

# PERFORMANCE AUDIT

---

## Phoenixville Area School District Chester County, Pennsylvania

---

August 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Dr. Alan D. Fegley, Superintendent  
Phoenixville Area School District  
386 City Line Avenue  
Phoenixville, Pennsylvania 19460

Ms. Blake Emmanuel, Board President  
Phoenixville Area School District  
386 City Line Avenue  
Phoenixville, Pennsylvania 19460

Dear Dr. Fegley and Ms. Emmanuel:

We have conducted a performance audit of the Phoenixville Area School District (District) for the period July 1, 2015 through June 30, 2019, except as otherwise indicated in the audit scope, objective, and methodology section of the report. We evaluated the District's performance in the following areas as further described in Appendix A of this report:

- Transportation Operations
- Construction Project Reimbursements
- Facilities Revenue
- Administrator Separations
- Bus Driver Requirements

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

The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

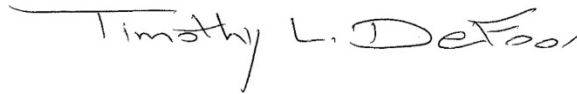
Our audit identified areas of noncompliance and significant internal control deficiencies in the areas of construction projects and transportation operations reimbursements, which are detailed in Findings No. 2 and 3 of this report. Additionally, we identified significant internal control deficiencies in the areas of facilities revenue and administrator separations that are detailed as part of Finding No. 1 of this report concerning the District's failure to establish a sound control environment. A summary of the results is presented in the Executive Summary section of this report. Finally, we found that the District performed adequately in the area of bus driver requirements and no internal control deficiencies were identified.

Dr. Alan D. Fegley  
Ms. Blake Emmanuel  
Page 2

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

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

Sincerely,

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General

July 22, 2021

cc: **PHOENIXVILLE AREA SCHOOL DISTRICT** Board of School Directors

# Table of Contents

---

---

	Page
Executive Summary .....	1
Background Information .....	2
Findings .....	7
Finding No. 1 – The District and Its Board Failed to Establish a Sound Control Environment, Which Resulted in Noncompliance and Other Issues in Several Areas .....	7
Finding No. 2 – The District’s Failure to Implement Adequate Internal Controls Resulted in the District Failing to Apply for \$87,028 in Reimbursements from PDE for Approved Construction Projects .....	15
Finding No. 3 – The District’s Failure to Implement Adequate Internal Controls Resulted in an Unauditable \$4.9 Million in Transportation Reimbursements .....	19
Status of Prior Audit Findings and Observations .....	26
Appendix A: Audit Scope, Objectives, and Methodology .....	27
Appendix B: Academic Detail .....	34
Distribution List .....	38

## Executive Summary

---

### Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Phoenixville Area 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.

Our audit scope covered the period July 1, 2015 through June 30, 2019, 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 2015-16 through 2018-19 school years.

### Audit Conclusion and Results

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

#### **Finding No. 1: The District and Its Board Failed to Establish a Sound Control Environment, Which Resulted in Noncompliance and Other Issues in Several Areas.**

The District failed to establish a sound control environment, which is the foundational component of an internal control system. Specifically, we found that the District failed to implement adequate internal controls for five areas we reviewed during our audit. The District's lack of internal control resulted in delayed or reduced reimbursement to the District, an employee separation overpayment, rental revenues not recorded by the District, and numerous unsupported journal entries in the financial records. As the District's governing entity, the Board of School Directors must provide adequate oversight of the internal control system. Such oversight would, among others benefits, help the District ensure that it receives the appropriate subsidies

from the Commonwealth, which assist in balancing annual budgets (see page 7).

#### **Finding No. 2: The District's Failure to Implement Adequate Internal Controls Resulted in the District Failing to Apply for \$87,028 in Reimbursements From PDE for Approved Construction Projects.**

We found that the District did not implement an adequate internal control system over its requests for reimbursement from the Pennsylvania Department of Education (PDE) for its construction project costs. Due to a lack of internal controls and turnover within the business office, the District failed to file reimbursements for debt service payments totaling \$87,028 with PDE for costs associated with a major construction project. In addition, the District's failure to file other applications timely resulted in a delay in receiving revenues of more than \$400,000 (see page 15).

#### **Finding No. 3: The District's Failure to Implement Adequate Internal Controls Resulted in an Unauditable \$4.9 Million in Transportation Reimbursements.**

We found that the District did not implement an adequate internal control system over the input, calculation, and reporting of regular and supplemental transportation data. Additionally, the District did not comply with the record retention provisions of the Public School Code when it failed to retain adequate source documentation for the regular and supplemental transportation reimbursements received for the 2015-16 through 2018-19 school years. Therefore, we could not determine the accuracy of the \$4,909,109 the District received in regular and supplemental transportation reimbursements (see page 19).

#### **Status of Prior Audit Findings and Observations.**

There were no findings or observations in our prior audit report.

## Background Information

School Characteristics 2020-21 School Year*	
County	Chester
Total Square Miles	28
Number of School Buildings	6
Total Teachers	360
Total Full or Part-Time Support Staff	224
Total Administrators	28
Total Enrollment for Most Recent School Year	4,384
Intermediate Unit Number	24
District Career and Technical School	TCHS-Pickering

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

## Mission Statement\*

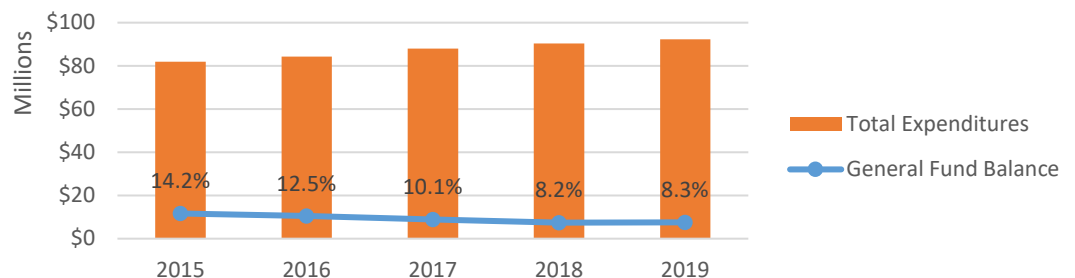
To prepare, inspire and graduate students to meet the challenges of the future, while we grow to become the educational hub of the community.

## Financial Information

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

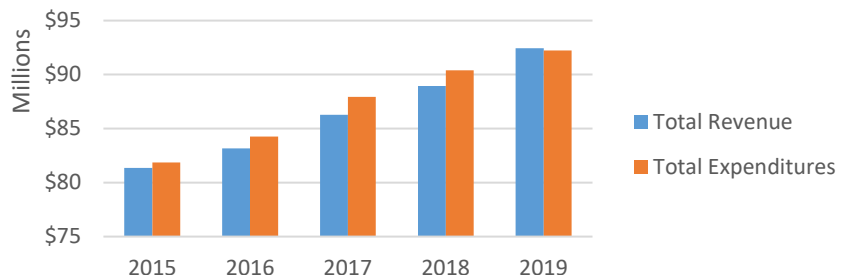
### General Fund Balance as a Percentage of Total Expenditures

	General Fund Balance
2015	\$11,647,017
2016	\$10,539,425
2017	\$8,872,383
2018	\$7,411,021
2019	\$7,616,187



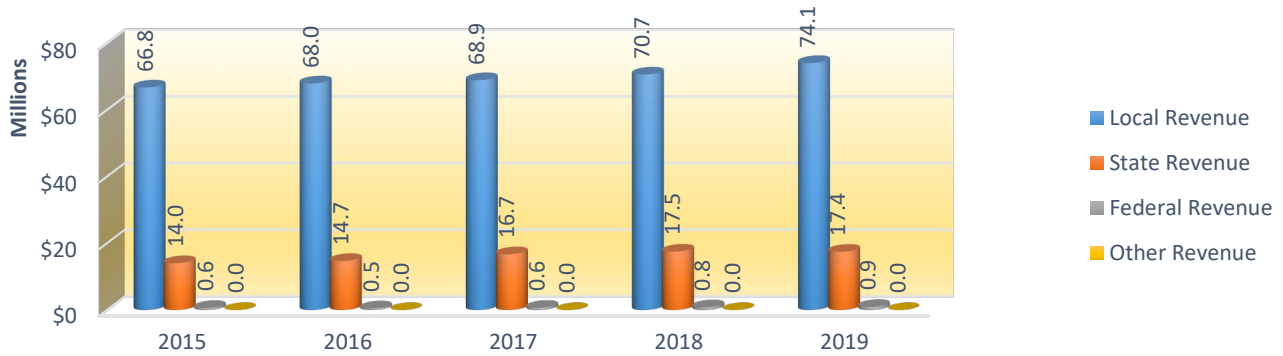
### Revenues and Expenditures

	Total Revenue	Total Expenditures
2015	\$81,362,720	\$81,872,343
2016	\$83,151,920	\$84,259,513
2017	\$86,276,015	\$87,943,058
2018	\$88,933,449	\$90,394,810
2019	\$92,454,531	\$92,230,084

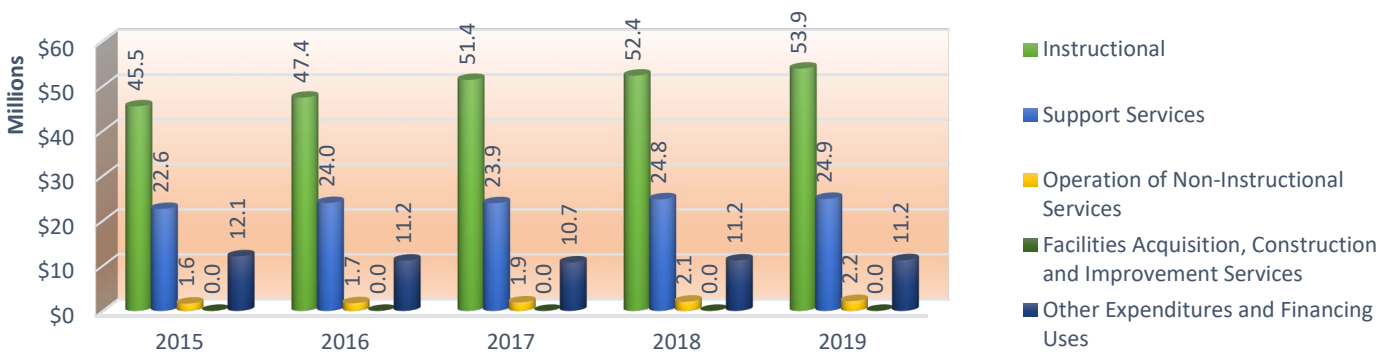


## Financial Information Continued

### Revenues by Source

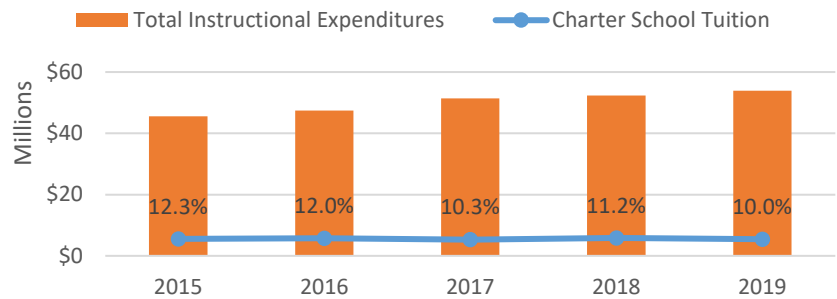


### Expenditures by Function

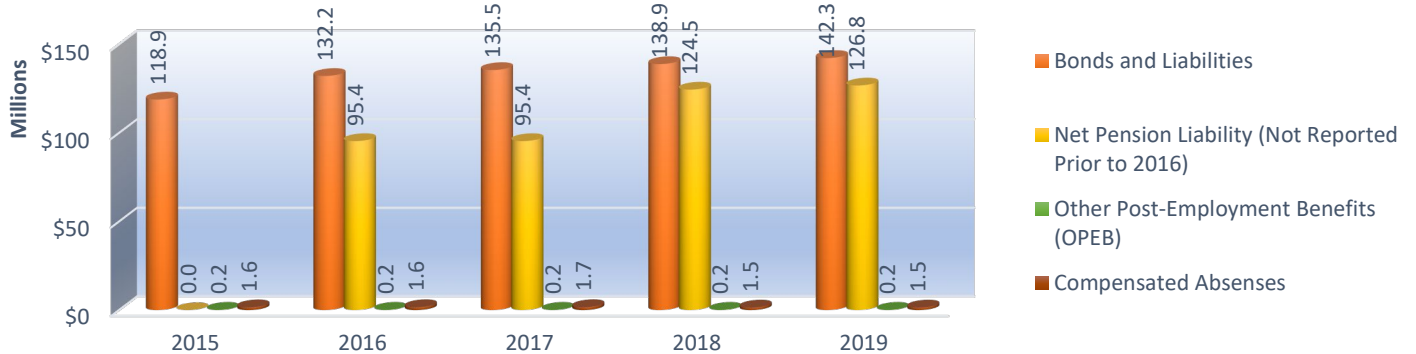


### Charter Tuition as a Percentage of Instructional Expenditures

	Charter School Tuition	Total Instructional Expenditures
2015	\$5,575,100	\$45,506,106
2016	\$5,710,068	\$47,443,358
2017	\$5,282,467	\$51,393,102
2018	\$5,846,077	\$52,350,157
2019	\$5,385,719	\$53,912,376



### Long-Term Debt

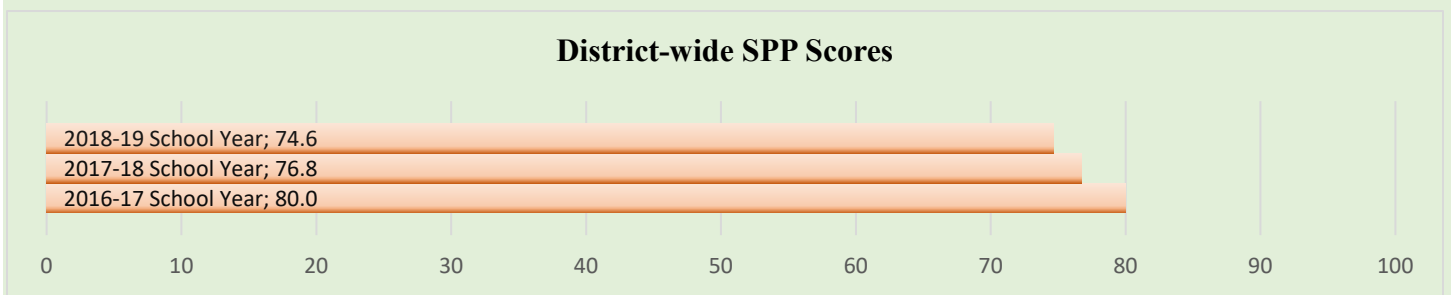


## Academic Information

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 2016-17, 2017-18, and 2018-19 school years.<sup>1</sup> 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.



---

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

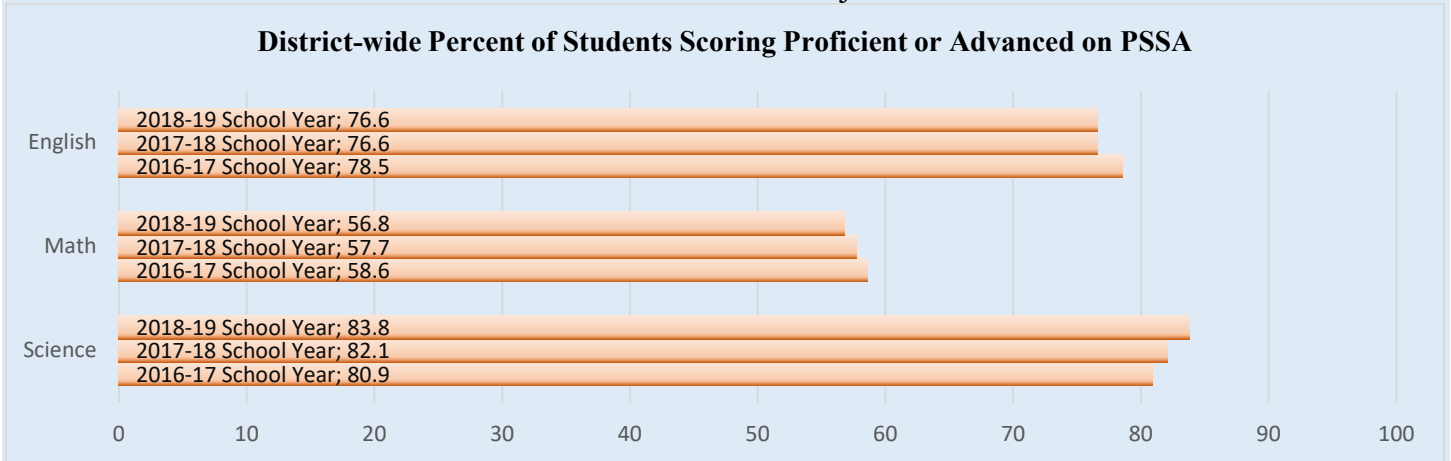


## Academic Information Continued

### What is the PSSA?

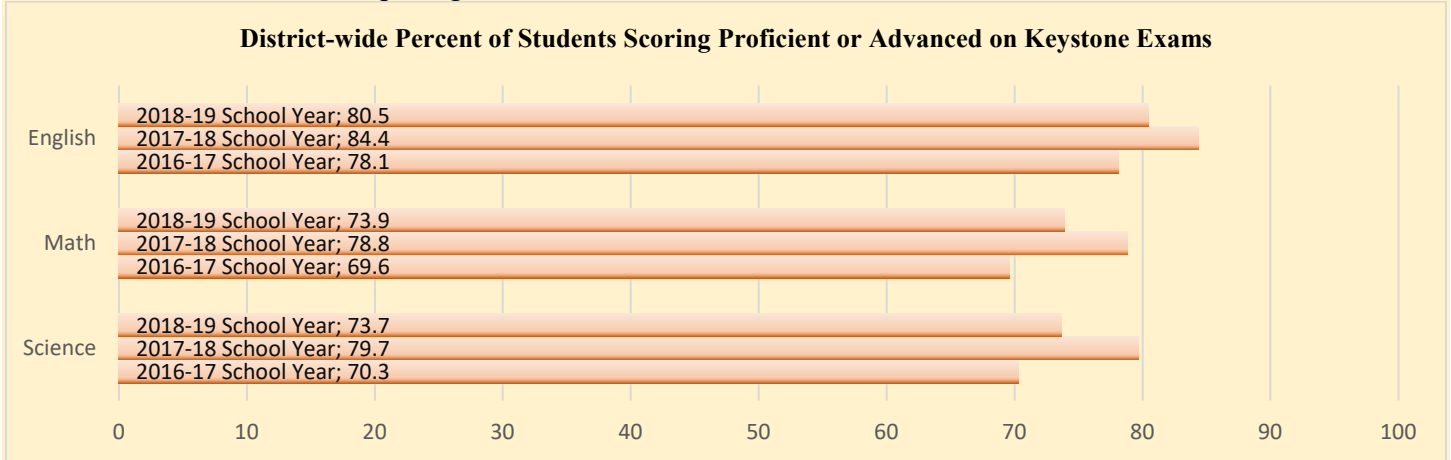
The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English, Math and Science. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, 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.<sup>2</sup> 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.

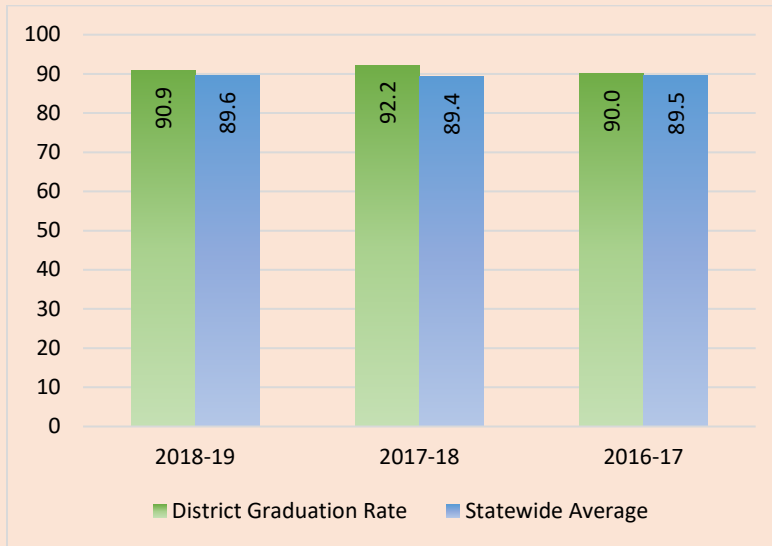


<sup>2</sup> Act 158 of 2018, effective October 24, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement until the 2021-22 school year. See 24 P.S. § 1-121(b)(1). Please refer to the following link regarding further guidance to local education agencies (LEAs) on Keystone end-of-course exams (Keystone Exams) in the context of the pandemic of 2020: <https://www.education.pa.gov/Schools/safeschools/emergencyplanning/COVID-19/Pages/Keystone-Exams.aspx>

## 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.<sup>3</sup>



<sup>3</sup> PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information:  
<https://www.education.pa.gov/DataAndReporting/CohortGradRate/Pages/default.aspx>

# Findings

## Finding No. 1

### The District and Its Board Failed to Establish a Sound Control Environment, Which Resulted in Noncompliance and Other Issues in Several Areas

#### *Criteria relevant to the finding:*

**The United States Government Accountability Office (GAO)** issued *Standards of Internal Control in the Federal Government* (known as the Green Book) which provides the overall framework for establishing and maintaining an effective internal control system. The Green Book sets the standard for internal control framework for state, local, and quasi-governmental entities, as well as not-for-profit organizations.

#### **Control Environment Principle**

**2.01** The oversight body should oversee the entity's internal control system.

#### Relevant attributes

**2.09** The oversight body oversees management's design, implementation, and operation of the entity's internal control system. The oversight body's responsibilities for the entity's internal control system include the following:

**Control Environment** - Establish integrity and ethical values, establish oversight structure, develop expectations of competence, and maintain accountability to all members of the oversight body and key stakeholders.

Our audit of the Phoenixville Area School District revealed that the District failed to establish a sound control environment, which is the foundational component of an internal control system. Specifically, we found that the District failed to implement adequate internal controls for five areas we reviewed during our audit. The District's lack of internal controls resulted in the following: 1) delayed or reduced reimbursement to the District, 2) an employee separation overpayment, 3) rental revenues not recorded by the District, and 4) numerous unsupported journal entries in the financial records. As the District's governing entity, the Board of School Directors (Board) must provide adequate oversight of the internal control system.<sup>4</sup> Such oversight would, among other benefits, help the District ensure that it receives the appropriate subsidies from the Commonwealth, which assists in balancing annual budgets.

**Background:** According to the United States Government Accountability Office's *Standards for Internal Control in the Federal Government*,<sup>5</sup> commonly referred to as the Green Book, the control environment is the foundation for an internal control system.<sup>6</sup> Internal control systems comprise the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. A sound system of internal controls is the foundation that provides reasonable assurance that the District is achieving its operations, reporting, and compliance objectives.<sup>7</sup> In order to make sound and informed decisions, the oversight body (i.e., the Board) relies on internal controls to be sufficiently implemented so that it can rely on financial data that is reported to them. Therefore, it is of utmost importance to ensure internal controls are suitably designed to meet the Board's objectives and to comply with the

<sup>4</sup> The Board should work in coordination and cooperation with the District's management.

<sup>5</sup> The Department of the Auditor General has determined that its primary internal control analysis framework during the conduct of audits and other engagements is the *Standards for Internal Control in the Federal Government*, also known as the Green Book, issued by the GAO. See <https://www.gao.gov/assets/670/665712.pdf> (accessed February 22, 2021).

<sup>6</sup> See Appendix A for additional details on the Green Book's five components and 17 principles of a sound internal control system.

<sup>7</sup> The Green Book provides for three categories of objectives: 1) **Operations** – Effectiveness and efficiency of operations, 2) **Reporting** – Reliability of reporting for internal and external use, and 3) **Compliance** – Compliance with applicable laws and regulations.

*Criteria relevant to the finding (continued):*

**Risk Assessment** - Oversee management's assessment of risks to the achievement of objectives, including the potential impact of significant changes, fraud, and management override of internal control.

**Control Activities** - Provide oversight to management in the development and performance of control activities.

**Information and Communication** - Analyze and discuss information relating to the entity's achievement of objectives.

**Monitoring** - Scrutinize the nature and scope of management's monitoring activities as well as management's evaluation and remediation of identified deficiencies.

**2.10** These responsibilities are supported by the organizational structure that management establishes. The oversight body oversees management's design, implementation, and operation of the entity's organizational structure so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

**Control Activities Principle 10.01**  
Management should design control activities to achieve objectives and respond to risks.

rules and regulations as outlined in its policies.<sup>8</sup> It is the duty of the Board and management (including the business office) to establish and maintain an environment throughout the entity that sets a positive attitude toward internal controls.

As we conducted audit procedures to accomplish our objectives, we found that the District failed to implement key controls to ensure proper compliance and reporting related to the following areas:

- Transportation reimbursement.
- Debt service reimbursement.
- Administrator separation payout.
- Phoenixville Athletic Complex facility rentals.
- Nonrecurring journal entries.

The specifics of the internal control deficiencies we identified for each area noted above are discussed in more detail in the following sections.

### ***Potential \$350,000 Underpayment in Transportation Reimbursement***

The District's lack of controls over reporting of transportation data to the Pennsylvania Department of Education (PDE) led to a loss of approximately \$350,000 in reimbursements in the 2018-19 school year. We found that the District failed to obtain three months of mileage data from its main contractor and thus, reported approximately 468,000 fewer miles than actually traveled for that year. A cursory review by the business office would have revealed significantly less mileage than the previous years and a large reduction in subsidy, which could have prompted an immediate follow up with the contractor or transportation coordinator. The District relies on Commonwealth subsidies to help balance the budget, and this reduced subsidy will result in the District searching for other local revenue sources to offset the costs of transportation.

In addition, the District could not provide source documents to support the approximately \$4 million in transportation reimbursements from PDE for the 2014-15 through 2018-19 school years. Since the District failed to implement formal internal controls to ensure complete and accurate reporting to PDE, we were unable to determine the appropriateness of the \$4 million the District received. [See Finding No. 3 for more details on the transportation reimbursement issues we identified.]

The Board should work with management to establish reporting and compliance objectives to ensure the District develops a well-defined system of internal control over transportation data reporting to reduce the risk of data errors or omissions.

---

<sup>8</sup> See also 24 P.S. § 5-510 which provides the Board with the authority to "adopt and enforce such reasonable rules and regulations as it may deem necessary and proper, regarding the management of its school affairs..."

Criteria relevant to the finding  
(continued):

Relevant attribute

**10.13** Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

### ***Late or Non-filing for Reimbursement on Debt Service***

Upon issuing General Obligation Bonds for construction/renovation of the District's buildings, the District can apply for a temporary reimbursement percentage from PDE. Reimbursement from PDE is a major benefit and is often a significant reason why school districts choose to embark on construction/renovation projects. The District should annually file the *PDE Form 2071-Application for Reimbursement for School Construction Project* with PDE to receive reimbursement for the debt service incurred for reimbursable projects. However, we found that the District did not file for \$87,028 in eligible reimbursements from PDE and was late filing for reimbursements for debt service payments made as early as 2011. [See Finding No. 2 for more details on missed and delayed filings for reimbursement.]

According to PDE, the District also failed to file PlanCon Part J, *Project Accounting Based on Final Costs*,<sup>9</sup> for two projects. Part J for the Phoenixville Area Middle School project was due in March 2015, and the District should have filed Part J for the Phoenixville Early Learning Center and Elementary School project by January 2020. By not filing for a permanent reimbursement percentage, the District did not receive the full reimbursement to which it was entitled and may have had to use other local revenues to offset the construction costs.

Considering the District's annual debt service payments are approximately 10 percent of its total budget, any delayed filings may force the District to utilize other local revenue sources to fulfill its annual debt service payments. Therefore, it is imperative that the District establish internal controls to ensure that the *PDE Form 2071* is filed timely each and every year when the District incurs reimbursable costs. The Board should provide oversight to ensure that management implements controls designed to ensure the District maximizes its reimbursement from the Commonwealth to offset the burden on the District's local taxpayers.

### ***Overpayment to Administrator Who Separated Employment from the District***

We reviewed final payout documentation for four administrators who separated employment from the District during the audit period and found one administrator's final payout was \$2,154 more than allowed per the employment contract. Current District officials acknowledged that there were no controls established pertaining to the final payout calculation for a departing employee during the audit period. While the overpayment amount in this case was not significant, the District's failure to implement

---

<sup>9</sup> PlanCon Part J must be submitted within three years of the date the bids were received on the project unless an extension was granted. Part J must be submitted in the specified time or the temporary reimbursable percent(s) may become the permanent reimbursable percent(s) for the lease numbers assigned to the project. After the permanent reimbursable percent is assigned, the Commonwealth will calculate the retroactive reimbursement, if any, and make a lump sum payment. PlanCon Part J: Project Accounting Based on Final Costs. See [Reimbursable Projects \(pa.gov\)](http://pa.gov).

internal controls over this process could result in other more costly errors in the future.

Upon hiring District administrators, the Board reviews and approves the terms of each contract. The Board has an expectation that management will ensure that salaries and benefits are paid in accordance with employment contracts; however, that expectation cannot be met if a strong internal control system is not implemented.

### ***Unrecorded Revenue from Athletic Facility Rentals***

In October 2017, the Phoenixville Athletic Complex (PAC), a volunteer nonprofit organization, presented the idea of facilitating the rental of the District's outdoor athletic facilities to the District's Finance Committee. The PAC's goal was to increase facility rental revenue as a source of local income that can be used to maintain the athletic fields. The PAC's proposal was informally approved at a Board workshop in October 2017; however, the Board did not formally pass a resolution approving this organization to manage the facility rentals and collect the fees until June 2019.

We reviewed the PAC's financial statements and found that approximately \$300,000 of revenue was generated by renting District facilities over a three-year period. However, according to District officials, the revenue generated by the PAC was never recorded in the District's general ledger.<sup>10</sup> In addition, funds were disbursed from the PAC account to upgrade or maintain District assets (i.e., athletic fields) at the direction of District officials; yet, these disbursements (some capital in nature) were also never recorded in the District's general ledger.

The failure to record this information precluded the District from having accurate data needed to determine the amount of local revenue to budget to maintain the athletic facilities. Furthermore, there was no verifiable sign-off on the invoices by a District official to show authorization for payment. We reviewed the monthly bank statements and supporting documentation for some of the PAC's revenues and disbursements from October 2017 through August 2020 and did not find any discrepancies that warranted further review.

According to PAC officials, in the spirit of full transparency, they provided the annual financial statements and bank statements to the former business manager. In addition, PAC officials stated that they offered access to their QuickBooks ledger to the former business manager, but he never acted upon the offer. The failure to implement adequate internal

---

<sup>10</sup> PDE's Chart of Accounts indicates that revenue from other local sources should be recorded in the 6900 account codes. Specifically, Account # 6910 Rentals states...*Revenues from the rental of school property which is being used for school purposes, and the net earnings from rents and leases of school property that is not being used for school purposes but is being held for future use or disposal.*

controls over District revenues and disbursements managed by an external organization is another example of the lack of adequate oversight by the Board and District administration.

### *Use of Nonrecurring Journal Entries*

We reviewed the District's general ledger detail from its accounting system as part of our work to achieve several of our audit objectives. We found that nonrecurring journal entries prepared by the former business manager were a common occurrence. Nonrecurring journal entries, also referred to as nonstandard journal entries, typically are recorded outside the normal course of operations and should be used to record infrequent activity (e.g., to correct a posting error or to record a year-end adjustment.) Due to their infrequent nature, nonrecurring journal entries must have sufficient documentation to explain and support the entry. Good documentation serves as a transparent accounting record and facilitates future follow-up, as well as providing additional insights for other users.

The majority of the nonrecurring journal entries we reviewed had little or no descriptions and no documentation to support the purpose of the entry. The lack of descriptions and supporting documentation are concerning, as they call into question the reliability of the financial data that was being presented to the Board. The Board relies on management to ensure all data is captured timely and accurately to assist the Board in making informed decisions. Nonrecurring journal entries prepared by management should not become a routine way of recording transactions as it allows for management override of internal controls and increases the risk of fraud.

It is important to note that there is an ongoing investigation by law enforcement related to the embezzlement of District assets by the former business manager. The former business manager had the ability to create journal entries without review or oversight by another District official. We reviewed certain accounts within the general ledger and found numerous nonrecurring journal entries created by the former business manager with no descriptions and no supporting documentation. A well-designed internal control system serves as the first line of defense in safeguarding assets. Had the District ensured that its internal controls were appropriately designed and operating effectively, it may have prevented the misappropriation of funds.

Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. It is imperative that the District establish an organizational structure that allows it to implement proper segregation of duties to reduce the risk of management overriding controls.

## **Conclusion**

The Green Book provides the guidance to establish a sound internal control system, which starts with the oversight body setting the tone of the District. A well-defined internal control system will help the Board achieve desired results through effective stewardship of public resources. During our audit, we identified deficiencies in internal controls, which led to embezzlement of assets by the former business manager, as well as the District potentially receiving less reimbursement than it was entitled to receive in both the transportation and debt service areas of operation.

In order for the Board to ensure that the District is maximizing its reimbursements from the Commonwealth and mitigating risks of embezzlement, the Board needs to have an understanding of internal controls over all operational, compliance, and reporting areas deemed to be important to the District. Ultimately, it is the responsibility of the Board to ensure that the managers who report to them fulfill their responsibilities in implementing and maintaining a sound and comprehensive framework of internal control.

## **Recommendations**

The *Phoenixville Area School District* should:

1. Develop reporting and compliance objectives and design internal controls, which include plans, methods, policies, and procedures to provide reasonable assurance that the objectives identified by the Board will be met.
2. Ensure that the Board formally meets at least once annually to review the compliance and reporting objectives and related controls to ensure those internal controls are suitably designed to meet the District's objectives.
3. Ensure that the board members receive training or best practices on internal control framework concepts.
4. Record all athletic facilities rental revenue and disbursements within the District's general ledger.
5. Implement internal controls over the receipt and disbursement of District assets held by the PAC, if the District continues to outsource the facility rentals to the PAC.
6. Require detailed descriptions and adequate supporting documentation for all nonrecurring journal entries.



7. Implement controls within the accounting software that prevent one District official from creating journal entries within the software without a review and approval by another District official.

### **Management Response**

District management provided the following response:

“The district acknowledges that numerous PlanCon reimbursements were not filed in a timely manner, resulting in a delay of subsidy reimbursement to the district, which could have affected multiple years budgeting. The new Director of Finance has already filed for reimbursements back to 2014-15 and have received acknowledgment from PDE that the reimbursements have been approved and are ready for payment. The business office has also developed and enacted a policy that as soon as the Director completes payment for outstanding bonds, the assistant director files for the reimbursement subsidy. The Director then tracks those reimbursements through the Department of Education's FAI tracker for payment status to make sure reimbursements are received or accrued in the proper fiscal year. All bond payments have been paid and reimbursement have been requested for the 2020-21 fiscal year.

The district acknowledges that proper recordkeeping was not performed and no oversight from the business office was performed on the transportation subsidy. The district has already put procedures into place that all data sent between the contractor and school district will include electronic data and files to be stored and reviewed. The Supervisor of Transportation will be responsible for the tracking and inputting of all information into the PDE system for subsidy reimbursements, and the Director of Finance will be responsible for reviewing all preliminary submissions for changes and accuracy.

For the start of the 2020-2021 school year, a new process was implemented for employment actions and payments including severance payments. In the past, payments and employment status changes were often simply relayed from HR to the payroll clerk directly. Now a recommendation sheet is prepared with all relevant status change details including all payments made to employees. This is reviewed and signed by the HR Director and sent to the business office. Payroll reviews the document and initiates the relevant payments. The payroll reports are reviewed by the Assistant Director of Finance/Dir of Finance prior to execution of the payments to verify proper documentation and action in line with employment contracts and collective bargaining agreements.

The district acknowledges that the former Director of Finance failed to provide financial statements related to field rentals and provide adequate guidance to the members of the PAC. All finances and current account balances were turned over to the district in August 2020.

The district acknowledges the larger number of nonrecurring journal entries, and cannot verify why they occurred. Current structure of the business office is to limit and fully document all journal entries along with the correct coding of revenues and expenses.”

### **Auditor Conclusion**

We are encouraged that the District indicated in its response to the finding that it has already begun implementing appropriate corrective actions to address all of our recommendations. We will review all of the District’s corrective actions during our next audit of the District.

## Finding No. 2

### The District's Failure to Implement Adequate Internal Controls Resulted in the District Failing to Apply for \$87,028 in Reimbursements from PDE for Approved Construction Projects

#### *Criteria relevant to the finding:*

Subsection (a) of Section 2575 (relating to Payments on account of leases hereafter approved and on account of sinking fund charges...) of the Public School Code (PSC) provides, in relevant part: "The Commonwealth shall pay annually to each school district erecting or sharing in the erection of a building or buildings. . . on account of buildings for which the lease is approved. . . an amount to be determined by multiplying the District's capital account reimbursement fraction computed for the year 1967 or aid ratio whichever is larger by the approved reimbursable rental or approved reimbursable sinking fund charge." See 24 P.S. § 25-2575(a).

Section 2576 (relating to Approval of Department...) of the PSC provides for the payment of rental and sinking fund reimbursement to districts only after the related building project and payment schedule have been approved by the Pennsylvania Department of Education (PDE). See 24 P.S. § 25-2576.

We found that the District did not implement an adequate internal control system over its requests for reimbursement from PDE for its construction project costs. Due to lack of internal controls and turnover within the business office, the District failed to file reimbursements for debt service payments, totaling \$87,028 with PDE for costs associated with a major construction project. In addition, the District's failure to file other applications timely resulted in a delay in receiving revenues of more than \$400,000.

**Background:** School districts are eligible for reimbursements from the Commonwealth through PDE when districts borrow money to build/renovate district facilities.<sup>11</sup> To be eligible for reimbursement, each district must submit the details of the project to PDE for approval. Once PDE approves the project, districts can submit requests for reimbursement when principal and interest payments are made on bond issues relating to the project's financing. Districts are not reimbursed in full for their costs but are reimbursed for a portion of the costs based on a reimbursable percentage and aid ratio both set by PDE.<sup>12</sup>

The District issued a bond and received \$10 million in proceeds to provide funding to build a new high school building. The principal and interest payments (i.e., debt service payments) made by the District to the lending institution related to this bond were partially reimbursable by the Commonwealth through PDE.

It is essential for school districts to submit accurate and timely applications for reimbursement on debt service payments made on qualified construction projects. Accurate and timely filings for reimbursement from the Commonwealth will assist in offsetting the costs of major renovations at the District, thereby reducing the tax burden on its community, including its resident taxpayers. Therefore, school districts

<sup>11</sup> See 24 P.S. § 25-2575(a).

<sup>12</sup> **Aid Ratio** is a measure of local wealth that has been used in several education funding formulas for decades. The measure has a scale of 0.15 to 1, and it reflects the general wealth of the school district based on a school district's total market value and personal income per student in comparison to the state total market value and personal income per student. A school district with a low aid ratio is relatively wealthy while a high aid ratio reflects a lower level of local wealth. The reimbursable percentage is set by PDE during the project approval process.

Criteria relevant to the finding  
(continued):

The United States GAO's issued *Standards for Internal Control in the Federal Government* issued in September 2014, which provides the overall framework for establishing and maintaining an effective internal control system. The Green Book sets the standard for internal control framework for state, local, and quasi-governmental entities, as well as not-for-profit organizations.

should have a strong system of internal controls over this process that should include, but not be limited to, the following:

- Written policies and procedures.
- Segregation of duties, so that no single employee has complete control over the process.
- Reconciliation of debt service payments to applications filed with PDE for reimbursement.

### Failure to File Applications for Reimbursement Totaling \$87,028

We found as of March 1, 2021, the District had not submitted applications for reimbursement to PDE totaling \$87,028 for principal and interest payments made on the 2000 General Obligation Note (GON). The table below shows the dates and amounts of the District's debt service payments related to PDE's approved construction project and the calculated reimbursement the District was eligible to receive.

Phoenixville Area School District Outstanding Applications for PDE Reimbursement for 2000 GON				
Date of District Debt Service Payment (a)	Debt Service Payment Amount <sup>13</sup> (b)	Reimbursable Percentage (c)	Aid Ratio (d)	Reimbursement Eligible For and Not Received = (b) x (c) x (d)
12/1/2015	\$610,391	21.60%	.3079	\$40,595
6/1/2016	\$ 4,321	21.60%	.3079	\$ 287
12/1/2017	\$681,781	21.60%	.3079	\$45,343
6/1/2019	\$ 12,069	21.60%	.3079	\$ 803
<b>Total</b>				<b>\$87,028</b>

We found that the District did file for reimbursements for other debt service payments related to the 2000 GON; however, due to turnover at the District, we were unable to determine why the District did not file applications for the four payments listed above. Current District officials acknowledged that there were no controls or procedures in place to ensure the complete and timely processing of applications. District officials stated the former business manager was in charge of making debt service payments and filing the application for reimbursement with PDE.

<sup>13</sup> Payment amount includes both principal and/or interest.

*Criteria relevant to the finding (continued):*

The GAO state that “Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system.”

Principle 10: Management should design control activities to achieve objectives and respond to risk. Examples of common categories of control activities:

- Top-level review of actual performance
- Reviews by management at the functional or activity level
- Controls over information processing
- Segregation of duties

Segregation of duties as explained by GAO, Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event. (page 47)

Principle 12: Management should implement control activities through policies

The standards list examples of control activities that include top-level reviews of actual performance, reviews by management at the functional or activity level, accurate and timely recording of transactions and events, access restrictions to and accountability for resources and records, and appropriate documentation of transactions and internal control.

## **Failure to File Applications Timely Resulted in Delay in Receipt of Over \$400,000**

In addition to failing to apply for reimbursement, it appears the District did not submit applications for reimbursement timely for five other bonds. We noted that the District received reimbursement of \$413,768 during the 2016-17 school year for debt service payments made as early as 2011. As stated earlier, due to the turnover at the District, District officials were unable to determine the date when PDE confirmed the bonds were eligible for reimbursement; therefore, we could not determine exactly how long the revenue was delayed. Obtaining eligibility confirmation from PDE is critical because once the District has the official confirmation letter from PDE; it can immediately begin the reimbursement process. It is essential to obtain this confirmation as soon as possible to ensure reimbursement can begin shortly after the bond is issued. Timely reimbursements of the debt service payments reduces the tax burden on taxpayers, and enables the District to better project and manage cash flow and make financial decisions.

### **Internal Control Weaknesses**

The District did not develop and implement written procedures to ensure that complete, accurate, and timely reimbursement applications for debt service payments were filed with PDE. The former business manager was in charge of making debt service payments, as well as processing reimbursement applications to PDE. With only one employee in charge of the entire process, the District was reliant on that one employee to ensure that it was timely and accurately reimbursed by the Commonwealth to offset the District’s debt service of approximately \$10 million per year.

While our testing identified only four missed reimbursement applications, we noted the potential for additional missed or untimely requests for reimbursements that would impact the District’s revenue if internal control weaknesses were corrected. The District’s failure to timely apply for reimbursements resulted in an undetermined delay in receipt of more than \$400,000 in revenue and prevented the District from utilizing these funds for operational purposes over that period. Implementing written policies and procedures should help ensure reimbursement applications are filed with PDE timely and that all available revenues are considered when developing the budget.

### **Recommendations**

The *Phoenixville Area School District* should:

1. Establish written procedures over filing for PDE reimbursements for construction projects in accordance with the PSC. Ensure that these procedures include segregation of duties, so that no single administrator has complete autonomy over the process. In doing so,

the procedures should include a review by an employee other than the employee responsible for applying and filing for reimbursement.

2. Submit applications to PDE for reimbursements for the four missed applications cited in this finding. In addition, the District should review all other bond principal and interest payments made for approved construction projects and ensure applications for reimbursements are current.
3. Ensure employees involved in applying and filing for construction reimbursements are adequately trained on PDE's requirements and guidelines.

### **Management Response**

District management provided the following response:

“The district had no process for the filing or tracking of reimbursement requests after bond payments were being made.

Corrective action has been completed by instituting internal controls whereby the Assistant Director of Finance tracks and creates payments of bond issuances, and the Director of Finance authorizes and approves those bond payments on the scheduled dates for the listed fiscal year in the district's summary of debt. Once the payments are completed, the Assistant Director completes the required PDE 2071 form on the PA Department of Education's CFRS site. The Director of Finance is notified of completion and tracks the payments in the PDE FAI center.”

### **Auditor Conclusion**

We are encouraged that the District indicated in its response to the finding that it has already begun implementing appropriate corrective actions to address all of our recommendations. We will review the District's corrective actions during our next audit of the District.

### Finding No. 3

## The District's Failure to Implement Adequate Internal Controls Resulted in an Unauditable \$4.9 Million in Transportation Reimbursements

#### *Criteria relevant to the finding:*

##### **Student Transportation Subsidy**

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

##### **Total Students Transported**

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

We found that the District did not implement an adequate internal control system over the input, calculation, and reporting of regular and supplemental transportation data. Additionally, the District did not comply with the record retention provisions of the PSC when it failed to retain adequate source documentation for the regular and supplemental transportation reimbursements received for the 2015-16 through 2018-19 school years. Therefore, we could not determine the accuracy of the \$4,909,109 the District received in regular and supplemental transportation reimbursements.

**Background:** School districts receive two separate transportation reimbursement payments from PDE. The **regular** transportation reimbursement is broadly based upon the number of students transported, the number of days each vehicle is used to transport students, and the number of miles vehicles are in service both with and without students. The **supplemental** transportation reimbursement is solely based upon the number of charter school and nonpublic school students transported by the District at any time during a school year.

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

- Segregation of duties.
- Written procedures.
- Training on PDE reporting requirements.

It is also important to note that the PSC requires that all school districts annually file a sworn statement of student transportation data for the prior and current school years with PDE in order to be eligible for transportation reimbursements.<sup>14</sup> The sworn statement includes the Superintendent's

<sup>14</sup> *See* 24 P.S. § 25-2543.

*Criteria relevant to the finding  
(continued):*

**Sworn Statement and Annual Filing Requirements**

Section 2543 of the PSC, which is entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” sets forth the requirement for school districts to annually file a sworn statement of student transportation data for the prior and current school year with PDE in order to be eligible for the transportation subsidies and states, in part:

“Annually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to pupil transportation for the prior and current school year. . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied **with the law or regulations** of the State Board of Education.” (Emphasis added.) See 24 P.S. § 25-2543.

**Supplemental Transportation Subsidy for Nonpublic and Charter School Students**

Section 2509.3 of the PSC provides that each school district shall receive a supplemental transportation payment of \$385 for each nonpublic school student transported. This payment is provided for charter school students in Section 1726-A(a) of the Charter School Law through its reference to Section 2509.3 of the PSC. See 24 P.S. §§ 25-2509.3 and 17-1726-A(a).

**Record Retention Requirement**

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

signature attesting to the accuracy of the reported data. Because of that attestation, the District should ensure it has implemented an adequate internal control system to provide it with the confidence it needs to sign the sworn statement. The District’s total transportation reimbursement received during our audit period is detailed in Table No. 1 below:

**Table No. 1**

Phoenixville Area School District Regular and Supplemental Transportation Reimbursements			
(A)	(B)	(C)	(B+C)
School Year	Regular Transportation	Supplemental Transportation	Total Reimbursement
2015-16	\$ 873,093	\$ 423,885	\$1,296,978
2016-17	\$ 953,573	\$ 361,900	\$1,315,473
2017-18	\$ 869,121	\$ 450,835	\$1,319,956
2018-19	\$ 527,407	\$ 449,295	\$ 976,702
<b>Total</b>	<b>\$3,223,194</b>	<b>\$1,685,915</b>	<b>\$4,909,109</b>

**Regular Transportation Reimbursement**

As stated above, the regular transportation reimbursement is based on several components that are reported by a school district to PDE for use in calculating the district’s annual reimbursement amount. PDE guidelines state that districts are required to report the number of days a vehicle is in service, the average number of students assigned to each vehicle, as well as the miles per day, to the nearest tenth, that each vehicle travels with and without students. In addition, districts are required to report the number of students transported who were eligible and not eligible for reimbursement to PDE.

*Failure to report three months of mileage data*

As shown in Table No. 1, the District’s regular transportation reimbursements for the 2018-19 school year decreased by more than \$341,000 from the previous year. Our review disclosed that for the 2018-19 school year, the District failed to obtain from its transportation contractor(s), a total of three months of mileage data for each vehicle used to transport students. Therefore, this vehicle data was not reported to PDE.<sup>15</sup> Due to significant employee turnover, District officials could not find the monthly mileage logs or explain why these months were not obtained from the contractor(s). When we brought this discrepancy to the District’s attention, officials contacted the contractor(s) to obtain the

<sup>15</sup> The District did not report vehicle data for the months of March, April, and May for the 2018-19 school year.



Criteria relevant to the finding  
(continued):

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

<https://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE-2089%20SummPupilsTransp.pdf>

The “PDE-2089 Summary of Pupils Transported” form is used to report the total number of pupils transported during the school year. This transportation includes LEA-Owned vehicles, contracted service and fare-based service, and provides, in part:

Enter the total number of resident NONPUBLIC school pupils you transported to and from school. Documentation identifying the names of these pupils should be retained for review by the Auditor General’s staff. NONPUBLIC school pupils are children whose parents are paying tuition for them to attend a nonprofit private or parochial school. (Any child that your district is financially responsible to educate is a PUBLIC pupil.)

Enter the number of resident PUBLIC school pupils (including charter school pupils) you transported to and from school because of hazardous walking routes. This figure should include only those pupils who live within 1.5 miles of the elementary school or within 2 miles of the secondary school in which they are enrolled. Distances should be computed by public highway miles (see Pennsylvania Public School Code of 1949, Section 1366).

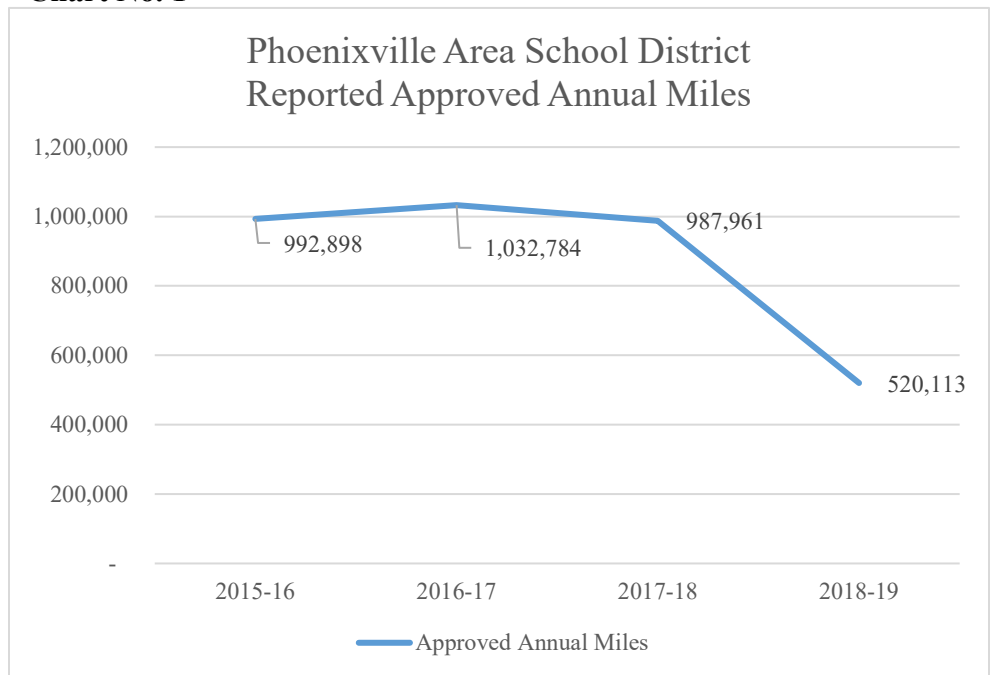
missing mileage sheets but were informed that the contractor(s) did not retain this documentation. Without this supporting documentation, we were unable to calculate the amount of reimbursement that the District missed out on by not reporting three months of mileage data for the 2018-19 school year.

*No Source Documents*

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

Even though we were unable to audit the reported data, a cursory review of the reported data shows potential irregularities that warranted further review. For example, we noted that the District reported that it added three more vehicles in the 2018-19 school year; however, as shown in Chart No. 1, the District reported that its contracted vehicles traveled approximately 468,000 less miles during the 2018-19 school year than in the 2017-18 school year.

**Chart No. 1**



*Irregularities in Hazardous Route Student Reporting*

Students transported are classified into multiple reporting categories including, but not limited to, students transported and eligible for reimbursement due to residing on a Pennsylvania Department of

*Criteria relevant to the finding  
(continued):*

Enter the number of nonreimbursable pupils (BOTH PUBLIC AND NONPUBLIC SCHOOL PUPILS) transported on contracted service vehicles. If you transport elementary pupils who reside within 1.5 miles of their school or secondary pupils who reside within 2 miles of their school who are not exceptional children or not required to use a certified hazardous walking route to reach their school, they are NONREIMBURSABLE PUPILS. Pupils who reside as indicated above, but are being transported to/from daycare providers located beyond those distances are still nonreimbursable. The location of their residence is the deciding factor.

Enter the number of resident pupils transported to charter schools located within your district boundaries. Documentation identifying the names of these pupils should be retained for review by the Auditor General’s staff.

Enter the number of resident pupils transported outside of your district boundaries either to a regional charter school of which your district is a part or to a charter school located within ten miles of your district boundaries. Documentation identifying the names of these pupils should be retained for review by the Auditor General’s staff.

Transportation (PennDOT) determined public hazardous walking route. Elementary students residing within 1.5 miles of their respective school or secondary students residing within 2 miles of their school are not eligible to be reported as reimbursable unless the student resides on a PennDOT determined hazardous walking route.

The table below details the number of students reported to PDE as either eligible due to residing on a hazardous walking route or ineligible for reimbursement. A review of the reported data reveals a significant fluctuation in number of hazardous route students reported from year to year. In addition, the District reported only two nonreimbursable students during the audit period, which based on our experience is unusual. These two potential irregularities would necessitate a detailed review of the reported information.

**Table No. 2**

Phoenixville Area School District Transportation Data Reported to PDE Hazardous Route and Nonreimbursable Students		
School Year	Hazardous Route Students	Nonreimbursable Students
2015-16	972	1
2016-17	1,547	0
2017-18	566	1
2018-19	441	0
<b>Total</b>	3,526	2

The District was able to provide PennDOT determinations of hazardous walking routes within the District. However, the District was unable to provide a list of hazardous route students transported to support the data that was reported to PDE for all four years of the audit period. The District attempted to recreate the lists of students from its transportation software but was unsuccessful because the software was not configured in a way to capture the data accurately and/or completely. Without an annual list of students to test for eligibility, we were unable to determine the accuracy of the data reported to PDE. The lack of supporting documentation for the hazardous route and nonreimbursable students reported to PDE further contributed to our inability to determine if the District’s regular transportation reimbursements were appropriate.

**Supplemental Transportation Reimbursement**

The PSC requires school districts to provide transportation services to students who reside in its district and who attend a nonpublic or charter school, and it provides for a reimbursement from the Commonwealth of

\$385 for each nonpublic school student transported by the district.<sup>16</sup> This reimbursement was made applicable to the transportation of charter school students pursuant to an equivalent provision in the Charter School Law.<sup>17</sup>

We reviewed the supplemental transportation data that the District reported to PDE and noted potential irregularities that warranted further review. The table below shows nonpublic and charter school student transportation data reported to PDE.

**Table No. 3**

<b>Phoenixville Area School District Supplemental Transportation Data Reported to PDE</b>		
<b>School Year</b>	<b>Nonpublic Students</b>	<b>Charter School Students</b>
<b>2015-16</b>	848	253
<b>2016-17</b>	701	239
<b>2017-18</b>	910	261
<b>2018-19</b>	953	214
<b>Total</b>	<b>3,412</b>	<b>967</b>

As shown in Table No. 3, there was a significant fluctuation in the number of nonpublic students reported from 2016-17 to 2017-18. When we attempted to verify the accuracy of the reported data, we found that the District did not obtain and retain student requests for transportation. Instead, the District relied on nonpublic and charter schools to annually submit lists of students that needed transportation, and the District used those lists to report data to PDE without verifying if the students actually requested transportation. Furthermore, the District did not retain those lists of nonpublic and charter school students.

The District’s lack of supporting documentation precluded us from concluding on the accuracy of the reported number of nonpublic school and charter school students transported; therefore, we could not determine if the District’s supplemental transportation reimbursements were appropriate.

---

<sup>16</sup> Pursuant to the PSC, a nonpublic school is defined, in pertinent part, as a nonprofit school other than a public school within the Commonwealth of Pennsylvania, wherein a resident of the Commonwealth may legally fulfill the compulsory school attendance requirements. *See* Section 922.1-A(b) (relating to “Definitions”) of the PSC, 24 P.S. § 9-922.1-A(b).

<sup>17</sup> *See* 24 P.S. § 17-1726-A(a) which refers to 24 P.S. § 25-2509.3. A charter school is an independent public school and educates public school students within the applicable school district. *See* 24 P.S. § 17-1703-A (relating to “Definitions”).

## Significant Internal Control Deficiencies

Our review revealed that the District did not have an adequate internal control system over the process of inputting, categorizing, and reporting of both regular and supplemental transportation data to PDE. Specifically, we found that the District did not do the following:

- Ensure that the supporting documentation for vehicle data, hazardous route students, and nonpublic/charter school students is obtained and retained.
- Develop detailed written procedures for obtaining and maintaining the documentation needed to accurately report vehicle data, hazardous route students, and nonpublic/charter school students to PDE.
- Properly configure its transportation software to ensure it accurately captures the data needed to properly report information to PDE.
- Ensure that an employee, other than the employee responsible for inputting and categorizing regular and supplemental transportation data, has reviewed the data before it was submitted to PDE.

All of the above internal control deficiencies resulted in our inability to audit the District's regular and supplemental transportation reimbursements during the four-year audit period.

## Conclusion

We found that the District did not have internal controls in place to obtain appropriate documentation and report accurate transportation data to PDE. The lack of adequate internal controls, coupled with employee turnover, led to the District being unable to provide appropriate records to support the transportation data reported to PDE. Therefore, we could not determine the accuracy of the regular and supplemental transportation reimbursements the District received for the 2015-16 through 2018-19 school years.

## Recommendations

The *Phoenixville Area School District* should:

1. Develop and implement an internal control system over its regular and supplemental transportation operations. The internal control system should include, but not be limited to, the following:
  - All personnel involved in inputting, categorizing, and reporting transportation data are trained on PDE's reporting requirements.
  - Clear and concise written procedures are developed to document the regular and supplemental transportation data collection, categorization, and reporting process.

- A review of transportation data is conducted by an employee other than the employee who prepared the data before it is submitted to PDE.
2. Ensure that complete supporting documentation for all regular and supplemental transportation data is obtained, reviewed, and retained in accordance with PSC requirements. Record retention procedures should be documented and staff trained on these procedures.
  3. Work with the transportation software vendor to reprogram portions of the software to ensure that data is appropriately captured to help ensure accurate reporting to PDE.
  4. Ensure that employees responsible for transportation operations receive additional training on the District's transportation software.

### **Management Response**

District management provided the following response:

“The transportation supervisor and technician are both practicing the procedures in place for record retention and are both aware and trained on what is needed for PDE's reporting requirements.

Supporting documentation is now being saved electronically and in paper for all of the information that needs to be reported.

Transfinder is being used to capture and collect all the necessary data and reporting for but not limited to:

- Hazardous students
- Walk zone students being bused
- Public Students
- Charter Students
- Non-Public Students
- Act 372 is being stored in student record

Employees continue to receive updated training on software and reporting standards.”

### **Auditor Conclusion**

We are encouraged that the District indicated in its response to the finding that it has already begun implementing corrective actions to address all of our recommendations. We will review the District's corrective actions during our next audit of the District.

## **Status of Prior Audit Findings and Observations**

---

**O**ur prior audit of the Phoenixville Area School District resulted in no findings or observations.

## 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,<sup>18</sup> is not a substitute for the local annual financial audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Our audit focused on the District's effectiveness and/or compliance with applicable statutory provisions and related regulations in the areas of Transportation Operations, Construction Projects Reimbursements, Facilities Revenue, Administrator Separations, Bus Driver Requirements, and School Safety, including fire and security drills. The audit objectives supporting these areas of focus are explained in the context of our methodology to achieve the objectives in the next section. Overall, our audit covered the period July 1, 2015 through June 30, 2019. The scope of each individual objective is also detailed in the next section.

The District's management, including the governing body, is responsible for establishing and maintaining effective internal control to provide reasonable assurance that the District's objectives will be achieved.<sup>19</sup> *Standards for Internal Control in the Federal Government* (also known as and hereafter referred to as the Green Book), issued by the Comptroller General of the United States, provides a framework for management to establish and maintain an effective internal control system. The Department of the Auditor General used the Green Book as the internal control analysis framework during the conduct of our audit.<sup>20</sup> The Green Book's standards are organized into five components of internal control. In an effective system of internal control, these five components work together in an integrated manner to help an entity achieve its objectives. Each of the five components of internal control contains principles, which are the requirements an entity should follow in establishing an effective system of internal control. We illustrate the five components and their underlying principles in Figure 1 on the following page.

---

<sup>18</sup> 72 P.S. §§ 402 and 403.

<sup>19</sup> District objectives can be broadly classified into one or more of the following areas: effectiveness of operations; reliability of reporting for internal and external use; and compliance with applicable laws and regulations, more specifically in the District, referring to certain relevant state laws, regulations, contracts, and administrative procedures.

<sup>20</sup> Even though the Green Book was written for the federal government, it explicitly states that it may also be adopted by state, local, and quasi-government entities, as well as not-for-profit organizations, as a framework for establishing and maintaining an effective internal control system. The Green Book is assessable at <https://www.gao.gov/products/GAO-14-704G>

**Figure 1: Green Book Hierarchical Framework of Internal Control Standards**

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

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

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

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

**Figure 2 – Internal Control Components and Principles Identified as Significant**

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



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

## **Objectives/Scope/Methodology**

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, the District’s annual financial reports, annual General Fund budgets, and the independent audit reports of the District’s basic financial statements for the July 1, 2015 through June 30, 2019 fiscal years. We conducted analytical procedures on the District’s state revenues and the transportation reimbursement data. We reviewed the prior audit report and we researched current events that possibly affected District operations. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District’s effectiveness in six areas as described below. As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives.

## **Transportation Operations**

- Did the District ensure compliance with applicable laws and regulations governing transportation operations, and did the District receive the correct transportation reimbursement from the Commonwealth?<sup>21</sup>
  - ✓ To address this objective, we assessed the District’s internal controls for obtaining, processing and reporting transportation data to PDE. We verified that the District’s data reported on the PDE-2518 (*Summary of Individual Vehicle Data for Contracted Vehicle*) was the same as the District-created summary weighted average calculations of mileage and student data. We requested odometer readings, student rosters, vehicle rosters, and sample/weighted average calculations for all vehicles reported to PDE as transporting students for the 2015-16, 2016-17, 2017-18, and 2018-19 school years.<sup>22</sup> The District did not maintain the required supporting documentation for any vehicles; therefore, we were unable to determine the accuracy of the regular transportation reimbursement the District received from PDE for the audit period.
  - ✓ We assessed the District’s internal controls for inputting and processing nonpublic and charter school student data and reporting this data to PDE. We asked the District to provide us with the “request for transportation” documentation for each nonpublic and charter school student reported to PDE as transported by the District during the 2015-16 through 2018-19 school years.<sup>23</sup> However, the District could not provide the documentation for either group of students; therefore, we were unable to determine the accuracy of the supplemental transportation reimbursement the District received from PDE for the audit period.

---

<sup>21</sup> See 24 P.S. §§ 25-2541(a).

<sup>22</sup> The District reported 90 vehicles during the 2015-16 school year, 97 vehicles during the 2016-17 school year, 100 vehicles during the 2017-18 school year, and 91 vehicle during the 2018-19 school year.

<sup>23</sup> The District reported 848 nonpublic and 253 charter school students during the 2015-16 school year, 701 nonpublic and 239 charter school students during the 2016-17 school year, 910 nonpublic and 261 charter school students during the 2017-18 school year, and 953 nonpublic and 214 charter school students during the 2018-19 school year.

- ✓ Finally, we assessed the District’s internal controls for inputting and processing students that were reported as reimbursable due to residing on a hazardous walking route and reporting this data to PDE. We requested supporting documentation for all students reported as reimbursable due to residing on hazardous walking routes for the 2015-16 through 2018-19 school years.<sup>24</sup> The District did not maintain the required supporting documentation for these students; therefore, we were unable to determine the accuracy of the regular transportation reimbursement the District received from PDE for the audit period.

**Conclusion:** The results of our procedures for transportation operations are detailed in Finding No. 3 beginning on page 19 of this report. We also identified significant internal control deficiencies related to transportation operations that are detailed in Findings No. 1 and 3 of this report.

### **Construction Projects Reimbursement**

- Did the District submit applications for all approved construction projects eligible for PDE reimbursements and did the District apply timely for the reimbursements? Did the District receive the correct amount of reimbursements for its eligible construction projects?
  - ✓ To address this objective, we interviewed District personnel to gain an understanding of the internal controls over filing for construction projects reimbursements and evaluated those controls to determine if they were sufficient to ensure accurate reporting. We obtained the amortization schedules for all reimbursable construction projects during the period of July 1, 2015 through June 30, 2019. We reconciled principal and interest payments made during the audit period to the Independent Auditor’s Report and the Annual Financial Report. We recalculated what the District should have received in subsidy by utilizing the amortization schedules and reimbursable percentage obtained from PDE confirmation letters and compared expected subsidy to reimbursement applications submitted to PDE by the District to determine if applications were accurately and timely filed.

**Conclusion:** The results of our procedures for construction projects reimbursements are detailed in Finding No. 2 beginning on page 15 of this report. We also identified significant internal control deficiencies related to construction projects reimbursements that are detailed in Findings No. 1 and 2 of this report.

---

<sup>24</sup> The District reported the following number of students residing on a hazardous walking route for each school year: 972 students in 2015-16; 1,547 students in 2016-17; 566 students in 2017-18; and 441 students in 2018-19.

## **Facilities Revenue**

- Did the District comply with its policies to ensure funds received from outside organizations for renting District facilities were utilized to benefit the District, and were the rental revenues appropriately recorded within the General Fund?
  - ✓ To address this objective, we interviewed District and Phoenixville Athletic Complex (PAC) personnel to gain an understanding of the internal controls for receipt and disbursement of athletic facility rental revenues and evaluated if the District had sufficient controls in place to oversee PAC operations. We also obtained and reviewed the PAC bank statements from October 2017 through July 2020. We selected 28 transactions (i.e., deposits and disbursements) for detailed testing. Specifically, we randomly selected 20 transactions and selected an additional 8 transactions that we identified as having a higher risk of noncompliance with District policies.<sup>25</sup> For the deposits selected, we reviewed the billing invoices and verified that the invoiced amount agreed with the amount deposited. We also evaluated compliance with District policies by obtaining and reviewing usage agreements to ensure they were completed and approved and that organizations using District facilities provided proof of insurance coverage. For disbursements selected for testing, we obtained and reviewed purchase orders and invoices to ensure the expenditures were for maintenance/improvements to District facilities and to determine if expenditures were approved by District personnel. We also reviewed annual financial statements prepared by PAC management to ensure all transactions were included in the financial statements.

**Conclusion:** We identified significant internal control deficiencies in this area that are included as part of Finding No. 1 beginning on page 7 of this report.

## **Bus Driver Requirements**

- Did the District ensure that all bus drivers transporting District students are Board approved and had the required driver's license, physical exam, training, background checks, and clearances<sup>26</sup> as outlined in applicable laws?<sup>27</sup> Also, did the District adequately monitor driver records to ensure compliance with the ongoing five-year clearance requirements and ensure it obtained updated licenses and health physical records as applicable throughout the school year?
  - ✓ To address this objective, we assessed the District's internal controls for maintaining and reviewing required bus driver qualification documents and procedures for being made aware of who transported students daily. We determined if all drivers were Board approved by the District. We reviewed 17 of the 89 bus and van drivers transporting District students as of January 20, 2021. Of the 17 drivers selected, 8 were randomly selected and the other 9 were

---

<sup>25</sup> The 8 transactions were selected because we considered them to have a higher risk of noncompliance with District policies, and the 20 other transactions were randomly selected. Therefore, the combined selection of transactions is not representative of the population of transactions, and the results are not, and should not, be projected to that population.

<sup>26</sup> 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.

<sup>27</sup> PSC 24 P.S. § 1-111, CPSL 23 Pa.C.S. § 6344(a.1), PSC (Educator Discipline) 24 P.S. § 2070.1a *et seq.*, State Vehicle Code 75 Pa.C.S. §§ 1508.1 and 1509, and State Board of Education's regulations 22 Pa. Code Chapter 8.

selected due to having a higher risk of noncompliance with bus driver requirements.<sup>28</sup> We reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had monitoring procedures to ensure that all drivers had updated clearances, licenses, and health physicals.

**Conclusion:** The results of our procedures for the bus driver requirements objective did not disclose any reportable issues and we did not identify any internal control deficiencies.

### **Administrator Separations**

- Did the District ensure all individually contracted employees who separated from the District were compensated in accordance with their contract? Also, did the contracts comply with the Public School Code and were the final payments in accordance with the Public School Employees' Retirement System (PSERS) guidelines?
  - ✓ To address this objective, we assessed the District's internal controls over the calculations of post-employment benefits and the processing of final payments to individually contracted administrators who separated employment with the District. We reviewed the board meeting minutes, employment contracts, and payroll and leave records for all four individually contracted administrators who separated employment from the District during the period from July 1, 2015 through September 28, 2020. We reviewed the final payouts to determine if the administrators was compensated in accordance with the contract and that all payments were accurately reported to PSERS.

**Conclusion:** We identified significant internal control deficiencies in this area that are included as part of Finding No. 1 beginning on page 7 of this report.

### **School Safety**

- Did the District comply with requirements in the Public School Code and the Emergency Management Code related to emergency management plans, bullying prevention, and memorandums of understanding with local law enforcement?<sup>29</sup> Also, did the District follow best practices related to physical building security and providing a safe school environment?
  - ✓ To address this objective, we reviewed a variety of documentation including by not limited to, safety plans, training agendas, anti-bullying policies, risk and vulnerability assessments, student handbooks, and memorandums of understanding with local law enforcement.

**Conclusion:** Due to the sensitive nature of school safety, the full results of our review of school safety review is not described in the audit report. The full results were shared with District officials, PDE's Office of Safe Schools, and other appropriate law enforcement agencies deemed necessary.

---

<sup>28</sup> The nine drivers were selected because we considered them to have a higher risk of noncompliance due to these drivers being identified by the District's transportation contractor as transporting students but not being on the District provided bus driver list. We also randomly selected 8 other drivers. Therefore, the combined selection of drivers is not representative of the population, and the results of this audit procedure are not, and should not, be projected to the population.

<sup>29</sup> Safe Schools Act 24 P.S. § 13-1301-A *et seq.*, Emergency Management Services Code 35 Pa.C.S. § 7701.

- Did the District comply with the fire and security drill requirements of Section 1517 of the Public School Code?<sup>30</sup> Also, did the District accurately report the dates of drills to PDE and maintain supporting documentation to evidence the drills conducted and reported to PDE?
  - ✓ To address this objective, we obtained and reviewed the fire and security drill records for the 2018-19 and 2019-20 school years. We determined if a security drill was held within the first 90 days of the school year for each building within the District and if monthly fire drills were conducted in accordance with requirements. We also obtained the *Accuracy Certification Statement* that the District filed with PDE and compared the dates reported to supporting documentation provided by the District.

**Conclusion:** The results of our procedures for fire and security drill requirements did not identify any reportable issues.

---

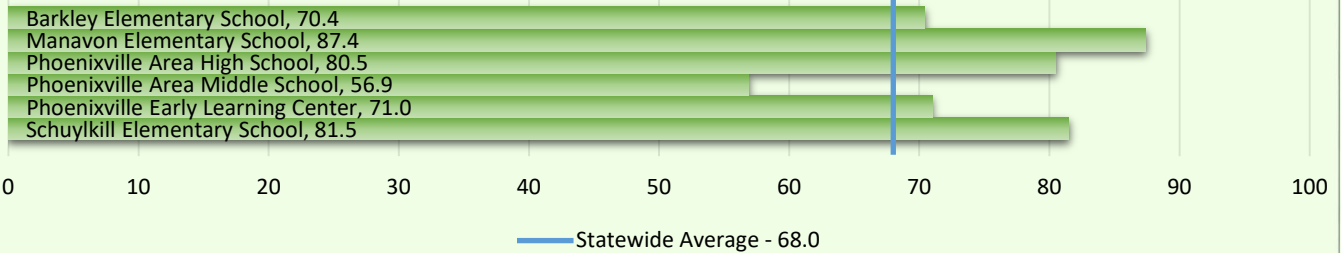
<sup>30</sup> Public School Code (Fire and Security Drills) 24 P.S. § 15-1517.

## Appendix B: Academic Detail

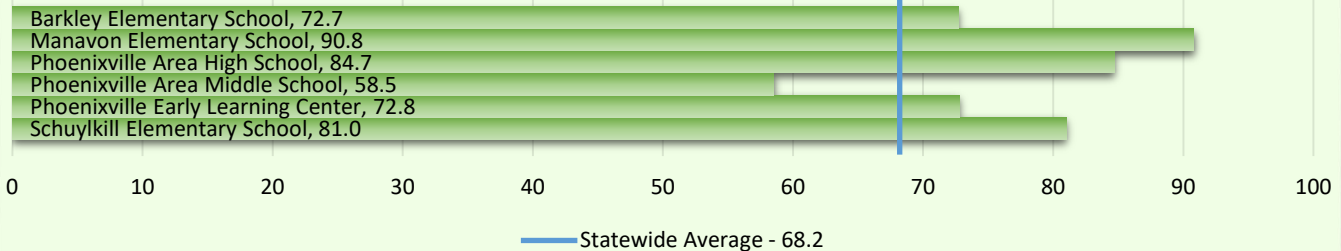
Benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.<sup>31</sup> Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding graph.<sup>32</sup>

### SPP School Scores Compared to Statewide Averages

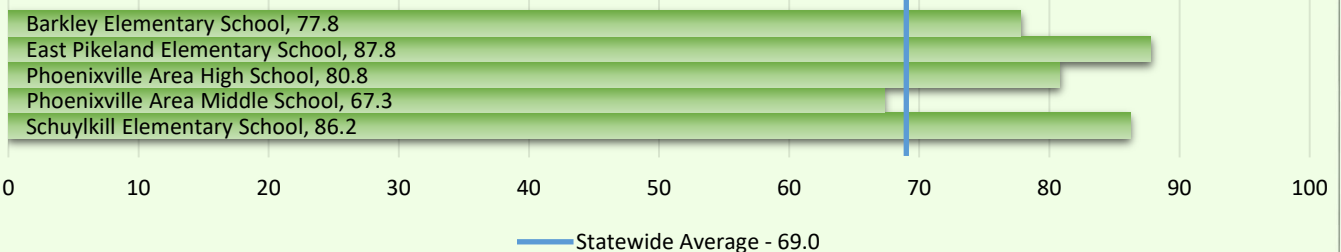
#### 2018-19



#### 2017-18



#### 2016-17

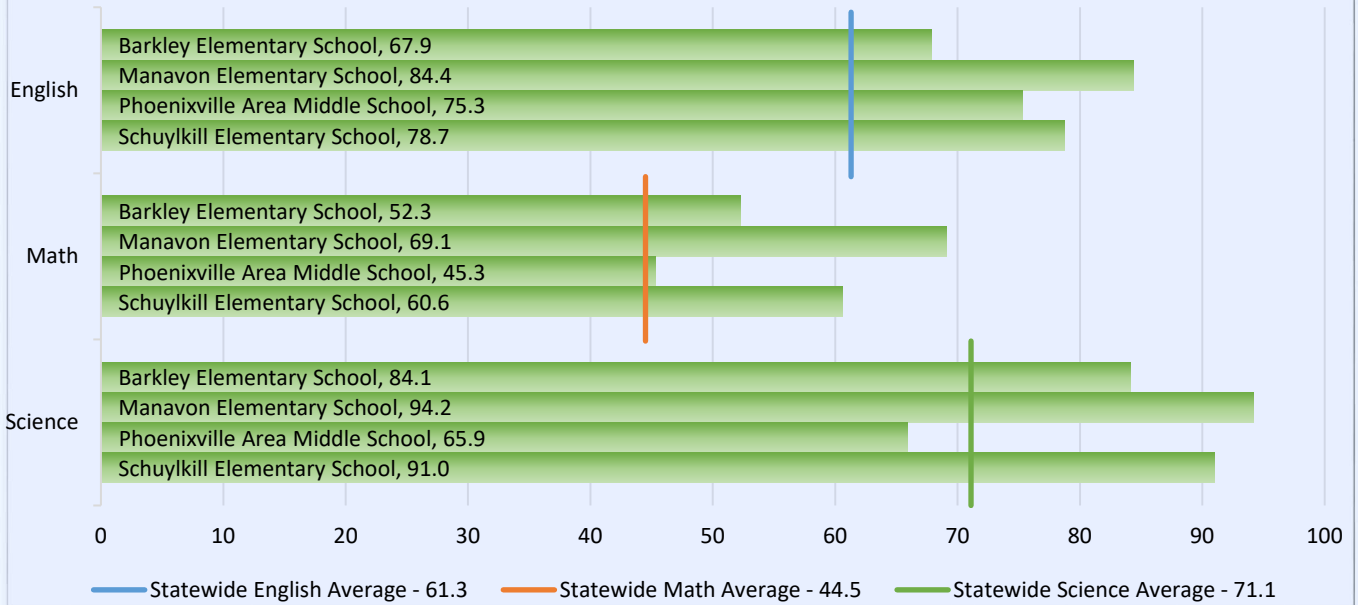


<sup>31</sup> Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

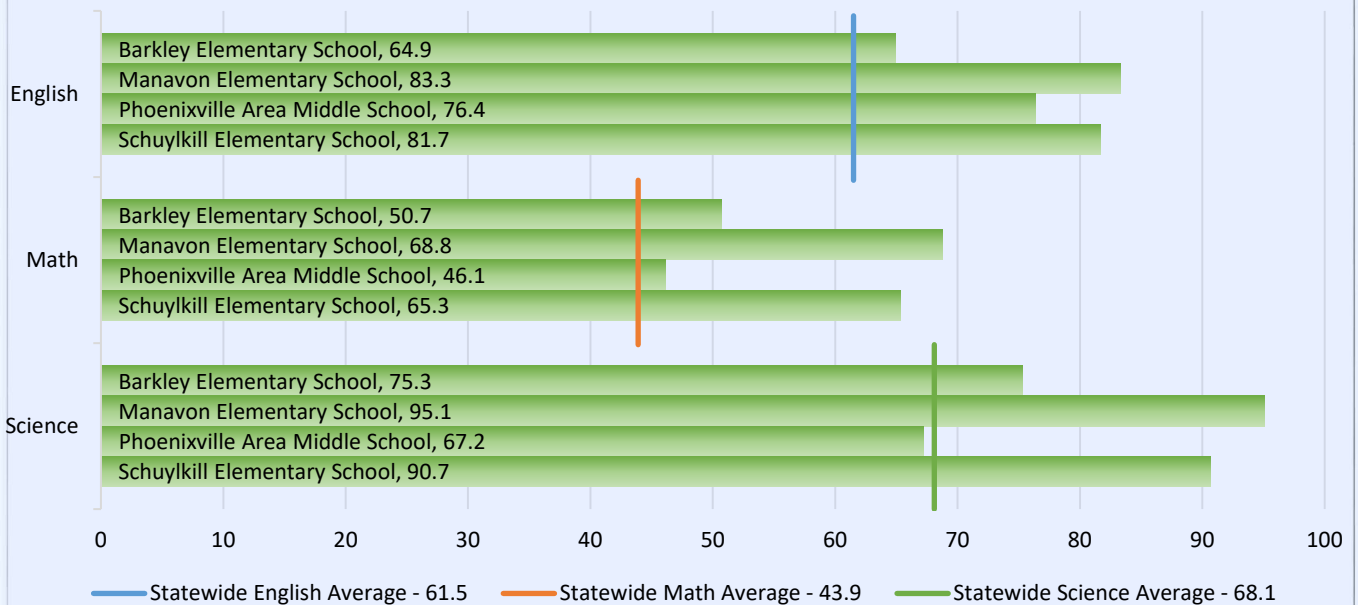
<sup>32</sup> PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

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

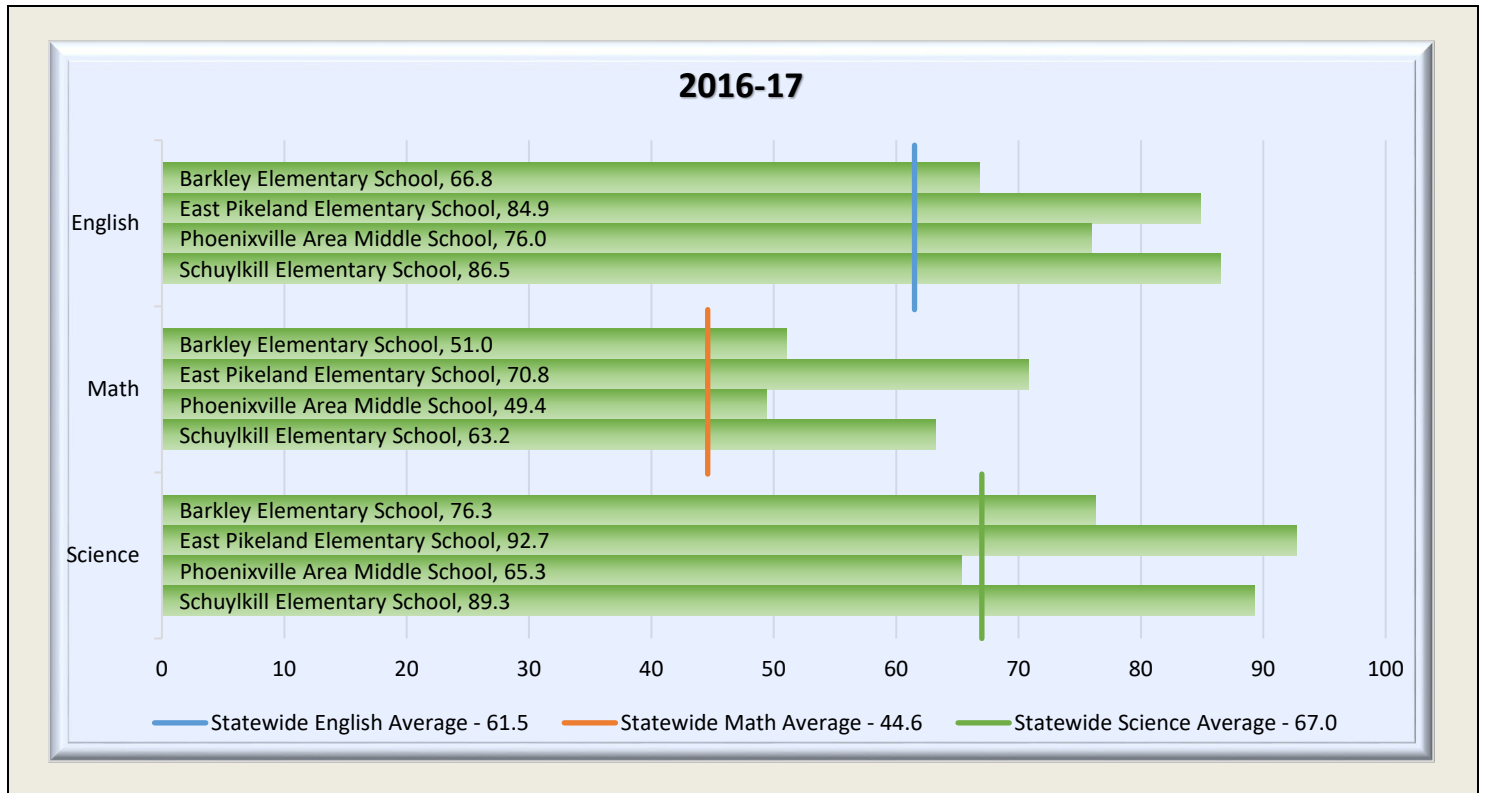
**2018-19**



**2017-18**



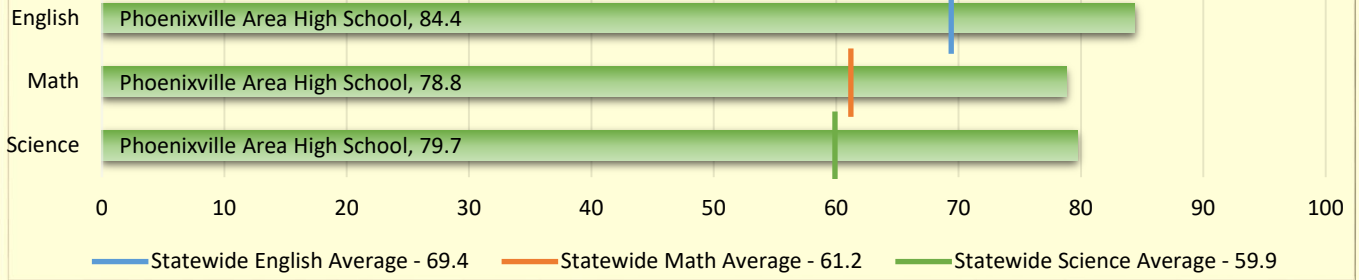
**PSSA Advanced or Proficient Percentage  
School Scores Compared to Statewide Averages (continued)**



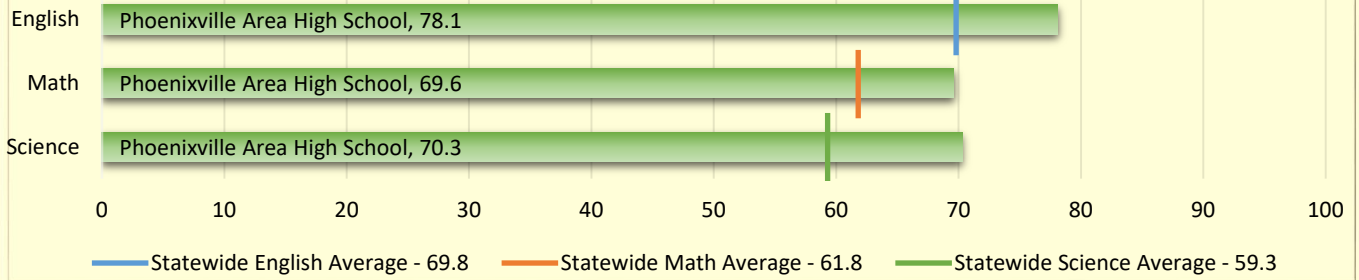


**Keystone Advanced or Proficient Percentage  
School Scores Compared to Statewide Averages**

**2017-18**



**2016-17**



## **Distribution List**

---

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

**The Honorable Noe Ortega**  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

**The Honorable Stacy Garrity**  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

**Mrs. Danielle Mariano**  
Director  
Bureau of Budget and Fiscal Management  
Pennsylvania Department of Education  
4th Floor, 333 Market Street  
Harrisburg, PA 17126

**Dr. David Wazeter**  
Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

**Mr. Nathan Mains**  
Executive Director  
Pennsylvania School Boards Association  
400 Bent Creek Boulevard  
Mechanicsburg, PA 17050

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:News@PaAuditor.gov).