

PERFORMANCE AUDIT

Tri-Valley School District Schuylkill County, Pennsylvania

May 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. Mark D. Snyder, Superintendent
Tri-Valley School District
110 West Main Street
Valley View, Pennsylvania 17983

Mr. Jerry R. Beaver, Board President
Tri-Valley School District
110 West Main Street
Valley View, Pennsylvania 17983

Dear Dr. Snyder and Mr. Beaver:

We have conducted a performance audit of the Tri-Valley School District (District) for the period July 1, 2013 through June 30, 2017, 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 the appendix of this report:

- Financial Stability
- Nonresident Student Membership
- Administrator Separation Agreements
- Bus Driver Requirements

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

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

Our audit found that the District performed adequately in the bulleted areas listed above, except as noted in the following finding:

- The District's General Fund Balance Decreased From \$1,626,320 on July 1, 2013 to \$765,458, as of June 30, 2018

Dr. Mark D. Snyder
Mr. Jerry R. Beaver
Page 2

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

Sincerely,

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

Eugene A. DePasquale
Auditor General

May 13, 2019

cc: **TRI-VALLEY SCHOOL DISTRICT** Board of School Directors

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Background Information

| School Characteristics 2017-18 School Year ^A | |
|--|------------------------------|
| County | Schuylkill |
| Total Square Miles | 99.15 |
| Number of School Buildings | 3 |
| Total Teachers | 73 |
| Total Full or Part-Time Support Staff | 46 |
| Total Administrators | 7 |
| Total Enrollment for Most Recent School Year | 938 |
| Intermediate Unit Number | 29 |
| District Vo-Tech School | Schuylkill Technology Center |

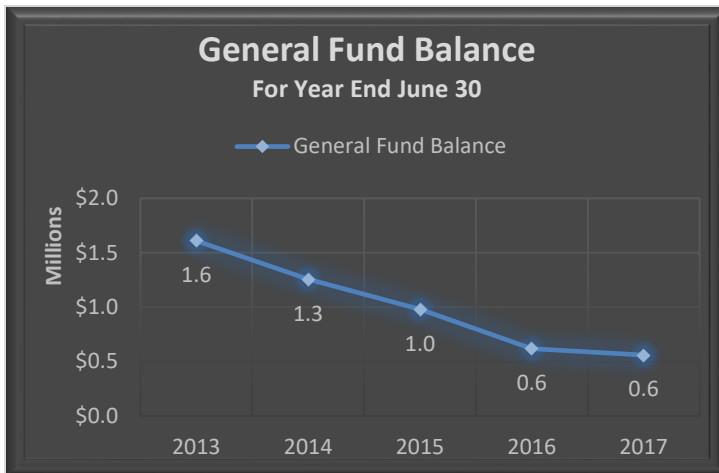
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

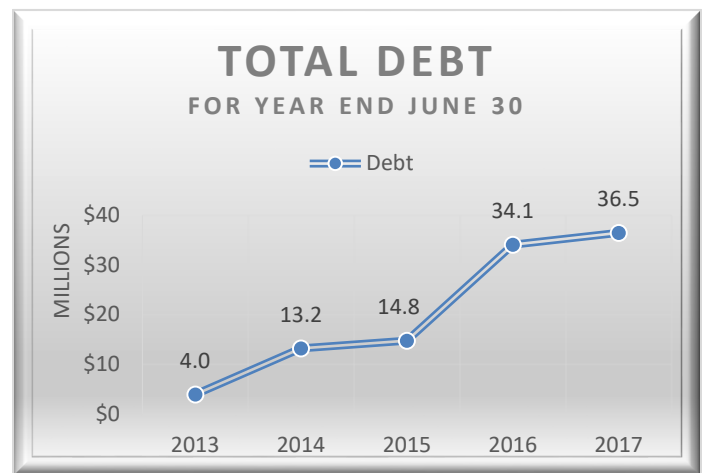
The mission of the Tri-Valley School District, in active partnership with families and community, is to provide a positive, challenging educational environment to enable and empower all students to develop the knowledge, self-confidence, attitudes and skills necessary as the foundation for life-long learning and responsible citizenship commensurate with their unique talents and abilities.

Financial Information

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

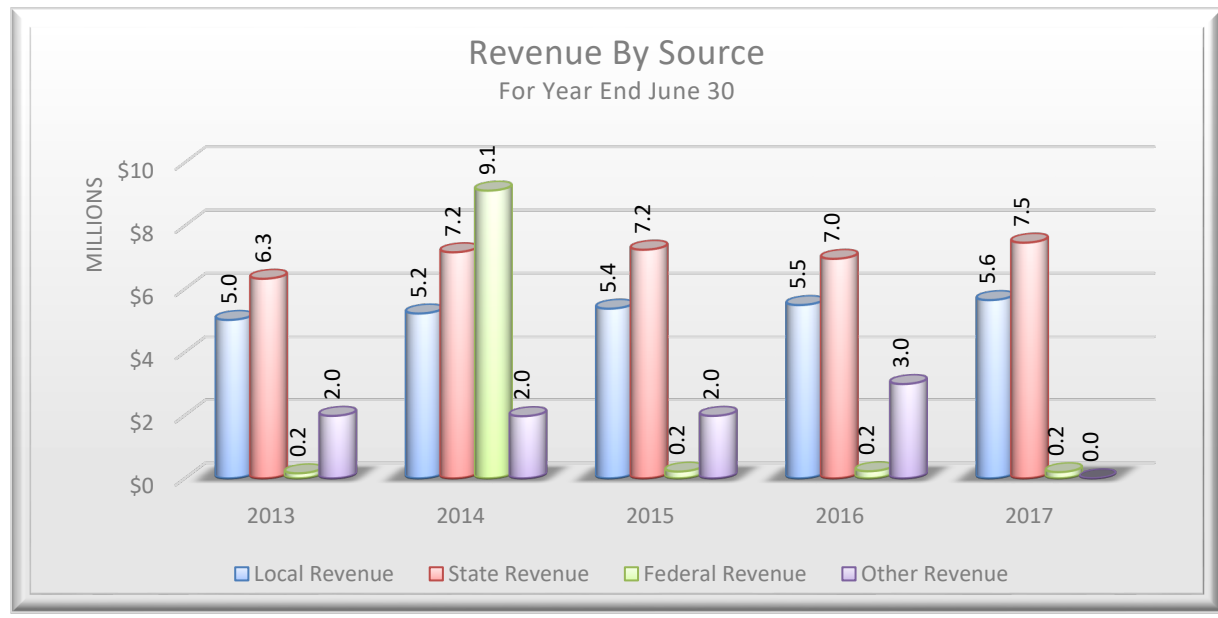
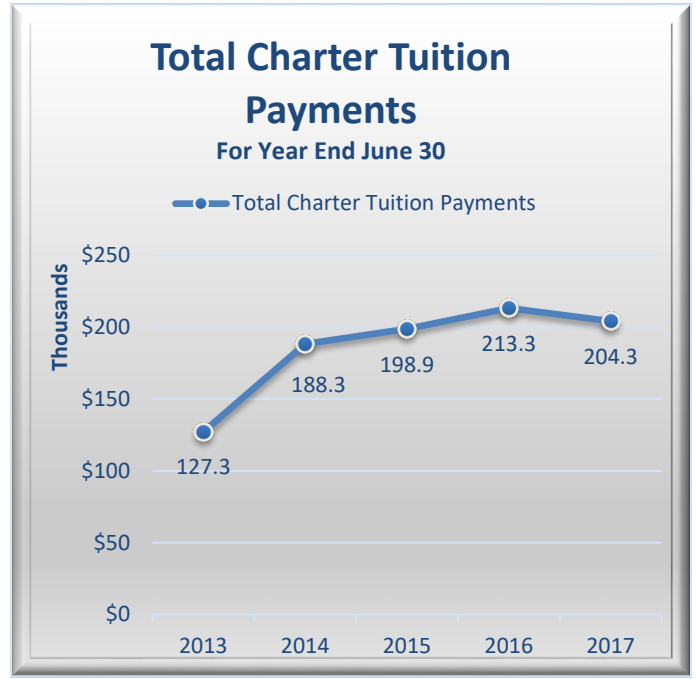
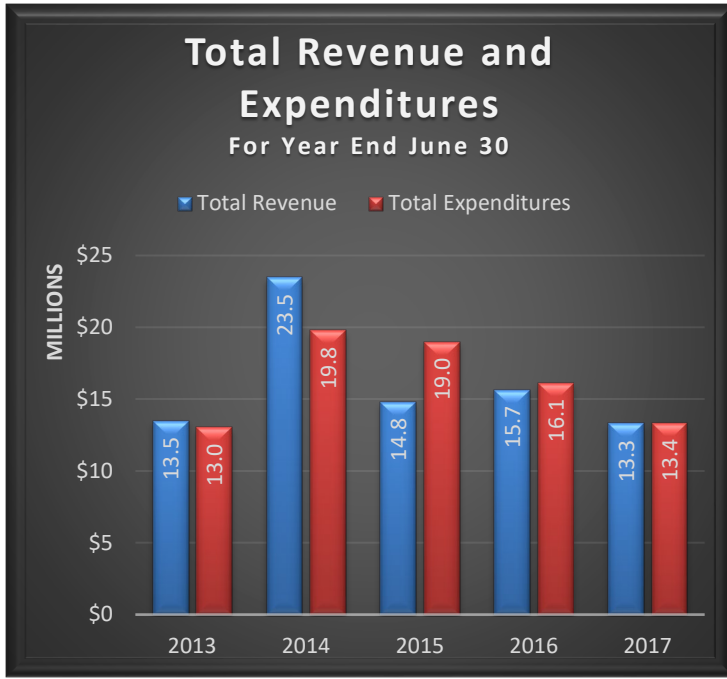


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from the PDE's data files for the 2014-15, 2015-16 and 2016-17 school years.¹ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding graph.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. The PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e., PSSA and Keystone exam scores), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

The PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, the PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁴ The PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until the 2020-21 school year.⁵ In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

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

² The 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 the PDE's website for general information regarding the issuance of academic scores.

³ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁴ According to the PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of the PSSA exams to align with PA Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

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

What is the PSSA?

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

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁶ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

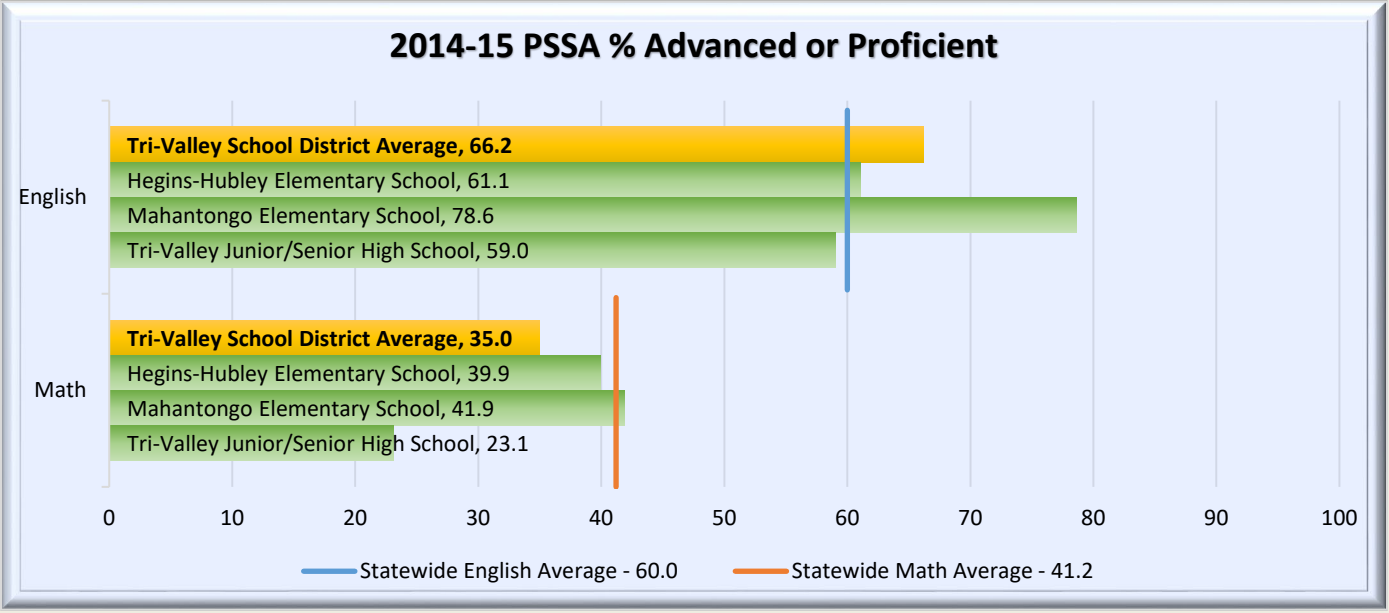
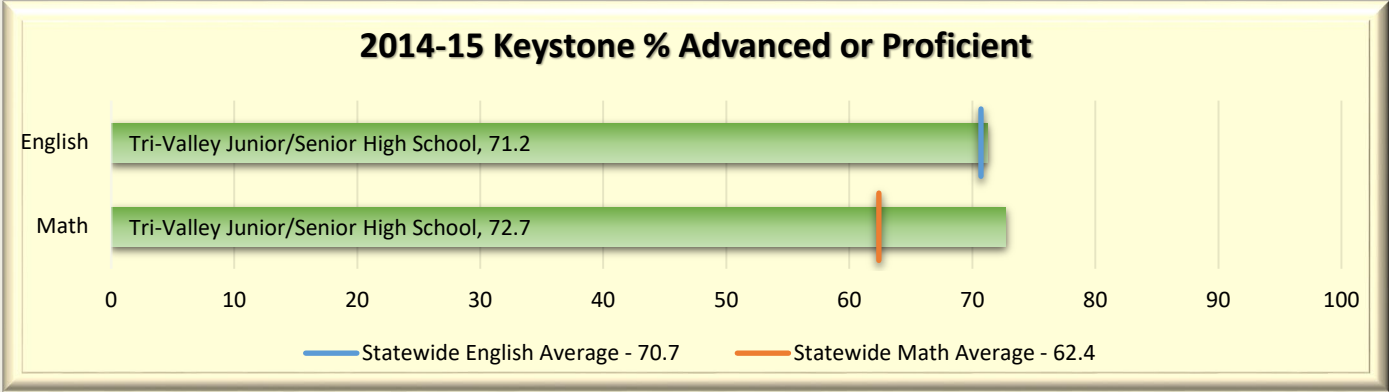
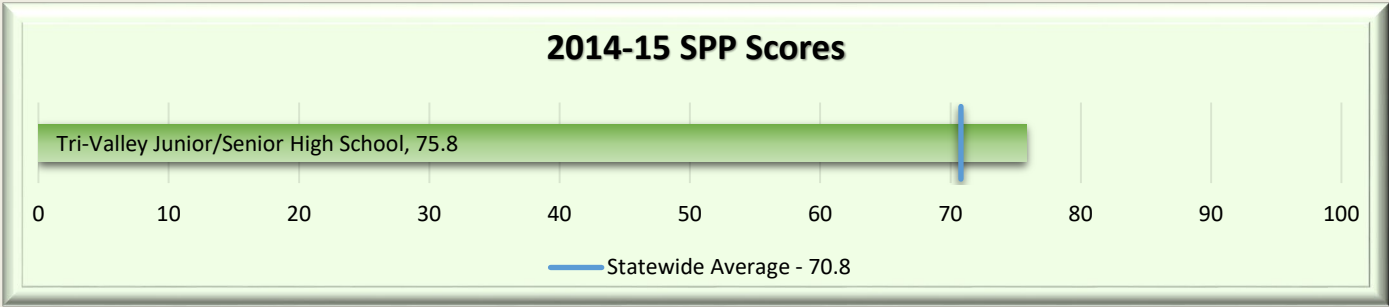
What is a 4-Year Cohort Graduation Rate?

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

⁶ The PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam.

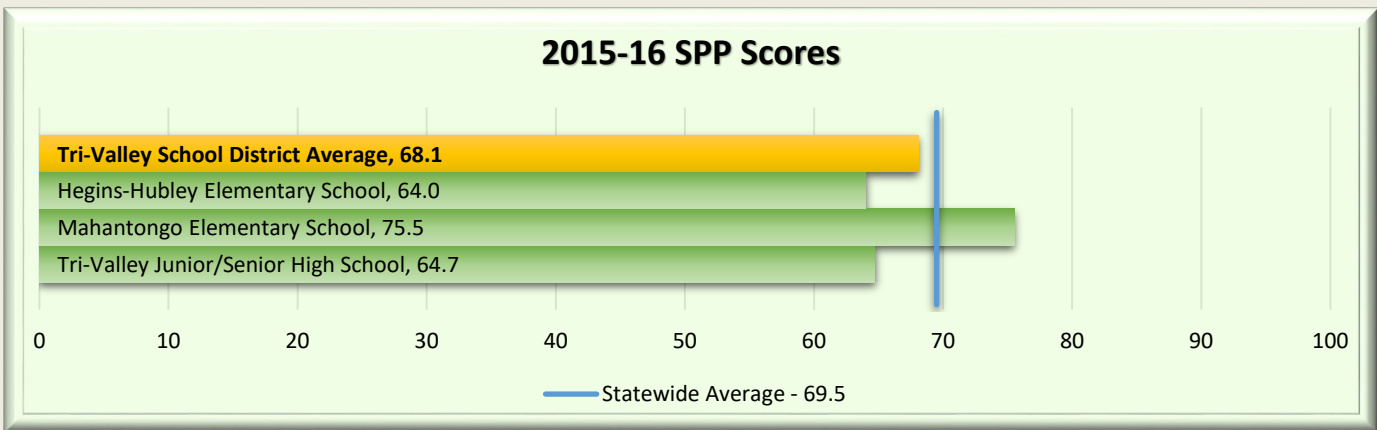
⁷ The PDE also calculates 5-year and 6-year cohort graduation rates. Please visit the PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

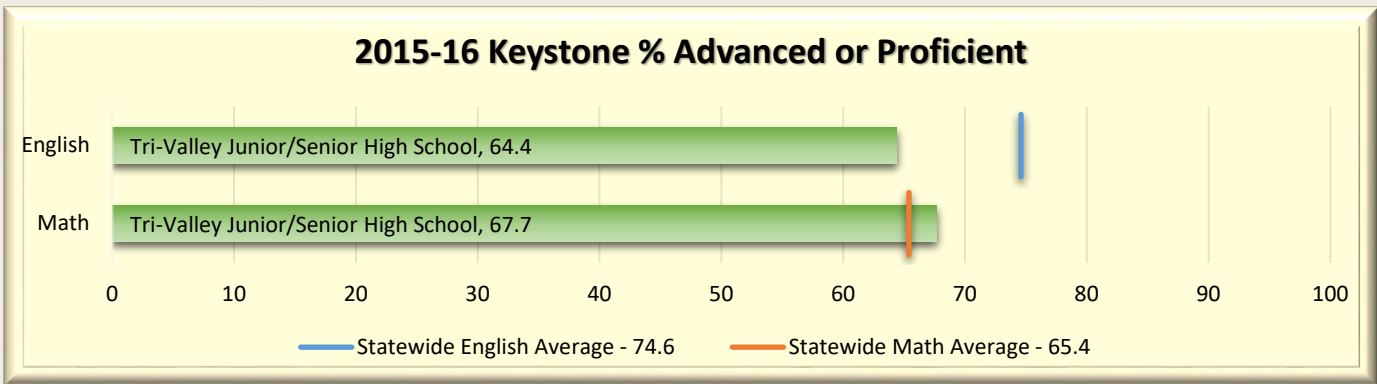


2015-16 Academic Data
School Scores Compared to Statewide Averages

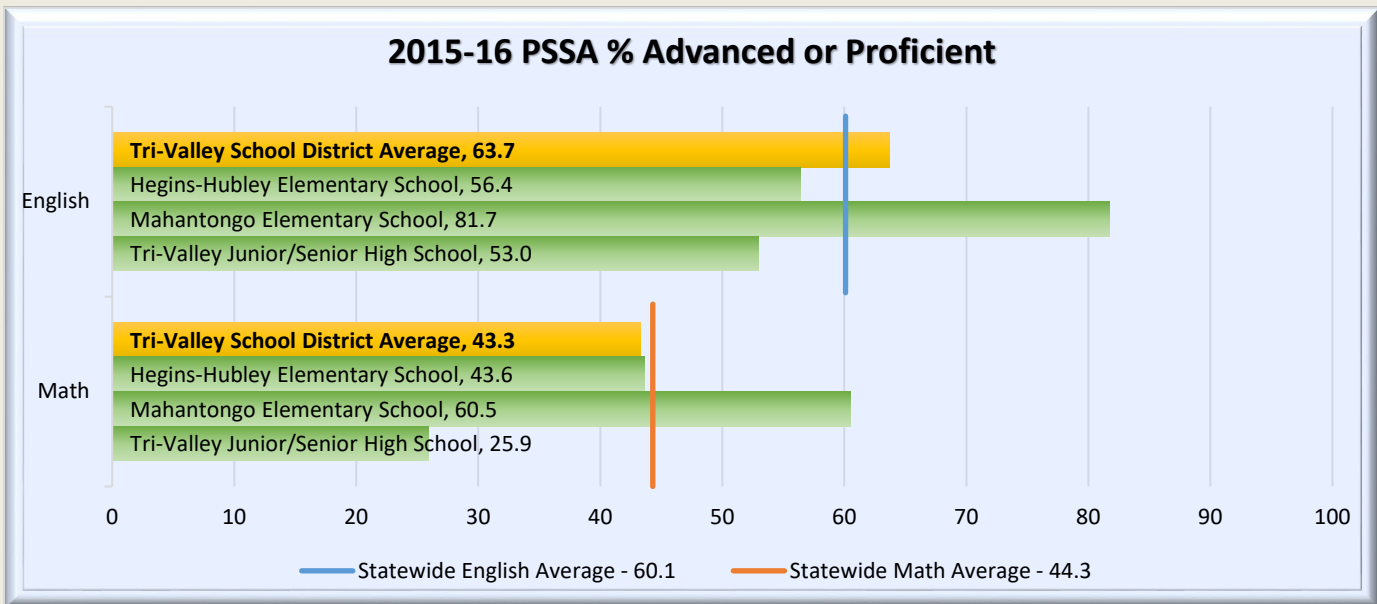
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

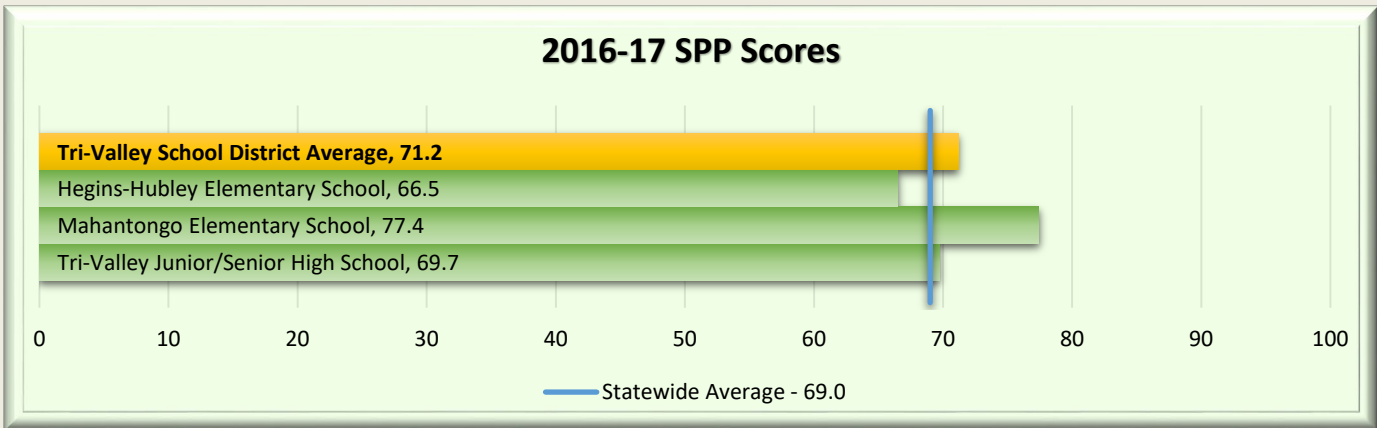


2015-16 PSSA % Advanced or Proficient

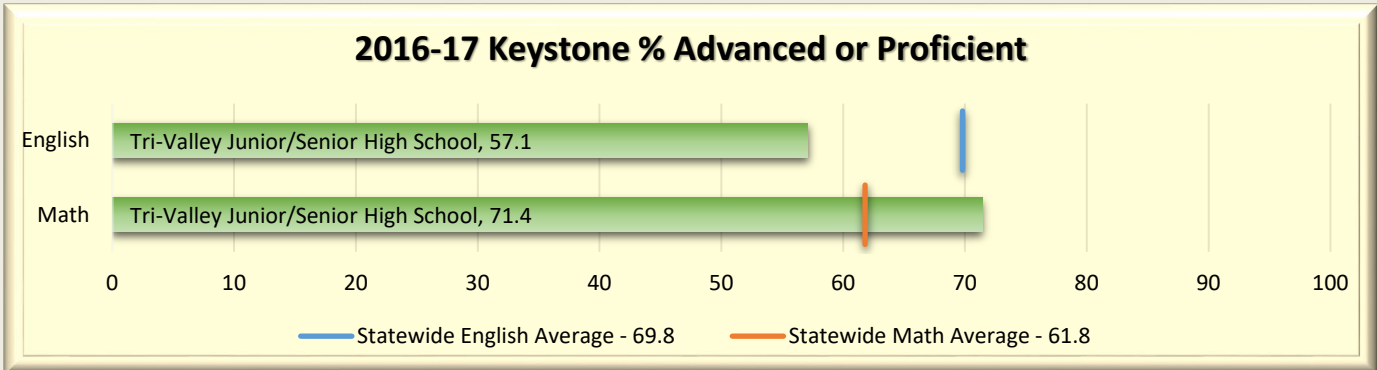


2016-17 Academic Data
School Scores Compared to Statewide Averages

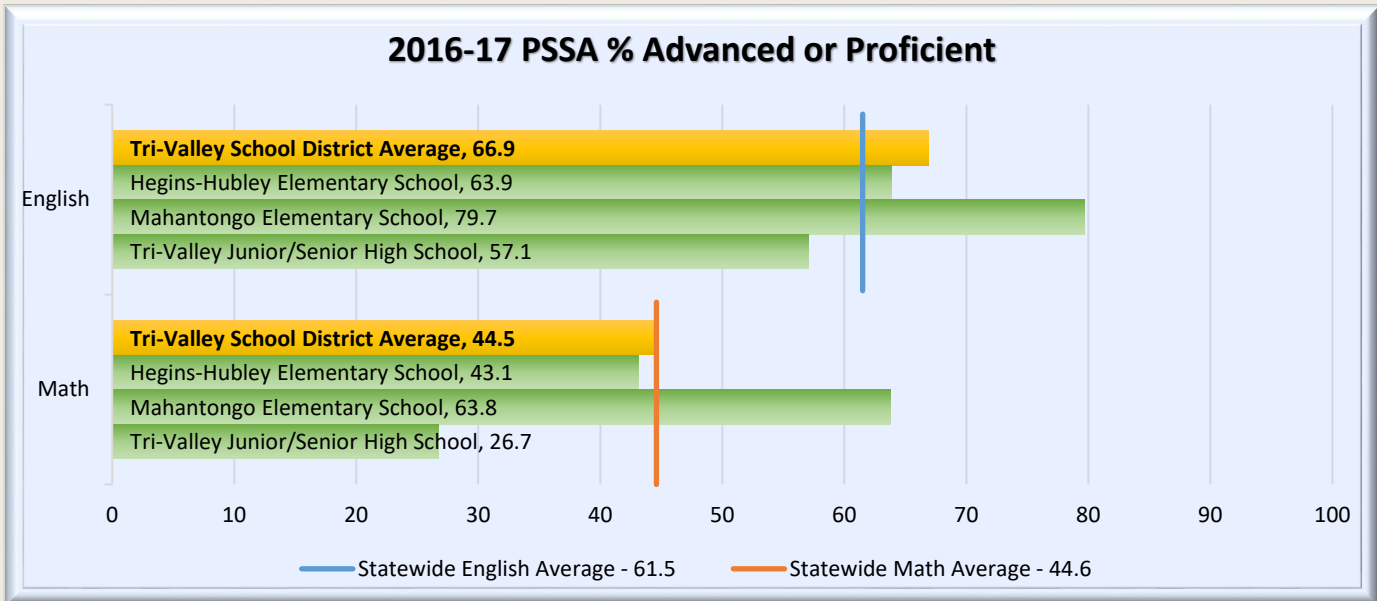
2016-17 SPP Scores



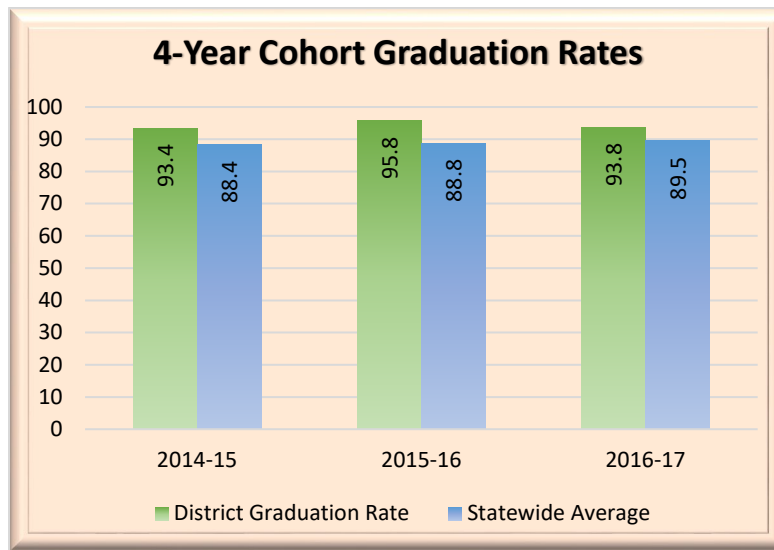
2016-17 Keystone % Advanced or Proficient



2016-17 PSSA % Advanced or Proficient



Graduation Data
District Graduation Rates Compared to Statewide Averages



Finding

Finding

The District's General Fund Balance Decreased From \$1,626,320 on July 1, 2013 to \$765,458, as of June 30, 2018

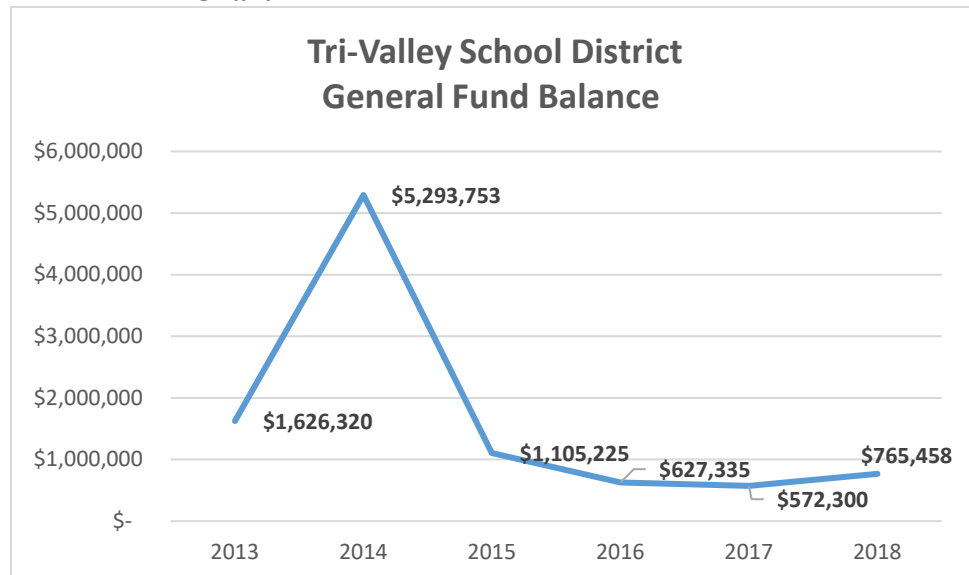
Criteria relevant to the finding:

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

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

Our review of the Tri-Valley School District's (District) financial position over a five-year period showed that the District's General Fund balance decreased to a concerning level.⁸ The District's General Fund balance was \$1,626,320 on July 1, 2013. Due to multiple operating deficits, the District's General Fund balance decreased to \$765,458 as of June 30, 2018. Chart 1 illustrates the District's General Fund balances as of June 30/July 1 of each fiscal year in the audit period.

Chart 1



In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over the five-year period from July 1, 2013 through June 30, 2018. The following

⁸ The District's General Fund balance consists of four distinct classifications: 1) nonspendable, 2) restricted, 3) assigned, and 4) unassigned. We discuss the District's total General Fund balance in this finding, with some mention of the other classifications.

*Criteria relevant to the finding
(continued):*

The GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

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

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

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

benchmarks raised concerns related to the District's finances and will be discussed in the remainder of the finding:

- General Fund Balance
- Operating Position
- Debt Service

General Fund

As detailed in the criteria box, it is considered a best practice for school districts to maintain an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The District's unrestricted fund balance is the total of its assigned fund balance and the unassigned fund balance, which are the classifications where the only constraint on spending is imposed by the District itself. The Tri-Valley School District did not meet this best practice or its own board policy during the audit period.⁹ The District's General Fund balance decreased during the audit period due to multiple operating deficits. The operating deficits occurred because of increasing expenditures related to multiple capital projects completed by the District during the audit period.

Operating Position

A school district's operating position is an important indicator of a district's financial health and is determined by subtracting operating expenditures and other financing uses¹⁰ from operating revenues and other financing sources.¹¹

⁹ The District's unrestricted General Fund balance was \$1,258,006 on June 30, 2014; \$981,804 on June 30, 2015; \$618,368 on June 30, 2016; \$560,232 on June 30, 2017; and \$755,257 on June 30, 2018.

¹⁰ Other financing uses are not included as expenditures because of the variable nature of these funds, which include outlays for debt service, fund transfers, and similar types of transactions.

¹¹ Other financing sources are not included as revenues because the receipts are not earned by the District. Other financing sources include proceeds from long-term debt financing agreements, receipts from funds other than the General Fund within the District, and proceeds from the sale or compensation for the loss of fixed assets.

Table 1

| Tri -Valley School District General Fund Operating Position | | | | |
|--|--|--|---|--|
| Fiscal Year Ending June 30 | Total Revenues¹² | Total Expenditures¹³ | Total Other Financing Sources¹⁴ | Operating Surplus/(Deficit) |
| 2014 | \$21,490,583 | \$19,793,624 | \$1,970,474 | \$3,667,433 |
| 2015 | \$12,828,428 | \$18,996,482 | \$1,979,526 | \$(4,188,528) |
| 2016 | \$12,659,230 | \$16,127,120 | \$2,990,000 | \$(477,890) |
| 2017 | \$13,304,892 | \$13,359,927 | \$0 | \$(55,035) |
| 2018 | \$13,336,844 | \$13,420,975 | \$125,000 | \$40,869 ¹⁵ |
| Total: | \$73,619,977 | \$81,698,128 | \$7,065,000 | \$(1,013,151) |

The District renovated two elementary schools during the 2013-14 through 2015-16 fiscal years. Additionally, the District completed a high school roofing project and an energy conservation project during the 2013-14 fiscal year.

Based on past accumulative experience, districts typically establish a Capital Reserve Fund in order to better account for capital project expenditures. This practice also allows districts to budget operational expenses separately from expenditures related to capital projects. The use of a Capital Reserve Fund allows districts to account for and budget operational expenditures in its General Fund.

The Tri-Valley School District did not use a Capital Reserve Fund when completing its capital projects; instead, the District used its General Fund, which led to significant variances in operational revenues and expenditures during the 2013-14 through 2015-16 fiscal years. In discussions with District officials, these officials acknowledged the difficulty of funding capital projects in the General Fund and the budgeting challenges that resulted from that decision.

Revenues

The District's total revenues are comprised of local, state, and federal sources. Total revenues were considerably more

¹² Information obtained from the statements of revenue, expenditures, and changes in fund balances within the independent auditor's reports for the fiscal years 2013-14 through 2017-18.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ This does not equal change in General Fund balance due to a prior period adjustment of \$152,289 due to the District overstating medical liability in the prior fiscal year.

*Criteria relevant to the finding
(continued):*

**Tri-Valley School District Policy
No. 620 states, in part:**

The school district will strive to maintain an unassigned general fund balance of not less than eight percent (8%) and not more than eleven percent (11%) of the budgeted expenditures for that fiscal year.¹⁶ The total fund balance, consisting of several portions including restricted, committed, assigned and unassigned, may exceed eleven percent (11%). If the unassigned portion of the fund balance falls below the threshold of eight percent (8%) of budgeted expenditures, the Board will pursue options for increasing revenues and decreasing expenditures, or a combination of both until eight percent (8%) is attained. If the unassigned portion of the fund balance exceeds eleven percent (11%) of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for expenditures. The goal shall be to use any excess fund balance for nonrecurring expenditures; not for normal operating costs.

during the 2013-14 fiscal year than the other fiscal years of the audit period. This was due to a significant increase in Federal revenues during that year. The District received over \$9.1 million in federal revenues during the 2013-14 fiscal year, or 42 percent of total revenues. The increase in federal funds was due to the District securing federal general obligation bonds in anticipation of its capital projects.¹⁷ During the 2014-15 through 2017-18 fiscal years, the District's federal revenues ranged between 1.4 and 2.6 percent of total revenues. The District's local revenues increased each fiscal year, from \$5.2 million in 2013-14 to \$5.7 million in 2017-18. State revenues is the District's largest revenue component. State revenues fluctuated between a low of \$6.9 million in 2015-16 and a high of \$7.4 million in 2016-17.

Expenditures

As mentioned previously, the District completed multiple capital projects during the 2013-14 through 2015-16 fiscal years. During these fiscal years, the District's expenditures were greater than the remaining years of the audit period. The majority of the increase in expenditures can be attributed to capital outlay for those projects and debt service expenditures that resulted from the capital projects. The table below shows the District's capital outlay and debt service expenditures during the audit period.

¹⁶ Assigned fund balance – this classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed; Unrestricted fund balance – this classification includes both the assigned and unassigned fund balances.

¹⁷ In 2013, the District issued Federally Taxable Qualified Energy Conservation General Obligation Bonds, Series A (interest rates ranging from 4.467% to 5.883%) and Series B (fixed interest rate of 2.01%).

*Criteria relevant to the finding
(continued):*

**Statement No. 54 of the
Governmental Accounting
Standards Board, Fund Balance
Reporting and Governmental
Fund Type Definitions, February
2009**

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.

Table 2

| Tri-Valley School District Capital Outlay and Debt Service Expenditures ¹⁸ | | | |
|--|--|------------------------------|---------------------|
| Fiscal Year Ending June 30 | Capital Outlay Expenditures ¹⁹ | Debt Service Expenditures | Total |
| 2014 | \$5,860,229 | \$1,800,222 | \$7,660,451 |
| 2015 | \$5,894,897 | \$889,066 | \$6,783,963 |
| 2016 | \$144,674 | \$3,492,520 | \$3,637,194 |
| 2017 | \$1,441 | \$599,284 | \$600,725 |
| 2018 | \$126,754 | \$704,539 | \$831,293 |
| Total: | \$12,027,995 | \$7,485,631 | \$19,513,626 |

Debt and Debt Service

The District borrowed to fund capital projects undertaken during the audit period. As a result of this borrowing and additional refunding of debt that occurred during the audit period, the District has significant future debt service obligations. On July 1, 2013, the District had a total of \$3,058,179 in long-term debt that was scheduled to be fully amortized over the 2013-14 through 2017-18 school years. The following table illustrates the District’s future debt service obligations as of June 30, 2018.

Table 3

| Tri-Valley School District – Debt to Maturity | | | |
|---|---------------------|--------------------|---------------------|
| Fiscal Year Ending June 30 | Principal | Interest | Total |
| 2019 | \$573,194 | \$285,611 | \$858,805 |
| 2020 | \$594,064 | \$283,646 | \$877,710 |
| 2021 | \$609,966 | \$281,344 | \$891,310 |
| 2022 | \$650,902 | \$279,028 | \$929,930 |
| 2023 | \$671,874 | \$276,297 | \$948,171 |
| Subtotal: | \$3,100,000 | \$1,405,926 | \$4,505,926 |
| 2024-2028 | \$3,480,000 | \$1,336,323 | \$4,816,323 |
| 2029-2033 | \$3,940,000 | \$1,241,558 | \$5,181,558 |
| 2034-2038 | \$2,445,000 | \$238,001 | \$2,683,001 |
| Grand Total: | \$12,965,000 | \$4,221,808 | \$17,186,808 |

¹⁸ Information obtained from Independent Auditors Reports, statements of revenue, expenditures, and changes in fund balance, fiscal years 2013-14 through 2017-18.

¹⁹ Capital outlay expenditures was labeled as “Facilities, Acquisition, and Construction” on the District’s 2017-18 Independent Auditors Report.

Expenditures in several categories in addition to capital outlay and debt service have also increased. Similar to other school districts in the Commonwealth, the District has faced an increase in mandated expenditures like retirement contributions for employees, employee health care expenditures, and post-employment benefits. For example, the District's annual retirement contributions increased from \$374,003 in the 2013-14 fiscal year to \$919,000 during the 2017-18 fiscal year.²⁰ The District made operational changes during the audit period, specifically eliminating positions and shifting full-time aides to part time status, in an effort to reduce expenditures and increase the District's General Fund balance. The District will need to continue these efforts because debt service obligations will be a factor in the District financial position going forward.

Conclusion

The District's General Fund balance decreased during the audit period. Furthermore, the District did not meet the minimum fund balance recommended by the Government Finance Officers Association for any of the fiscal years during the audit period. The District also experienced an increase in expenditures related to the capital projects that were completed during the audit period. While the District borrowed at low interest rates to fund the capital projects, debt service expenditures also increased and the debt obligations will continue to impact the District's financial position in the foreseeable future. The District also incurred increases in employee-related mandated expenditures that are not expected to decrease in the foreseeable future. Due to these challenges, the District will need to generate additional revenue to meet the expected increased expenditures and/or reduce expenditures.

Recommendations

The *Tri-Valley School District* should:

1. Prepare a multi-year budget that adequately reflects mandated expenditures and projected debt service payments to help ensure that the District is prepared to meet future financial obligations.

²⁰ The annual retirement contributions are reported net of reimbursement received by the District from the Commonwealth.

2. Fund and account for future capital projects in a Capital Reserve Fund as opposed to the General Fund.

Management Response

District management provided the following response:

I. “The operating deficits occurred because of increasing expenditures related to multiple capital projects completed by the District during the audit period.”

“It should be noted that a District-Wide Feasibility Study conducted in Spring 2012 brought several salient issues to the attention of the Tri-Valley School District Board of Education. In order to correct deficiencies with regard to extending the life of building systems and components of both Mahantongo Valley ES (constructed 1958) and Hegins-Hubley ES (constructed 1959), it became apparent that building envelope, lighting, mechanical, and other matters would need to be addressed sooner than later. Architectural engineering statements describing these concerns in both buildings included, but were not limited to:

"The boiler appears to be original equipment... is in fair to poor condition and is beyond the end of its useful life."

"Hot water piping and unit ventilators in this building are in poor condition."

"Gang toilets...as well as toilets in classrooms and nurse's area do not meet code."

"Many existing interior doors do not meet code for clear opening width."

"The windows are original to the building, are single pane uninsulated, and lack energy efficiency and daylighting."

"The fire alarm control panel is a hard-wired type of older vintage that is now obsolete and nearing the end of its useful life."

Additionally at that time, roof work was required at Mahantongo Valley ES as well as Tri-Valley Junior-Senior HS. The purpose of this detail is to document that the focus of the multiple capital projects completed by the District during this audit period were necessary, not frivolous.

There were no improvements made to athletic fields or facilities.

Subsequently, it was the decision of the Board to address these physical plant deficiencies. In part due to Act 82 of 2012, which limited PDE's acceptance or approval of new school building construction or reconstruction project applications for the 2012-13 fiscal year, PlanCon Part A was submitted in June 2012. The District proceeded to secure multiple low-interest funding streams: Qualified Zone Academy Bonds (QZAB); unused Qualified Energy Conservation Bonds (QECB) reallocated from local county government; a local bank loan; as well as ACE Grants in order to fund the various projects.”

II. “...the District has faced an increase in mandated expenditures like retirement contributions for employees, employee health care expenditures, and post-employment benefits.”

This is an understatement. As noted within, the District’s annual retirement contributions increased from \$374,003 in the 2013-14 fiscal year to \$919,000 during the 2017-18 fiscal year. When coupled with the other current cost-drivers in Pennsylvania public education: health care, special education, and cyber-charter tuition, Tri-Valley continues to lose ground on an annual basis as underfunding by the state and legislative inaction exacerbates the situation. According to data available at www.paschoolswork.org, since 2011 when the state dramatically reduced education funding, Tri-Valley has realized an increase in instructional costs for the district of \$1,412,999 (16%), while additional state funds attributed towards instructional costs total an abysmal \$10,871 (0%).

Corrective Action

Management concurs that preparation of a multi-year budget that adequately reflects mandated expenditures and projected debt service payments will help ensure that the District is prepared to meet future financial obligations.

Management concurs that future capital projects should be funded and accounted in a Capital Reserve Fund as opposed to the General Fund.

Auditor Conclusion

We acknowledge that capital projects are necessary for school districts and discuss the benefits of the financing secured by the District in our finding. It will be paramount for the District to adequately fund the future debt service requirements that resulted from the capital projects undertaken by the District during the audit. We believe a multi-year budget can help the District assess expenditures and the revenues needed to achieve a General Fund budget that meets best practices.

Additionally, while certain cost drivers like special education and charter school tuition are out of the District's control, increasing retirement contributions were communicated to the District well in advance to help districts budget for these expenditures.

We are encouraged that the District is taking measures to implement our recommendations. We believe our recommendations will help the District meet best practices. We will determine the effectiveness of the District's corrective actions during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Tri-Valley School District (District) released on November 6, 2014, resulted in one finding, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We reviewed the District's written response provided to the Pennsylvania Department of Education (PDE), interviewed District personnel, and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on November 6, 2014

Prior Finding: **Continued Membership Reporting Errors and a Lack of Internal Controls Resulted in an Underpayment to the District of \$17,022**

Prior Finding Summary: During our prior audit of the District, we found that the District incorrectly reported membership data to the PDE for nonresident students for the 2010-11 school year. The District was therefore underpaid \$17,022 in Commonwealth-paid tuition for foster children.

Prior Recommendations: We recommended that the District should:

1. Establish internal controls that include reconciliations of the data that is uploaded into the Pennsylvania Information Management System (PIMS).
2. Verify that the preliminary reports from the PDE are correct and, if they are not correct, revise and resubmit child accounting data so that the final reports from the PDE are correct.

We also recommended that the PDE should:

3. Revise all membership data that was incorrectly reported and adjust the District's payments affected by the error.

Current Status: Our current audit found that the District implemented our prior audit recommendations. In December 2014, the District established internal controls, which require the PIMS administrator and Superintendent to reconcile child accounting data is correct prior to uploading into the PIMS. Preliminary reports from the PDE are reviewed by each Building Principal and the Superintendent. The District received the underpayment from the PDE on June 1, 2015, which resulted from the 2010-11 membership adjustments.

Appendix: Audit Scope, Objectives, and Methodology

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,²¹ is not a substitute for the local annual financial audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2013 through June 30, 2017. In addition, the scope of each individual audit objective is detailed on the next page.

The Tri-Valley School District's (District) management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements).²² In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

²¹ 72 P.S. §§ 402 and 403.

²² Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as: effectiveness and efficiency of operations; relevance and reliability of operational and financial information; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2013 through June 30, 2017. We also determined if the District had key personnel or software vendor changes since the prior audit.

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

- Financial Stability
- Nonresident Student Membership
- Administrator Separation Agreements
- Bus Driver Requirements
- School Safety

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

- ✓ Based on an assessment of financial indicators, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - To address this objective, we reviewed the District's annual financial reports, independent auditor's reports, and General Fund budgets for the 2013-14 through 2017-18 fiscal years. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, debt ratio, and current ratio. These financial indicators were deemed appropriate for assessing the District's financial stability. The financial indicators are based on best business practices established by several agencies, including Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. The results of our review of this objective can be found in the finding beginning on page 9 of this report.
- ✓ Did the District accurately report nonresident students to the PDE? Did the District receive the correct reimbursement for these nonresident students?²³
 - To address this objective, we reviewed all 34 nonresident students reported by the District to the PDE during the 2013-14 through 2015-16 school years. We obtained documentation to verify that the custodial parent or guardian was not a

²³ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

resident of the District and the foster parent received a stipend for caring for the student. The student listings were compared to the total days reported on the Membership Summary and Instructional Time and Membership Report to ensure that the District received correct reimbursement for these students. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District pursue a contract buy-out or settlement agreement with an administrator and if so, what was the total cost of the buy-out/settlement agreement, what were the reasons for the termination/settlement, and did the employment contract(s) comply with the Public School Code²⁴ and Public School Employees' Retirement System guidelines?
 - To address this objective, we reviewed the contract, board meeting minutes, board policies, and payroll records for the one administrator who separated employment from the District during the period July 1, 2013 through August 10, 2018. Our review of this objective did not disclose any reportable issues.
- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances²⁵ as outlined in applicable laws?²⁶ Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
 - To address this objective, we randomly selected 8 of the 20 bus drivers approved by the District's Board to transport District students during the 2018-19 school year.²⁷ We reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures, when followed, ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.
- ✓ Did the District take actions to ensure it provided a safe school environment?²⁸
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, fire drill reports, and after action reports. In addition, we conducted on-site reviews at all three of the District's school buildings to assess whether the District had implemented basic

²⁴ 24 P.S. § 10-1073(e)(v).

²⁵ Auditors reviewed the required state, federal, and child abuse background clearances from the most reliable sources available, including the FBI, the Pennsylvania State Police, and the Department of Human Services. However, due to the sensitive and confidential nature of this information, we were unable to assess the reliability or completeness of these third-party databases.

²⁶ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

²⁷ While representative selection is a required factor of audit sampling methodologies, audit-sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

²⁸ 24 P.S. § 13-1301-A *et seq.*

safety practices.²⁹ Due to the sensitive nature of school safety, the results of our review for this objective area are not described in our audit report. The results of our review of school safety are shared with District officials, the PDE, and other appropriate agencies deemed necessary.

²⁹ Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

Distribution List

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

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