

PERFORMANCE AUDIT

Sto-Rox School District Allegheny County, Pennsylvania

January 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Frank Dalmas, Superintendent
Sto-Rox School District
600 Russellwood Avenue
McKees Rocks, Pennsylvania 15136

Ms. Maura Mitchell, Board President
Sto-Rox School District
600 Russellwood Avenue
McKees Rocks, Pennsylvania 15136

Dear Mr. Dalmas and Ms. Mitchell:

Our performance audit of the Sto-Rox School District (District) evaluated the application of best practices in the areas of finance and school safety. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). This audit covered the period July 1, 2012, through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

During our audit, we found significant instances of failing to apply best practices and noncompliance with relevant requirements, as detailed in our three findings. A summary of the results is presented in the Executive Summary section of this report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

December 14, 2017

cc: **STO-ROX SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Sto-Rox School District (District). Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period July 1, 2012, through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report (see Appendix). Compliance specific to state subsidies and reimbursements were determined for the 2012-13 through 2014-15 school years.

Audit Conclusion and Results

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

Finding No. 1: Consecutive Operating Deficits Reduced the District's General Fund Balance from \$1.3 Million on June 30, 2013, to Negative \$2.6 Million as of June 30, 2016. Our review of the District's financial position over a four-year period revealed the District's General Fund balance decreased significantly. The General Fund balance decreased from \$1,356,489 on June 30, 2013, to a negative **\$2,641,419** as of June 30, 2016. The District experienced

operating deficits in all four years reviewed, which was the primary factor in the decrease in the General Fund Balance (see page 10).

Finding No. 2: The District Failed to Comply with Retirement Payment Requirements Resulting in \$34,115 in Interest Charges and Subsidy Deductions.

Our review of the District's payments to the Public School Employees' Retirement System (PSERS) disclosed that on multiple occasions from October 2013 through June 2016, the District was either late in remitting payments to PSERS and/or failed to remit both the employer and employee share of its required retirement payments. The failure to comply resulted in the District incurring interest charges of more than \$34,000 and subsidy deductions totaling over \$1.7 million (see page 20).

Finding No. 3: The District Failed to Ensure School Bus Drivers and Bus Monitors Met All Employment Requirements, Including Obtaining Background Checks.

Our review of the 2016-17 bus driver list found that the District failed to meet the requirements related to the employment of bus drivers and monitors having direct contact with students.

We found the District did not ensure that all bus drivers and monitors had the required credentials and criminal history clearances *before* they transported students at the beginning of the school year. We found the District relied on the contractor to obtain licenses and clearances and provide them to the District. However, the District did not review the documentation for completeness and did not verify that each contractor's drivers and monitors met the requirements to transport District students (see page 23).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the District from an audit released on September 13, 2013, we found that the District had not taken appropriate corrective action in implementing our prior audit finding recommendations pertaining to the District not having certain school bus drivers' qualifications on file for the third consecutive audit. The errors are detailed in Finding No. 3 (see page 23). We also found that the District had not taken appropriate corrective action in implementing our prior audit observation recommendations pertaining to the District's monitoring of key financial indicators to try to prevent further fiscal challenges. The fiscal decline of the District is detailed in Finding No. 1, beginning on page 10.

Background Information

School Characteristics 2015-16 School Year ^A	
County	Allegheny
Total Square Miles	3
Resident Population ^B	12,466
Number of School Buildings	3
Total Teachers	100
Total Full or Part-Time Support Staff	53
Total Administrators	5
Total Enrollment for Most Recent School Year	1,236
Intermediate Unit Number	3
District Vo-Tech School	Parkway West CTC

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

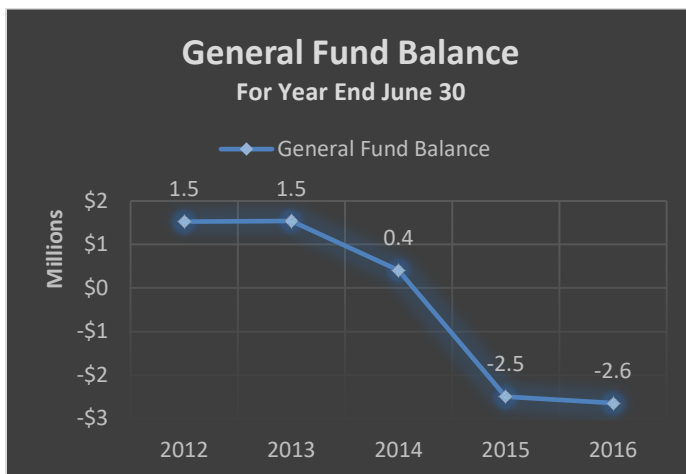
B - Source: United States Census
<http://www.census.gov/2010census>.

Mission Statement^A

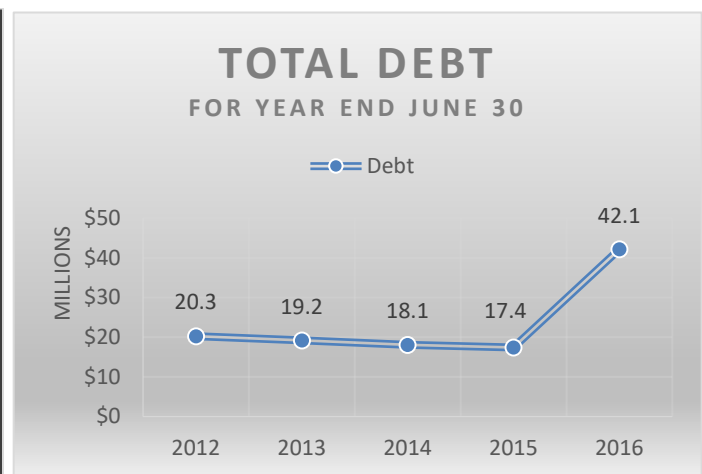
Creating Opportunities for today's students to succeed in tomorrow's world!

Financial Information

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

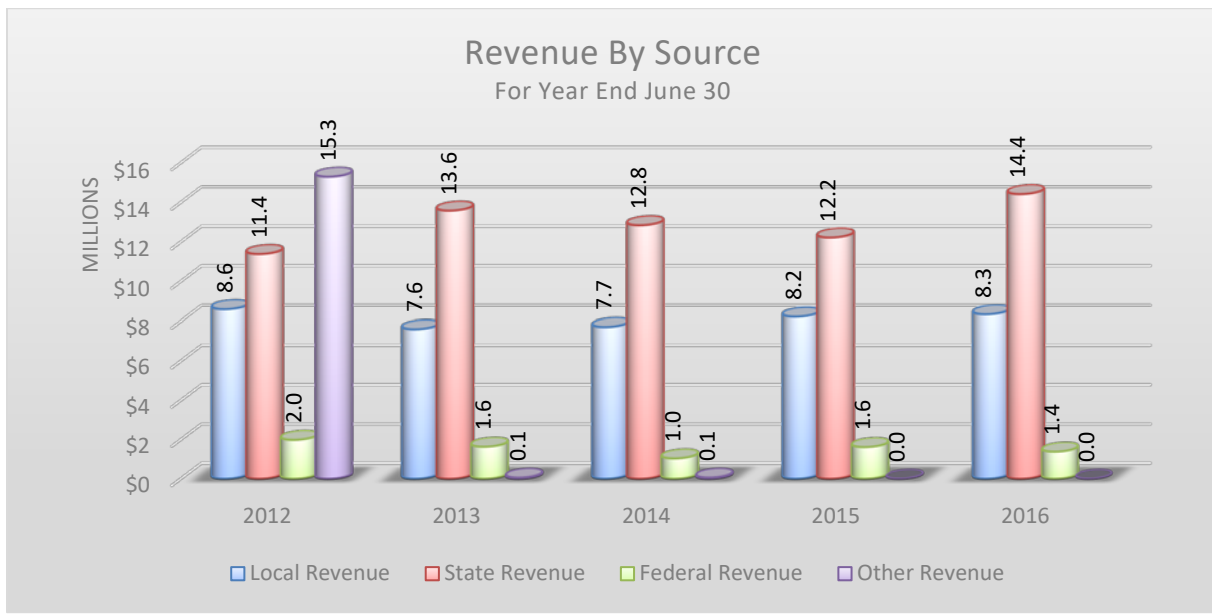
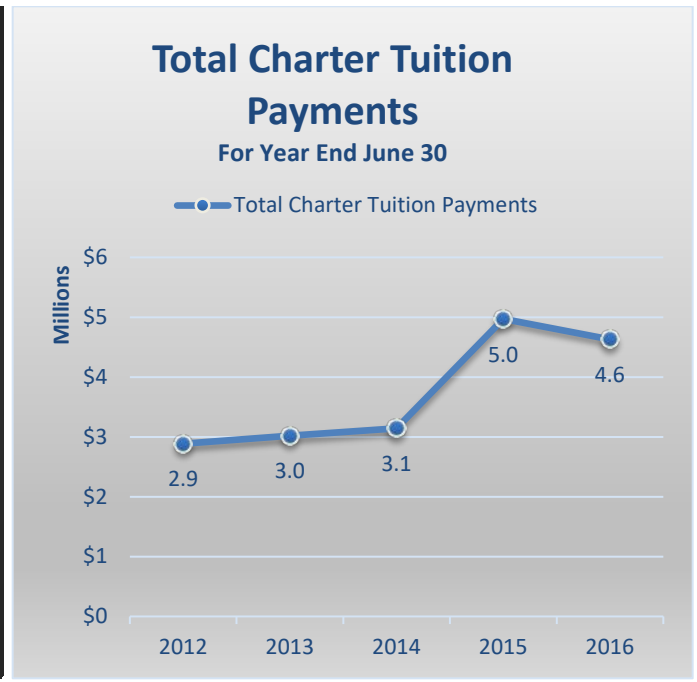
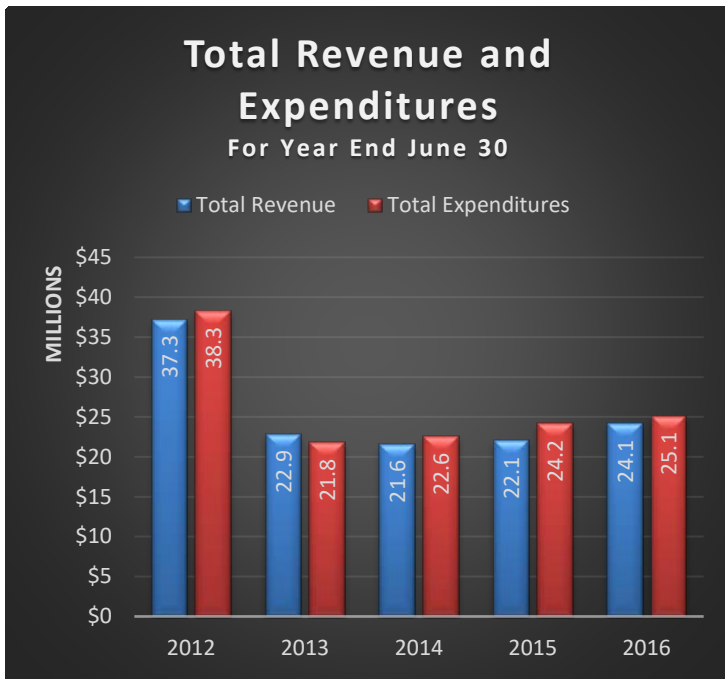


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA), Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15 and 2015-16 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 chart.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

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

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

What is the 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.

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

² PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to PDE's website for general information regarding the issuance of academic scores.

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

⁴ According to PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of PSSA exams to align with state Common 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.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁵ 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 at least 2020. 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.

What is a 4-Year Cohort Graduation Rate?

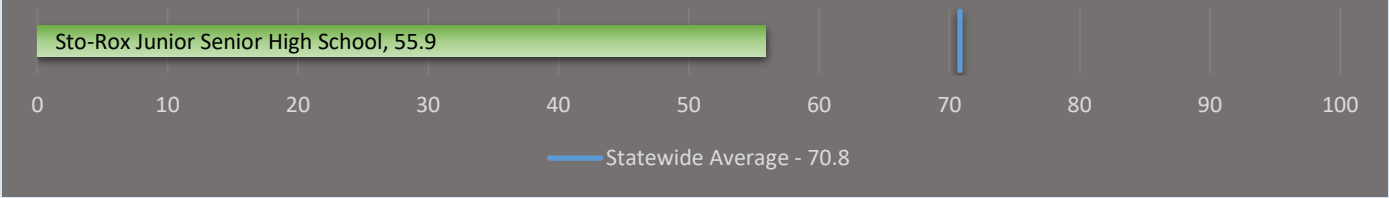
PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student 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.⁶

⁵ 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. (Also, see footnote 4).

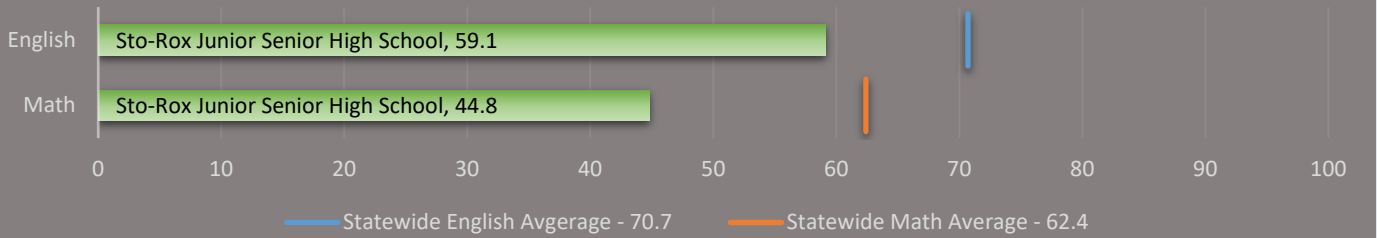
⁶ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

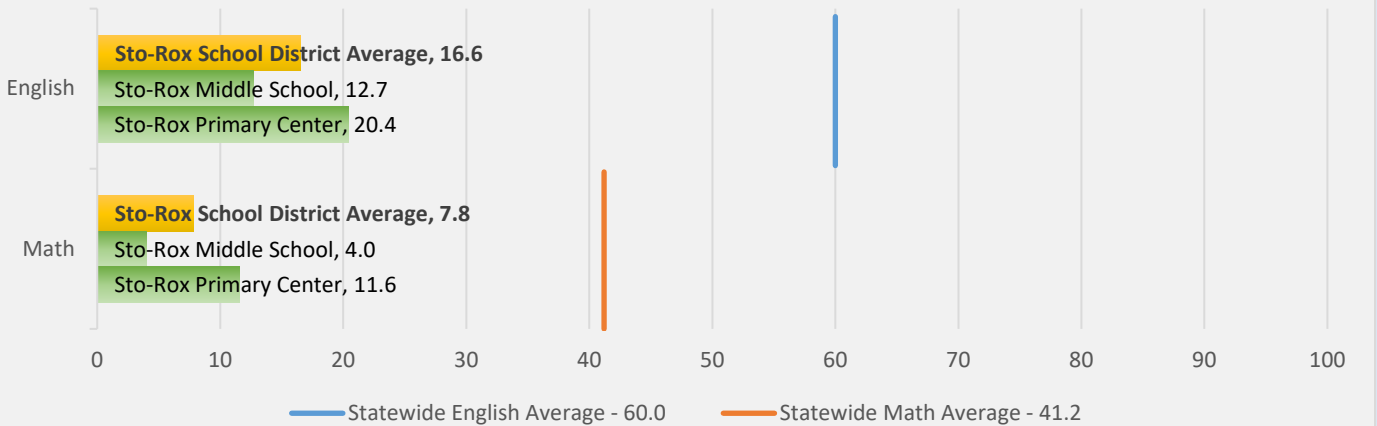
2014-15 SPP Scores



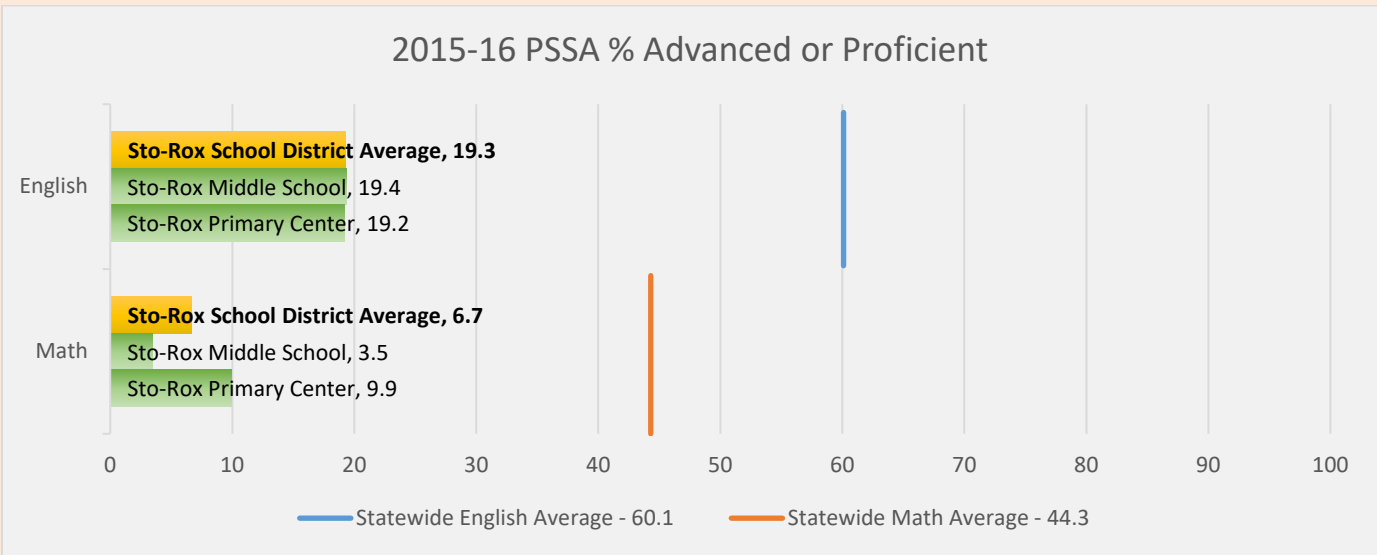
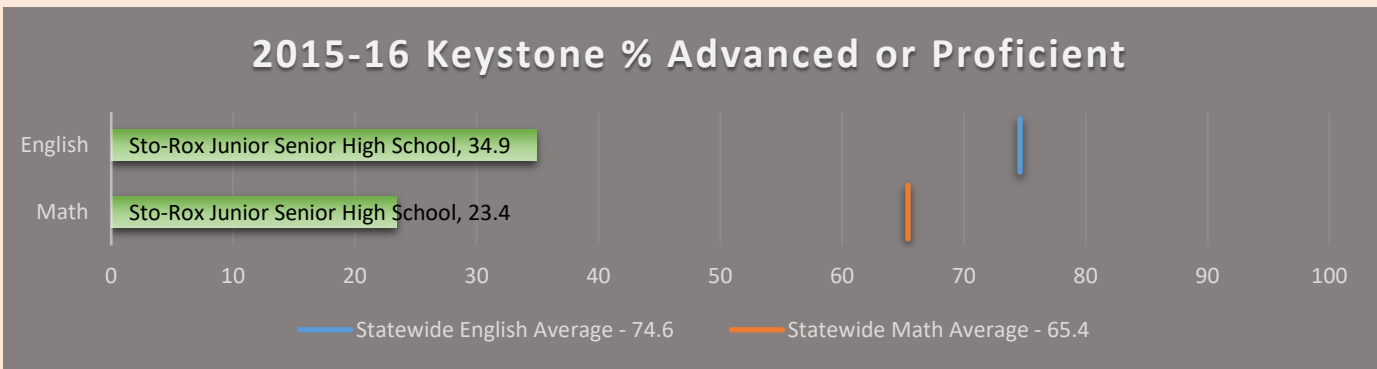
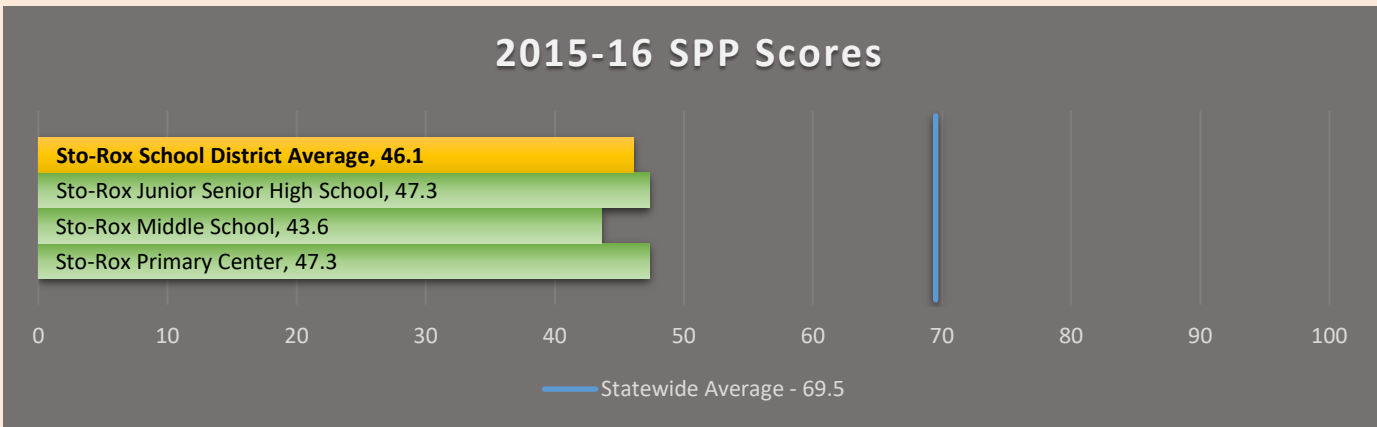
2014-15 Keystone % Advanced or Proficient



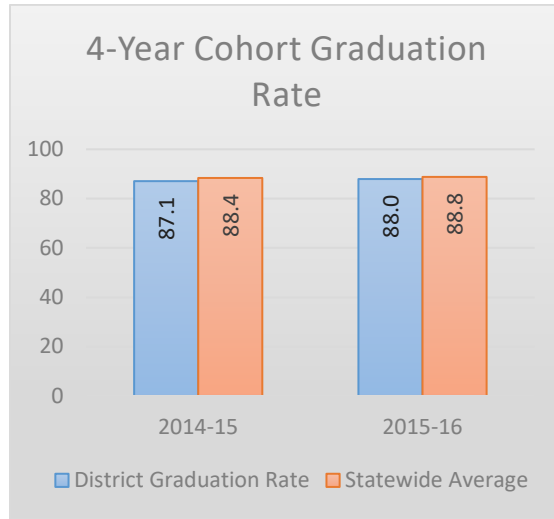
2014-15 PSSA % Advanced or Proficient



2015-16 Academic Data
School Scores Compared to Statewide Averages



4-Year Cohort Graduation Rate



Findings

Finding No. 1

Consecutive Operating Deficits Reduced the District's General Fund Balance from \$1.3 Million on June 30, 2013, to Negative \$2.6 Million as of June 30, 2016

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 policy on the level of unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk.

The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their general fund of no less than ten percent of regular General Fund operating revenues or regular general operating expenditures and operating transfers out of the General Fund.

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 borrowings. 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.

Our review of the Sto-Rox School District's (District) financial position over a four-year period revealed that the District's General Fund balance decreased significantly. The General Fund balance decreased from \$1,356,489 on June 30, 2013, to negative **\$2,641,419** as of June 30, 2016. A negative General Fund balance of this size leaves the District in a precarious financial position and makes the District a candidate to be placed on financial watch status by the Pennsylvania Department of Education (PDE).⁷ The District experienced operating deficits in all four years reviewed, and those deficits were the primary factor in the decrease in the General Fund balance.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of four years from July 1, 2012, through June 30, 2016. The following benchmarks raised concerns related to the District's finances and will be discussed in the remainder of the finding.

- General Fund
- Operating Position
- Revenues and Expenditures
- Budgeted Expenditures
- Current Ratio

General Fund

As shown in Chart 1, the District's General Fund balance has steadily decreased during the period reviewed. The District's negative **\$2,641,419** General Fund balance as of June 30, 2016, is significantly less than the fund balance recommended by GFOA (i.e. 10 percent of regular General

⁷ Section 611-A (relating to Early warning system) of the Public School Code (PSC), 24 P.S. § 6-611-A.

Criteria relevant to the finding (continued):

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

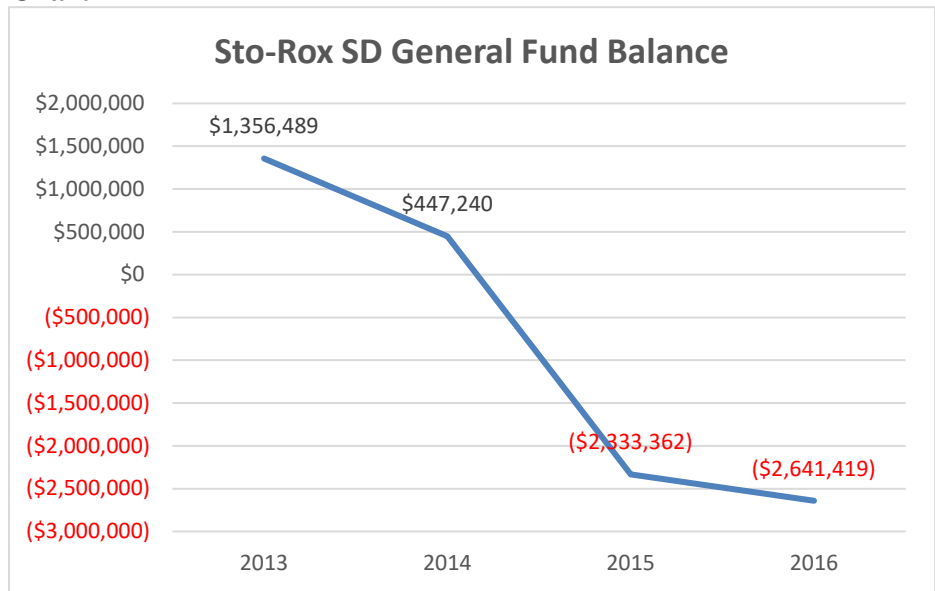
- Financial industry guidelines recommend that fund balances be between five percent and ten percent of annual expenditures.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).
- A district’s current ratio should be at least 2 to 1. Anything less calls into question the district’s ability to meet its current obligations with existing resources.

Section 609 of the PSC provides, in part:

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

Fund operating revenues or expenditures). A negative fund balance is also concerning for the following two reasons.

Chart 1



First, districts, like individuals, should have a “rainy day fund” to deal with emergencies or unforeseen needs, unanticipated expenses, and disruptions to revenue. The lack of available reserve funds led the District to obtain a \$7.5 million tax anticipation line of credit in September 2015. The District used \$2.0 million of this \$7.5 million line of credit in the 2015-16 fiscal year to meet operating expenditures like payroll. In essence, this borrowing was similar to a “payday loan” where the District borrowed against future local taxes revenues to obtain funds to continue operating.

Second, due to the District’s consecutive operating deficits and negative General Fund balance, it is in danger of being placed on financial watch status⁸ by PDE. Financial watch status is a precursor to being placed on Financial Recovery Status for districts that do not improve financially. A district placed on Financial Recovery Status loses local control of district operations.⁹ In these instances, the District’s Board of School Directors (Board) no longer has the authority to provide oversight of District operations.¹⁰ School districts on financial recovery status have a PDE-appointed chief recovery officer whose

⁸ Ibid. See also 22 Pa. Code § 731.2 (“Early Warning System – Statement of Policy”).

⁹ 24 P.S. § 6-601-A *et seq.* which provides for financial recovery in certain school districts.

¹⁰ Ibid.

responsibilities include oversight of the district and the development of a district-wide financial recovery plan.¹¹

Operating Position

A school district’s operating position is determined by reviewing the total operating revenues compared to total operating expenditures. An operating deficit occurs when expenditures are greater than revenues. The following table shows the District’s operating position for the four years reviewed and the operating deficit that occurred during the period.

Table 1

Sto-Rox SD General Fund Operating Position			
Fiscal Year Ended June 30	Total Revenues¹²	Total Expenditures¹³	Operating Surplus/ (Deficit)
2013	\$22,789,520	\$23,210,362	\$420,842
2014	\$21,673,355	\$22,582,604	\$909,249
2015	\$21,995,107	\$24,173,374	\$2,178,267
2016	\$24,137,173	\$25,099,136	\$961,963
Total:	\$90,595,155	\$95,065,476	\$4,470,321¹⁴

As shown in the table above, the District’s total expenditures exceeded total revenues for each year reviewed. These consecutive operating deficits highlight the need for the District to gain immediate control of its expenditures and generate sufficient revenue that results in a surplus and allows the District to develop a positive General Fund balance.

Revenues

The District relies on revenue from the state for the majority of its total revenue. Revenue from the state comprised 60 percent of the District’s total revenues in the

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

¹² Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2013 through 2016. While the statement was auditing by other auditors, we did not perform procedures to verify the accuracy of the amounts presented.

¹³ Ibid.

¹⁴ The difference between the District’s cumulative operating deficit (\$4,470,321) and the decrease in the General Fund balance (\$3,997,908) is \$472,413. This amount can be attributed to two prior period adjustments that occurred during the audit period.

2015-16 fiscal year. Another 34 percent of total revenues were derived from local revenues while federal revenue was the source of the remaining 6 percent.

Revenues derived from state and federal sources are known as subsidies. Subsidies are provided at the discretion of federal and state governments and, therefore, can have significant variances from year-to-year. For example, the District's state revenue decreased from \$13.7 million in the 2012-13 fiscal year to \$12.2 million in the 2014-15 fiscal year. Stagnant local revenue, the decrease in state revenue, and increasing expenditures resulted in the over \$2 million operating deficit the District experienced in the 2014-15 fiscal year. State revenue increased to \$14.4 million during the 2015-16 fiscal year. Even with this increase in state revenue, the District experienced an operating deficit due to steadily increasing expenditures.

The District's primary source of local revenue is property taxes. Local revenue generated from property taxes was stagnant during the period reviewed. The District's millage rate was 25.00 for the 2012-13 and 2013-14 fiscal years, and decreased to 23.19 for the 2014-15 and 2015-16 fiscal years. The District's millage rate was reduced during the county-wide assessment that occurred in Allegheny County during that year. The District believed that their tax base could not handle an increase in the millage rate and that an increase in the millage rate would be counterproductive and result in less revenue collected due to an increase in tax delinquencies.¹⁵

Expenditures

District expenditures increased from \$23.2 million in the 2012-13 fiscal year to over \$25 million in the 2015-16 fiscal year. This eight percent increase in expenditures should be concerning since revenues only increased five percent during this time period. The District's largest expenditure category is instructional expenses. Almost one third of the District's total expenditures in the 2015-16 fiscal year was classified as instructional expenses. The increase in expenditures can be attributed to increasing personnel costs (salary, benefits, and Public School Employees' Retirement System [PSERS] retirement

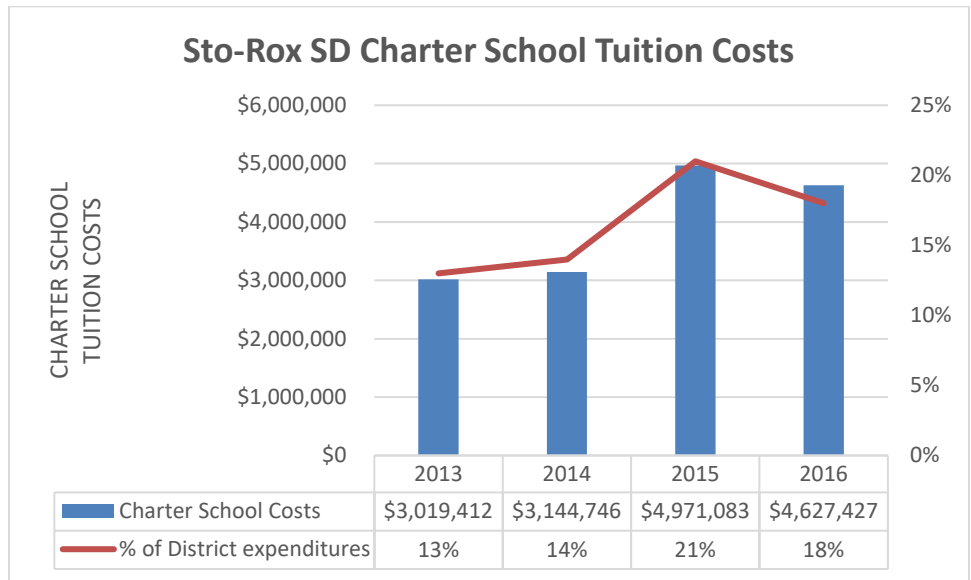
¹⁵ The District did increase their millage rate by .90 mills for the 2017-18 fiscal year in an effort to increase local revenue.

contributions) as well as an increase in District charter school costs.

Increased Charter School Costs

The District’s charter school tuition costs were a significant expenditure for each year of the audit period. Charter school tuition costs increased from \$3 million during the 2012-13 fiscal year to \$4.9 million during the 2014-15 fiscal year, and then decreased to \$4.6 million during the 2015-16 fiscal year. Charter school tuition costs adversely affected the District’s financial status and also reduced the funds available to support academic programs for the District. The chart below illustrates the District’s charter school tuition costs and the percentage of charter school tuition costs to total District expenditures.

Chart 2

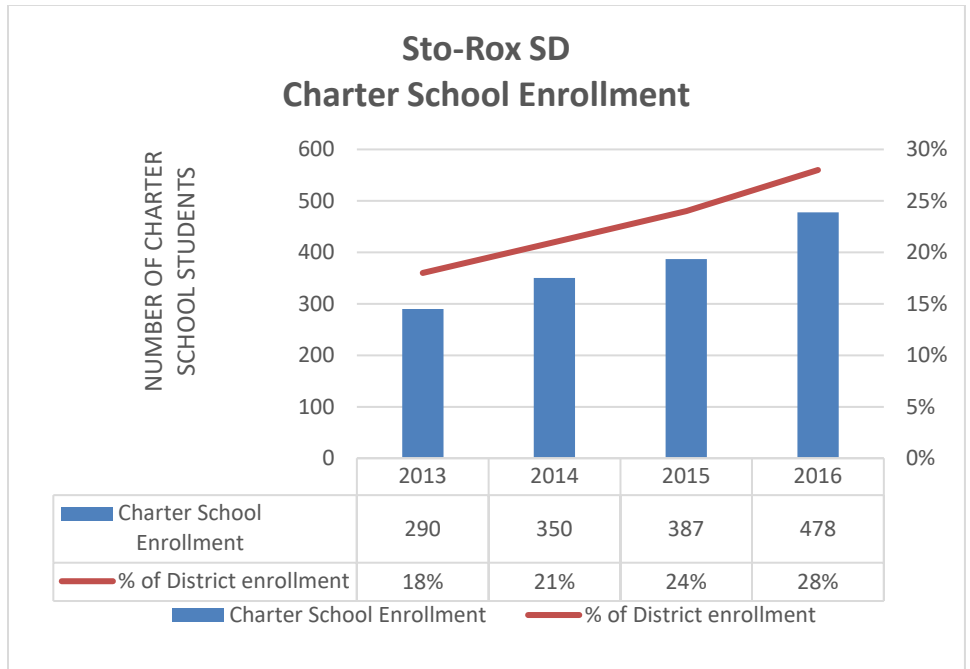


Increasing charter school enrollment produced an increase in the District’s financial obligation each fiscal year from 2012-13 through 2014-15. The District is cognizant of increasing charter school tuition costs and the financial strain these costs are to the District and has implemented operational changes in an effort to retain students. During the 2015-16 fiscal year, the District restructured grade levels within buildings and as a result was able to offer additional classes to students in the 7th and 8th grades. The District will implement a district-operated cyber program during the 2017-18 fiscal year. District officials are hopeful that restructuring grade levels and starting an internal cyber

program will help the District retain students and ultimately reduce charter school tuition costs.

District enrollment in charter schools increased 150 percent from 2012-13 to 2015-16 to 478 students; whereas the District’s overall enrollment, including charter school students, increased by 5 percent to 1,628 students in the same period. As a result, charter school enrollment, as a percentage of District enrollment, increased from 13 percent in the 2012-13 fiscal year to 18 percent in the 2015-16 fiscal year. The following chart demonstrates the growth in charter school enrollment and its relationship to the District’s enrollment.

Chart 3

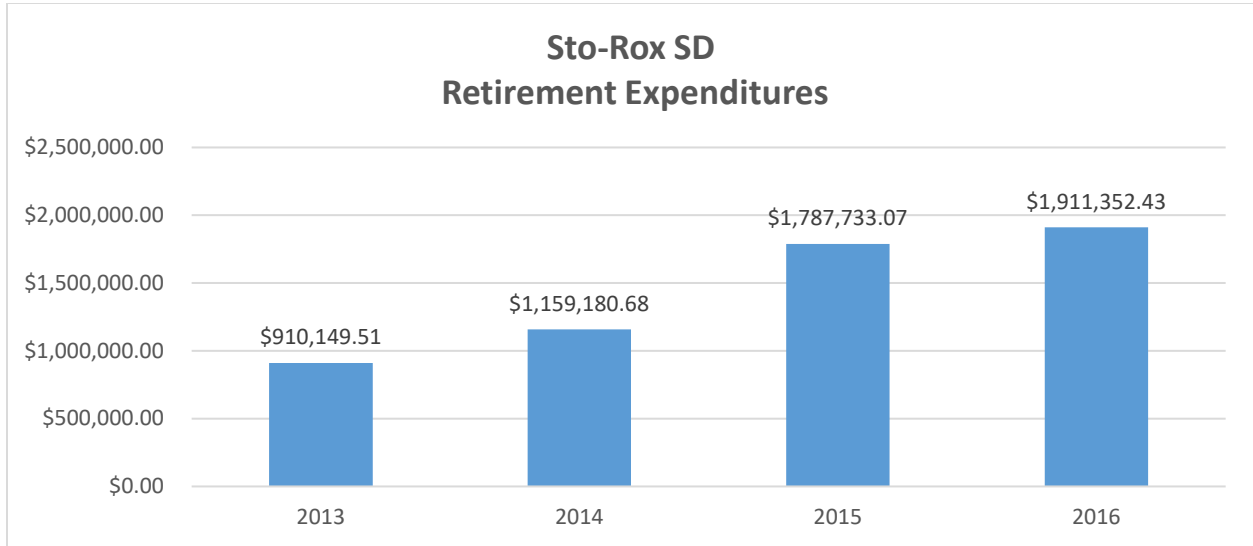


Increased Retirement Costs

The District’s required contribution to PSERS increased from 5.64 percent in 2012-13 to 25.84 percent in 2015-16. While this is a significant increase, the Commonwealth communicated these increases well in advance in order to give school districts the opportunity to prepare for the increases. Further, the District has been notified that the retirement contribution rates will continue to escalate, which will place even more of a financial burden on the District. Without a General Fund balance to absorb this increasing cost, it is imperative for the District to reduce other operational costs or generate additional revenue.

The chart below illustrates the increase in the District's retirement costs due to the increase in the District's retirement contribution rate.

Chart 4



Labor Relations

Members of the District's teachers union worked under individually negotiated one-year contracts¹⁶ for the four school years of 2013-14 through 2016-17. During the 2013-14, 2014-15, and 2015-16 school years, members of this union were paid in accordance with a salary schedule from the contract that expired on June 30, 2013. This three-year period was a salary freeze without cost of living or step increases. The one-year contract that covered the 2016-17 school year did contain a cost of living increase. As discussed above, instructional expenditures are the District's largest expenditure type, and salary and benefits are the largest component of instructional expenditures. Despite a salary freeze in place for three of the last four years, the District's instructional expenditures increased, and the District was unable to generate sufficient revenue to meet expenditures.

¹⁶ The District agreed to a long-term contract with Sto-Rox Education Association on May 25, 2017, for the 2017-18 to 2020-21 school years.

Budgeted Expenditures

The PSC requires that all school districts develop a balanced General Fund budget each year. In addition, the PSC prohibits districts from spending more than the amount budgeted. While the District developed a balanced General Fund budget each year of our audit period, it over-spent the budget in three of the four years reviewed.

The following table shows the District's actual General Fund expenditures compared to budgeted amounts for each year. The table also shows that the District cumulative over-spent the budgeted amounts by over \$2.2 million during the period reviewed.

Table 2

Sto-Rox SD			
Comparison of Budget vs. Actual General Fund Expenditures			
Fiscal Year Ended June 30	Budgeted Expenditures	Actual Expenditures	(Under)/Over Budget
2013	\$23,048,948	\$23,210,362	\$161,414
2014	\$23,048,948	\$22,582,604	(\$463,344)
2015	\$22,727,000	\$24,173,374	\$1,446,374
2016	\$23,985,000	\$25,099,136	\$1,114,136
Total:	\$92,809,946	\$95,065,476	\$2,258,580

Our review of budgeted expenditures compared to actual expenditures confirmed the District's statements that budgeting for special education expenditures was the primary reason actual expenditures exceeded budgetary amounts. For example, actual special education expenditures exceeded the budgetary amount for 2015-16 by \$2.1 million. The District stated that the number of special education students and types of services and/or institutions attended, based on each individual student's level of need, fluctuates from year to year and may even fluctuate significantly within the same school year, as students' needs change.

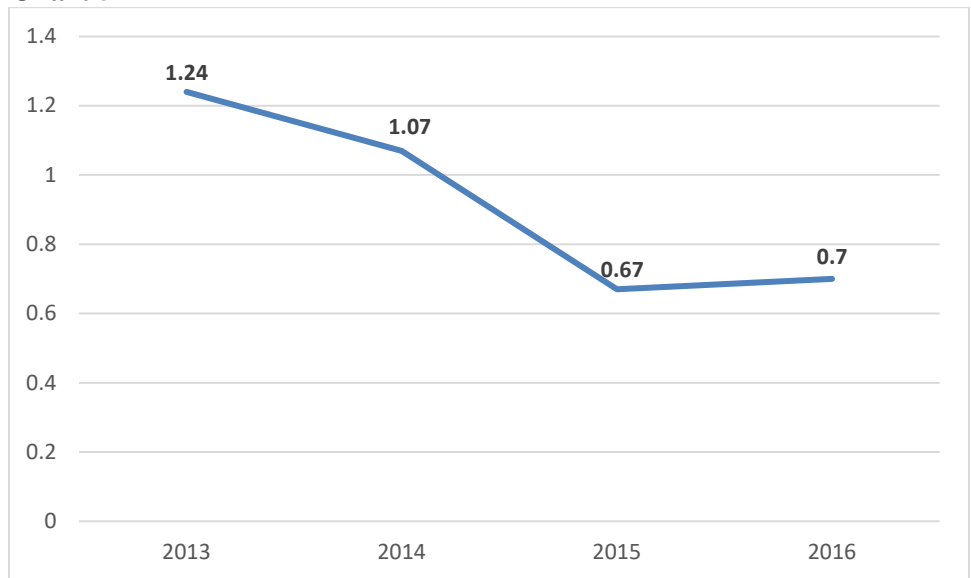
Current Ratio

The District's current ratio (current assets/current liabilities) was below the recommended level for all four years reviewed. Best business practices recommend that current ratios below 2 are considered weak. A current ratio

under 1 is especially troubling, because liabilities exceed assets. The District's current ratio was under 2 for all four years reviewed and under 1 for the 2014-15 and 2015-16 fiscal years. The District's current ratio was .67 for the 2014-15 fiscal year and .70 for the 2015-16 fiscal year.

Potential creditors use this ratio to measure a district's ability to pay its short term debts. The District's current ratio of .70 as of June 30, 2016, is concerning since the District took out a line of credit in that year to fund daily operations. The following chart illustrates the District's current ratio over the four years reviewed.

Chart 5



Conclusion

The District's inability to generate sufficient revenue to cover expenditures or reduce expenditures to a level equal to available revenue resulted in four years of operating deficits. Currently, the District does not have enough available funds to pay daily operating expenditures without borrowing funds. These consecutive operating deficits decreased the District's General Fund balance from \$1,356,489 on June 30, 2013, to a negative \$2,641,419 as of June 30, 2016. Due to the District's negative General Fund balance, it has been forced to borrow against future tax revenue to fund operations and potentially could be placed on financial watch status by PDE. It is imperative that the District make operational changes to reverse the

financial downturn that occurred during the period evaluated during our audit.

Recommendations

The *Sto-Rox School District* should:

1. Prepare a multi-year budget that adequately reflects annual commitments to help ensure that the District is prepared to meet future obligations. This budget should contain all known retirement costs.
2. Determine and finalize all contractual salary and benefits obligations as early as possible in the budgeting process so instructional expenditures can be budgeted as accurately as possible.
3. Review the process for budgeting special education expenditures and take a more conservative budgetary approach to this line item in the future.
4. Continue to discuss and implement programs designed to retain District students.

Management Response

District management provided the following response:

The District has been stopping unnecessary spending in an attempt to reduce the deficit. The Business Manager shares monthly with the School District's Board of Directors the Treasurer's Report along with Budget Reports and Cash Flow Projection Reports so that they are aware of the Cash needs for the operations of the District. However the cost of the charter school tuitions are posing an issue. The Board of Directors did approve a tax increase for the 2017/18 school year in hopes of decreasing the deficit as there hasn't been a tax increase in multiple years.

Auditor Conclusion

We are encouraged that the Board has voted to increase local taxes for the 2017-18 school year in an effort to generate sufficient revenue to meet expenditures. However, we continue to recommend that the District pursue a multi-year budget to better identify future commitments and the revenue needed to meet these commitments.

Finding No. 2

The District Failed to Comply with Retirement Payment Requirements Resulting in \$34,115 in Interest Charges and Subsidy Deductions

Criteria relevant to the finding:

PSERS 2015 Reference Manual provides the following guidelines:

Member (Employee)

Contributions:

Each month PSERS will calculate the amount due for each employee based on the salaries reported on the monthly Work Reports and Work Report Adjustments and using each employee's contribution rate.

The work reports are to be remitted no later than 10 days after the close of the month for which deductions were withheld. Example: For contributions withheld from payroll in the month of March, contributions must be remitted no later than April 10.

Employer Contributions:

The employer share of retirement contributions is remitted on a quarterly basis. The amount due is calculated using the required contribution rate times the total salaries reported for that quarter in the monthly Work Reports and Work Report Adjustments released during the quarter.

Our review of the District's payments to PSERS disclosed that on multiple occasions from October 2013 through June 2016, the District was either late in remitting payments to PSERS and/or failed to remit both the employer and employee share of its required retirement contributions. The District's failure to comply with the payment requirements resulted in the District incurring interest charges of more than \$34,000 and subsidy deductions totaling over \$1.7 million.

All school districts are required to make payments to PSERS during each fiscal year to fund employee retirement benefits. There are two types of payments that are made by the District to PSERS: the *employee* contribution and the *employer* contribution. The *employee* contribution is withheld from the employees' salary/wages and is remitted to PSERS monthly. The *employer* contribution is the District's share to help fund the employee's retirement benefits and is remitted to PSERS quarterly.

When the District fails to remit the required retirement contributions to PSERS, PDE is notified and PDE is required to deduct the delinquent amounts from the District's subsidies that are received from the Commonwealth. On **six occasions** from June 2015 to June 2016, PDE reduced the District's basic education subsidy and/or the retirement subsidy for a total of \$1,798,974.

In addition to the subsidy deductions, the District was assessed interest charges of \$34,115 due to payments not being received by the due date. PSERS guidelines state that a penalty of six percent per annum may be charged on any remaining amount due and is charged at the end of each month of delinquency. However, according to PSERS officials, PSERS reserves the right to reduce interest charges or waive interest charges entirely and this determination is made on a case-by-case basis. PSERS officials stated that the \$34,115 of interest charges assessed

Criteria relevant to the finding (continued):

PSERS posts the *Employer Statements of Account* on a secured website, accessible by employers only the first of each month so employers can see the amount due for each quarter as that quarter progresses and after it has ended.

- Employers must pay the Employer Contributions to PSERS by the due dates.
- If payments are not received by the due date, PSERS may charge delinquent interest at a rate of six percent per annum on any remaining amount due.

If Payments Are Not Received by PSERS:

Unpaid contributions and subsequent interest charges may be recovered from your Basic Education Subsidy and/or Retirement Subsidy distribution(s) from the Department of Education.

PSERS Reference Manual
(<http://www.psers.pa.gov/Employers/Pages/EmployerManual.aspx>)

to the District was less than PSERS guidelines stipulated because it considered the financial situation of the District, as well as the turnover in the District's business office.

As noted in Finding No. 1, the District was experiencing significant financial issues, most notably, a lack of available funds during the time period when the employee and employer contributions were not remitted to PSERS in accordance with requirements. According to District officials, the *employee* contributions withheld from District employees' salary/wages remained in the District's General Fund. Due to the ongoing financial issues and a lack of available funds, the District chose to use their limited funds to meet payroll and other urgent operating expenses. The District used both employee and employer contributions to meet other operating expenses and only made its payments to PSERS when it had the cash flow to do so. The resulting effect of this decision was both the interest charges incurred and the subsidy deductions.

It is important to note that we confirmed with PSERS that the lack of timely payments by the District did not impact the District employees' individual retirement accounts. When the District failed to timely remit the retirement contributions, PSERS estimated the hours worked for each District employee based on the previous year's work reports and credited the individual accounts accordingly. After the actual work reports were submitted by the District, PSERS adjusted the previously estimated figures as needed to ensure that the District's employee's individual retirement accounts were accurate.

Recommendations

The *Sto-Rox School District* should:

1. Immediately cease the practice of using employee and employer retirement contributions as a way to address cash flow issues. In addition, the District should develop a plan to identify other revenue streams that can be accessed if the District continues to encounter cash flow issues in the future.
2. Establish procedures to ensure that all employee contributions that are withheld from payroll are remitted to PSERS monthly in accordance with requirements. In addition, the District must ensure that

employer contributions are remitted timely to PSERS quarterly. Further, the District should implement oversight procedures governing these payments to ensure payments are made timely and that the District does not incur unnecessary interest charges in the future.

Management Response

District management provided the following response:

The School District is currently sending all reports to PSERS on a monthly basis as well as sending the employee contributions on a monthly basis. The new Business Manager is working with the Superintendent and the Board to work on the cash flow issues including using TAN Notes. However the Charter School Tuitions are taking all of the Basic Ed and Retirement Subsidy creating a cash flow issue.

Auditor Conclusion

While we are encouraged that the District states it is sending *employee* contributions to PSERS on a monthly basis, we continue to recommend that the District make the required quarterly *employer* retirement contributions to PSERS as well. We also continue to have concerns about the District's ability to meet operating expenditures without using employer retirement contributions.

Finding No. 3

The District Failed to Ensure School Bus Drivers and Bus Monitors Met All Employment Requirements, Including Obtaining Background Checks

Criteria relevant to the finding:

Chapter 23 (relating to Pupil Transportation) of the State Board of Education Regulations, among other provisions, provides that the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations. See, in particular, 22 Pa. Code § 23.4(2).

Section 111 of the Public School Code (PSC) requires state and federal criminal background checks. Section 6344(a.1)(1) of the State Child Protective Services Law requires a child abuse clearance. See 24 P.S. § 1-111 and 23 Pa.C.S. § 6344(a.1)(1), as amended.

With regard to criminal background checks, Sections 111(b) and (c.1) of the PSC require prospective school employees who have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information (CHRI) obtained from the Pennsylvania State Police, as well as a report of Federal CHRI records obtained from the Federal Bureau of Investigations. These provisions also require school administrators to obtain the required records prior to employment and to maintain a copy on file with the employment application, including documentation for individuals hired by a contractor pursuant to Section 111(a.1). See 24 P.S. § 1-111(a.1), (b), and (c.1).

The District failed to meet the statutory obligations related to the employment of individuals having direct contact with students for the 2016-17 school year. Specifically, we found the District did not ensure that all bus drivers and bus monitors had the required credentials and criminal history clearances *before* they transported students at the beginning of the 2016-17 school year. We also found that the District failed to comply with a post-employment filing requirement, had an insufficient policy, and no procedures to ensure a District review of employment documentation before drivers were permitted to transport District students. Finally, the District's Board did not approve the initial or revised list of bus drivers and monitors for the 2016-17 school year.

We are concerned that problems related to bus driver qualifications were also found during our three previous audits, dating back to the period beginning July 1, 2007. The District's failure to implement any of our prior audit recommendations has led to the continuing legal noncompliance and inadequate internal controls over compliance that are identified in this finding.

The District explained that it relied on the transportation contractor to obtain licenses and clearances and provide them to the District. However, once the District received the documentation, there was no procedure to review the documentation for completeness and verify that each of the contracted drivers and monitors met the requirements to transport District students.

Ensuring that required credentials and clearances are satisfied and approving bus drivers and any others having direct contact with students are vital student protection responsibilities placed on the District and its Board. The ultimate purpose of these requirements is to ensure the safety and welfare of students transported in school buses.

The use of a contractor to provide student transportation does not negate these responsibilities.

*Criteria relevant to the finding
(continued):*

Section 111(a.1) specifies that bus drivers employed by a school entity through an independent contractor who have direct contact with children must also comply with Section 111 of the PSC. See 24 P.S. § 1-111(a.1)(1).

Section 111(c.4) further requires administrators to review the reports and determine if the reports disclose information that may require further action. See 24 P.S. § 1-111(c.4).

Administrators are also required to review the required documentation according to Section 111(g)(1) of the PSC. This section provides that an administrator, or other person responsible for employment decisions in a school or institution under this section who willfully fails to comply with the provisions of this section commits a violation of this act, subject to a hearing conducted by PDE, and shall be subject to a civil penalty up to \$2,500. See 24 P.S. § 1-111(g)(1).

Effective September 28, 2011, Section 111(j)(2) required all current school employees to submit an “Arrest/Conviction Report and Certification Form” (PDE-6004 Form) to their administrator indicating whether or not they have ever been arrested or convicted of any Section 111(e) criminal offense by December 27, 2011. See 24 P.S. § 1-111(j)(2).

Requirements

School districts are required to verify and have on file a copy of the following information for all employees and contracted employees who transport the District’s students:

1. Driver qualification credentials,¹⁷ including:
 - a. Valid commercial driver licenses with an “S” endorsement, permitting the operation of a school bus
 - b. Annual physical examination
2. Criminal history reports/clearances:
 - a. State Criminal History Record
 - b. Federal Criminal History Record
 - c. PA Child Abuse History Clearance
 - d. Arrest/Conviction Report and Certification Form (PDE-6004)¹⁸

Noncompliance with Pre-employment Requirements

The District contracted for bus services, and the contractor employed 31 drivers and 14 monitors for the 2016-17 school year. We evaluated the documentation for all 31 drivers and 3 monitors. We found that the District had relied upon the contractor to obtain all necessary licenses and clearances. Though our review disclosed that the contractor provided some of the required employment documentation, the District failed to review the documents on file to verify that they were complete and that individuals were qualified for employment. Our review of the 31 contracted drivers and 3 bus monitors revealed that the District did not comply with the legal requirements related to the required state and federal clearances and the *Arrest/Conviction Report and Certification Form* as detailed below.

State Criminal History Record

Documentation for 8 of the 31 drivers (26 percent) reviewed showed a deficiency related to the Pennsylvania Criminal History Record. For five of those drivers, the

¹⁷ Pennsylvania Vehicle Code, 75 Pa.C.S. § 1509(a).

¹⁸ <http://www.education.pa.gov/documents/teachers-administrators/background%20Checks/arrest%20or%20conviction%20form.pdf> Accessed October 10, 2017.

*Criteria relevant to the finding
(continued):*

See also PDE Basic Education Circular on Background Checks, issued December 12, 2011.

Section 6344.4 of the Child Protective Services Law, now requires recertification of the required state and federal background checks and the child abuse clearance every 60 months. See 23 Pa.C.S. § 6344.4.

record was noted as “still under review,” indicating a final determination regarding employment eligibility had not yet been made by the District. For the other three drivers, the records had been produced by a third party provider rather than the Pennsylvania State Police as required by law.

Federal Criminal History Record

We also found that the District files lacked the Federal Criminal History Record for 24 of the 31 drivers (77 percent) and 2 of the 3 monitors (67 percent).

By not reviewing the required state clearances and not obtaining and reviewing the required federal clearances, the District was unable to verify the employment suitability of its contracted bus drivers and monitors. The lack of documentation of the federal clearances also limited our ability to verify qualifications for those individuals with clearances missing from their files.

Noncompliance with Post-employment Requirements

In 2011 and 2012,¹⁹ Section 111 of the PSC was amended to require all school employees, including contracted bus drivers and monitors, to file an *Arrest/Conviction Report and Certification Form* by December 27, 2011. This form would indicate whether or not the individual was previously arrested or convicted of a Section 111 reportable offense²⁰ potentially impacting employment eligibility based on the revised law.

Arrest/Conviction Report and Certification Form

We reviewed bus driver and monitor records to determine the District’s compliance with the one-time filing date of December 27, 2011. Our review found that the District failed to obtain and file the required *Arrest/Conviction Report and Certification Form* (PDE-6004) for 28 of the 31 drivers (90 percent) and 2 of the 3 monitors (67 percent).

Moving forward, the District should be aware that this form is to be used by current employees to provide written notice

¹⁹ Pursuant Act 24 of 2011 and Act 82 of 2012.

²⁰ Convictions of specific criminal offenses requiring an absolute ban to employment are defined under Section 111(e) and convictions requiring a specified 3, 5, or 10 year look-back period in Section 111(f.1) of the PSC, effective September 28, 2011, and July 1, 2012, respectively. See 24 P.S. § 1-111(e), (f.1).

within 72 hours after an arrest or conviction of a reportable offense specified by Section 111 of the PSC. Additionally, this form is to be used by prospective employees as part of the hiring process to self-certify that the individual has **not** been arrested for or convicted of any reportable offense that would disqualify the individual from employment for positions which have direct contact with children.²¹ This form is also to be used to verify that the individual has **not** been named as a perpetrator of a founded report of child abuse within the past five years as defined by the Child Protective Services Law (CPSL)²² that would disqualify him from employment.

Lack of Board Approval

The District's official board meeting minutes for its August 2016 meeting indicated that bus drivers and monitors were approved by the Board for the upcoming school year. However, it was actually only bus stops that were approved. Additionally, we noted the Board approved a revised list of bus drivers and monitors four months into the school year at its January 2017 meeting, but again, the District could not provide us with a list of the drivers that were approved. The Superintendent was provided with the driver and monitor list and, based upon the Superintendent review, the Board makes a blanket approval of bus drivers and monitors. This is in noncompliance with the State Board of Education's regulations which state: "[t]he board of directors of a school district is responsible for all aspects of pupil transportation programs, including the following: . . . (2) The selection and approval of . . . eligible operators who qualify under the law and regulations."²³

Conclusion

Timely oversight and approval of bus drivers and any others having direct contact with students is a vital responsibility placed on the District and its Board. This includes being vigilant about pre-employment and post-employment qualifications. Any failure to obtain and review required employment documentation may delay the identification of individuals who are disqualified from

²¹ Ibid.

²² After the enactment of Act 4 of 2016 (on February 16, 2016), PDE amended the form to add the identification of any individual named as a perpetrator of a founded report of child abuse within the past five years as defined by the CPSL. See PDE-6004, updated March 1, 2016.

²³ 22 Pa. Code § 23.4(2).

having direct contact with children under the PSC and/or the CPSL. The use of a contractor to provide student transportation does not relieve the District and the Board from these mandated responsibilities.

It is also the responsibility of District management to have adequate policies and procedures in place to ensure that all employees and contracted employees have met the statutorily mandated requirements. By not having procedures in place to ensure that a thorough review of hiring documents and clearances is conducted prior to employment, the District cannot ensure that employees and contracted employees are properly vetted and qualified to have direct contact with children. Similarly, the failure to review and document continued employment eligibility based on revisions to the law may result in individuals having direct contact with children when they may have been disqualified from doing so.

Having unqualified or unsuitable bus drivers transporting District students results in noncompliance with the PSC, the CPSL, the Vehicle Code, as well as the applicable regulations. It also creates an increased risk to the safety and welfare of the students. Therefore, it is imperative that the District implement sound and effective policies and procedures to ensure that statutorily mandated requirements have been met.

Recommendations

The *Sto-Rox School District* should:

1. Immediately obtain and review all employment qualification documentation for all current drivers and monitors and document the results of this review. Employment eligibility should be considered on a case-by-case basis, with student safety serving as the utmost consideration.
2. Obtain and review *Arrest/Conviction Report and Certification Forms* obtained from current and prospective employees for completeness and accuracy.
3. Establish and implement written policies and procedures to ensure that the District is receiving and reviewing all pre-employment qualification documentation for all employees, including contracted

bus drivers and monitors, prior to the start of employment and having direct contact with children.

4. Establish and implement written policies and procedures documenting Board approval prior to the start of the school year of qualified driver and monitor lists.
5. Establish written policies and procedures to ensure the District obtains all required post-employment notifications when employees, including contracted drivers and monitors, are charged with or convicted of crimes that could affect their suitability to continue to have direct contact with children.

Management Response

District management provided the following response:

The listing of Bus/Van driver's is given to the Board of School Directors with the Driver's Employment requirements including the dates they were met and it is [sic] presented prior to the start of the school year. If a hire is done after the start of the school year the Board of Directors is presented with the name and information for meeting the employment requirements prior to their start date.

Auditor Conclusion

While District management's response describes a process that the District believes is taking place, our review of the District's official board meeting minutes found no evidence of Board approval of a list of bus drivers and monitors prior to the start of the 2016-17 school year. Additionally, the District did not comment on its failure to obtain and review all required pre-employment and post-employment documentation to determine the suitability of all bus drivers and monitors having direct contact with District students. Similarly, the District's reply did not address its lack of written policies and procedures to ensure that the District obtains and reviews all required employment documentation before allowing individuals to have direct contact with students.

The District's silence on these matters is concerning given that this is the fourth consecutive audit where the District has failed to have the proper bus driver qualification documentation on file. We continue to stress the importance of the District's and the Board's responsibilities related to hiring practices and employment requirements. Further, we continue to recommend that the District be proactive in obtaining and reviewing all required qualifications prior to allowing drivers to have contact with District students.

We believe that the implementation of our recommendations is in the best interest of the District and its students. We will review any actions taken by the District during our next audit and hope to find improvement.

Status of Prior Audit Findings and Observations

Our prior audit of the Sto-Rox School District (District) released on September 13, 2013, resulted in one finding and one observation, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on September 13, 2013

Prior Finding: **The District Did Not Have Certain School Bus Drivers' Qualifications on File for the Third Consecutive Audit**

Prior Finding Summary: During our prior audit, we found that federal criminal history records were missing for three bus drivers. In addition, the District did not have written policy in place to ensure administration was informed if a current employee had been charged with a crime since their hire date. This was the District's third consecutive audit with a finding and/or observation on these issues.

Prior Recommendations: We recommended that the District should:

1. Immediately amend the job description of the District's transportation coordinator to reflect a mandatory, periodic review of all bus drivers' qualifications prior to that person transporting students.
2. Immediately establish policies and procedures requiring the transportation coordinator to maintain files, separate from the transportation contractor's maintenance of files for all District bus drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.
3. Implement written policies and procedures to ensure the District is notified when bus drivers are charged with or convicted of a crime.
4. Upon execution of its next transportation contract, require the contractor to inform the District of any bus driver that is charged with or convicted of a crime and institute a financial penalty for failure to comply.
5. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's contractors have been charged with or convicted of crimes that,

even though not disqualifying under the law, affect their suitability to have direct contact with children.

The *District's Board of School Directors* (Board) should:

6. Establish a process for ensuring that it monitors District Management's compliance with the recommendations above.

Current Status:

During our current audit, we found that the District has amended the job description of the Transportation Coordinator to include the responsibility of periodic reviews of all bus drivers' qualifications. We also noted that the District has established procedures for the Transportation Coordinator to obtain and maintain a separate file of all necessary bus drivers' qualifications and update this file continuously. However, we found that the files were not being updated when necessary and the District has not taken any action to address recommendations 3 through 6. See Finding No. 3 in this report for the results of our review of this objective.

Prior Observation:

The District Should Monitor Key Financial Indicators to Try to Prevent Further Fiscal Challenges

Prior Observation
Summary:

During our prior audit, we found that the District was potentially in a financially declining position. During the 2011 school year, the District failed to file its Annual Financial Report (AFR) with the Pennsylvania Department of Education within one month of its due date. Additionally, during our trend period of 2006 through 2011, the District over expended its revenues, thereby decreasing its operating position. Our prior audit also found that for the same trend period, the number of District students attending charter schools had increased by over ten percent. At the same time, the cost of students attending charter schools increased.

Prior Recommendations: We recommended that the District should:

1. Provide the Board standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
2. Maintain and monitor sensitive budgetary controls so that expenditures do not exceed revenues.
3. Open a dialogue with the District's communities, Stowe Township and McKees Rocks Borough, to keep stakeholders informed of the financial status and health of the District.

4. Amend the job description of the District's Business Manager to tie the accurate and timely reporting of financial information and reports to job performance.
5. Conduct a survey of parents sending children to a charter school to determine the reason why the District is losing more students to charter schools.

Current Status:

During our current audit, we found the District is now providing monthly updates to the Board on key financial benchmarks. However, during our review of the District's financial stability in the current audit, we found that our other recommendations were not implemented. See Finding No. 1 in this report for the results of our review of this objective.

Appendix: Audit Scope, Objectives, and Methodology

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

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,²⁴ is not a substitute for the local annual financial audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2012, through June 30, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The Sto-Rox School District's (District) management is responsible for establishing and maintaining effective internal controls²⁵ to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). 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.

²⁴ 72 P.S. §§ 402 and 403.

²⁵ Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as: effectiveness and efficiency of operations; relevance and reliability of operational and financial information; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2012, through June 30, 2015. 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
- Retirement Contributions
- Bus Driver Requirements
- Transportation Operations
- 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, budgets, and independent auditor's reports for fiscal years ending June 30, 2013, through June 30, 2016. The financial and statistical data was used to calculate key financial indicators for the District. Some of the financial indicators calculated were the District's General Fund balance, operating position, charter school tuition 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 the Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. The results of our review of this objective can be found in Finding No. 1.

- ✓ Did the District remit both the employer and the employee shares of retirement contributions to the Public School Employees' Retirement System (PSERS) in accordance with the Public School Code and PSERS guidelines?²⁶
 - To address this objective, we reviewed the District's Retirement Payment ledgers to determine if the District made the required monthly employee and quarterly employer share of PSERS retirement payments in a timely manner. For payments not made timely, we reviewed the District's deductions to determine the amount of the delinquent payments and the reason for the delinquency. We also interviewed District and PSERS staff to understand the reporting process and to obtain relevant communications between PSERS and the District. The results of our review of this objective can be found in Finding No. 2.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?²⁷ 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 selected all 31 bus drivers/monitors hired by both the District and District bus contractor, during the 2016-17 school year, and reviewed documentation to ensure the District complied with the requirements for bus drivers/monitors. We also determined if the District had written policies and procedures governing the hiring of bus drivers/monitors and if those procedures ensure compliance with bus driver/monitor hiring requirements. The results of our review of this objective can be found in Finding No. 3.

- ✓ 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?²⁸
 - To address this objective, we requested documentation to support payments made to the transportation contractor for payable years 2012-13, 2013-14, 2014-15, and 2015-16. We reviewed the documentation for these five years to determine if contractor costs were accurately reported to PDE.²⁹ Our review of this objective did not disclose any reportable issues.

²⁶ PSERS Employers Reference Manual (March 26, 2015 edition).

²⁷ 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.

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

²⁹ Districts are reimbursed by the Commonwealth annually based on the lower of "reported contractor cost" or "final formula allowance."

- ✓ Did the District take actions to ensure it provided a safe school environment?³⁰
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, and anti-bullying policies. In addition, we reviewed the District’s website noting if the District had applicable safety policies and anti-bullying policies and any other documentation for parents and community to view. We verified whether the District is following its bullying policies and implemented basic safety practices. Additionally, we conducted a building walk through of the District’s junior/senior high school to determine if the District had incorporated its safety plan into practice to ensure a safe learning environment for students. Due to the sensitive nature of school safety, the results of our review of this objective are not described in our report. The results of our review of school safety are shared with District officials and, if deemed necessary, PDE.

³⁰ 24 P.S. § 13-1301-A *et seq.*

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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