions to PSERS.

	Unqualified Earnings	Employee Contributions	District Contributions
Administrator A	\$4,840	\$363	\$1,660
Administrator B	\$1,558	\$117	\$ 468
Administrator C	\$ 710	\$ 53	\$ 243
Totals	\$7,108	\$533	\$2,371

²⁶ According to the PSERS, the final average salary factors into the retirement benefit calculation.

²⁷ Public School Employees’ Retirement System. *Employers’ Reference Manual – Chapter 10. Reporting – Leaves of Absence*. Revised May 23, 2016. Page 28.

We provided this information to PSERS so it can adjust the individual administrator's accounts and refund the District the \$2,371 in employer contributions and \$533 in employee contributions that were incorrectly submitted. The District can then refund the employee contributions directly to the applicable administrators.

Recommendations

The *Old Forge School District* should:

1. Implement a stronger review and approval process for all compensation data and related contributions reported to PSERS.
2. Ensure District personnel responsible for reporting compensation data to PSERS closely review the ERM, in particular the specific definitions and examples of qualified and unqualified earnings. A more thorough understanding of definitions by staff members should help improve the accuracy of the District's reporting.

The *Public School Employees' Retirement System* should:

3. Make the necessary adjustments to the three administrators' retirement accounts for the unqualified payments reported to PSERS.
4. Refund to the District the employer and employee contributions related to the unqualified earnings that were submitted to PSERS in error.

Management Response

District management provided the following response:

“The District Business Manager acknowledges the error in calculating the employee's final pay prior to that employee leaving the District. In all three cases, the contractual payout for unused vacation days was used to offset the exiting employee's under or over payment and included in that employee's final pay calculation. Going forward, when faced with a vacation day payout situation for an exiting employee, the Business Office will compute a separate calculation for unused vacation time that is not included in the final pay calculation. In all three cases mentioned in this finding, PSERS adjustments were made at the time that the error was uncovered.”

Auditor Conclusion

We are pleased that the District contacted PSERS regarding the unqualified earnings and made all of the necessary adjustments for the three administrators' contributions which were incorrectly withheld. We will evaluate the District's corrective actions during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Old Forge School District (District) released on September 24, 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. We interviewed District personnel and performed audit procedures as detailed in the status section below.

Auditor General Performance Audit Report Released on September 24, 2015

Prior Finding: **The District had a General Fund Deficit of \$264,582 as of June 30, 2014, and Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges**

Prior Finding Summary: During our prior review of the District's Annual Financial Reports, Independent Auditor's Reports, and General Fund budgets for fiscal years ended June 30, 2010, 2011, 2012, 2013, and 2014, we found a deteriorating financial condition. We found various factors that may have contributed to the District's financially declining position and its General Fund deficit of **\$264,582**.

Prior Recommendations: We recommended that the District should:

1. Continue the process of monitoring and evaluating expenditures on a monthly basis and ensure that actual expenditures are kept within budgetary limits, as well as not exceed total revenue at year-end.
2. Ensure historical data continues to be used when preparing annual budgets as well as reviewing and adjusting its multi-year financial plan to help reduce large unanticipated expenditure increases.
3. Ensure that the multi-year plan is evaluated annually and adjusted accordingly to the most current actual revenue and expenditure data.
4. Ensure the real estate tax collection percentage estimated rates are realistic based on prior years' actual tax collections.

Current Status: We found that the District implemented our fourth recommendation by evaluating its estimated tax collection rates based on prior year's actual tax collections. However, while the District partially implemented our first three prior recommendations, the District's financial position continued to decline over the current audit period. The District again had a deficit fund balance as of the end of the current audit period; therefore, a repeat finding was issued. For details, see Finding No. 2 beginning on page 15.

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,²⁸ 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, 2014 through June 30, 2018. In addition, the scope of each individual audit objective is detailed on the next page.

The Old Forge 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).²⁹ 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.

²⁸ 72 P.S. §§ 402 and 403.

²⁹ 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, 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, 2014 through June 30, 2018. We also determined if the District had key personnel or software vendor changes since the prior audit.

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

- Governance
- Financial Stability
- Transportation Operations
- Administrator Separations
- 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:

- Did the District's Board of School Directors (Board) and administration maintain best practices in overall organizational governance?
 - ✓ To address this objective, we conducted interviews with the current Superintendent and Business Manager, and with 7 of the 9 current board members to help determine if the Board and administration were working together for the best interests of the District's students and taxpayers. We also reviewed board policies, administrative procedures, and reports used to inform the Board about student performance, student progress in meeting academic achievement goals, budgeting and financial position reports, and school violence data to determine if the Board was provided sufficient information to make informed decisions. The results of our review of this objective can be found in Finding No. 1 beginning on page 8 of this report.
- 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 five fiscal years from 2014-15 through 2018-19 fiscal years. The financial and statistical data was used to determine 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 Business 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. 2 beginning on page 15 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?³⁰
 - ✓ To address this objective, we interviewed District personnel to get an understanding of the District’s procedures for obtaining and reporting transportation data to PDE. Additionally, we attempted to review calculations for vehicle mileage, student counts, and the total days vehicles provided transportation for students as reported to PDE for the 2014-15, 2015-16, 2016-17 and 2017-18 school years. However, the District could not provide the required supporting documentation needed to verify the accuracy of mileage and student data reported data to PDE for all four audit years. Therefore, we were unable to determine the accuracy of the regular transportation reimbursement received from PDE for the four audit years. The results of the review of this objective can be found in Finding No. 3 beginning on page 27 of this report.
- Did the District execute contracts with all of its transportation providers, pay the providers in accordance with contract provisions, and accurately report total contractor costs to PDE?
 - ✓ To address this objective, we requested the contracts in place with the four largest transportation providers and all of the District’s transportation provider invoices for the 2016-17 and 2017-18 school years. We reviewed the invoices to determine if the District was properly billed and paid in accordance with the contracts, if there were adequate controls over the payment process, and if contractor costs were correctly reported to PDE for the 2016-17 and 2017-18 school years. The District only executed a contract with the largest transportation provider; therefore, we were unable to determine the accuracy of payments to three transportation providers. The results of the review of this objective can be found in Finding No. 4 beginning on page 33 of this report.
- Did the District pursue a contract buy-out or settlement agreement with any administrator who separated from the District and if so, what was the total cost of the buy-out/settlement agreement, what were the reasons for the termination/settlement, and did the employee contract(s) comply with the Public School Code and Public School Employees’ Retirement System guidelines?
 - ✓ To address this objective, we reviewed the contracts, settlement agreements, board meeting minutes, board policies, and payroll records for the three administrators who separated employment from the District during the period July 1, 2014 to June 10, 2019. The results of our review of this objective can be found in Finding No. 5 beginning on page 37 of this report.
- Did the District ensure that bus drivers transporting District students had the required driver’s license, physical exam, training, background checks, and clearances³¹ as outlined in applicable laws?³² Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
 - ✓ To address this objective, we tested all 33 bus drivers transporting District students as of November 18, 2019. We reviewed documentation to ensure the District complied with the

³⁰ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

³¹ 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.

³² 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.

requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures ensure compliance 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?³³
 - ✓ To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, fire drill reports, and after action reports. In addition, we conducted an on-site review at the District's junior/senior high school building, which is the closest proximity to the main District office and where all visitors must sign in. The review was to assess whether the District had implemented basic safety practices.³⁴ Due to the sensitive nature of school safety, the results of our review for this objective area are not described in this report. The results of our review of school safety are shared separately with District officials, PDE, and other appropriate agencies deemed necessary.

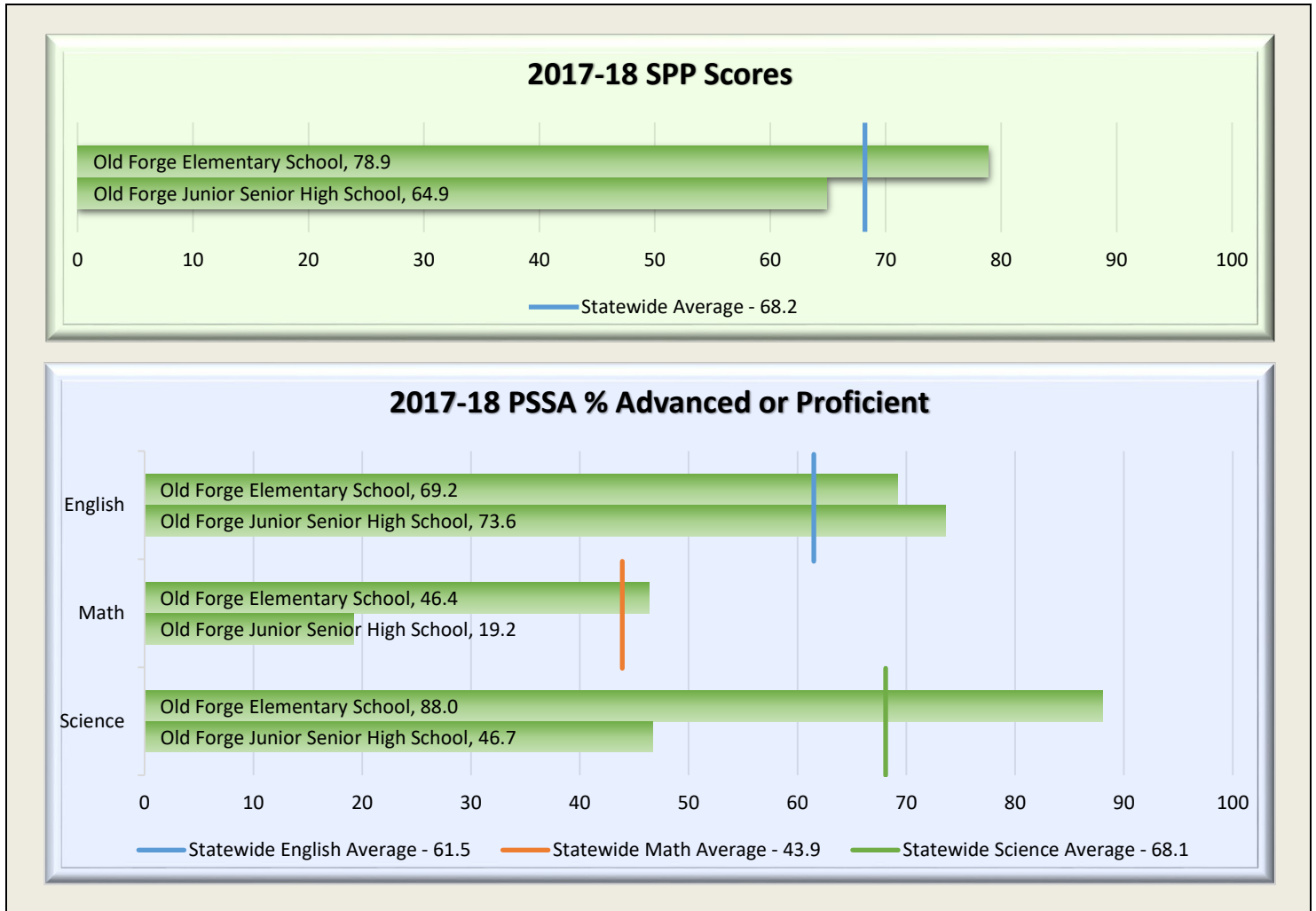
³³ 24 P.S. § 13-1301-A *et seq.*

³⁴ Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

Appendix B: Academic Data Detail By Building

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.³⁵ 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.³⁶

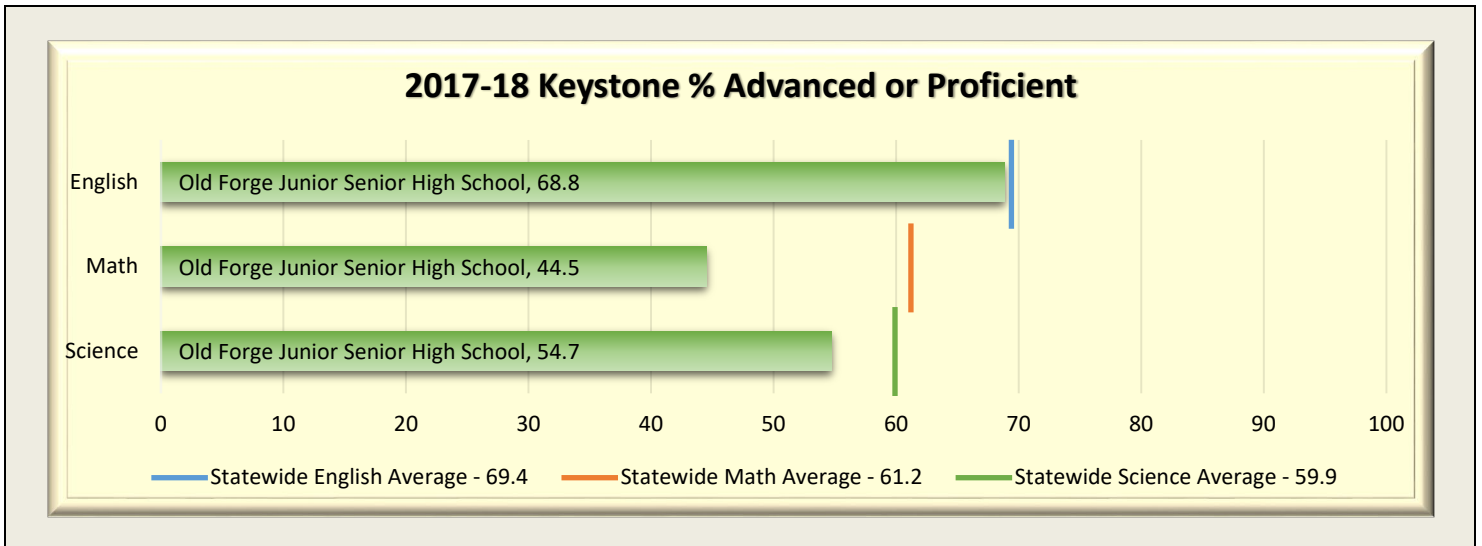
2017-18 Academic Data School Scores Compared to Statewide Averages



³⁵ 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.

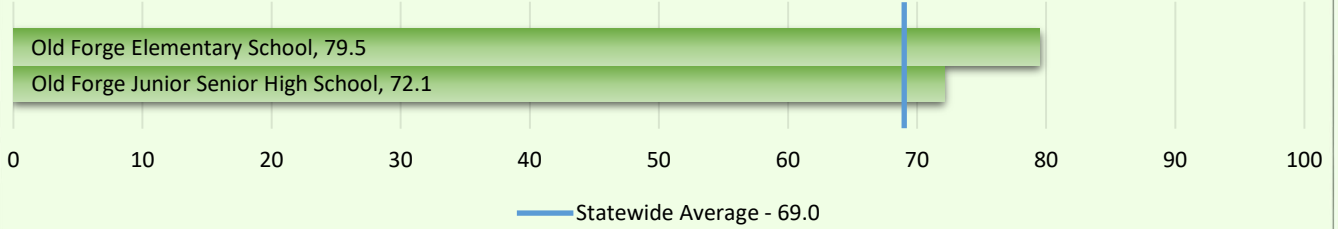
³⁶ PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

2017-18 Academic Data
School Scores Compared to Statewide Averages (continued)

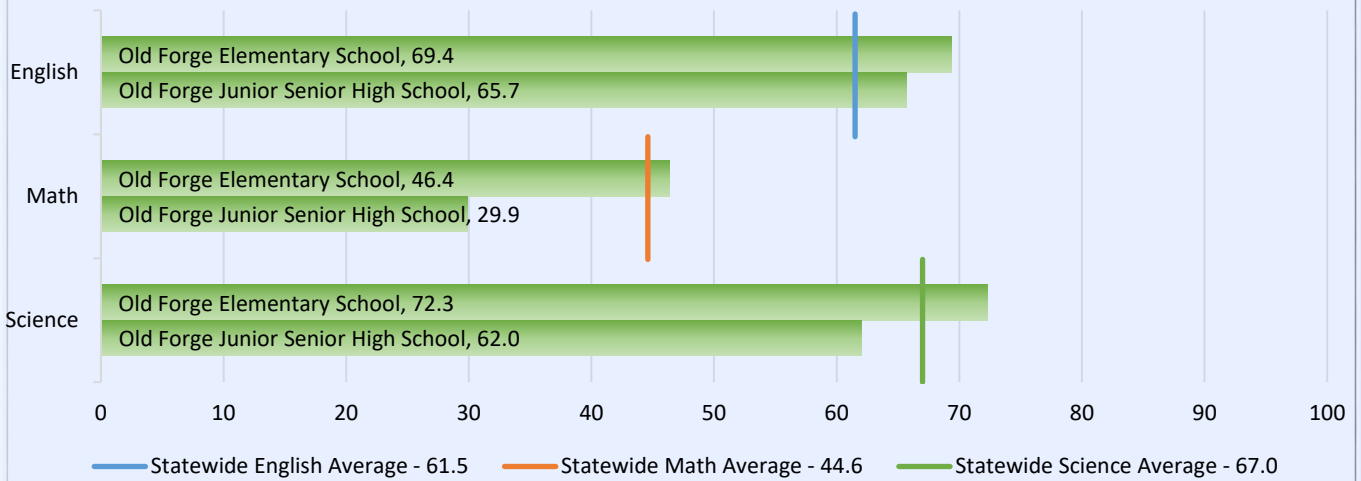


2016-17 Academic Data
School Scores Compared to Statewide Averages

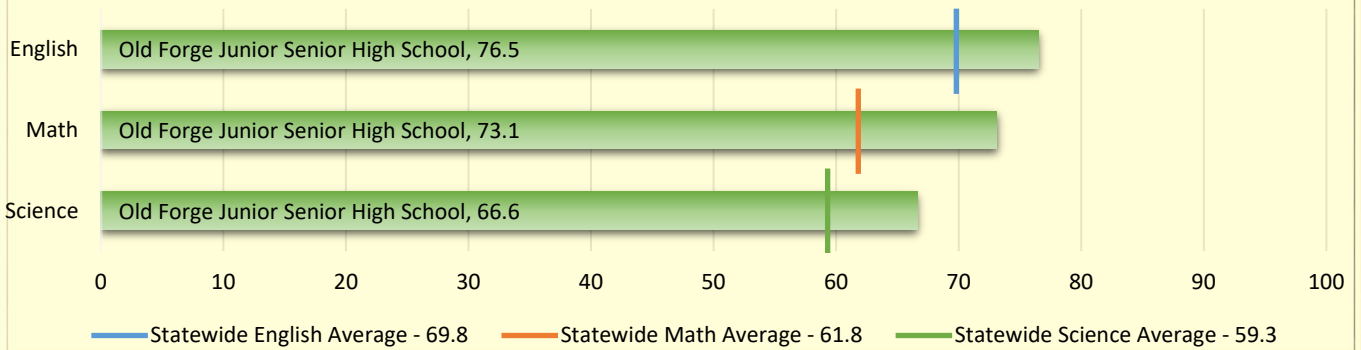
2016-17 SPP Scores



2016-17 PSSA % Advanced or Proficient

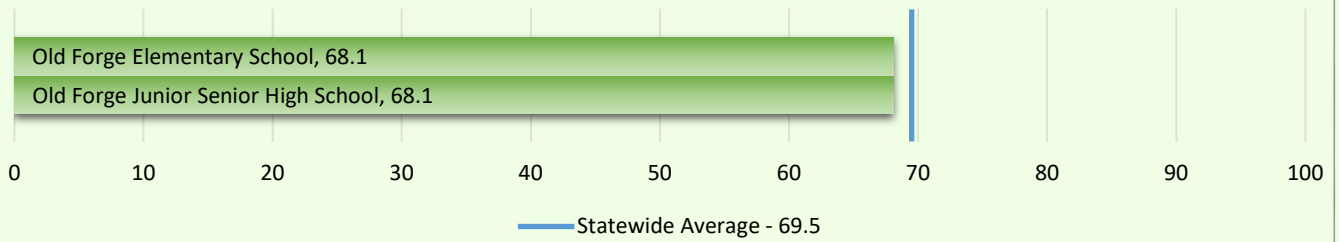


2016-17 Keystone % Advanced or Proficient

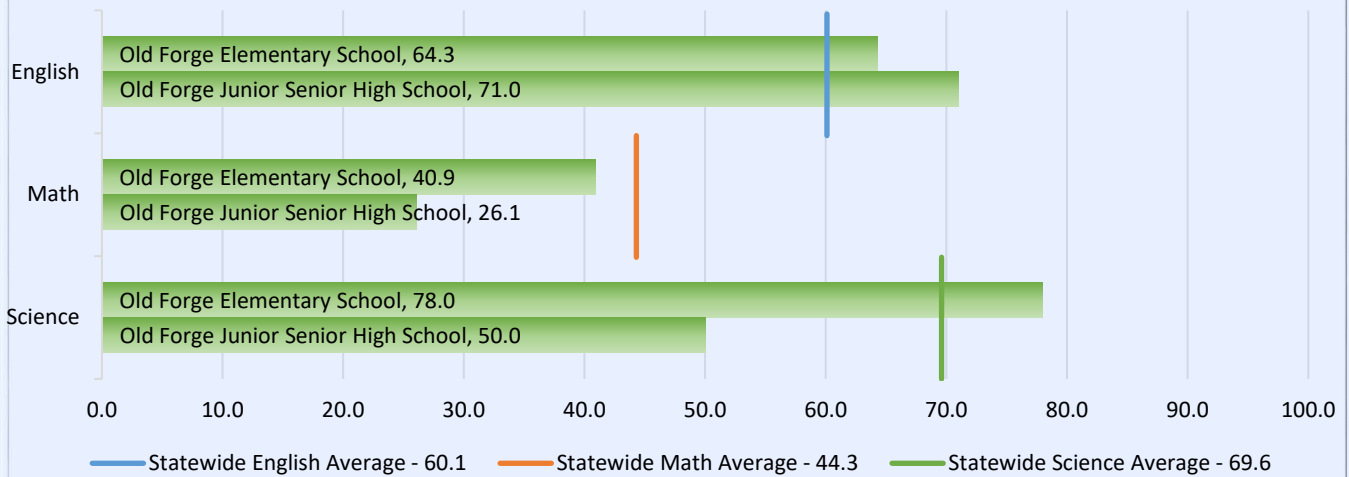


2015-16 Academic Data
School Scores Compared to Statewide Averages

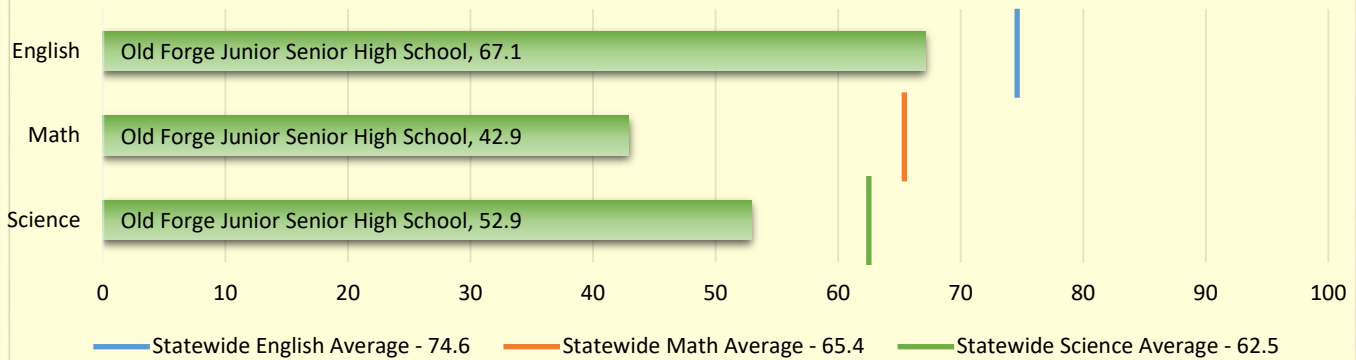
2015-16 SPP Scores



2015-16 PSSA % Advanced or Proficient



2015-16 Keystone % Advanced or Proficient



Appendix C: Management Response to Findings No. 1 and 2

Finding No. 1 – The District Had Significant Governance Weaknesses That Negatively Impacted the District

The District's response to Finding No. 1 is presented in its entirety below.

Management Response:

It is essential to note that current Superintendent, Erin Keating, Ed.D., was not hired until April 2019 and did not start working until June 24, 2019. Upon entry into the district, Dr. Keating established policy and protocols for corrective action to address board governance and district oversight prior to the findings of the audit report being released; in fact, many of the corrective action strategies were already in practice when interviewed by the auditors for this report. The current board members are cooperative and transparent in actions and complying with governance changes without dispute.

Failure to update or comply with board policies

Upon review of outdated policies, Dr. Keating enlisted the board to purchase a full membership with the Pennsylvania School Board Associations (PSBA). As part of this membership, the district gains access to Pennsylvania News Network (PNN) for policy to match Pennsylvania Department of Education (PDE) mandates, regulations and legislation.

Using PNN, Dr. Keating began the process of updating policy from the past three years (as available on PNN). The policies are sent to each board member as part of the board packet. Additionally, with each group of policy updates, Dr. Keating includes the PNN newsletter explaining the need for the update. Board members are given ample time to read policy and then discuss concerns or questions at both informational meetings and the regular board meetings. Moreover, comprehending the magnitude of aligning to board policy, administration cites policy whenever necessary in explaining administrative decisions or laying the foundation of board decisions to be made. All new policies will be posted appropriately to the website for public review. The bullying policy was updated and adopted November 20, 2019.

In an effort of transparency, all board members are copied on answers to individual board member questions.

All media responses have been directed through the Office of the Superintendent or the Board President.

Lack of written administrative procedures

OFSD agrees with the finding that administrative procedures were not in place to oversee operations and essential administrative tasks. In a district this small, past-practice exists, and employees are fully aware of procedure; however, the written directions were not in place.

The Superintendent has tasked employees with documenting the steps to school operations and essential administrative tasks. These steps will become part of the standard Employee Handbook and/or the Business Office Handbook.

Handbooks will be complete and distributed for use for the start of the 2020-2021 school year.

Lack of transparency and cooperation among board members

The Superintendent cannot speak to the communication methodology employed by previous administration. However, at present the following systems for board transparency are actively practiced.

1. All communication is done with the board as a whole. If a conversation occurs between the Superintendent and an individual member of the board, that information is distributed in summary to the whole board as part of a weekly update.
2. Each Friday a board update is sent, via email, to the board (hard copies are available and dropped off at members' homes for those requesting it). This contains essential information from the week. Litigation updates are part of this document whenever applicable.
3. The Superintendent created a shared Google Drive for the school board. Within this drive, all information for and from board meetings is electronically documented. All board members have read only access to this drive. All agendas, appendices, handouts and signed documents are stored within this drive. Board members may access the drive and see the monthly agenda in live time as it is created.
4. A copy of the agenda and all relevant handouts are sent to board members the Friday before any meeting. If updates are made to the agenda, the board is sent a separate email with the new information. This is in addition to systemic access to the shared Google drive.
5. At executive session, information for all litigation is shared with the board. In addition, within the shared Google Drive, a litigation folder exists, where this information is stored. Moreover, counsel participates in executive session whenever litigation is to be discussed, so all question could be answered by the attorney handling the case. If a settlement agreement is presented, it is done so at the information session, so board members have ample time to read the agreement, ask questions and digests the information prior to voting on it.

Insufficient Training for Board Members

The OFSD agrees with this finding, training for board members did not occur. To align with Act 55, all board members elected in November 2019 have already completed their required board training. The board chose to complete training through PSBA; some board members did the face to face training, while others completed the online training.

Additionally, the board will hold its first "Board Retreat" on March 22, 2020. This event will be conducted for the purposes of education and informed decision making; specifically, the board is looking at a historical and educational perspective on budgeting and finances, to not only balance the 2020-2021 budget, but to create a five-year plan to maximize education for students.

Moreover, the Superintendent is embedding systemic learning by supplying the board with the mandates, legislation or case law, relevant to proposed action items, needed to make informed decisions. This is part of the packet of information given for the work session. This allows the board to make informed decisions. As new mandates, legislation or case law are released through PDE, the Superintendent will supply the board with a written overview and reference materials, as well as a verbal explanation during informational meetings. Lastly, in litigation issues, the Superintendent will ensure that counsel is present in executive session, so the board is freely available to ask questions and have all of the information necessary to make informed decisions.

Poor Financial Oversight

The OFSD Business Manager always completed a detailed presentation to assist board members to make informed decision during the budgeting process. Also, the Business Manager is always readily available to

explain or clarify board members' questions regarding budgeting. Finally, each month the board members receive a current "List of Bills" and the "Treasurer's Report." These documents allow board members to see the current financial situation for the district in an ongoing basis.

To further expand the working knowledge of the board on the district's budget, budget meetings are planned to occur after every information session in Spring 2020. A schedule of topics was created and distributed to all board members. The budget meetings occur after the monthly informational session. This is a process that will remain in effect under the direction of the new superintendent; furthermore, the board will have quarterly proposed to actual budget meetings moving forward as well.

Aligning with Act 1 timelines, the general budget was presented in January 2020. Working with the chairman of the Budget and Finance Committee, topics for the monthly meetings leading up to the June passage of the final, balanced budget were selected and distributed to all board members. They are as follows:

- January- Proposed Budget Presentation
- February- Staffing
- March – Bond Refinancing and Materials/Resources
- April – Healthcare and Benefits
- May – Line Item Review of Expenditures
- June- Taxation and Passage of the Final Budget

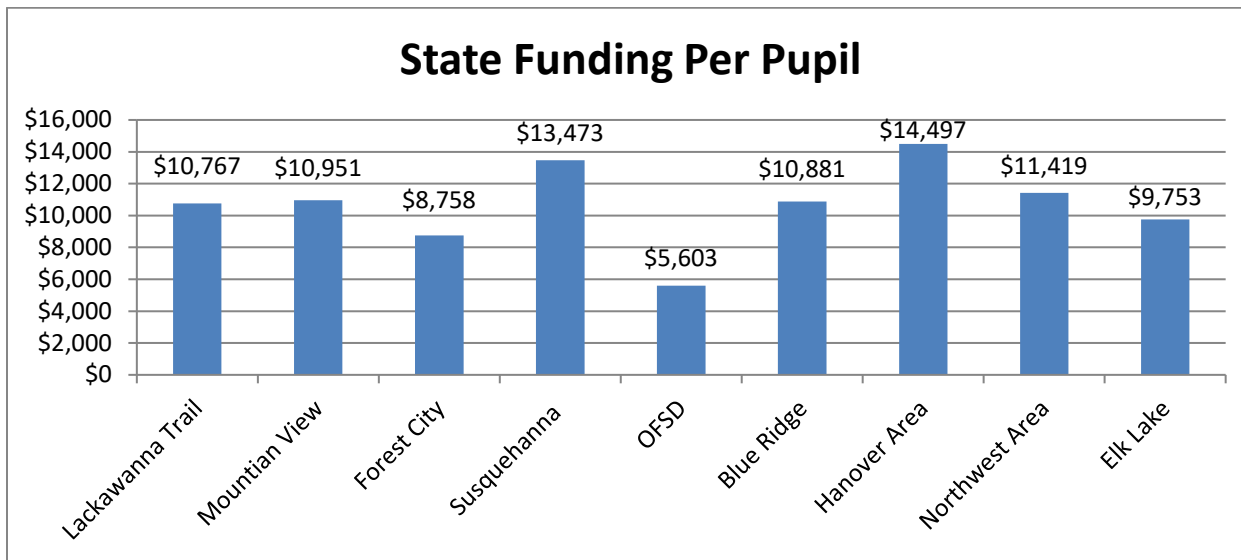
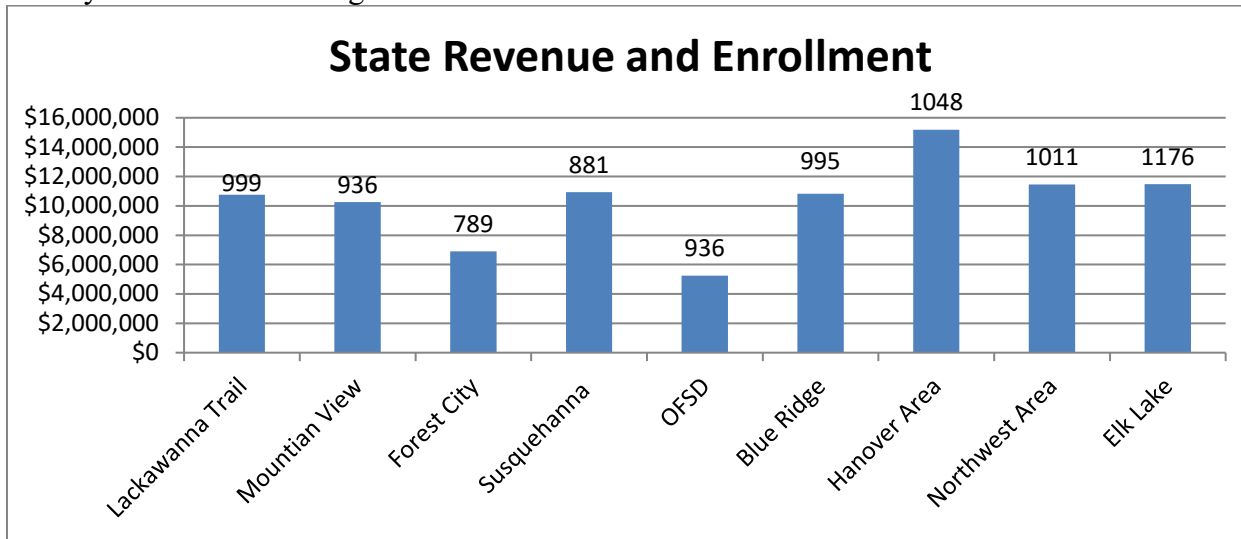
All agendas and corresponding documents for budget meetings are placed in the shared Google Drive and readily available for board members review at their convenience.

Finding No. 2 - The District Failed to Adequately Budget for Expenditures and Depleted its General Fund Balance

The District’s response to Finding No. 2 is presented in its entirety below.

[Note: the information presented below was prepared by the District and we did not audit this information.]

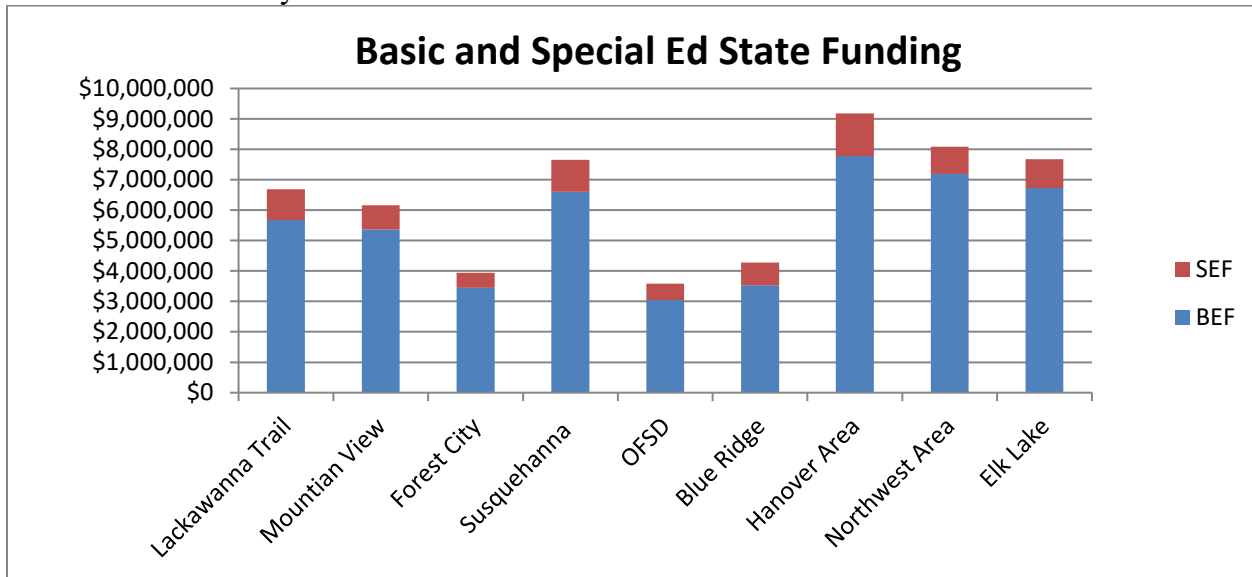
The financial position of the Old Forge School District has been an up and down battle over the past ten years, and the four years reviewed in the Auditor General’s report certainly follows that trend. This report, as in many other AG reports, seems to focus on the importance of, or in the case of the Old Forge School District, the lack of a stable General Fund Balance. It would be difficult to talk about a fund balance without a look at Pennsylvania State Funding across similar sized schools.³⁷



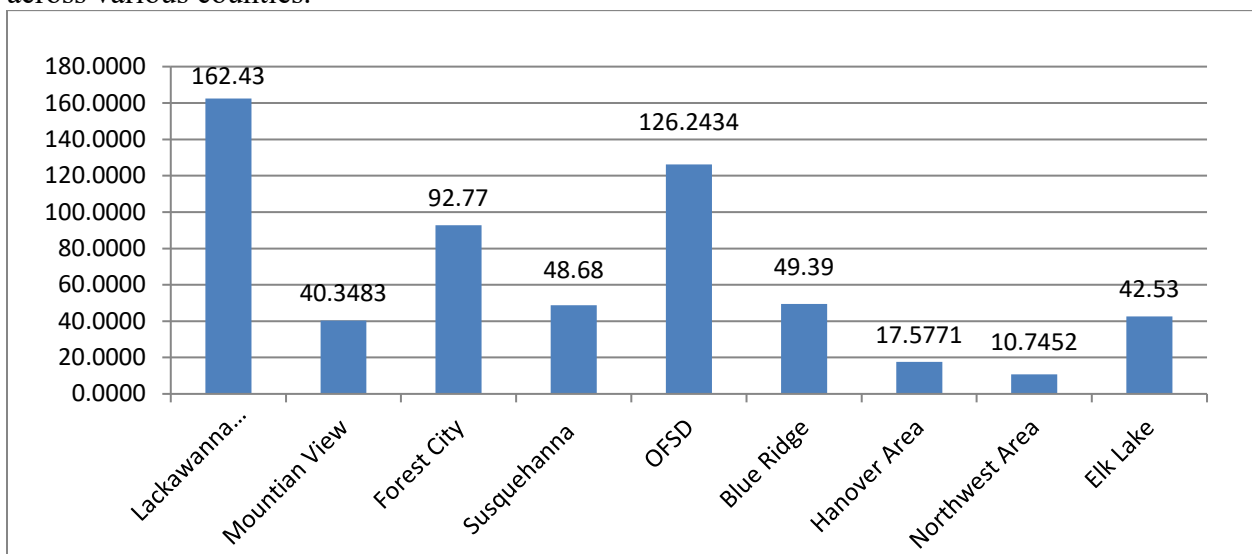
³⁷ AFR Data: Pennsylvania Department of Education Website, Teacher and Administration Tab, Finances, Summary of AFR Data 2008-2009 to 2017-2018. AFR Data Detailed, Revenue, State Revenue 2008-2009 to 2017-2018.
 Enrollment Data: Pennsylvania Department of Education Website, Data and Reporting, Public School Enrollment Report, Public School Enrollment 2017-2018.
 Pennsylvania School Performance Profile Website, Data Files SPP 2017 Final Scores Data File
 All compared data from 2017-2018 school year.

The first chart above shows nine similarly sized school districts throughout one regional area and the disparity in the total 7000 Series State Funding provided to each school. The Old Forge School District, while not the smallest district on the graph in terms of enrollment, receives considerably less, in some cases less than half of the State funding when compared to other similarly sized school districts in this region. The State Funding Per Pupil chart compares the same State funding disparity as per pupil spending across those nine regional districts. Again, in many cases, the Old Forge School District has about half of the State funding available as the other districts in this region.

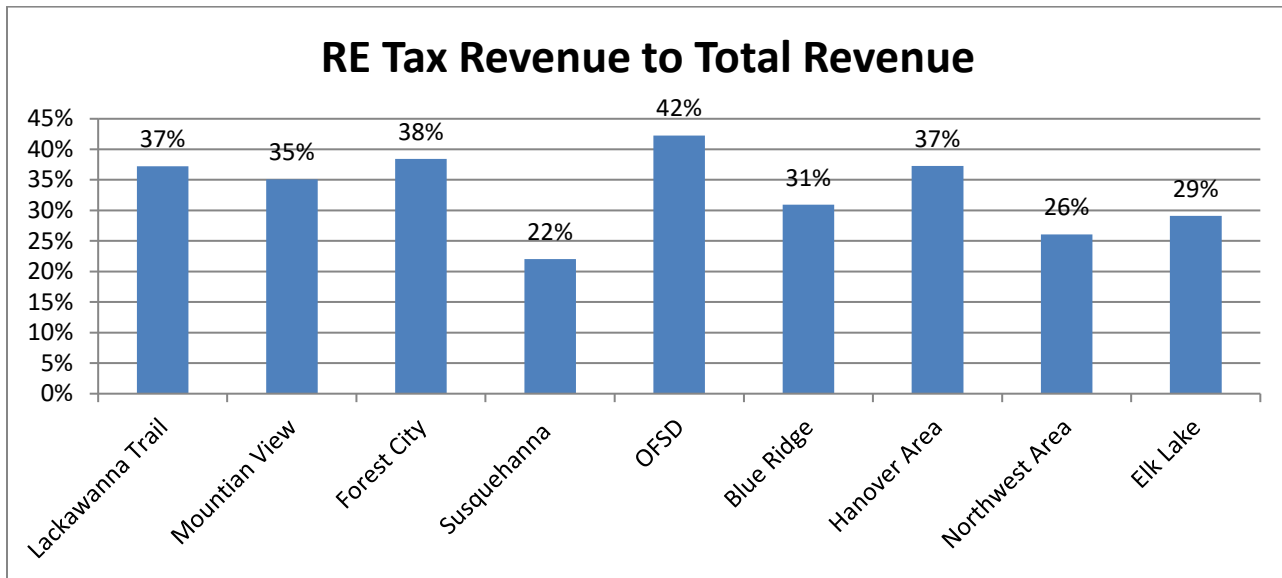
Breaking down the funding inequity further by focusing on the two basic areas of State Revenue reveals that the Old Forge School District receives the least amount of both Basic Education and Special Education Funding of the nine districts analyzed.



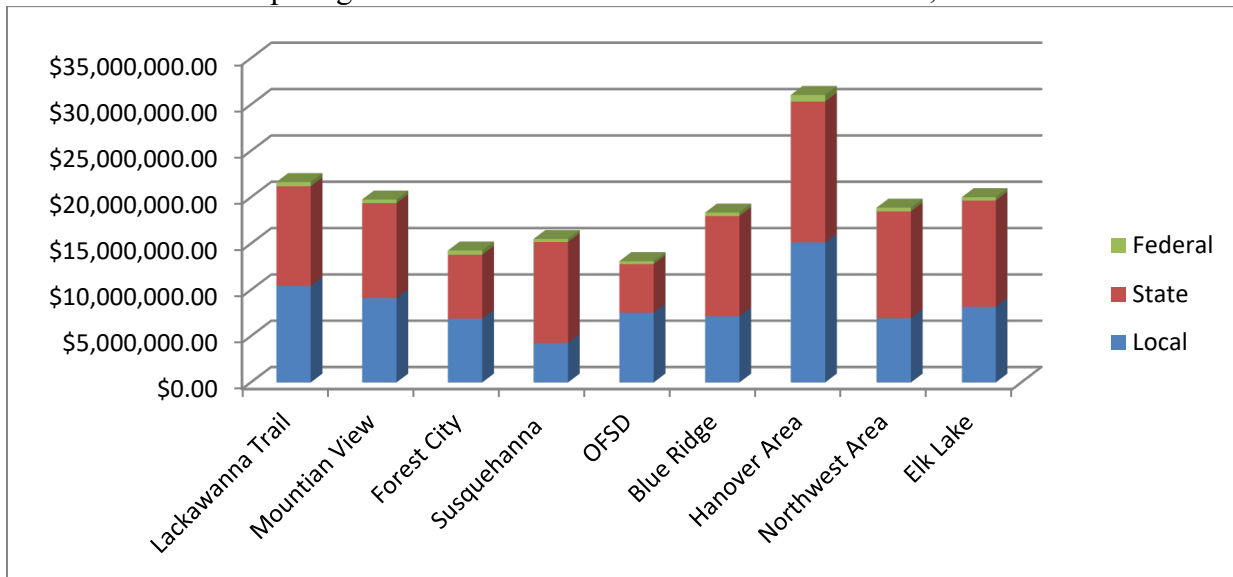
This disparity in funding forces districts like Old Forge to rely heavily on tax revenue to provide the necessary resources to fund the programs their students require. In a typical year, as in 2017-2018 data shown here, Local Revenue accounts for nearly 60% of total revenue and 73% of Local Revenue is Real Estate Tax Revenue. The chart below compares the same regional districts and the tax burden placed on the residents in the form of Real Estate Tax Millage Rates. This chart may be a bit misleading when looking at the vast disproportion between some of the districts tax millage rates, but this is primarily due to the variances in real estate assessed value across various counties.



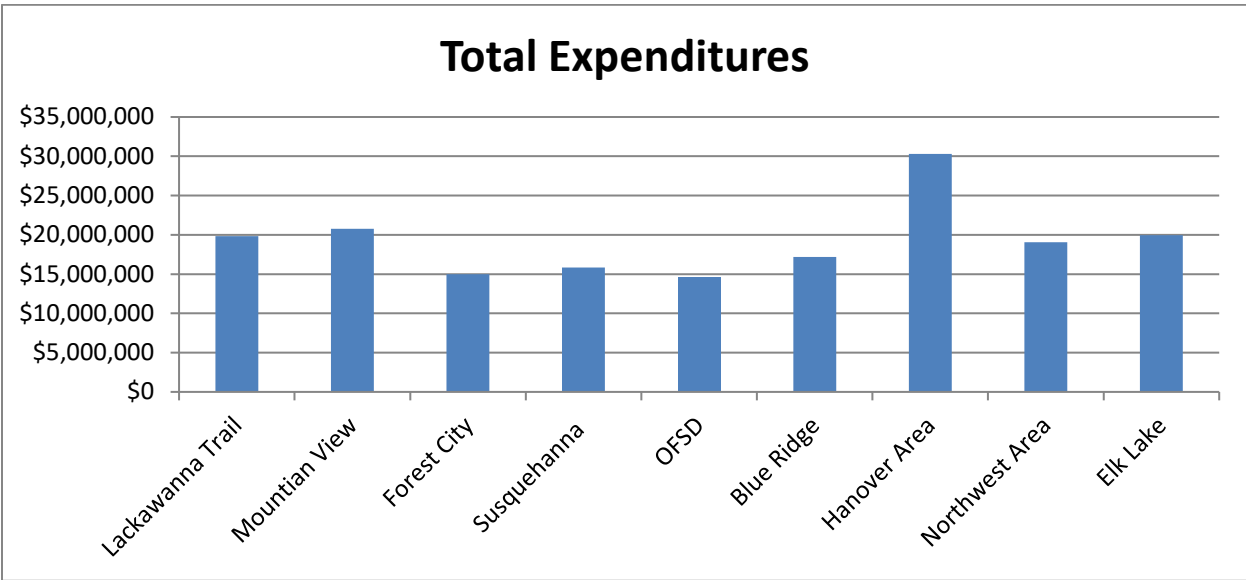
Because the Old Forge School District is significantly underfunded in State Revenue when compared to other similarly sized districts, this reliance on Real Estate tax revenue is evident when comparing tax revenue to total revenue, as seen in the chart below. Even though the Old Forge School District receives less than 50% of the average State Revenue received by the other eight districts in the comparison, Old Forge’s ratio of Real Estate Tax Revenue to Total Revenue is higher than any of the other district analyzed in this comparison.



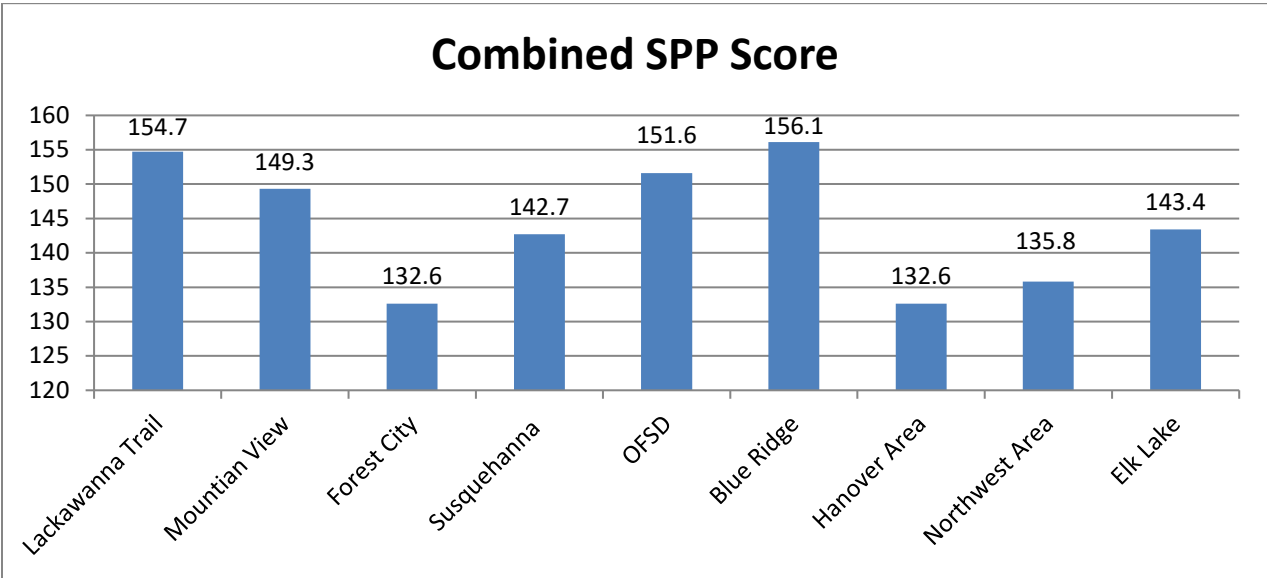
Although the District has had to burden borough residents with higher tax millage rates in an attempt to offset the disparity in State funding available to the Old Forge School District, the effect of the State funding shortfall is evident when comparing Total Revenue across the same nine districts, as shown in the chart below.



The natural inclination is to advise a district like Old Forge to better manage expenditures so that available revenue is sufficient to cover those necessary expenses. But as you can see in the chart below, total expenditures for the Old Forge School District are the lowest in this group.



And somehow, the Old Forge School District’s combined School Performance Profile score is near the top of this peer group.



The Auditor General’s report focuses heavily on General Fund Balance and the Government Finance Officers Association recommendation of two months operating revenue in reserve. This is just about the amount of state funding deficiency between the Old Forge School District and the nearest similarly sized school district state funding amount of the districts analyzed above. If the Old Forge School District received just 60% of the average State funding received by the other eight districts analyzed, the result would be a \$1.4 million increase in revenue to the District and potentially a positive fund balance and an improving Current Ratio. If the District had been receiving this increase funding consistently over the last ten years, this audit would look completely different.

The Auditor General’s report states that the District was “forced to borrow and transfer funds into its General Fund.” However, this was not the reason for the bond reissue. The bond reissue occurred prior to the end of the school year in June of 2016. Year end June 30, 2016, the District closed with \$12,544,552 in total revenues. Pretending that the bond reissue never happened and removing transfers in of \$2,508,710, capital outlay of

\$513,347 and refund of prior year receipts of \$35,833 (revenue and expenditures related to the bond reissue), the District closes the year with revenue over expenditures of \$299,972. Although it may not be as much of a surplus as some would like, it would not force the District to borrow. If we do the same exercise for the year end June 30, 2017, again pretending that the bond reissue never happened, remove capital outlay of \$804,639, the District closes the year with revenue over expenditures of \$147,584. Once again, not much of a surplus, but not a deficit and therefore no reason to borrow. It wasn't until the following year that expenses for Special Education and consequently Transportation began to over stress the budget.

When the Board of Education decided during negotiations to include retroactive pay in the ratified collective bargaining agreement, it was also decided that the only way to afford these payments was to make significant changes to the Teacher's healthcare structure. Co-payments were increased and deductibles and premium shares were added to realize a cost reduction sizable enough to offset the retroactive salary payments. To facilitate these offsetting exchanges, retroactive payments would need to be extended over a period of time sufficient enough to maximize the cost reduction. Anyone that deals with healthcare structure and benefit management knows that these cost reductions are usually short lived. Within a short time, cost reductions are devoured by increased experiences and escalating costs for medical benefits.

The Old Forge School District, like many other districts in Pennsylvania, is burdened by increasing special education expenses. As more students are identified as exceptional with regards to educational needs, additional services must be added to educate these students. Smaller districts with limited resources struggle to meet these increased demands. As larger districts with excess resources and personnel can easily absorb the increased demand for services, some of these services are far more specialized, requiring smaller districts to place students out of district in dedicated, for profit facilities. The Old Forge School District, like many other districts in Northeast Pennsylvania, is experiencing a significant influx of special needs students due to its geographic location to another, larger district suffering a mass exodus as parents withdraw special needs students in search of better housing and welcoming programs for their children. As both in-house and out of district placement numbers increase, so does the required cost of transporting these students, many needing specialized transportation at the District's expense. The Old Forge School District is in the process of evaluating current special education needs and exploring the process of establishing in-house programs to meet these student needs and reducing out of district placement costs.

At the end of the 2014-2015 school year, heading into the 2015-2016 school year, after exploring options to offset the increased cost of placing students in out of district special education classes, the Old Forge School District opened two in district life skills classrooms. This decision to bring these students back to the District reduced the cost paid to out of district schools by nearly \$115,000. The bulk of this cost reduction was absorbed by the increased salaries, retroactive payments after the ratified teacher CBA and increases in other Special Education needs.

While Instructional Expenditures increased over the audit period due to the increased special education expense mentioned above, and the increase in salaries following a six year teacher contract impasse, the Old Forge School District still has the lowest Instructional Expense of the nine districts analyzed here – nearly 30% less than a same sized peer.

Please accept the above not as a rebuttal to the Auditor General's Report, but more as an explanation and historical account of the years leading up to and included in this report.

The Old Forge School District agrees with the AG's recommendations and has already begun the multi-year budget process and is currently examining special education and transportation needs for next school year.

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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This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: News@PaAuditor.gov.