

# PERFORMANCE AUDIT

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## Plum Borough School District Allegheny County, Pennsylvania

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May 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Dr. Timothy Glasspool, Superintendent  
Plum Borough School District  
900 Elicker Road  
Plum, Pennsylvania 15239

Mr. Kevin Dowdell, Board President  
Plum Borough School District  
900 Elicker Road  
Plum, Pennsylvania 15239

Dear Dr. Glasspool and Mr. Dowdell:

We have conducted a performance audit of the Plum Borough School District (District) for the period July 1, 2011 through June 30, 2015. We evaluated the District's performance in the following areas:

- Governance
- Bus Driver Requirements
- Financial Stability
- Contracting
- Data Integrity
- School Safety

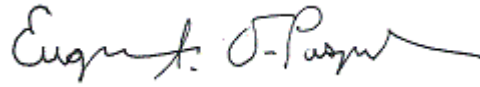
The audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to 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 areas listed above except as noted in the following finding:

- The District's General Fund Decreased by Over \$4.5 Million from June 30, 2010 through June 30, 2014, Due to Persistent Operating Deficits.

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 19, 2016

cc: **PLUM BOROUGH SCHOOL DISTRICT** Board of School Directors

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## Background Information<sup>i</sup>

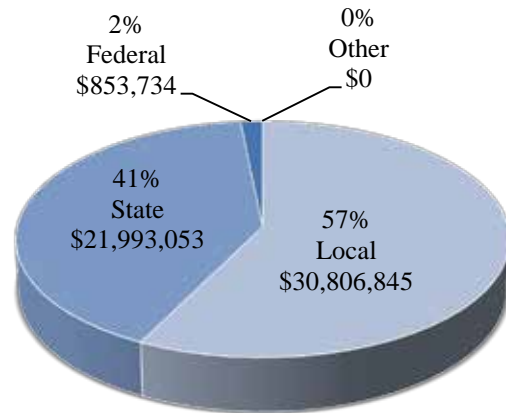
School Characteristics 2014-15 School Year <sup>ii</sup>	
County	Allegheny
Total Square Miles	28
Resident Population <sup>iii</sup>	27,126
Number of School Buildings	6
Total Teachers	269
Total Full or Part-Time Support Staff	214
Total Administrators	21
Total Enrollment for Most Recent School Year	3,880
Intermediate Unit Number	3
District Vo-Tech School	Forbes Road Career and Technology Center

### Mission Statement

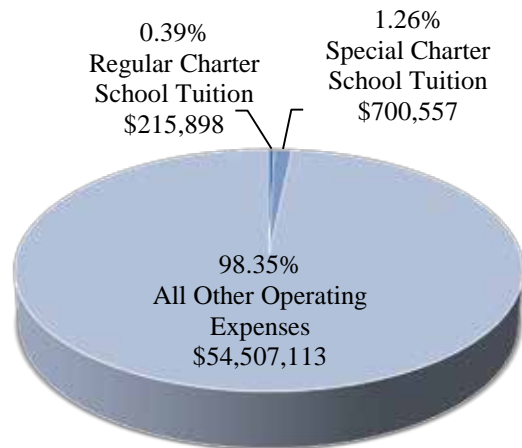
“The Plum Borough School District’s mission is to educate children in a safe and engaging learning environment while developing creative problem-solvers, critical thinkers and globally competitive citizens.”

## Financial Information

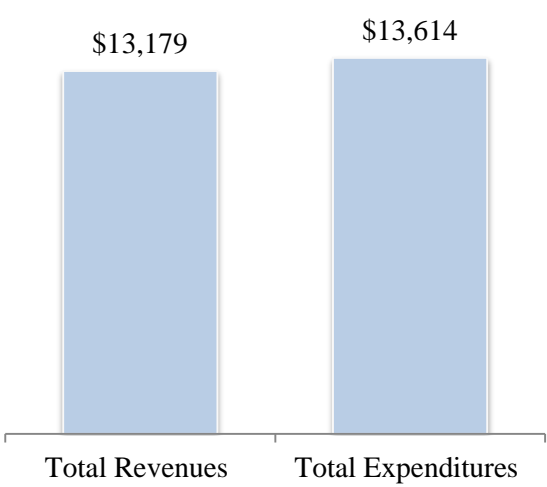
### Revenue by Source for 2012-13 School Year



### Select Expenditures for 2012-13 School Year

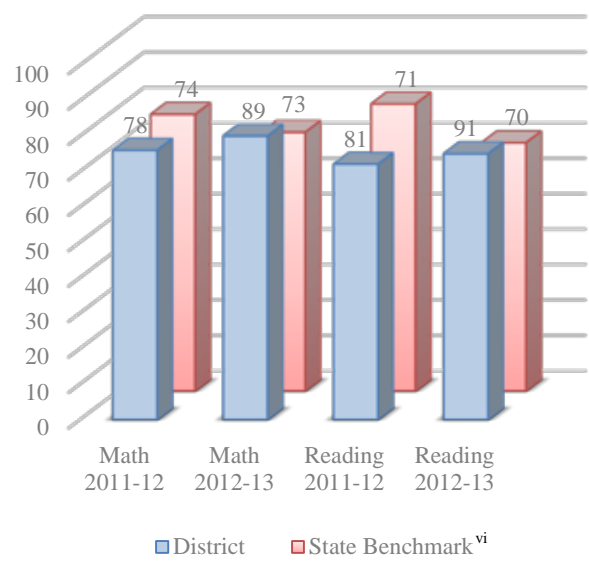


**Dollars Per Student  
2012-13 School Year**

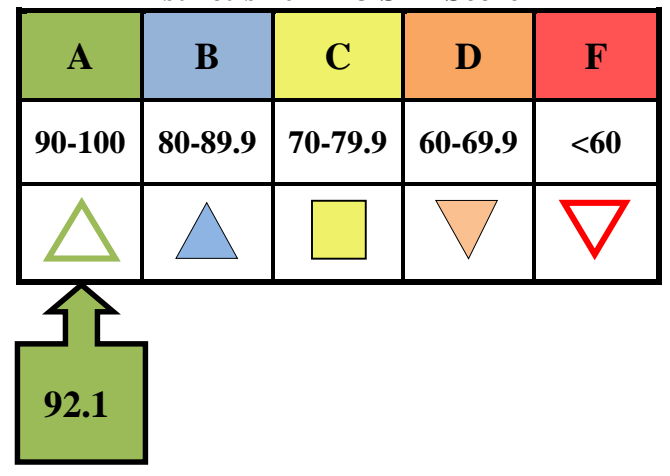


**Academic Information**

**Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA<sup>iv v</sup>**



**District's 2012-13 SPP Score<sup>vii</sup>**



**Individual Building SPP and PSSA Scores<sup>viii</sup>  
2012-13 School Year**

<b>School Building</b>	<b>SPP Score</b>	<b>PSSA % School Proficient and Advanced in Math</b>	<b>PSSA % Statewide Benchmark of 73% Above or Below</b>	<b>PSSA % School Proficient and Advanced in Reading</b>	<b>PSSA % Statewide Benchmark of 70% Above or Below</b>	<b>Federal Title I Designation (Reward, Priority, Focus, No Designation)<sup>ix</sup></b>
Center Elementary School	88.4	87	14	80	10	Federal Title I Designation
Holiday Park Elementary School <sup>1</sup>	83.5	84	11	84	14	Federal Title I Designation
O'Block Jr. High School	86.2	84	11	86	16	N/A
Pivik Elementary School	90.4	88	15	76	6	N/A
Plum Senior High School	80.5	60	13	75	5	N/A
Regency Park Elementary School <sup>2</sup>	83.3	77	4	73	3	High Progress
Stevenson Elementary School <sup>3</sup>	90.9	96	23	80	10	Federal Title I Designation

<sup>1</sup> Subsequent to the 2012-13 school year, the Holiday Park Elementary became the Old Holiday Park Elementary School.

<sup>2</sup> Subsequent to the 2012-13 school year, the Regency Park Elementary School was closed.

<sup>3</sup> Subsequent to the 2012-13 school year, the Stevenson Elementary School was closed and the New Holiday Park Elementary opened.

## Findings and Observations

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### Finding

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### **The District's General Fund Decreased by Over \$4.5 Million from June 30, 2010 through June 30, 2014, Due to Persistent Operating Deficits**

*Criteria relevant to the finding:*

The benchmarks used as criteria for this objective were based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials (PASBO), the Colorado State Auditor, and the National Forum on Education Statistics. The following are some of the benchmarks used in our evaluation:

1. 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).
2. A school district should maintain a trend of stable fund balances.
3. The District's audit report should contain no instances of significant internal control weaknesses.

**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 unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk. The GFAO recommends, at a minimum, that school districts maintain an unrestricted fund balance in their general fund of no less than 10% of regular general fund operating revenues or regular general operating expenditures and operating transfers out.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of five years from fiscal years ending June 30, 2010 through June 30, 2014. We found that the District is in a declining financial position. Those benchmarks are discussed below and include the following:

- General Fund Balance.
- General Fund Operations.
- Excessive Debt Service

In addition, the independent auditors of the District's financial statements noted material internal control weaknesses.

**Generally Declining Fund Balance:** Between fiscal years ending 2010 and 2014, the District's General Fund decreased by over \$4.5 million. Financial industry guidelines recommend that a fund balance should range between 5 percent and 10 percent of annual expenditures. In the District's case, the \$1.6 million fund balance at the end of 2014 represented only 2.8 percent of expenditures of approximately \$57 million for that year.

When a school district's fund balance is too low, it may be unable to pay for costs incurred in emergency situations or to cover unexpected interruptions in revenues. In addition, the District's credit rating could be affected adversely by an inadequate General Fund balance, which could then increase the cost of borrowing. Also, as a District's General Fund decreases, the District loses the ability to generate income by investing the General Fund balance.

During the period of fiscal year ending 2010 through 2014, the overall decline of the General Fund balance indicates that the District's financial position is weakening and, without additional revenues or the



*Criteria relevant to the finding (continued):*

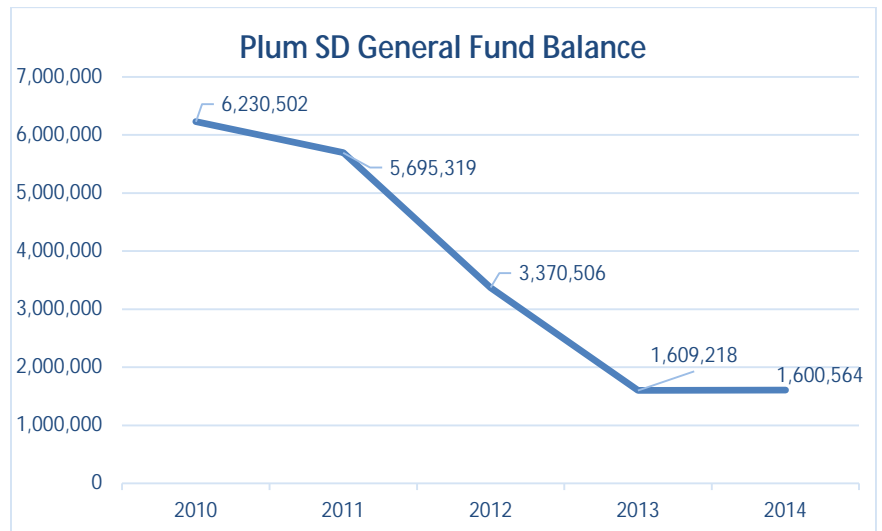
The Pennsylvania School Boards Association (PSBA) in its Annual Overview of Fiscal Health for the 2009-10 school year provided the following information relevant to the following fiscal benchmarks:

- Financial industry guidelines recommend that fund balances be between 5 percent and 10 percent.
- 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).

Best Business Practices and/or general financial statement analysis tools require the following:

- A school district should maintain a trend of stable or increasing fund balances.
- The trend of current ratios should be at least 2 to 1 or increasing. Anything less calls into question the school District's ability to meet its current obligations with existing resources.

reduction of expenditures, it may continue to decrease. The following chart illustrates the District's weakening fund balance:



**General Fund Operations:** Three of five fiscal years reviewed showed that the District's expenditures exceeded revenues (see chart below). When expenditures are greater than revenues a deficit occurs and the General Fund decreases.

<b>Plum SD General Fund Operating Position</b>			
<b>Fiscal Year ending June 30</b>	<b>Total Revenues</b>	<b>Total Expenditures</b>	<b>Operating Surplus/(Deficit)</b>
<b>2010</b>	\$ 52,456,723	\$ 53,436,009	\$ ( 979,286)
<b>2011</b>	\$ 53,734,481	\$ 54,295,013	\$ ( 560,532)
<b>2012</b>	\$ 53,464,390	\$ 53,289,209	\$ 175,181
<b>2013</b>	\$ 53,653,632	\$ 55,423,568	\$ (1,769,936)
<b>2014</b>	\$ 56,904,908	\$ 56,896,254	\$ 8,654
<b>Total</b>	<b>\$270,214,134</b>	<b>\$ 273,340,053</b>	<b>\$ (3,125,919)</b>

District officials stated that the trend of deficits are the result of the District's Board of School Directors (Board) deliberately reducing the General Fund balance in lieu of raising property taxes or decreasing educational services. This practice will be unsustainable in the future as the District's General Fund has decreased to the point where a material operating deficit in the future will leave the District with a negative General Fund balance.

According to the administration, the District has not increased taxes over the past eight years to absorb annual increases for mandated increases for the Public School Employees' Retirement System (PSERS), debt service, health care premium that lowered the fund balance from over \$7,000,000 to \$1,609,000. The General Fund balance has been used over the last eight years as a property tax rate stabilizer.

**Excessive Debt Service:** The District's debt service payments for the period covering fiscal years ending 2010 through the 2014 consistently exceeded 10 percent of General Fund expenditures. This is an indicator that the budgetary burden of debt service is high and could have a negative effect on the District's ability to continue to fund normal operational expenditures at the current level. With over 10 percent of total expenditures now dedicated to debt service payments, the District should be very wary of taking on more debt.

The following chart documents the ratio of the District's debt service payments to total expenditures:

<b>Plum SD Percentage of Debt Service to Total Expenditures</b>			
<b>School Year</b>	<b>Total Debt Service</b>	<b>Total Expenditures</b>	<b>Percentage</b>
2009-10	\$5,609,125	\$53,436,009	10.49
2010-11	6,826,217	54,295,013	12.57
2011-12	6,803,434	53,289,209	12.76
2012-13	7,254,664	55,423,568	13.09
2013-14	6,624,816	56,896,254	11.64

District officials stated the District's debt service payments exceeded 10 percent of the General Fund expenditures due to the construction of a new school building exceeding the originally contracted costs. This required the District to levy additional bonds to cover the cost over-runs.

On June 26, 2013, the District issued \$70,220,000 of general obligation bonds, designated as Series A through E of 2013. A portion of the bonds were used to refund older bonds with higher interest rates; \$14,020,000 was used for the funding of capital projects.

While the added bonds did not increase the District's annual debt service payments, by having debt service payments over 10 percent, the District is using funds that could be used for the education of students.

**Material Internal Control Weaknesses:** The District's independent auditor reported material internal control weaknesses noted during the audit of the District's financial statements for fiscal years ending June 30, 2010 and 2013.

The 2010 report states, "During the course of our audit, we became aware that a number of withholding and benefit liability accounts had incorrect balances. Though these inconsistencies appear to be substantially caused by computer programming issues, these liability accounts were not being monitored during the year for accuracy."

The 2013 report noted that the District was considerably behind in various aspects of essential recordkeeping, including bank reconciliations, distribution of payroll withholding into the general ledger, distribution of various health insurance expenditures into the general ledger, and maintenance of fixed asset recordkeeping. The independent auditor went on to recommend that monitoring procedures be put in place to ensure timely and accurate completion of all essential recordkeeping.

Weak internal controls, particularly in the above mentioned areas of record keeping and account reconciliation, indicate that those charged with the management and governance of the District's finances may expose the District to unnecessary losses and late charges. These weak internal controls can also allow fraudulent activity to occur and remain undetected.

The District's Business Manager indicated the material internal control weaknesses occurred because the Board and senior management failed to develop appropriate policies and procedures related to prudent fiscal management.

We recognize that the District decided to use funds in the General Fund to avoid raising taxes, but at the rate the District is using the General Fund balance, they will be

unable to continue the current educational programs without seeking additional revenue.

### **Recommendations**

The *Plum Borough School District* should:

1. Implement a business model where operational expenditures are monitored on a monthly basis to ensure that they remain within budgeted limits and remain in line with budgeted revenue.
2. Develop a long-range financial plan, to be evaluated annually, to address deteriorating General Fund balance, declining liquidity, and increased long-term debt. Items for consideration should include, but not be limited to, the establishment of minimum required General Fund balance. Develop a long-term debt management strategy and a strategy for the increasing PSERS contributions.
3. Develop and publicly approve written policy and procedures to deal with noted internal control weaknesses. These procedures need to clearly define assigned roles of responsibility to ensure best practices are being followed and should include provisions for regular review and verification.

### **Management Response**

Management stated the following.

“The fund balance decrease is the result of lack of adequate state funding, an increase in PSERS contributions, healthcare increases, and no millage increase. Management has recommended tax increases to the ACT<sup>4</sup> index since 2013.”

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<sup>4</sup> Pursuant to the Taxpayer Relief Act (SS ACT 1 of 2006), the Pennsylvania Department of Education (PDE) sets an inflation index each year that serves as a cap on each school district’s allowable tax increase unless the school district obtains approval from the voters to increase taxes above the index or applies and qualifies for one of the limited and specific referendum exceptions provided by the Act. Districts are permitted to seek exceptions (waiver) from PDE if the tax revenue generated by the waiver is to be used for construction, retirement, or special education expenses.

## **Auditor Conclusion**

We acknowledge the challenges facing school districts in the Commonwealth and that management is aware of the need for improvement. The financial stability of the District is the responsibility of the Board as part of its governance obligations, and the board and management should strive to keep the District fiscally stable.

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

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**O**ur prior audit of the District released on April 9, 2013, resulted in one observation. 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 PDE, interviewed District personnel, and performed audit procedures, as detailed in each status section below.

### **Auditor General Performance Audit Report Released on April 9, 2013**

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**Prior Observation:      The District Lacks Sufficient Internal Controls Over Its Student Record Data (Resolved)**

Prior Observation Summary:

Our prior audit found that the District did not reconcile membership days between its child accounting software system and the Pennsylvania Information Management System (PIMS). The District subsequently made corrections; however, after making corrections to PIMS, there still were 31 membership days that the District could not account for.

Prior Recommendations:

We recommended that the District should:

1. Determine why 31 resident days did not successfully transfer into PIMS through discussions with the software vendor and PDE.
2. Perform a reconciliation of membership days between the District's child accounting software system and PIMS for each school calendar.
3. Ensure that documentation supporting entry/withdrawal changes is included in the students' files. Further, ensure that all entry/withdrawal forms are completely and accurately entered into the District's child accounting software system.

Current Status:

During our current audit, we completed testing of internal controls, student registration testing, and student calendar fact template testing. We found that the District did implement our prior recommendations.

## **Appendix: Audit Scope, Objectives, and Methodology**

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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, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code,<sup>5</sup> is not a substitute for the local annual financial audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

### **Scope**

Overall, our audit covered the period July 1, 2011 through June 30, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

The District's management is responsible for establishing and maintaining effective internal controls<sup>6</sup> to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, that 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.

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<sup>5</sup> 72 P.S. § 403.

<sup>6</sup> 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, grant requirements, 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, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

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

- Governance
- Bus Driver Requirements
- Financial Stability
- Contracting
- Data Integrity
- School Safety

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

- ü Did the LEA's Board and administration maintain best practices in overall organizational governance?
  - o To address this objective, we surveyed the District's current Board, conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- ü Based on an assessment of fiscal benchmarks, 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?
  - o To address this objective, we reviewed the District's annual financial reports, budget, independent auditor's reports, and general ledger for fiscal years June 30, 2010 through June 30, 2014. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District's financial stability. The benchmarks are based on best business practices established by several agencies, including PASBO, the Colorado Office of the State Auditor, and the National Forum on Education Statistics.



- Ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
  - To address this objective, we reviewed the District’s procurement and contract monitoring policies and procedures. We obtained a list of vendors for goods and services that were in effect for the 2013-14 school year. We selected 7 out of a total list of 37 vendors for detailed testing.<sup>7</sup> The seven vendors were chosen for having the largest annual cost in the following classifications: academics, food service, transportation, maintenance/janitorial, and engineering services for construction projects. Testing included a review of the procurement documents to determine if the purchases were procured in accordance with the Public School Code and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board’s Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.
  
- Ü Did the LEA ensure that the membership data it reported in the PIMS system was accurate, valid, and reliable?
  - To address this objective, we selected 20 out of 4,037 total registered students (five resident, five non-resident, five intermediate units, and five area vocational-technical schools) from the vendor software listing for the 2011-12 school year and verified that each child was appropriately registered with the District.
  
- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
  - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at three out of the District’s six school buildings (one from each education level) to assess whether the District had implemented basic safety practices.
  
- Ü Did the District ensure that bus drivers transporting District students had the required driver’s license, physical exam, training, background checks, and clearances as outline in applicable laws?<sup>8</sup> Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

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<sup>7</sup> We did not perform any procedures to verify the accuracy of this list.

<sup>8</sup> 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*.

- To address this objective, we selected 5 of the 54 bus drivers hired by the District bus contractor, during the school year July 1, 2014 through June 30, 2015, and reviewed documentation to ensure the District complied with bus driver's requirements. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

## **Distribution List**

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

**The Honorable Tom W. Wolf**

Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

**The Honorable Pedro A. Rivera**

Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

**The Honorable Timothy Reese**

State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

**Mrs. Danielle Mariano**

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

**Dr. David Wazeter**

Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

**Mr. Lin Carpenter**

Assistant Executive Director for Member Services  
School Board and Management Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

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

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<sup>i</sup> Source: School district, PDE, and U.S. Census data.

<sup>ii</sup> Source: Information provided by the District administration.

<sup>iii</sup> Source: United States Census <http://www.census.gov/2010census>

<sup>iv</sup> PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

<sup>v</sup> PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a significant weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

<sup>vi</sup> In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

<sup>vii</sup> SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

<sup>viii</sup> *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

<sup>ix</sup> Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a significant deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.