PERFORMANCE AUDIT

School District of the City of York

York County, Pennsylvania

April 2017

Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General

Commonwealth of Pennsylvania
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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Dr. Eric B. Holmes, Superintendent School District of the City of York 31 North Pershing Avenuenue York, Pennsylvania 17401	Ms. Margie Orr, Board President School District of the City of York 31 North Pershing Avenuenue York, Pennsylvania 17401

Dear Dr. Holmes and Ms. Orr:

Our performance audit of the School District of the City of York (District) evaluated the application of best practices in the areas of school safety, financial activities, administrator buyouts, inventory procedures, and procurement card procedures. 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, 2010, through June 30, 2015, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District applied best practices in the areas listed above and complied, in all significant respects, with relevant requirements, except as detailed in our four findings noted in this audit report. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

Eugene A. DePasquale
Auditor General

April 12, 2017

cc: **SCHOOL DISTRICT OF THE CITY OF YORK** Board of School Directors

Table of Contents

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the 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, 2010, through June 30, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. (See Appendix A.)

Audit Conclusion and Results

Our audit found that, except for four findings, the District applied best practices and complied, in all significant respects, with certain relevant state laws, regulations, contracts, and administrative procedures.

Finding No. 1: While the District's Financial Standing Improved, Its Accountability for Fiscal Operations was Not Sufficient. Despite improvements in certain fiscal benchmarks, other economic challenges persisted. The District has been reliant on non-recurring or unpredictable revenue sources to meet expenditures. In addition, its fiscal operations were too centralized and did not provide sufficient transparency regarding recovery efforts, budgets, and other financial activity. The lack of accountability stems in part from the Board of School Director's (Board) failure to provide regular oversight of the administration with regard to financial activity. (See page 7.)

Finding No. 2: Credit Card Purchases Were Not Monitored by District Officials, Resulting in Thousands of Dollars of Unsubstantiated Costs and Possible Misuse of Public Funds. During the five-year period from the 2011-12 through the 2015-16 fiscal years, the District's employee credit card charges more than quadrupled from $58,363 in 2011-12 to $235,981 in 2015-16. We found that the District had no policies and procedures governing the use of these credit cards, and consequently there was insufficient oversight and poor record-keeping, resulting in charges lacking receipts, authorization, and other documentation to support the appropriateness of expenses incurred on behalf of the District. (See page 22.)

Finding No. 3: The District Reported Unqualified Wages to PSERS for a Former Business Manager. Our review of a former Business Manager's employment contract, payroll records, and retirement records found that his retirement wages—as reported by the District—were overstated in reports submitted to Public School Employees' Retirement System (PSERS) for the fiscal year ending June 30, 2012. The total possible ineligible payments reported to PSERS for the former Business Manager were $21,500. (See page 33.)

Finding No. 4: The District Failed to Account for and Safeguard Its Inventory of Mobile Devices and Other IT Equipment, Risking Loss, Theft, and Misuse of District Equipment. The District's inventory of information technology (IT) equipment included desktop and laptop computers, digital tablets such as iPads, monitors, video-cameras, white boards, and other IT equipment. As of July 2016, the IT Department's inventory records listed nearly 10,000 IT equipment items, of which almost 4,000, or nearly 40 percent, were either laptop computers or digital tablets, often referred to as mobile devices. We found, however, that the inventory records were unreliable, IT equipment was missing or misplaced, and taxpayer funds may have been wasted or misused. (See page 36.)

Status of Prior Audit Findings and Observations. There were two findings in our prior audit report. We conducted procedures to determine the implementation status of our prior audit recommendations to the District from an audit released March 29, 2012, and determined the District has not taken corrective action on reporting of child accounting data. (See page 48.) We determined the District has taken corrective action regarding teacher certification. (See page 50.) The prior audit report also contained one observation regarding early termination of an administrator's contract. We determined the District has not taken corrective action regarding early termination of administrative contracts. (See page 51.)

Background Information

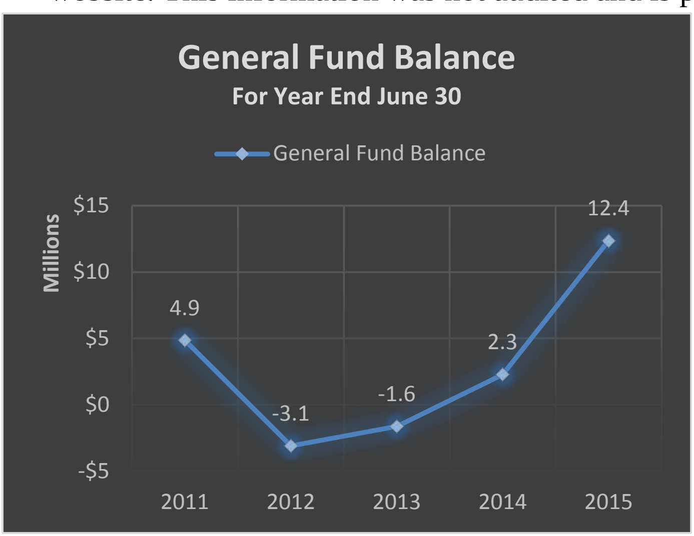
School Characteristics 2015-16 School Year[A]	
County	York
Total Square Miles	5.25
Resident Population[B]	43,718
Number of School Buildings	10[1]
Total Teachers	372
Total Full or Part-Time Support Staff	260
Total Administrators	34
Total Enrollment for Most Recent School Year	5,222
Intermediate Unit Number	12
District Vo-Tech School	York County School of Technology

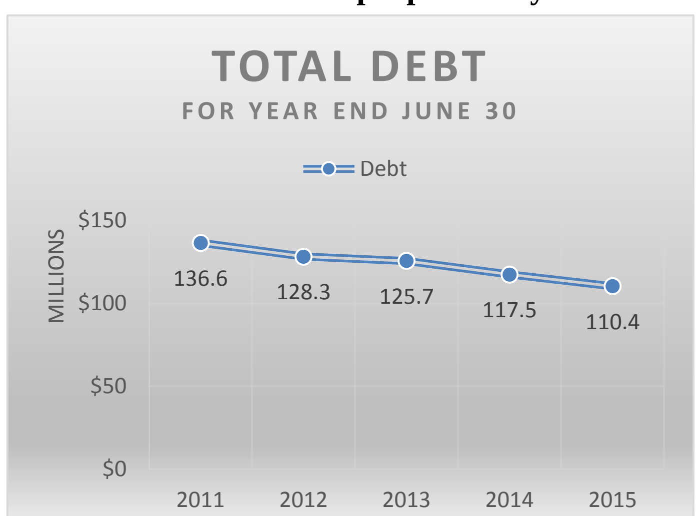
A - Source: Information provided by the District administration and is unaudited.
B - Source: United States Census http://www.census.gov/2010census.

Mission Statement[A]
As a professional learning community, we educate the whole child by providing an engaging and challenging learning environment to ensure each student receives a premier education.

Financial Information

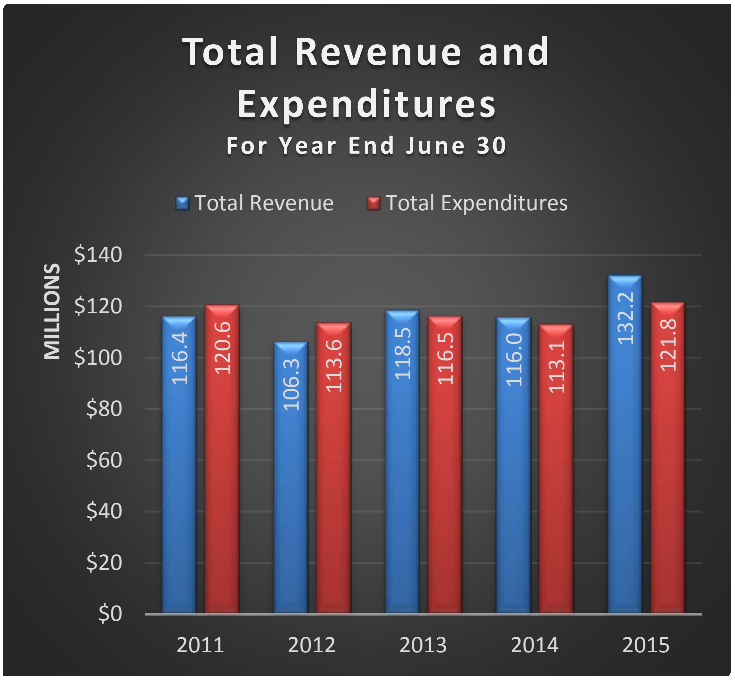
The following pages contain financial information about the District obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on PDE's public website. This information was not audited and is presented for **informational purposes only**.[2]

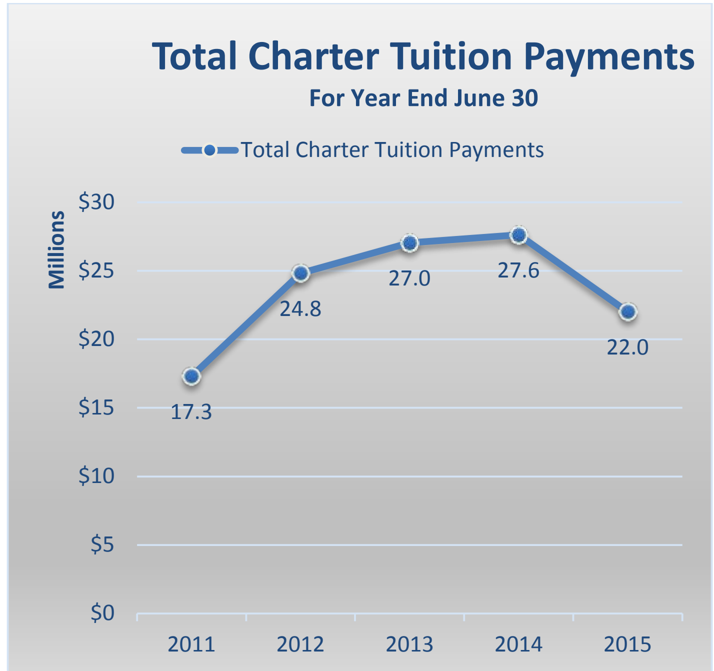


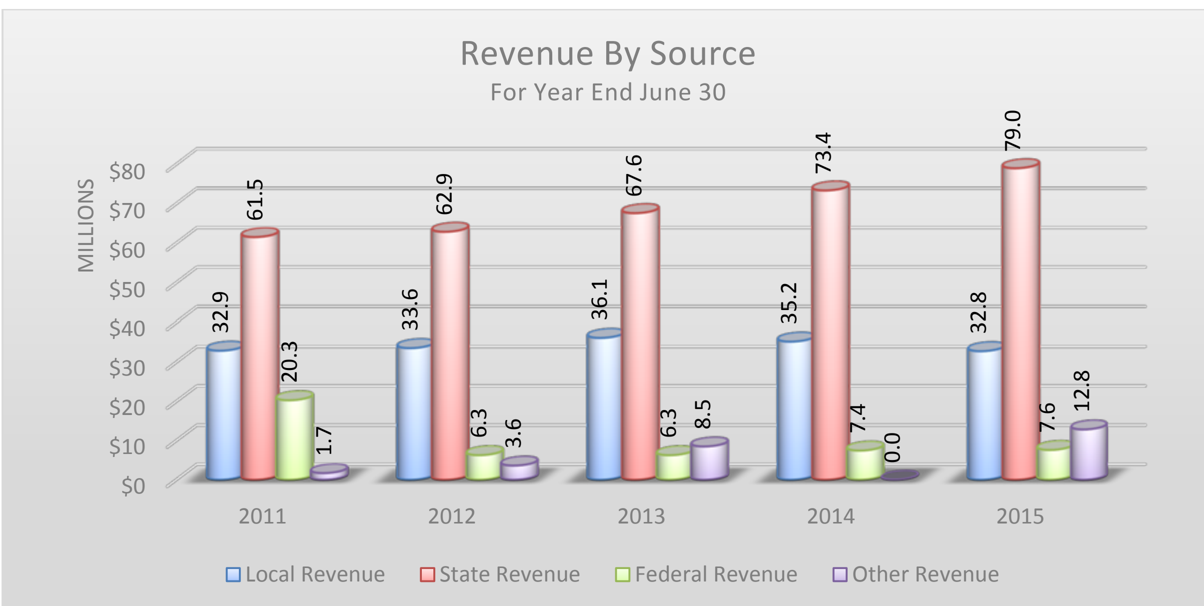


[1] Smith Middle School closed June 30, 2012, and Hanna-Penn was not open at that time. Additionally, Goodridge Academy is an alternative education school.
[2] Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits and Compensated Absences.

Financial Information Continued







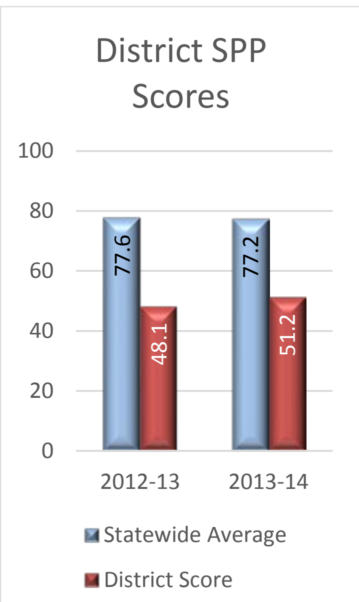
Academic Information

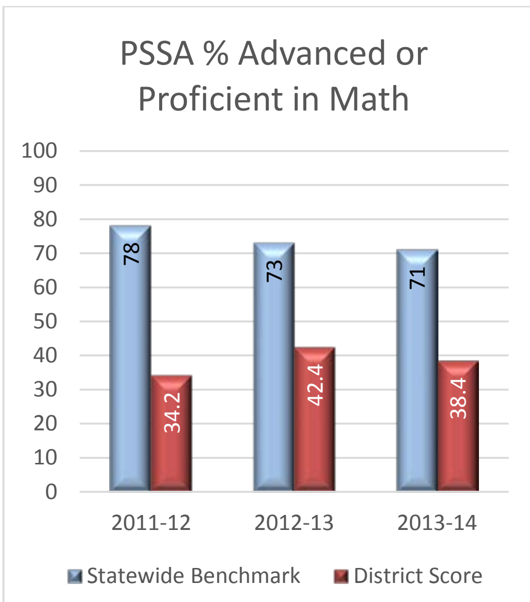
The following table and charts consist of School Performance Profile (SPP) scores and Pennsylvania System of School Assessment (PSSA) results for the entire District obtained from PDE's data files.[3] These scores are presented in the District's audit report for **informational purposes only**, and they were not audited by our Department.

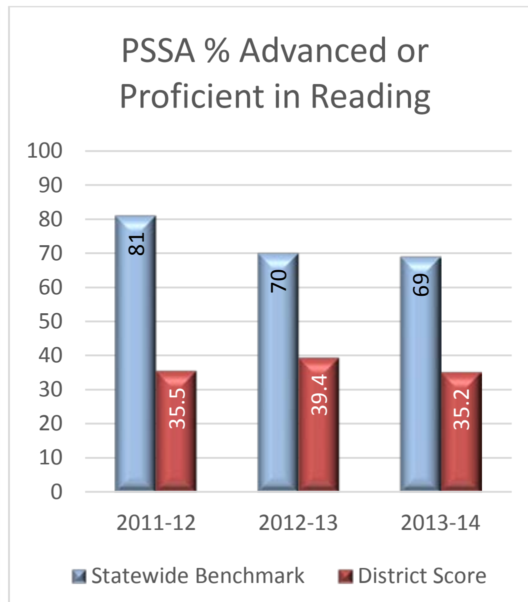
SPP benchmarks represent the statewide average of all district school buildings in the Commonwealth.[4] PSSA benchmarks and goals are determined by PDE each school year and apply to all public school entities.[5] District SPP and PSSA scores were calculated using an average of all of the individual school buildings within the District. Scores below SPP statewide averages and PSSA benchmarks/goals are presented in the table in red.

Districtwide SPP and PSSA Scores

	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
District	**2012-13**	**2013-14**	**2011-12**	**2012-13**	**2013-14**	**2011-12**	**2012-13**	**2013-14**
Statewide Benchmark	***77.6***	***77.2***	***78***	***73***	***71***	***81***	***70***	***69***
SD of the City of York	**48.1**	**51.2**	**34.2**	**42.4**	**38.4**	**35.5**	**39.4**	**35.2**
SPP Grade[6]	**F**	**F**						







[3] PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publicly available website.

[4] Statewide averages for SPP scores were calculated based on all district school buildings throughout the Commonwealth, excluding charter and cyber charter schools.

[5] PSSA benchmarks apply to all district school buildings, charters, and cyber charters. 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 and 2013-14 school years, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

[6] The following letter grades are based on a 0-100 point system: A (90-100), B (80-89), C (70-79), D (60-69), F (59 or below).

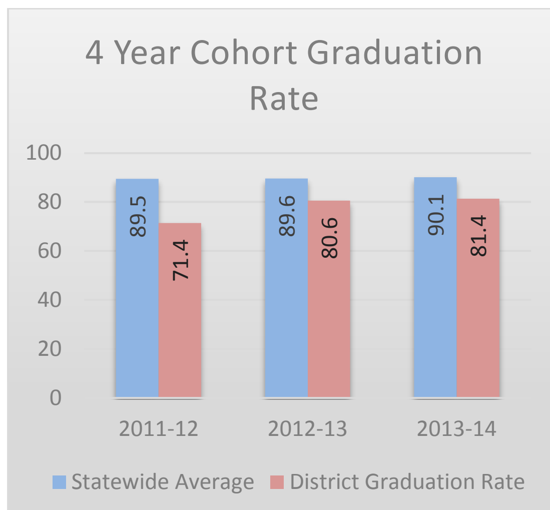
Individual School Building SPP and PSSA Scores[7]

The following table consists of SPP scores and PSSA results for each of the District's school buildings. Any blanks in PSSA data means that PDE did not publish a score for that school for that particular year.[8]

	SPP Scores		PSSA % Advanced or Proficient in Math			PSSA % Advanced or Proficient in Reading		
School Name	**2012-13**	**2013-14**	**2011-12**	**2012-13**	**2013-14**	**2011-12**	**2012-13**	**2013-14**
Statewide Benchmark	***77.6***	***77.2***	***78***	***73***	***71***	***81***	***70***	***69***
Davis School	**61.2**	**55.0**		**55.9**	**47.9**		**44.7**	**38.7**
Devers School	**56.6**	**54.1**		**52.5**	**42.5**		**43.1**	**40.9**
Ferguson School	**44.8**	**54.0**		**40.6**	**37.7**		**37.1**	**35.6**
Goode School	**39.5**	**49.3**		**35.3**	**35.4**		**27.2**	**29.8**
Jackson School	**49.4**	**55.3**		**42.0**	**39.3**		**41.2**	**34.1**
McKinley School	**42.8**	**42.4**		**32.2**	**25.5**		**31.0**	**23.2**
William Penn Senior High School	**42.7**	**48.3**	**34.2**	**38.6**	**40.8**	**35.5**	**51.3**	**44.5**

4 Year Cohort Graduation Rates

The 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.[9]



[7] These scores do not include the alternative education school, one school building that closed at the end of fiscal year 2012, and another that was not open at any time during the audit period.
[8] PDE's data does not provide any further information regarding the reason a score was not published.
[9] http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx.

Findings

Finding No. 1	While the District's Financial Standing Improved, Its Accountability for Fiscal Operations Was Not Sufficient

Criteria relevant to the finding:

Section 641-A(1),-(4)(i)(B)-(E) of the Public School Code (PSC) states, in part: "A financial recovery plan developed under this subarticle shall:

(1) Provide for the delivery of effective educational services to all students enrolled in the financial recovery school district.

***

(4) Provide a plan for the financial recovery school district's return to financial stability, which may include any of the following, if appropriate to restoring the financial recovery school district's financial stability:

(i) Recommendations for . . . .:

(B) Eliminating deficits and deficit funds.

(C) Restoring to special fund accounts money from those accounts that was used for purposes other than those specifically authorized.

(D) Balancing the budget, avoiding future deficits in funds and maintaining current payments of . . . accounts through possible revenue enhancement recommendations, including tax or fee changes.

(E) Avoiding a future declaration of financial recovery status." *See* 24 P.S. § 6-641-A(1), (4)(i)(B)-(E).

In December 2012, PDE declared the District to be in *Moderate Financial Recovery Status* because it lacked "a concrete, long-term plan to address its financial deficiencies and operate efficiently and effectively . . . ."[10] Since then, from fiscal years 2012-13 through 2014-15, the District has improved its financial standing as indicated by an increase in its General Fund balance and a decrease in its long-term debt. The District, however, continued to experience economic and other challenges. Specifically, the District has been reliant on non-recurring or unpredictable revenue sources to meet its expenditures and improve the General Fund balance.

In addition, the District's fiscal operations were too centralized and did not provide sufficient transparency to the public with regard to certain fiscal operations, including its financial recovery efforts, its budgets, and other financial activities. Fiscal accountability and transparency are essential for any organization using public funds, and school districts should engage all stakeholders, such as teachers, parents, students, and other members of the public. The lack of accountability stems in part from the Board's failure to provide regular oversight of the administration with regard to financial activity.

The District also failed to comply with government financial reporting requirements in Governmental Accounting Standards Board (GASB) Statement No. 34, as amended, and its own *Board Policy No. 622* regarding the requirement of the Board to approve the management's discussion and analysis section of the District's annual financial statements.

[10] Tomalis, Ronald J., former Education Secretary, *Declaration of Financial Recovery Status*, December 13, 2012, which declared the School District of the City of York in Moderate Financial Recovery Status. *Act 141 of 2012* established Article VI-A. *School District Financial Recovery* of the PSC, which addresses financial recovery declarations, financial recovery plans, Chief Recovery Officers, receivers, etc. *See* 24 P.S. § 6-601-A *et seq.*

Criteria relevant to the finding (continued):

Subsection (b) of Section -687 (relating to the Annual Budget, etc.) of the PSC, states, in part:

"The board of school directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation, available for school purposes in that district . . . ." *See* 24 P.S. § 6-687(b).

The 2005 edition of the *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools*, Chapter 14, addresses the importance of the operating budget cycle. This process includes budget preparation, budget analysis, board approval, adoption, budget control, and budget-to-actual reports.

The manual addresses each part of the budgeting cycle in detail; however, we would like to emphasize the following:

- The accurate estimation of revenue has a critical impact on the budget.
- In most schools, budget-to-actual comparisons are done monthly . . . [s]chool board members should be updated periodically on budget results and informed of significant budgetary issues.

Background

Since its designation in *Moderate Financial Recovery Status*, the District's General Fund balance increased to $17 million in the 2014-15 fiscal year from $2.7 million in 2012-13. In addition, as shown in Figure 1 below, the District's long-term debt as of June 30, 2015, had decreased by $15.7 million, or 12 percent, since the year of its recovery status designation.

Figure 1

SD of the City of York Long Term Debt[11]				
District Debt	**2012-13**	**2013-14**	**2014-15**	**Two-Year Decrease**
Long-Term	$122,437,882	$114,435,823	$106,955,764	$15,482,118
Current Portion	$8,002,059	$8,040,059	$7,731,059	271,000
Total	**$130,439,941**	**$122,475,882**	**$114,686,823**	**$15,753,118**

Yet, while the General Fund balance has improved, other benchmarks reflect persistent financial challenges. The District's high debt service ratio—a measure of annual debt payments as a percentage of annual expenditures—was 14 percent as of June 30, 2015, indicating the District's debt burden is still high. This could affect the ability of the District to align its resources with the educational goals set forth in its financial recovery plan. Further, the District continued to rely on other non-recurring or unpredictable revenues to generate surpluses and improve its General Fund position.

In May 2013, the District adopted, and PDE approved, its first financial recovery plan. Less than two years later, in March 2015, the Chief Recovery Officer (CRO) resigned; one month later PDE appointed a new CRO. In July 2015, a PDE-provided consultant, in collaboration with the District and the new CRO, issued a report to "identify strengths and opportunities for growth" in order to update the District's 2013 financial recovery plan. Then in March 2016, a new financial recovery plan was adopted and approved by PDE.[12]

[11] Information was obtained from the note entitled *General Obligation Notes and Bonds* of the Independent Auditors Report for fiscal years ending June 30, 2013, through June 30, 2015.
[12] Mass Insight Education. "School District of the City of York: District Diagnostic." July 2015. Page 2/Executive Summary.

We found that the two financial recovery plans, although they addressed academic and other administrative goals, lacked sufficient, achievable *financial* goals. The 2016 plan, in particular, raised concerns because it lacked details regarding a financial strategy. The entire 2016 financial recovery plan was comprised of a brief 42-page PowerPoint slide document that mainly addressed academic goals and largely disregarded specific financial plans.

The rest of this finding discusses the issues we identified related to the following areas:

- Financial Recovery Plan Weaknesses
- Budget Accountability Issues
- Debt and Debt Service Increases
- Omitted Management's Discussion and Analysis (MD&A) in the Annual Financial Statements
- Lack of Information on the District's Website

Financial Recovery Plan Weaknesses

Reliance on Non-Recurring Revenues. During the 2011-12 fiscal year, in order to shore up its cash position, the District entered into a tax monetization transaction, which provided a one-time revenue source by accelerating its collection of delinquent taxes. The District's 2013 financial recovery plan expressly stated a goal of restoring financial stability so that recurring revenues exceeded recurring expenses, which would mitigate the District's reliance on one-time and other unpredictable revenue streams.

The plan made projections regarding taxes, state funding, borrowing, wage reductions, and retirement contributions. However, as noted in the July 2015 consultant's report, the projections were not realized, except for a $3 million PDE loan. The financial recovery plan also pointed out that the District was relying on additional state funding for distressed school districts to cover budget shortfalls.[13] The practice of relying on additional state funding and other one-time, unpredictable, and/or non-recurring revenues is risky over the long-term because it forces the District to overly depend upon the discretion of external decision makers to cover the cost of its operations.

[13] *Mass Insight Education*. "School District of the City of York: District Diagnostic." July 2015. Page 2/Executive Summary.

We reviewed the District's revenue by distinguishing recurring revenue from supplemental revenues and other financing sources. Similarly, the District's own *2016 Financial Recovery Plan* distinguished one-time and other non-recurring sources of revenue and financing. For instance, it identified the *additional* basic education funding as "increased funding for financially distressed school districts."[14]

Figure 2 below illustrates the impact of non-recurring or unpredictable revenues and other financing sources. As noted earlier, the District has used its additional revenues and financing sources to improve its financial stability in the short-term, including building up its General Fund balance. Without these additional sources, however, the District's expenditures would have exceeded its revenue in two of three fiscal years and would have diminished the District's General Fund balance further.

Figure 2

SD of the City of York General Fund Analysis of Revenue & Other Financing Sources[15]			
	2012-13	**2013-14**	**2014-15**
Revenue & Other Financing Sources[16]	$110,319,045	$115,998,064	$125,335,057
Expenditures[17]	(107,625,733)	(113,094,083)	(113,800,602)
Subtotal	$2,693,312	$2,903,981	$11,534,455
Additional Title I and II Revenues	(1,100,000)		
Subtotal	$1,593,312	$2,906,981	$11,534,455
Additional Basic Education Funding		(5,500,000)	(4,100,000)
Subtotal	$1,593,312	($2,596,019)	$7,434,455
PDE Working Capital Loan			(3,000,000)
PDE PlanCon Catch-up			(2,000,000)
Proceeds from Refinancing of Bonds (Net of Payment)			(2,807,075)
Operating Surplus/Deficit	**$1,593,312**	**($2,596,019)**	**($372,620)**

[14] Saylor, Carol, Chief Recovery Officer. *Act 141 Recovery Plan: York City School District.* March 16, 2016. p. 7.
[15] Information was obtained from the *Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds* of the Independent Auditors Report for fiscal years ending June 30, 2013, through June 30, 2015. The one-time revenue and other financing source information was obtained from the 2016 Financial Recovery Plan approved by PDE.
[16] Total revenue and other financing sources for each fiscal year were obtained from the respective Independently Audited Financial Statements, from the *Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds.* Inter-fund transfers were excluded.
[17] Total expenditures includes debt service.

Broad, Vague Strategies. The 2016 financial recovery plan was even more vague and broad than the 2013 plan in identifying strategies to attain financial stability. For example, one strategy suggested the District should align new state and federal funding with priority areas, such as support for instruction, communications, talent, resource alignment, and performance management. But the plan did not further address how to specifically realign funding to meet these broadly defined priorities.

In addition, the recovery plan mentioned a strategy to *"Implement other cost saving initiatives identified by the CRO."* This again is a broad and undefined strategy, and when we asked District officials for details of these cost saving initiatives, they were unable to provide any further information.

Five-Year Strategies Needed. As discussed earlier, the District had made efforts to reduce its long-term debt. Yet, even though the District has succeeded in reducing its long-term debt, it should have developed a detailed five-year financial strategy—as a best business practice—using realistic assumptions to forecast revenues and expenditures in order achieve an operating surplus and to reduce its reliance on non-operating revenue sources.[18] It should also have routinely adjusted assumptions and forecasts based on actual outcomes and other factors, all of which should have been presented to the Board for approval at public meetings. This action would have allowed the District to achieve a recommendation of the independent consultant, which was to engage more stakeholders in decision-making processes through improved communications.

Budget Accountability Issues

For each of the last three fiscal years ending June 30, 2015, budget-to-actual variances for both total revenues and total expenditures fell within or near five percent, which is considered an acceptable variance range. Within certain revenue and expenditure categories, however, budget-to-actual variances were significant, indicating that educational resources actually may not have been used in accordance with approved budgets and educational goals set forth in the recovery plans.

[18] One of the resources recommending the development of five-year financial plans is "Testimony of the Pennsylvania Association of School Business Officials," Jay Himes, Executive Director; January 24, 2012; Senate Education Committee; Public Hearing on Fiscally Distressed School Districts.

Significant Revenue Variances. Local**,** state, and federal revenues are the three components of the District's total revenue. As shown in Figure 3 below, we compared budget variances in local, state, and federal revenues for the most recent two fiscal years in the audit period. Actual federal revenues were significantly higher than budgeted amounts in both years.

Figure 3

SD of the City of York Budget-to-Actual Revenue Analysis (in millions)[19]								
	Fiscal Year 2013-14				Fiscal Year 2014-15			
Source	Budget	Actual	Variance	%	Budget	Actual	Variance	%
Local	$34.5	$35.6	($1.1)	3%	$34.9	$31.5	$3.4	10%
State	68.6	73.3	(4.7)	7%	75.5	79.0	(3.5)	5%
Federal	5.7	7.0	(1.3)	23%	5.7	9.0	(3.3)	58%

District officials originally stated that since state and local sources are the more significant revenue sources, they didn't focus on federal revenue budgeting. Several months later, after we provided our draft finding, the District provided an additional explanation that, for the 2013-14 and 2014-15 fiscal years, the District's budgeted federal revenues for both fiscal years failed to take into account federal financial assistance for two bonds. However, timely monitoring of the federal revenues received could have allowed for a more timely adjustment to the original budgeted amount.

Figure 3 also shows that actual local revenues in 2014-15 were ten percent lower than the budgeted amount because the District's 3-year tax monetization contract ended after the 2013-14 fiscal year. The District, therefore, should have adjusted its local revenue budget accordingly.

Significant Expenditure Variances. We also found significant budget variances with many of the District's line-item expenditures. For instance, in the 2014-15 fiscal year, the $49 million budget for *Regular Programs* was the single largest line item in the budgeted *Instruction*

[19] Information was obtained from the *Required Supplementary Information, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund* of the Independent Auditors Report for fiscal years ending June 30, 2014, and June 30, 2015. The 2014 actual revenue amount includes net tax monetization proceeds of $3,310,277, which were part of the budgeted local revenue for that year, so we adjusted the actual local amount reflected in the audited financial statements to improve the correctness of the comparison between budget and actual for that year.

expenditures and comprised 43 percent of the District's total budgeted expenditures of $114 million. The District's budget-to-actual variance was 13 percent: actual expenditures of $43.1 million were $6.4 million less than the budget of $49.5 million.[20]

Even though one of the District's charter schools had closed in May 2014, the District preferred to use conservative estimates in forecasting charter school enrollment for fiscal year 2014-15 (charter school tuition is included in regular program costs). Prior to 2012, one of the more significant financial stressors on the District had been increasing charter school tuition costs. The District was uncertain about where those students would enroll. After the start of the students' school year, however, the District should have adjusted its budget when it would have had a better assessment of the actual enrollment numbers.

Other areas of the budget had significant unexplained variances, as shown in Figure 4 below. The Board should have addressed the significant budget-to-actual variances in 2014-15 during the school year because the District could have addressed whether or not it was using its resources in accordance with the board-approved budget and the District's educational goals. One broad reason offered for the variances was that clerks may have entered information incorrectly. However, routine monitoring of budgets during the school year would have allowed the District to obtain insight into budget problems as they occurred, including possible clerical errors, rather than waiting until it was too late to address them.

Figure 4

SD of the City of York
Budget-to-Actual Comparison
of Selected Support Services for Fiscal Year 2014-15[21]

Budget Category	Budget	Actual	Under/Over	%
Support-Students	$4,092,463	$2,874,350	$1,218,113	30%
Support-Instructional Staff	1,272,609	2,189,339	($916,730)	72%
Support-Operations/Maintenance	6,592,836	7,169,588	($576,752)	9%
Support-Central	1,500,796	1,843,370	($342,570)	23%

[20] Data was obtained from the Independently Audited Financial Statements for June 30, 2015, *Schedule of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual General Fund.* Page 51.
[21] Information was obtained from the *Required Supplementary Information, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund* of the Independent Auditors Report for the fiscal year ending June 30, 2015. Page 51.

Criteria relevant to the finding (continued):

The benchmarks used as criteria for this objective were based, in part, on best business practices established by the Pennsylvania Association of School Business Officials (PASBO).

On January 24, 2012, PASBO provided testimony at a public hearing on fiscally-distressed school districts to the Senate Education Committee. It recommended several fiscal indicators for monitoring districts. One benchmark indicator suggested was total debt service as a percentage of General Fund expenditures, which was recommended not to exceed 10 percent as an indicator of the "budgetary burden of debt payments."

Another benchmark indicator suggested by PASBO was that Total Fund Balance should be greater than zero in order to maintain financial stability and cash flow.

Insufficient Board Accountability. One of the primary reasons for the significant, unexplained line item budget variances was a lack of accountability required by the Board. While the Business Office provided monthly financial reports to the Board, the reports contained no written explanations for the variances between the budgeted and actual revenues and expenses. Our review of board meeting minutes found no evidence of any discussions or explanations of significant budget variances.

Instead of making timely budget adjustments as necessary during the school year, we found that the District instead made budget adjustments *once* at the end of the school year when budgetary transfers were presented to the Board for approval. As a result, the administration and the Board failed to timely address budget issues such as unforeseen costs within specific budget categories, nor did they timely address underutilized funding, such as federal revenues.

Budget Process Too Centralized. We also found that the budget process was too centralized. The process did not sufficiently include participation by department heads, and therefore, did not incorporate a "distributed leadership" strategy into the District's fiscal affairs, which was a recommendation by the independent consultant to incorporate more stakeholders, such as teachers, students, and members of the public, into decision-making processes. In an independent survey presented in the July 2015 consultant's report, 75 percent of school staff survey responders did not believe that individual schools had sufficient decision-making authority over their budgets.[22]

The District's budget process primarily included the Business Manager and a cabinet that included the Superintendent, the CRO, and four District employees that also helped in budget preparation.[23] It did not include department heads, and the process appeared to exclude those who would typically be involved in the budget process. For instance, the Business Manager stated that he handled the benefits packages and non-salary related compensation for employees rather than the Director of Human Resources, even though the Director of Human Resources was a member of the cabinet.

[22] Mass Insight Education. "School District of the City of York: District Diagnostic." July 2015. Page 31.
[23] According to the Business Manager, other members of the cabinet, included the Superintendent's Executive Assistant, the Assistant Superintendent, the Director of Human Resources, and the Director of Pupil Services.

High Debt Service and Long-Term Debt

Debt service equals the sum of the annual principal plus interest that a school district must pay on its long-term debt. The District's debt service ratio—debt service as a percentage of total annual expenditures—in all five years of the audit period was significant, particularly in more recent years. Best business practices recommend that it should be below 10 percent.[24] This was not the case in any of the five years of the audit period, as shown below.

Figure 5

SD of the City of York Debt Service Ratio Analysis[25]					
Fiscal Year End June 30:	**2011**	**2012**	**2013**	**2014**	**2015**
Debt Service	$11,711,777	$12,961,205	$11,581,645	$13,101,491	$15,769,267
General Fund Expenditures	$108,781,762	$100,481,401	$110,759,551	$113,094,083	$113,800,602
Debt Service Ratio	**11%**	**13%**	**10%**	**12%**	**14%**

The high debt service ratio, particularly in 2013-14 and 2014-15, was due in part to the previously discussed failure to budget for federal financial assistance for two bonds, which resulted in higher actual debt service. Yet, despite the District's efforts to reduce its long-term debt, Moody's Investor's Services, in its June 2015 downgrade of the District's general obligation bonds, observed the District's high long-term debt and reliance on one-time revenue streams as factors, along with demographics, in lowering its rating to Baa3.

The District provided a January 2016 Standard & Poor's *upgrade* of its general obligation debt to support its financial improvements. However, a more recent September 2016 Moody's annual report did not upgrade the rating of the District's overall general obligation debt from Baa3. The report stated that despite a "solid financial position," the District's weak credit position was due to "an exceptionally poor socioeconomic profile with a moderately sized tax base, and an outsized debt burden

[24] National Forum on Education Statistics. "Forum Guide to Core Finance Data Elements." June 2007.
[25] Information was obtained from the *General Obligation Notes and Bonds* and the *Statement of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds* of the Independent Auditor's Report for fiscal years ending June 30, 2011, through June 30, 2015.

Criteria relevant to the finding (continued):

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management Discussion and Analysis (MD&A)—for State and Local Governments*, states, in part:

"MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is [required supplementary information (RSI)], governments are required to present MD&A *before* the basic financial statements."

"MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions."

"MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the government's activities."

The District's *Board Policy No. 622, GASB Statement 34*, states, in part:

The Business Manager shall prepare the required [MD&A]. The MD&A shall be in the form required by GASB Statement 34 and shall be submitted to the Board for approval, prior to publication.

with a mid-ranged pension liability." Since the burden of high debt service can divert resources away from educational programs, the Board should carefully and routinely monitor its debt together with its debt service ratio so that it can manage its financial and educational strategies in a coordinated effort, particularly before approving new debt arrangements.

Omitted MD&A in Annual Financial Statements

The District omitted the required *Management Discussion and Analysis* (MD&A) section of its annual independently audited financial statements for the four fiscal years from June 30, 2012, through June 30, 2015. According to GASB Statement No. 34, "MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions." This required supplementary financial information *precedes* the financial statements in order to provide the public with an introduction and analysis. It serves as management's explanation of what the financial information means, and the analysis is geared toward explaining how and why finances change from year-to-year.

Because the District did not comply with GASB Statement No. 34, as amended, the independent auditor's report for each year stated that the District's management omitted the required MD&A and that GASB "considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context."[26] In addition, the District's own *Board Policy No. 622* requires the Business Manager to prepare the MD&A in compliance with GASB Statement No. 34 and for the Board to approve it.

District officials stated that, with the District being in financial recovery status, much of its Business Manager's time was spent on work related to the recovery of the District. However, the financial recovery status of the District and the Moody's downgrades actually reinforce the necessity of complying with GASB 34 and the District's board policy. Further, a school district with a budget of

[26] Zelenkofske Axelrod, LLC. "Independent Auditors' Report." Page 2. March 31, 2016. This report is included in the District's *Financial Statements* for the Year Ended June 30, 2016.

> *Criteria relevant to the finding (continued):*
>
> **Consultant's Report, July 2015:**
>
> Improved communication was the most commonly voiced need across stakeholder groups in a July 2015 independent consultant's report, issued shortly after a new CRO was appointed in April 2015. The report itself is cited in the body of this finding.
>
> Specific requests from various stakeholders, including teachers, staff, and other members of the public included more clarity, consistency, and timeliness with Central Office communications, improved community and parent outreach, and a clearer mission, vision, and action steps for the District. The majority of stakeholders interviewed and/or surveyed also expressed concern about the inadequacy of the district's website. As a result, the consultant recommended improved communications systems and a distributed leadership process in decision-making.

nearly $120 million in annual revenues from taxpayer-funded sources should be providing MD&A in its annual financial statements as other school districts of this size are doing.

For all of these reasons, the District should be improving accountability to the public, and providing this *required* section of the financial statements, which presents valuable financial information in laymen's terms for all stakeholders, would be a step toward doing so. The Board should also ensure compliance of its own policy by reviewing and approving the MD&A presented by the administration *prior* to inclusion in the District's financial statements.

Lack of Information on the District's Website

The District's website provided minimal information to the public regarding the Board and other District business. There were no links to board meeting minutes, annual approved budgets, or independently audited annual financial statements. We verified the lack of information on the website in March and June 2016. We checked the website again in October 2016, after the start of the 2016-17 school year, and after the District implemented a new website design at the recommendation of the aforementioned independent consultant.[27]

Each time we checked the website, the District only provided agendas for board meetings. While there was a link to board meeting minutes, no minutes for any meetings were posted. Most Commonwealth school districts make board meeting minutes readily available through their websites.[28] By not providing board minutes, the District did not give the same access to the public regarding any actions taken by the Board, including votes on agenda items by individual members of the school board, as well as comments made by the public.

[27] The consultant's recommendation regarding communications stated, in part: "Rebuild the district's website with a focus on communicating plan strategies and progress." Mass Insight Education. "School District of the City of York: District Diagnostic." July 2015. Section II Recommendations/Page 17.
[28] For instance, we found that nearby Central York School District posted its board meeting minutes on its website, as did nearby Harrisburg School District, which, like the School District of the City of York, was also in financial recovery status.

Similarly, the District did not provide the public with access through its website to annual budgets and annual financial statements. In addition, although the district had posted a link to the most recent 2016 financial recovery plan, the 2013 plan was not included on the website. Since the 2016 plan is short, vague, and broad, as discussed previously in this finding, and since it refers frequently to the 2013 plan, the District should also include the 2013 financial recovery plan on its website. Further, it should include the July 2015 consultant's report, which provided findings and recommendations to the District.

Conclusion

In summary, the District has to improve its transparency by becoming more fully accountable to the public with regard to its financial activities and its strategies for improving its financial recovery. The lack of its Management Discussion and Analysis section in its financial statements, the lack of full transparency in its budget preparation process, the lack of timely budget adjustments, and the lack of information available on its website point to a financial management organization that is too centralized and leaves out important stakeholders, such as teachers, department heads, parents, students, and taxpayers. By implementing the recommendations below, the District should become more transparent and accountable, which will improve the credibility of its leadership and help to ensure that proper checks and balances steer the District toward effectively using resources to improve the educational experiences of its students.

Recommendations

The *School District of the City of York* should:

1. Develop a detailed multi-year financial plan, which can be integrated into its financial recovery plan. It should be reviewed and approved by the Board and adjusted annually, as necessary.

2. Implement an actual distributed leadership program—as suggested in the previously discussed consultant's report—for financial planning and budgeting, which includes department heads, teachers, and members of the public, as well as the Superintendent and the Business Manager, and which requires routine reporting

to the Board on actual outcomes and proposed adjustments to forecasts and assumptions.

3. Improve its budgeting projections for revenue and expenditures by taking into consideration historical data as well as a cost-basis approach or a zero balance budgeting process.

4. Require the Business Manager to timely account for budget variances and request authorization for adjustments from the Board in public meetings.

5. Require the Business Manager to prepare MD&A as part of its preparation of the annual financial statements—to achieve compliance with both GASB 34 and *Board Policy No. 622*—and require the Board to review and approve the MD&A *prior* to inclusion in the District's financial statements.

6. Provide additional information on its website, including but not limited to the board meeting minutes, annual approved budgets, and its independently audited annual financial statements.

Management Response

District management both agreed and disagreed with the finding and provided the following response, in part:

Response to Recommendation #1:
"Multi-year financial plans have always been a part of the recovery plan process. They have been updated as significant changes in circumstances have occurred. This process will continue to occur."

Response to Recommendation #2:
"The approach to financial planning and budgeting has been more centralized than the approach normally followed by school districts. This has been necessitated by a combination of the financial condition of the District and the need to focus resources to fund the activities of the Recovery Plan. The District has devoted significant resources on the development of a distributed leadership culture. As programs are developed through the distributed leadership process it is the intent of the District to incorporate the identified resource needs into the budget process."

Response to Recommendation #3:
"While, like any budgeting process, improvements can be made in methodologies utilized in the budgeting process, the District currently utilizes historical and other applicable data in its budget process. The District will endeavor to continue to make improvements to the process."

Response to Recommendation #4:
"The District will implement a process of budget variance review and budget adjustments on a timely basis."

Response to Recommendation #5:
"The District will prepare MD&A's for inclusion in future financial statements."

Response to Recommendation #6:
"The Mass Insight Report found concerns regarding internal and external communications functions of the School District. As a result, one of the twenty-three initiatives of the 2015 Recovery Plan was to "Ensure Consistent Communication." Components of this initiative included hiring a communications Director, publishing weekly, quarterly and end of the year newsletters, and redesigning our District website. The process of redesigning the website began in the fall of 2015. The company contracted to redesign, build and populate the website turned the final product over to the District in January of 2017. During that time the District was working with the website builder to transfer content to the new site. Most of this work occurred during the time the Auditor General's Office was in York conducting their audit. All of the financial information, mentioned in the Auditor General's Findings which was recommended to be placed on the district website is currently available to the public."

Management's additional response to Finding No. 1 is included in Appendix B.

Auditor Conclusion

We are pleased that going forward the District has committed itself to improving its budget monitoring and timely budget adjustments. We are also pleased to see that the District will from now on include the required Management Discussion & Analysis section in its financial statements. Further, we are also pleased to see that it has undertaken steps to improve public access to the District's fiscal affairs and financial information through its website.

We still encourage the District, however, not only because of its persistent economic challenges, but also as a best business practice, to develop ongoing, concrete financial planning strategies that incorporate regular accountability to the Board and the public and that allow for timely adjustments of forecasts for actual outcomes as necessary.

The additional auditor's conclusion to Finding No. 1 is included in Appendix B.

Finding No. 2	Credit Card Purchases Were Not Monitored by District Officials, Resulting in Thousands of Dollars of Unsubstantiated Costs and Possible Misuse of Public Funds

> *Criteria relevant to the finding*:
>
> *Pennsylvania School Board Association (PSBA) Policy No. 625,* tailored and implemented by the boards of school directors of various Commonwealth school districts, where credit cards are issued, provides policy recommendations such as:
>
> The Board approves the use of credit cards for permissible purchases and/or services to be purchased for the official use of the school district by designated employees to improve the efficiency of purchasing activities, reduce processing expenses, improve controls for small-dollar purchases, and streamline purchases and payment procedures. The Board directs the administration to establish safeguards to prevent misuse of such cards.
>
> The Board shall approve the list of employees authorized to use district credit cards.
>
> The Board shall purchase adequate insurance coverage for credit card misuse.
>
> A list of authorized users of credit cards shall be maintained in the business office and shall include employees in designated positions.
>
> All use of credit cards shall be supervised and monitored on a regular basis by the Business Manager, who shall ensure the use of such cards is in accordance with the funds budgeted for this purpose.

During the five-year period from the 2011-12 through the 2015-16 fiscal years, the District's employee credit card charges more than quadrupled from $58,363 in 2011-12 to $235,981 in 2015-16.[29] We found that the District had no policies and procedures governing the use of these credit cards, and consequently there was insufficient oversight and poor record-keeping, resulting in charges lacking receipts, authorization, and other documentation to support the appropriateness of expenses incurred on behalf of the District.

Overall, we identified the following issues related to the District's credit card practices:

- No Board authorization or oversight.
- No user agreements or insurance.
- No spending limits on two cards.
- Multiple users on more than one card.
- Poor recordkeeping system.
- Misplaced documentation files.
- Missing receipts and other supporting documentation.
- Credit cards kept open after employees' separation.
- Noncompliance with travel policies.

Each of the above concerns are addressed in more detail in the sections that follow.

<u>No Board Authorization or Oversight</u>

The Board never authorized any District employees to use credit cards at any time during this five-year period, and the District had no board policies and procedures related to the use of District credit cards either for the Business Office to pay its bills through the *accounts payable system* or for other employees to use them for direct purchasing of goods

[29] Source for the data was vendor credit card statements, which we reviewed and verified.

Criteria relevant to the finding (continued):

Other recommendations from PSBA *Policy No. 625* include:

Proper accounting measures for the use of procurement cards shall be developed, distributed, implemented, and monitored by the Business Manager.

An employee authorized to use a procurement card shall maintain adequate security of the card while it is in his/her possession. Under no circumstances may the card be used by another individual.

Each employee using a district procurement card shall sign a card usage agreement and receive training on applicable policies and procedures.

The District's *Board Policies Nos. 431 and 531, Job Related Expenses,* for teachers and professional employees, respectively, state, in part:

"All out-of-state travel shall be preapproved by the Board."

"The Superintendent or designee shall prepare procedures for reimbursement of travel expenses . . . ."

and services.[30] We also found that the Superintendent and the CRO were unaware of the volume of credit card activity and were not involved in monitoring credit card charges. Additionally, we found that the Business Manager was not involved in any routine review and approval of the charges made by employees using credit cards.

School districts should maintain an internal accounting control system governing the spending of public resources to achieve an adequate segregation of duties and to ensure that purchases are appropriate and properly authorized *prior* to purchase and payment. Credit cards, however, allow the employee to make purchases without obtaining prior approval; therefore, routine monitoring of credit card charges is imperative. When credit cards are not monitored, the individuals holding District credit cards have the opportunity to have simultaneous *authority* over making purchasing transactions and *custody* of the resources for making those purchases. The absence of a routine review of charges deprives the District of the ability to timely address any questionable purchases, and it potentially allows card holders to be less accountable for their purchases.[31]

<u>No User Agreements, No Insurance, No Safe-Keeping</u>

The District did not require employees who were issued credit cards to receive training on the proper use of these cards. Employees with District credit cards also did not sign user agreements, which could have spelled out restrictions on their use. Further, the District did not have insurance coverage for these credit cards in the event of misuse.

In addition, there were no safe-keeping requirements regarding the actual credit cards. We were informed that employees were responsible for keeping custody of their own credit cards, and some kept them in desk drawers while others kept them on their person (e.g., in wallets). The District should have provided restrictions on where the

[30] The District's practice of paying certain bills with a credit card rather than by check began in March 2015. In the 15-month period, from March 2015 through June 30, 2016, total additional charges to the Business Manager's card for these *accounts payable charges* were $1.5 million. This finding addresses the direct purchasing charges on the six employee credit cards.

[31] According to GAO-14-704G, *Standards for Internal Control in the Federal Government* (page 29), "Segregation of duties helps prevent fraud, waste, and abuse in the entity by considering **the need to separate authority, custody, and accounting** in the organizational structure." (Emphasis added.)

cards could be kept for safekeeping to prevent unauthorized access.

No Spending Limits and Multiple Users

The District provided credit cards to six employees during the audit period. Of major concerns is that two of the six cards had no spending limits, and thus, unlimited spending authority. One of the cards had a $10,000 limit and the other three cards each had a $5,000 limit.

The two credit cards with no spending limits were also used by employees other than those in whose name each card was issued. First, the Business Manager allowed his credit card, one of the two with no spending limits, to be used by others, including but not limited to, business office personnel who used the card to routinely pay the *accounts payable* charges. Second, another employee's credit card was used for a wide range of charges, such as travel costs incurred on behalf of numerous employees and for the purchase of materials for instructional support. This employee also allowed others to use the credit card, which had no spending limit.

Employees with credit cards who allowed others to use those cards further eroded transparency and increased the risk of misuse of the cards. In addition, credit cards with no limits posed an added risk of misuse in an environment with little or no monitoring.

Poor Record-Keeping System

We found the District's records for employee credit card charges were incomplete and lacked sufficient organization. For instance, each month of charges paid in the 2015-16 fiscal year had one manila file designated to hold loose receipts supporting the charges on all six cards for that month. Yet, there was no evidence in the files themselves that the District reconciled the invoices or receipts to the credit card statements. Nor were the supporting documents organized by date or vendor name, rendering reconciliation to the credit card statements a cumbersome process.[32]

[32] The *accounts payable system* charges, which were charged on the Business Manager's credit card, were processed, accounted for, and approved in the same manner as other invoices paid by the Business Office, which involved a requisition and purchase order process. This system was not part of the review for this finding, which was limited to charges made directly by the six employees and others using the credit cards.

Criteria relevant to the finding (continued):

Section 517 of the PSC, *Attendance of Superintendents, etc., at Educational Conferences, and of Pupils at State Farm Show, etc., expenses* states, in part:—"The board of school directors of each district may authorize the attendance of the superintendent and such other members of the teaching and supervisory staff of such districts as they may specify, at any educational conference or conferences, when in the opinion of the board, such attendance will be conducive to the best interests of the district. Each person so authorized to attend and attending shall be reimbursed for all necessary traveling and hotel expenses actually incurred. The board of school directors may also authorize the transportation of pupils to . . . exhibitions and places of interest, when their attendance at the same is deemed of educational value to such pupils, and may pay the expenses of such pupils, in whole or in part, from the funds of the district. Such expenses shall be paid . . . upon the presentation of an itemized, verified statement of such expenses . . . The board of school directors . . . may reimburse any principal, supervising principal, school nurse, teacher or other employee for necessary traveling expenses incurred in the furthering of the educational program of the school district: Provided, that prior authorization to incur said expenses shall have been previously given by the board of school directors: Provided further, That advanced payments may be made by the proper officers of the district upon presentation of estimated expenses to be incurred, to be followed by a final itemized, verified statement of such expenses actually incurred upon return from such conventions . . . to meet the verified expenses actually incurred."

While business office personnel stated that they did attempt to tie all charges on the credit card statements to receipts or invoices before payment, they also stated they were not always provided documentation prior to paying the credit card company's invoices in full. In the monthly credit card files, we found numerous printed emails—many dated months after the charges were already paid—from business office personnel seeking supporting documentation for charges from numerous credit card holders.

Business office personnel also attested that receipts and other documents for some charges might be missing from the monthly files. We also found no evidence that the Business Manager performed any routine review of the credit card charges by other employees. A routine review by the Business Manager could have provided a timely check and balance to improve accountability of purchases made with credit cards. Further, someone outside of the business office should have been routinely reviewing the charges made on the credit card assigned to the Business Manager.

<u>Misplaced Documentation for Charges of $104,000</u>

As part of our review of the 2015-16 credit card files, we observed that the documentation files for July, August, and September 2015, were empty. These charges for three consecutive months, totaling more than $104,000, had no supporting documentation at all—no receipts, invoices, requisition forms, or other documents. Despite our repeated requests for the documentation, the files could not be located and the Business Office, including the Business Manager, could not provide a reason why there was no documentation for the three months' charges.

However, in mid-February 2017, after the District received our draft finding and more than eight months after our first request for the documentation, the District tracked down and provided us with files of receipts and other documentation for the three months' charges. Our review of the documentation further confirmed poor record-keeping and lack of oversight. A few examples are discussed below:

1. One employee may have been personally benefitting from coordinating employees' travel through an online travel vendor (Expedia) by earning points for each trip

booked using the District credit card. According to the Superintendent, the employee was never authorized to do this. The Business Manager also said he had no idea about this arrangement.

We found that the employee booked car rentals, airline travel, and hotel stays for numerous employees. For instance, in September 2015, with the District credit card, the employee booked a trip for ten employees to travel to a National Title I conference in Houston, Texas in January 2016. The total cost of the trip was $11,759. According to the receipt from the travel vendor, the employee earned 15,286 points for those transactions. (This employee retired in October 2015, and therefore, did not attend this conference.)

Also, in July 2015, the employee booked a car rental on behalf of another employee to travel to Columbia, South Carolina in September 2015, earning 1,293 points for booking this trip. In addition, the documentation for this trip, which also included a flight and hotel stay, did not indicate what this trip was for.

According to the travel website, points can be used for hotel accommodations and to obtain combination flight and hotel coupons. A benefit such as this could present a conflict of interest, since an employee might personally benefit by causing the District to incur higher travel costs than necessary. If the District had required credit card holders to sign user agreements, this type of reward program could have been expressly prohibited.

2. In the months of August and September 2015, more than $10,000 in Amazon.com charges on another employee's credit card did not have vendor receipts. Instead, we found emails seeking documentation for the charges *months after they occurred*. However, in February 2017, eight months after we first requested the documentation and after the District received a copy of our draft finding, the District obtained documentation for the 2015 charges from the vendor. Although most of the charges appear to have been for books and other instructional and support materials, the recently obtained documentation was not entirely reconciled to the charges on the credit card statement, *so we could*

not verify whether all charges were accounted for, appropriate, and made on behalf of the District.

3. Five of six charges to Walmart.com on an employee credit card in August 2015 lacked receipts. Emails indicated the charges were for clothing purchases for homeless and foster children, but only one of the charges included a receipt from the vendor detailing the items actually purchased. The charges lacking receipts totaled $997.

Numerous other charges in the three-month period lacked receipts; in addition, many charges lacked evidence of authorization and/or other documentation to support the appropriateness of the charge on behalf of the District. The District should have required timely documentation to be provided by all credit card holders *before* the Business Office paid for credit card charges. That documentation should have included the vendor invoice or receipt providing details of the purchase, thorough written evidence of supervisor or senior administrator authorization, and itemized written justification of the expense on behalf of the District.

<u>More Record-Keeping Problems</u>

The lack of documentation was not limited to the three months discussed above. We also found missing receipts and other documentation concerns in other monthly files we reviewed. For example, when we tested transactions from the June 2015 statement, we found missing receipts, lack of authorization, and instances where requisitions and purchase orders were prepared months *after* the purchase.

In October 2016, we had informed the Business Manager, the Superintendent, and the CRO of our findings related to the June 2015 credit card charges and the three months of missing documentation (July, August, and September 2015), as well as other problems. The administrators indicated that they believed the missing receipts were "somewhere in the [administrative] building." As stated earlier, the District did not provide this missing documentation for our review until after we provided our draft finding. This scenario does not provide confidence that the District had sufficient controls in place to ensure the appropriateness of the expenses and their authorization.

This chronic lack of accountability has put the District at risk of misuse of its funds.

Credit Cards Kept Open After Employees' Separation

Two employees with credit cards separated from the District in 2015—one in August and the other in October. The credit card of the employee who separated in August had no charge activity after separation, but we found that the credit card of the employee who separated in October was actively used for many months by administrative assistants and the employee who replaced the one who separated. When we brought this to the attention of the Business Manager in July 2016, he said he would close both former employees' credit cards. We subsequently verified that the credit card of the employee who separated in October was cancelled in July 2016. However, 17 months after separation—according to credit card statements as recent as January 2017—the credit card of the employee who separated in August 2015 remained open. This credit card should be closed immediately.

Noncompliance with PSC and Board Travel Policies

One of the employee credit cards had the largest amount of direct credit card charges, so we conducted a detailed review of the charges on that credit card for the month of June 2015. Total charges for the month were $26,802. There were 62 transactions, of which 37 were travel-related charges totaling $20,185, and 25 were other charges totaling $6,617. We focused our review on the travel charges and found that 9 of 16 travel charges selected for review had no supporting documentation such as receipts or requisitions. This travel included multiple airline and hotel charges for seven employees to attend a conference in Orlando, Florida. In addition, we found that receipts for a fieldtrip with students to the Baltimore Aquarium did not reconcile to the credit card charges. Finally, one of the charges missing a receipt was for $1,486 to Expedia, the previously referenced online travel vendor for which the employee appears to have earned reward points.

We were unable to confirm who actually went on the trips involving airline flights, although emails provided some indication of which staff were planning to go. Employees were not required to provide any written attestations as to the hotel costs, conference fees, airfare costs, and other costs related to their travel, so we could not confirm who actually traveled to the conferences.

We also found no evidence in the files that any of the June charges for out-of-state trips were approved by the Board as required by the PSC and the District's own policies. Nor could we find Board approval for these particular trips in our review of the District's board meeting minutes, although we did note approval for other trips.

Documentation Issues Cited By External Auditors

It is important to note that the District has been cited by other external auditors for documentation issues. For instance, the District's *Single Audit Report* for the fiscal year ended June 30, 2015, issued by its independent auditors, contained 11 findings related to the District's internal controls over federal program funds. *Finding 2015-009*, in particular, noted "disbursements that were not supported by accounting records" for several grant programs. It appears that the District's lax oversight of credit cards, in light of their extensive use, may have contributed to the internal control weaknesses noted in this report.

Improper Payment of PA Sales Tax

Our review of transactions from the June 2015 statement also identified seven instances where the Pennsylvania state sales tax was improperly paid on a total of six charges reviewed; the District should have been exempt from this tax in these instances.

Conclusion

The gross lack of accountability and oversight of credit card charges has put the District at an unreasonably high risk that public funds were possibly misused. No District, particularly one that was declared in *Moderate Financial Recovery Status*, should ever have allowed such an increase of its use of credit cards without first seeking Board approval and first establishing stringent policies and procedures to govern their usage. The District should take immediate steps to review past credit card activity and establish a strong system of internal accounting controls to ensure sufficient accountability for future credit card charges.

Recommendations

The *School District of the City of York* should:

1. Consider whether it should conduct a formal review of the credit card activity for all of the 2015-16 fiscal year. This review could involve contacting vendors and the credit card company to at least determine what was purchased.

2. Immediately establish a board policy governing the use of District credit cards by employees. This policy should clearly set dollar limits and other restrictions on credit card use, and it should restrict the number of authorized users. This policy should address:

    a. Approval of the list of authorized credit card users and any changes in authorized users.
    b. Credit card user training requirements and the development of user agreements.
    c. Restrictions on purchases and the use of the credit cards, including a prohibition from participation in travel and other rewards programs.
    d. A requirement that employees provide receipts to the Business Office *before* it pays for charges and prompt suspension of credit cards if employees fail to provide timely documentation.
    e. A requirement that the Business Manager monitor monthly credit card charges and periodically report to the Board.
    f. Safekeeping requirements.

3. Provide the sales tax exemption to all credit card holders and ensure they are informed of what types of sales are tax exempt.

4. Establish a comprehensive board policy addressing both in-state and out-of-state travel. This policy should require prior Board approval for any employee travelling overnight, out of state, or more than 50 miles from the District. The Business Office should require receipts to support travel charges as well as the travelling employee's written attestation to those charges prior to paying the credit card statement.

Management Response

District management both agreed and disagreed with our finding and provided the following response, in relevant part:

"The School District disagrees with the finding that credit card purchases were not monitored by District officials. While the District agrees with the Auditor General that there were issues with oversight, recordkeeping and timely documentation, there is and was a process in place where the use of the 5 district credit cards was monitored by Business Office staff. This supervision included a reconciliation process. The District recognizes that there were concerns with this process, particularly around the lack of official policies . . . ."

"The District will conduct a formal review of credit card purchases for the 2015-16 school year. The review will be conducted from April through June of 2017 and a written summary report will be submitted to the Board of school Directors at the July 2017 Finance Committee Meeting.

"The current credit card system used by the School District of the City of York will be eliminated. The Administration will be seeking the approval of the Board of School Directors to contract with Easy Procure, which is affiliated with the Pennsylvania Association of School Business Officials to provide a procurement card system that issues cards to authorized employees that has established limits and purposes. The resolution will be presented to the Board at the March 2017 committee meeting.

"An employment procurement card usage agreement will be created and will be signed by each procurement card holder. The agreement will include language regarding credit limits, single purchase limits, internal control procedures, the reconciliation of monthly statements, proper card security measures, and restrictions on purchases.

"The administration will recommend that the procurement card usage agreement be included as a component of a new Board procurement card policy. The Administration will also recommend that the Accounting Manager position be assigned to supervise the procurement card program and to provide and keep records of the training given to all procurement card users. The proposed policy will be presented to the Board of Directors in April of 2017.

"Currently, the Board has 4 policies, 004.1, 331,431 and 531 that address travel and job related expenses. These policies require approval for all overnight travel and for all travel outside of the Commonwealth of Pennsylvania. The administration will propose creating one comprehensive travel policy that incorporates the procedures found in the existing policies along with the recommendations of the Auditor General's report."

Auditor Conclusion

We are pleased to see that the District is planning to abandon its current credit card practices and will be implementing a PASBO-affiliated procurement card program. We are also pleased the District is taking the other corrective actions we recommended. While the District did have review procedures in place, those procedures were clearly not adequate. The evidence showed a clear lack of timely and routine management oversight of the procedures, which resulted in numerous missing receipts and lack of documentation to support the use of public funds.

We encourage the District to ensure that internal control procedures include timely management oversight of credit card records and routine reporting to the Board. The Business Manager or the Superintendent should ensure compliance with established procedures by its own routine review and approval process. For instance, in the event of missing authorization or documentation, management could promptly authorize business office staff to seek reimbursement from employees who fail to provide receipts and other documentation and/or to suspend employees' participation in the procurement card program.

Finding No. 3	The District Reported Unqualified Wages to PSERS for a Former Business Manager

Criteria relevant to the finding:

PSERS allows only qualified salary and wages to be included for retirement benefits. *See* 24 Pa.C.S. § 8101 *et seq.* (Act 96 of 1975, as amended).

PSERS' *Employer's Reference Manual—Chapter 8* states, in part:

The *Retirement Code* defines *compensation* generally to mean any remuneration received as a school employee excluding the following:

1. Reimbursement for expenses incidental to employment.
2. Bonus.
3. Severance payment.
4. Payments not based on the standard salary schedule.
5. Payments for unused vacation and sick leave.
6. Compensation for attending seminars and conventions.
7. Any other payment that the Board determines is for the purpose of enhancing final average salary. *See* 24 Pa.C.S. § 8102.

Also, Section 1089(b) of the PSC, *Business Administrator*, states, in part, regarding the employment agreement:

". . . The agreement may define the period of employment, salary, benefits, other related matters of employment and provisions of renewal and termination of the agreement." *See* 24 P.S. § 10-1089(b).

Our review of a former Business Manager's employment contract, payroll records, and retirement records found that his retirement wages—as reported by the District—were overstated in reports submitted to PSERS for the fiscal year ending June 30, 2012. The total possible ineligible payments reported to PSERS for the former Business Manager were $21,500.

We found that the former Business Manager's employment contract commenced on November 8, 2010, and was scheduled to terminate on June 30, 2013; however, his last day of employment with the District was on December 20, 2011, the effective date of his resignation. The District and the former Business Manager agreed to a payout of $21,500 and his continued health insurance until February 29, 2012.

The former Business Manager's contract contained no severance clause. However, the Board approved the resignation and a payout including severance pay at its regular board meeting on December 21, 2011, despite the fact that the contract contained no severance clause. As a best practice policy for all administrator contracts, it would be prudent for the District to apply Section 1073 of the PSC,[33] which restricts amendments to employment contracts for superintendents and assistant superintendents in the event of early separation. Establishment of such a policy governing all administrator contracts would protect the District by limiting payouts.[34]

In reviewing the payout, we found the $21,500 total was comprised of $11,500 from unused leave time and an additional $10,000 severance. In an August 4, 2016 interview, the Superintendent said that the $10,000 severance payment "was a negotiated amount between the District's attorney and the former Business Manager's attorney."

[33] 24 P.S. § 10-1073.

[34] Subsection (e)(2)(v) of Section 1073 (relating to Manner of Election or Approval) of the PSC states, in part: "[s]pecify the termination, buyout and severance provisions, including all postemployment compensation and the period of time in which the compensation shall be provided. Termination, buyout and severance provisions may not be modified during the course of the contract or in the event a contract is terminated prematurely." *See* 24 P.S. § 10-1073(e)(2)(v).

According to PSERS' *Employer's Reference Manual—Chapter 8*, qualified *compensation* generally means any remuneration received as a school employee and specifically excludes, among others, payments for severance, unused vacation/sick leave, and other payments not based on the standard salary schedule.

None of the $21,500 unused leave wages or the severance payments; therefore, qualified for PSERS reporting and may have improperly inflated the wages of the former Business Manager in the determination of his pension. According to the District management, the inaccurate reporting of compensation to PSERS was the result of personnel at the District misunderstanding the PSERS' compensation reporting guidelines.

We have provided PSERS with a report detailing the questionable retirement wages for determination of eligibility and possible adjustments to the former Business Manager's retirement calculations.

Recommendations

The *School District of the City of York* should:

1. Review with District personnel responsible for reporting wages to PSERS the specific allowable and unallowable wages for retirement reporting, so that the District reports in accordance with PSERS guidelines.

2. Consider adopting a policy to ensure that all administrator contracts have termination provisions clearly defined and to prohibit amendments to employment contracts upon early termination. This would expand to all administrators a best practice policy already required for superintendent and assistant superintendent contracts by the PSC, 24 P.S. §10-1073.

The *Public School Employees' Retirement System* should:

3. Review the 2012 wages for this former employee of the District to determine whether a salary adjustment should be made.

Management Response

District management agreed with the finding and provided the following response:

"[Business Office staff have] received training regarding the proper reporting of employee compensation to PSERS. The new internal Business Office policy now requires staff to consult directly with PSERS when questions arise regarding reporting guidelines. The District will consult with our Labor Law Attorney and School Board Solicitor to determine next steps regarding the adoption of any additional policies related to administrative contract language."

Auditor Conclusion

We are pleased that the current management is taking appropriate corrective actions on the matters identified in our audit finding, and we encourage management to provide timely, routine oversight of the PSERS reporting process.

Finding No. 4	The District Failed to Account for and Safeguard Its Inventory of Mobile Devices and Other IT Equipment, Risking Loss, Theft, and Misuse of District Equipment

Criteria relevant to the finding:

According to the federal Government Accountability Office's (GAO*)* *Standards for Internal Control in the Federal Government* dated September 2014 (known as the *Green Book*), "A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities. As programs change and entities strive to improve operational processes and implement new technology, management continually evaluates its internal control system so that it is effective and updated when necessary."

Specifically, Section 1 Paragraph OV1.01 of the *Green Book* states:

"Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved . . . These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations - Effectiveness and efficiency of operations
- Reporting - Reliability of reporting for internal and external use
- Compliance - Compliance with applicable laws and regulations"

The District's inventory of IT equipment included desktop and laptop computers, digital tablets such as iPads, monitors, video-cameras, white boards, and other IT equipment. As of July 2016, the IT Department's inventory records listed nearly 10,000 IT equipment items, of which almost 4,000, or nearly 40 percent, were either laptop computers or digital tablets, often referred to as *mobile devices*. We found, however, that the inventory records were unreliable, IT equipment was missing or misplaced, and taxpayer funds may have been wasted or misused.[35]

The District was unable to provide a record of the cost of IT equipment purchased during the audit period. The Business Office provided us with a list of detailed charges to a District equipment account for the 2015-16 fiscal year. Charges to that account totaled $1.1 million for the year. We found approximately $400,000 in equipment purchases that appeared to be IT-related because of designations such as *Computer, iPad,* or *Tech* in the vendor or description sections, but other charges to this account may or may not have been for IT equipment purchases, as well.[36] In addition, we were not able to verify whether this particular account contained *all* of the purchases of IT equipment for the period. Therefore, we were unable to quantify the amount of public funds at risk of theft, loss, or misuse because of the serious lack of internal accounting controls governing IT equipment.

The District's IT Department was responsible for purchasing IT equipment, controlling the distribution and disposal of the equipment, and maintaining the inventory records. However, the Business Office, the Superintendent, and the Board did not provide oversight and did not require any routine reporting from the IT Department on its

[35] The acronym *IT* stands for *information technology* and, in this finding, refers to laptop computers, desktop computers, digital tablets, wireless hot spots, and cell phones with "smart" technology. Printers and copiers were mostly leased by the District from vendors who also provided maintenance services. We did not review these lease agreements or the inventory record-keeping for this equipment.

[36] Because we determined the IT Department's records were unreliable, we asked the Business Office for the disbursements records for IT equipment in 2015-16. The District was only able to provide disbursements charged to an equipment account, which included other costs such as maintenance department equipment costs. This further indicated a lack of accountability for IT equipment.

Criteria relevant to the finding (continued):

The District's *Policy No. 610, Purchases Subject to Bid/Quotation,* sets quote and bid thresholds for purchasing "furniture, equipment, school supplies, and appliances.

Policy No. 706.1, Disposal of Surplus Property, states, in part:

"Computers and Related Equipment

Regarding disposition of computers and related equipment, the Director of Information and Technology shall recommend a means of disposal to the Superintendent. The Superintendent is authorized to give final approval of disposition. Disposal may include dismantling for parts."

District *Policy No. 827, Mobile Technology*, states, in part:

"It is the purpose of this policy to define the appropriate use of District Mobile Technology Devices. Mobile Technology Devices are defined as: laptop computers, portable digital assistants (PDA), cell phones, wireless devices, digital cameras, video cameras and other mobile electronics that may be carried on a person."

"Mobile Technology Devices are to be used for school-related business as a productivity tool, curriculum enhancement tool, and for research and communications. Mobile Technology Devices are the property of the District. Upon termination of employment or leave-of-absence, employees must return Mobile Technology Devices to the technology department. . . ."

activities. As a result, there was insufficient monitoring of the authorization, custody, and accounting for this equipment. This weak internal control environment increased the risk of waste and misuse of taxpayer money.

In addition to the IT equipment inventory, the District paid a wireless provider about $145,000 in the 2015-16 fiscal year for more than *200* lines for cell phones, additional digital tablets, and other mobile devices. This equipment was also the responsibility of the IT Department and was accounted for separately from the other IT equipment inventory. We found similar accounting weaknesses and further potential waste of taxpayer funds with the wireless lines and their respective equipment, which will be discussed later in the finding.

Unreliable Records & Missing or Misplaced Equipment

Using a combination of a random and systematic selection process, we selected 17 items from the IT Department's inventory records to determine whether the IT equipment was actually located where the inventory records indicated they would be. We also conducted a separate test of an additional 17 items that we observed on site at the District to determine whether they were appropriately recorded in the IT inventory records.

In all, we found that 8 of the original 17 items selected, which were listed in the inventory records, were either missing or improperly recorded. In the next test of the 17 additional pieces of equipment that we observed on site, we found that 6 of them were not recorded in the inventory records. As a result of this review and additional interviews with District staff who acknowledged record-keeping problems, we concluded the IT equipment inventory records were unreliable.

Weak Controls over Purchasing of IT Equipment

The District's IT Coordinator was responsible for purchasing the IT equipment, but again, there was no monitoring of these purchases by either the Business Office or the Superintendent. In addition, the District did *not* solicit quotes or bids for its IT equipment, and therefore, may have failed to comply with its own *Board Policy No. 610, Purchases Subject to Bid/Quotation.* This policy establishes quote and bid threshold requirements for

Criteria relevant to the finding (continued):

The District's *Policy No. 706, Property Records*, addresses property and inventory records and states, in part:

"It shall be the responsibility of the Business Manager to ensure that equipment inventories are systematically and accurately recorded, updated, and adjusted annually by reference to purchase orders and withdrawal reports. Property records of facilities shall be maintained on an ongoing basis.

The Business Manager shall maintain a system of property records which shall show, as appropriate to the item recorded:

1. Description and identification.
2. Manufacturer.
3. Year of purchase.
4. Initial cost.
5. Location.
6. Condition and depreciation.
7. Current valuation, in conformity with insurance requirements."

Policy No. 708, Lending of Equipment and Books, states, in part:

"The Board directs that district owned equipment shall not be loaned for non-school use off school property. If equipment is required for use by those granted permission to use school facilities, it may be loaned in accordance with Board policy. Use of specific items of equipment, when unobtainable elsewhere, may be granted on the written request of the intended user and approval by the building principal."

purchasing "furniture, equipment, school supplies, and appliances."[37]

The District's IT equipment was purchased using several funding sources, including federal program revenue, which is subject to independent annual *Single Audits* of the use of those federal funds. The District had findings related to equipment in these *Single Audit* reports for each fiscal year covered by our audit.[38] For instance, *Finding 2015-006* of the *Single Audit* report for the period ending June 30, 2015, stated that the District's records did not specify "the actual acquisition date of the equipment items" and the auditor "was unable to ensure the accuracy and completeness of the records and also noted that the District does not have policies in place to ensure the security of these items." We confirmed that approximately 1,100 items, or 11 percent, of the inventory did not have an acquisition date recorded in the inventory records.

<u>Accounting Weaknesses in Disposal of Equipment</u>

The District had no standard procedures in place to ensure that obsolete or broken equipment was disposed of in compliance with the District's *Policy No. 706.1, Disposal of Surplus Equipment*, or that the IT equipment was disposed of in a secure manner to prevent the dissemination of confidential information. According to the policy, the Superintendent of the District is charged with authorizing the disposal of equipment, but there was no evidence provided of such involvement regarding IT equipment. As a result, the District puts itself at risk of potential liability if confidential information contained on discarded equipment is used for nefarious purposes.

We further found that the District had disposed of IT equipment through a local electronics recycling company; however, the District could not provide a copy of any board-approved contracts or any evidence of payment to or from the electronics recycling company. We also found the IT Department did not maintain records of the disposal of its equipment.

[37] We found, however, that the District appropriately solicited bids for the selection of its wireless provider in order to obtain the federal e-rate reimbursement.
[38] A Single Audit is an audit conducted pursuant to the federal *Single Audit Act of 1984* to ensure that organizations receiving substantial federal funds use the funds in compliance with the federal government's funding requirements.

Criteria relevant to the finding (continued):

The District's *Board Policy No. 828, Use of Wireless Devices by Employees* states, in part:

"The Board endorses the use of certain wireless devices by school district personnel/employees in support of the general welfare and the instructional program of the school."

"The Board authorizes the Superintendent to enforce guidelines to regulate the use of wireless devices by employees. The Superintendent may delegate responsibility for the enforcement of this policy to the appropriate school district officials."

The District's *Policy No. 829, Cell Phones,* states, in part:

"The Board directs that cellular phone service be made available by the School District of the City of York ('School District') for use by appropriate district staff and directs the Superintendent to develop guidelines that allow for reasonable use of cellular phones. The Director of Technology or his/her designee shall establish procurement procedures for cell phones that satisfy the requirements for E-rate reimbursement and is responsible for internal review of cell phone invoices. Cell phone users are responsible for adhering to Board policy and following administrative regulations."

The policy then provides 16 guidelines for employee cell phone use, a reference to the "User Agreement" regarding employee reimbursement for personal use.

The Superintendent failed in his governance responsibilities because he should have provided regular and routine oversight of this process as required by *Board Policy No. 706.1*. Further, the District should have considered soliciting public bids for selecting an electronics recycling vendor for the disposal of its IT equipment, and it should have entered into a contract with terms that would have ensured accountability and the safe and secure disposal of the equipment. The District's IT Department should be accounting for its disposal of equipment, and it should provide routine reports to the administration, which the administration should review and approve.

Over 200 Wireless Lines Insufficiently Monitored

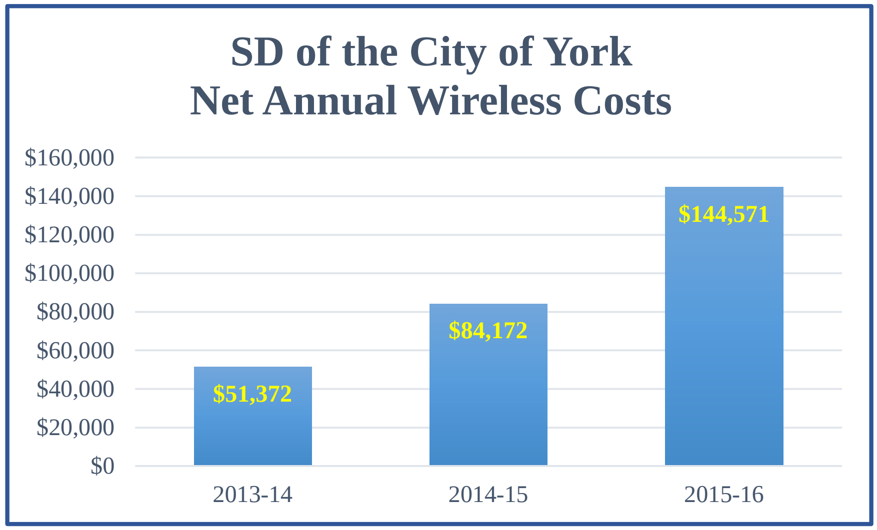
As of the end of the 2015-16 school year, the District was paying for 223 wireless lines for cell phones, digital tablets, and wireless hot spots.[39] The cell phones were issued to administrative staff and other employees on an as-needed basis as authorized by department heads. The digital tablets and wireless hot spots were only issued to administrative staff. Therefore, some employees had up to three pieces of wireless equipment, while others had one or two.

According to IT Department personnel, these lines and the respective equipment were used by administrative employees and were partially reimbursed as part of a federal e-rate program. Figure 1 below summarizes the annual payments over three years, net of any e-rate reimbursements.

As shown below, wireless costs nearly tripled from the 2013-14 fiscal year to the 2015-16 fiscal year. The District attributed the significant increase in net costs to the change in the e-rate reimbursement formula from 90 percent for both voice and data usage in fiscal years 2013-14 and 2014-15 to 70 percent for voice usage in 2015-16, and no reimbursement for data usage in that year. Since the financial benefit of the e-rate reimbursement has decreased, the District should review the list of employees issued digital equipment and consider the necessity of this equipment to each employee's job in order to cut costs.

[39] Source for the 223 lines cited: wireless provider invoice for the period from June 20, 2016, to July 19, 2016.

Figure 1[40]



We found the Business Office, the Superintendent, and the Board were not involved in reviewing and approving the list of employees or positions that were issued cellphones, digital tablets, wireless hotspots, and other equipment from the District's wireless provider. The District's department heads contacted the IT Coordinator to request wireless provider equipment, and the authorization did not always involve the Business Manager. Without oversight by senior administrators or the Board, there was no check and balance on the authority of the IT Coordinator to manage the distribution and return of the equipment.

Dozens of Suspended and Inactive Lines

The District routinely paid for numerous suspended and inactive lines, resulting in a waste of public funds. Figure 2 on the next page shows the number of suspended and inactive lines, based on our review of three invoices from the end of the 2015-16 fiscal year. It should be noted that we had also requested a copy of the May-June 2016 invoice, but the District did not provide it, despite repeated requests through December 2016.

[40] Source: Data was derived from auditors' analysis of invoices for the three years shown and represents amounts paid, net of the federal e-rate adjustments.

Figure 2

SD of the City of York: Analysis of Suspended & Inactive Lines			
	April 20 to May 19, 2016	June 20 to July 19, 2016	July 20 to August 19, 2016
Suspended Lines	25	25	25
Inactive Lines	15	17	18
Total Suspended & Inactive	40	42	43
Total # Lines	213	223	226

Suspended lines were for mobile devices that were no longer used by District employees, most of whom separated from the District. The custody of that equipment was the responsibility of the Coordinator of the IT Department. If the equipment was reissued to another employee, the suspended lines were reactivated. We asked the District why the number of wireless lines increased in the summer months, as shown above, and why it did not instead reactivate suspended lines. Officials did not provide a response despite repeated requests.

Inactive lines were those that we identified as having had no activity—no voice or data usage—for the three months reviewed above. When we asked about inactive lines, the IT Coordinator said that certain employees were issued equipment because of their job titles and duties, although they may not have requested and may not have used them.

The monthly cost of the combined suspended and inactive lines in the April, June, and July invoices, referred to in the table above, was $2,008 and $2118, and $2,078, respectively. Conservatively, we estimated the annual average cost for maintaining dozens of suspended and inactive wireless lines could be about $25,000. This clearly represents an additional waste of public funds.

We also found that the dates of suspension of equipment were not recorded in the IT Department's wireless records, which indicated that the actual suspensions of wireless lines may not have been monitored and recorded timely. Therefore, the District would have incurred additional unnecessary costs. The District should develop a board-approved policy with practical, cost-efficient procedures for managing open, suspended, and inactive lines, as well as requests to add additional lines.

Weak Accountability with Employee-Issued Equipment

Inconsistency with the Equipment Log Sheet. It is a common best practice for public employees issued any government-owned equipment to be required to attest to receipt of that equipment and to return that equipment upon separation from employment. Prior to the 2015-16 fiscal year, the District did not require employees who were issued District-owned IT equipment to sign for receipt of that equipment. In 2015-16 the District implemented a procedure for employees to sign a property checklist called the *Equipment Log Sheet*; however, it did not require employees who already had been issued District-owned IT equipment to sign one. This reduced accountability for hundreds of mobile devices and other IT equipment already issued to employees, and it increased the possibility of permanent loss or theft of District-owned equipment.

We further found that the *Equipment Log Sheets* were used only for the more portable devices (digital tablets, laptops, cell phones, cell phone cases) and not for bigger pieces of equipment, such as desktops and portable printers. The District's failure to require accountability for District-issued IT equipment further weakened control over the custody of that equipment.

Inadequate Cell Phone Reimbursement Procedures

District employees who had been issued cell phones were permitted to choose whether to use them for business only or for business and personal purposes. If they informed the District of their intent to use the phone for both business and personal purposes, they were charged $25 per month or $300 per year, with the cost allocated among 26 pay periods and deducted from their pay checks. For the months reviewed above, approximately 36 employees were reimbursing the District to use phones for both personal and business purposes.

According to IT Department staff, the $25-per-month reimbursement cost collected from employees by the District had been established "eight to ten years ago" and had not been reconsidered since then. Per our review of the June 2016 invoice, the District paid between $40.01 and $81.49 per cell phone (including taxes and fees). Given the advances in cell phone technology and the overall increased reliance on cell phones, the District's Board should have periodically and publicly considered whether the employee reimbursements to the District for their phones was reasonable and/or commensurate with the costs of wireless lines and equipment.

We also noted that there was no indication in the IT Department's records as to whether individual lines were used for business only or for both business and personal purposes. As a result, effective, routine monitoring of cell phone use appears to have been unfeasible, and the District's process of collecting cell phone reimbursements from employees may have been inequitable. We found no evidence that anyone was monitoring usage to verify whether usage was appropriate and in accordance with each employee's user agreement.

Outdated Policies, No Written Procedures, and Insufficient Oversight

Figure 3 below highlights the District's policies that were at least partly relevant to the District's internal accounting controls related to the IT equipment inventory. The table below shows the dates when policies were last issued or revised. The policies are outdated, with four of the six policies having been issued more than 11 years ago. The policies should have been updated to reflect the District's reliance on IT equipment for both educational and administrative purposes.

Figure 3[41]

SD of the City of York District Policies Relevant to IT Equipment			
Policy No.	Policy Title	Date Issued	Date Revised
706	Property Records	11-16-2005	---
706.1	Disposal of Surplus Property	04-29-2005	---
708	Lending of Equipment & Books	11-16-2005	---
827	Mobile Technology	02-16-2005	---
828	Use of Wireless Devices by Employees	02-16-2005	07-18-2007
829	Cell Phones	02-16-2005	06-19-2013

We found these policies were contradictory or even unenforceable with regard to certain IT equipment. For instance, we found that the IT Coordinator was responsible for purchasing and maintaining control of the inventory of

[41] Source: Board policies provided by the District.

IT equipment. Yet, *Policy No. 706* assigns responsibility for inventory records to the Business Manager. *Policy No 706.1* assigns oversight responsibility for the disposal of equipment to the Superintendent, and *Policy No. 708* assigns responsibility for removing equipment from a school building to each school's principal.

We also observed that *Policy No. 827, Mobile Technology*, provides a list of items that are considered to be mobile technology devices, and digital tablets are not on that list. Digital tablets, such as iPads, were one of the District's most frequently purchased pieces of IT inventory in the three fiscal years ended June 30, 2016, according to Business Office and IT Department records.

Conclusion

In an environment where significant investments of taxpayer funds were made in IT equipment for both educational and administrative purposes, the District failed to provide sufficient oversight to procure, safeguard, account for, and dispose of its IT equipment inventory. Consistent with their governance responsibilities, the Board and Superintendent, in particular, should make a more concerted effort to provide regular and routine supervision of the IT equipment inventory. Further, the inventory records were unreliable and IT equipment may have been lost, stolen, or misused. As a result, the District may have incurred waste and may have caused misuse of public funds.

Recommendations

The *School District of the City of York* should:

1. Promptly consider taking an inventory count of its IT equipment so that it can create a reliable accounting record, which will allow the District to more accurately assess its purchasing needs and to use as a foundation for creating internal controls over the lending of District property to employees, students and others involved in the education and administration of the District.

2. Reevaluate whether the District needs to maintain more than 220 wireless lines, especially considering the recent reductions in federal e-rate reimbursements.

3. Update its board policies to comprehensively address the management and oversight of IT equipment, including:

    a. Authorization requirements.
    b. Accountability requirements.
    c. Usage restrictions.
    d. Employee reimbursements.
    e. Disposal procedures, including the proper cleaning of equipment to remove data and other information *before* disposal.
    f. Inventory testing and/or review procedures.

4. Develop written procedures to support adherence to the policies governing IT equipment, including procedures that identify who is responsible for different aspects of the authorization, custody, and accounting for the equipment.

5. Require the administration to periodically report to the Board on its IT equipment purchasing and disposition, including the use of a wireless provider for employee cell phones and digital tablets.

Management Response

District management agreed with the finding and provided the following response, in relevant part:

"The Mass Insight report issued in 2015 indicated significant concerns with the management and functions of the IT Department. Based on the District's own concerns and the recommendations of the Mass Insight Report, actions to address the IT Department deficiencies were added to the Recovery Plan as one of the 23 initiatives. The Recovery Plan called for the District to conduct an audit of the department and to write a comprehensive plan to rectify the concerns. Based on the priorities outlined in the Recovery Plan, this initiative was not to be acted upon until the plan's final phase in 2018. Recognizing the imperative need to address IT concerns, the District moved up the audit date and in November of 2016 contracted with the Lincoln Intermediate Unit 12 to conduct an audit of the IT Department and to assist the District with writing an action plan.

"Corrective Action- The School District of the City of York conducted a full physical inventory of all technology equipment in the summer and fall of 2016. The inventory information is currently being placed in the SpiceWorks computer program and that program will run in conjunction with the IT Department Help Desk ticketing system. The system will be operational in June of 2017.

"Building inventory checks will be conducted in June and July of each year. Inventory lists will be verified by the IT Department and the Building Administration.

"Equipment Log Sheets will be signed by all employees who were assigned technology equipment prior to the 2015-16 school term. This task will be completed by August of 2017.

"The IT Department will be reviewing all equipment in June and July of 2017 to determine which pieces valued at more than $100.00 do not currently have asset tags. All items found without tags will be immediately tagged.

"The administration will develop a written policy prohibiting technology equipment from being moved from the rooms where it has been designated for use. The movement of all equipment will be monitored through the helpdesk ticketing system, which is now linked to the inventory database.

"The District reviewed the 223 wireless lines in August of 2016 and removed all suspended accounts. The District currently has 185 lines. All cellphone, tablet and WIFI connections wireless lines were audited in February of 2017. It was determined that 50 cellphone lines will be eliminated from the District account starting on July 1, 2017.

"Board Policy 829 Cellphones will be updated prior to July 1, 2017. Language regarding who is assigned the device, approvals, suspensions, co-pays for personal use, upgrading, and damages to the cellphone will be added to the existing policy.

"Board Policies 610 Purchases Subject To Bid/Quotation, 706 Property Records, 706.l Disposal of Surplus Equipment, 708 Lending of Equipment, 827 Mobile Technology, 828 Use of Wireless Devices by Employees and 829 Cellphones will be revised in order to address the issues identified in the findings. These revised policies will be submitted to the Board of School Directors for approval by July 1, 2017.

"In November of 2016, the District contracted with the Lincoln Intermediate Unit 12 to conduct a full audit of the Technology Department. We anticipate that audit to be completed by August of 2017. With the assistance of the IU staff, the District will craft new written procedures and administrative policies governing the Technology Department.

"The Director of Technology will present a twice yearly written update to the Board of School Directors at the Board Buildings and Grounds Committee meeting. The report will include the status of current equipment, a review of policy related to technology, and an overview of department initiatives. The first report will be delivered at the June 2017 Buildings and Grounds Committee Meeting. The Second report will be delivered in January of 2018."

Auditor Conclusion

We are pleased the District has begun to implement several of our recommendations and that it will be implementing further recommendations and other corrective actions to address the matters identified in our finding. We encourage the District to ensure that management oversight of its purchasing, custody, and accounting of its IT equipment becomes an integral part of the standardized internal control policies and procedures governing IT equipment.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on March 29, 2012, resulted in two findings 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 March 29, 2012

Prior Finding No. 1: District's Inadequate Documentation Resulted in Questionable Reimbursements

Prior Finding Summary: Our prior audit of the District's child accounting data for the 2007-08 and 2006-07 school years found numerous child accounting errors and inadequate documentation for resident and nonresident membership data. These deficiencies resulted in the questionable validity and reliability of the membership data reported to PDE. We could not calculate the necessary changes to the membership data reported to PDE for the years audited. These deficiencies resulted in our inability to verify the District's entitlement to subsidies totaling $9,354,323.

Prior Recommendations: We recommended that the District should:

1. Require the child accounting coordinator to consult with PDE child accounting personnel to obtain an understanding of the required procedures for maintaining and reporting membership data.

2. Require the current child accounting coordinator to attend training that is offered on child accounting by PDE.

3. Establish internal controls to help ensure that all nonresident students are accurately identified.

4. Provide training to all District personnel involved in the child accounting function to ensure that they are aware of the different residency classifications and the type of documentation that must be obtained and maintained for each type of residency classification.

5. Review residency classifications for all students, compare these classifications to the membership records, and make appropriate changes to the membership records to ensure accuracy.

6. Ensure all membership is reported in accordance with instructions from other local education agencies (LEA) and PDE.

7. Review documentation for students with nonresident membership codes, ensure that the District has adequate documentation to support the nonresident codes, and report the membership for these students under the appropriate nonresident classification.

8. Maintain a copy of final membership printouts in such a manner that they can be retrieved for audit purposes.

9. Develop review procedures which will ensure that membership data is not double reported.

10. Compare final membership printouts with the data reported to PDE to ensure agreement and to help ensure that there are no errors in transferring data to PDE reports. If adjustments are necessary, these adjustments should be made and noted on the membership printouts.

11. Develop review procedures to ensure that membership data for all students is reported to PDE.

12. Report membership for students educated by other educational agencies, such as York County High School, based on the reports from those agencies, ensuring that the reports contain adequate information. If the District uses district-generated reports to report the data, they should ensure that the District reports are reconciled to membership reports from those agencies. NOTE: District personnel should review the membership reports for accuracy and, if errors are found, those LEAs should be contacted to obtain revised reports which contain the necessary adjustments. All revisions should be noted on the original membership printouts and totals adjusted as necessary.

13. Develop procedures to ensure that manual calculations are accurate (e.g., a second level of review).

14. Ensure that school terms used to calculate membership data for the membership printouts agree with the terms reported to PDE.

15. Ensure that nonresident days reported to PDE agree with the data on the membership printouts.

16. Review subsequent years' reports and, if similar errors occurred, make any necessary adjustments and submit revised reports to PDE.

We also recommended that PDE should:

17. Review the propriety of the subsidies and reimbursements paid to the district.

Current Status: Our current audit again found discrepancies between District records and the membership data reported to PDE during the audit period of July 1, 2010, through June 30, 2015. We found that the District did not implement our audit recommendations from the previous audit at any time throughout the current five-year audit period. However, during interviews, District personnel stated that they began to implement our recommendations during the 2015-16 school year, but issues with a new software program delayed full implementation of the recommendations. We will evaluate the effectiveness of the new procedures and software during the next audit.

Prior Finding No. 2: Certification Deficiencies

Prior Finding Summary: Our prior audit of the District's professional employees' certification for the period February 19, 2009, through February 2, 2011, found deficiencies.

Prior Recommendations: We recommended that the District should:

1. Take the necessary action required to ensure compliance with certification deficiencies.

2. Ensure only properly certified individuals holding current and valid certificates are allowed to teach District students.

We also recommended that PDE should:

3. Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: Our current audit found that the District had implemented our recommendations. The District's administration implemented certification review procedures, as recommended, and consequently we found no deficiencies as part of our review of employee certifications.

Prior Observation: **The District Will Pay an Estimated $326,354 as a Result of Prematurely Terminating the Superintendent's Employment Contract**

<u>Prior Observation Summary:</u> Our prior audit found, on November 19, 2008, the District's Board entered into an employment contract (Contract) with an individual to serve as the District's superintendent (Superintendent). The Contract had a term of four years and seven months, from November 19, 2008, to June 30, 2013, and provided the Superintendent with an annual base compensation of $135,000 as well as benefits. Only one year and ten months into the term, effective September 15, 2010, the Board terminated the Superintendent's contract without cause at a special meeting on the same date. This termination resulted in amended provisions to the Contract and the District making payments to the Superintendent, estimated at $326,354.

<u>Prior Recommendations:</u> We recommended that the District should:

1. Ensure that future employment contracts with prospective administrators do not contain overly generous early termination provisions that may negatively impact the District and its taxpayers.

2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and justifying the District's expenditure of public funds.

<u>Current Status:</u> Our current audit found that the District, again as part of a termination negotiation, amended an administrator's employment contract, resulting in a payout, as detailed in Finding No. 3 of this report.

Appendix A: Audit Scope, Objectives, and Methodology

School performance audits allow the Pennsylvania Department of the Auditor General to examine the appropriateness of certain administrative and operational practices at each LEA. The results of these audits are shared with LEA management, the Governor, PDE, and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,[42] is not a substitute for the local annual financial audit required by the PSC 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, 2010, 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[43] 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 IT controls, which we considered to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the performance of our audit and determined to be significant within the context of our audit objectives are included in this report.

[42] 72 P.S. §§ 402 and 403.
[43] 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, financial reports, annual budgets, new or amended policies and procedures, and the independent audit reports of the District's basic financial statements for the fiscal years ending June 30, 2010, through 2015. We also determined whether 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 and Accountability
- Internal Controls Governing District-Issued Procurement Cards
- Inventory Controls over Information Technology Equipment
- Administrator Contract Buy-outs
- School Safety
- Bus Driver Requirements

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

- Did the District, which was designated in December 2012 by PDE as *Moderate Financial Recovery Status*, continue to operate in a declining financial position, did it adequately develop and comply with a required financial recovery plan, and did it comply with statutes prohibiting deficit fund balances and the over expending of the District's budget?

    - We reviewed the District's annual financial reports, board-approved annual budgets, and the independent auditor's reports. The financial and statistical data were used to develop a worksheet of budget-to-actual variances, which was deemed appropriate for assessing the District's financial stability. We also interviewed the Business Manager. Additionally, we met with the District's CRO to ask questions regarding the PDE-approved financial recovery plans for 2016 and 2013 and to address significant challenges the District faces. We then reviewed and compared the two plans, highlighting differences to see if the 2016 plan had been appropriately adjusted based on actual financial outcomes and whether it had measurable financial goals. We also developed a debt schedule based on the District's debt service fund and total expenditures as reported in its audited financial statements. Finally, we reviewed fiscal information provided on the District's website. Finding No. 1 contains the results of our review.

- Did the District have adequate internal controls, including board-approved policies and procedures, over its credit cards in order to safeguard the use of public funds?

    - Using vendors' monthly credit card statements and District disbursements records, we first performed an analytical review of annual credit card activity for the five-year audit period. Results of this analysis warranted further review. We then determined to review receipts and other documentation of credit card transactions paid during the 2015-16 school year. Using a combination of systematic and subjective selection processes, we first reviewed 46.7 percent of employee charges paid in July 2015 (from the June 2015 credit card vendor statement). We then observed that no receipts or other documentation existed for the charges paid for the next three months' credit card statements. After we provided the District with our draft finding, the District was able to recover the missing documentation for the three months of credit card charges from July through September 2015. We conducted a 100 percent review of the documentation for these three months. Results of our review are contained in Finding No. 2.

- Did the District have adequate controls over its inventory of IT equipment, including equipment purchased through its wireless provider, and did it comply with board-approved policies?

    - We first interviewed IT Department and business office staff to determine the inventory procedures for equipment. We also obtained and reviewed the Board policies related to IT equipment. An initial walk-through was performed to test the location of 5 of 1037 pieces of technology equipment listed on the inventory listing for the administrative building as provided by the IT Director and to determine if 5 additional pieces of equipment observed on site were listed on the inventory list that was provided. Due to discrepancies noted in the walk-through, we expanded procedures, applied filters to the inventory list, and randomly selected an additional 12 of 113 pieces of equipment listed in the administrative building and another 12 observed on site. We also reviewed wireless invoices and District accounting and inventory records and the procedures related to employees' wireless cell phones and digital tablets. We performed analyses and conducted additional interviews related to wireless charges and equipment. Finding No. 4 contains the results of this review.

- Did the District pursue a contract buy-out with any administrators and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?

    - We reviewed the contracts, settlement agreements, board meeting minutes, board policies, and payroll records and determined that one senior administrator's contract was bought-out during the period July 1, 2010, through June 30, 2015. We then verified the reason for separation and whether the total costs were made public through board meeting minutes, and whether a board vote was conducted according to Section 508 of the PSC. We also analyzed contracts and agreements to compute the cost of the separation payout; we then determined if the total payout was excessive. We also reviewed whether the administrator contracts complied with appropriate provisions of the PSC regarding inclusion of termination, buyout, and severance provisions. Finally, we determined the accuracy of payout wages reported to PSERS and verified termination of any contractual benefits not provided for in the settlement. Finding No. 3 contains the results of this review.

- Did the District take appropriate actions to ensure it provided a safe school environment?

    - To address this objective, we reviewed the 2008-09 Safe Schools Verification Letter, conducted an interview with the Chief of School Police, and reviewed a variety of documentation, including school climate surveys, bullying policy safety and security reporting requirements and Pennsylvania State Police Risk and Vulnerability Assessments. The results of our review of school safety are shared with District officials, and, if deemed necessary, with PDE.

- Did the District ensure that bus drivers transporting District students had the required driver's licenses, physical exams, training, background checks, and clearances as outlined in applicable laws?[44] Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?

    - To address this objective, we selected the only two bus drivers that were hired by the District's bus contractor during the period July 1, 2011, 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. We found the District complied with laws and regulation to ensure contracted drivers are properly qualified. We also found the District has written policies and procedures governing the hiring of bus drivers and that those procedures were sufficient to ensure compliance with bus driver hiring requirements.

[44] 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*.

Appendix B: Additional Auditor's Conclusion & Management Response

In addition to its management response to our recommendations for *Finding No. 1: While the District's Financial Standing Improved, Its Accountability for Fiscal Operations was Not Sufficient,* the District provided a more detailed response to our finding, which is included in its entirety beginning on page 60. Below is our auditor's conclusion to the District's detailed management response which is necessitated by several inaccuracies in the additional management response.

Auditor's Conclusion

The following is the Auditor's Conclusion, by Management Response heading:

Insufficient Public Engagement in Financial Matters

To support its claim of having provided sufficient public accountability related to fiscal affairs, the District stated that it held Advisory Committee meetings in compliance with Act 141. Despite repeated requests throughout the audit, we were not provided copies of any minutes of those meetings until March 16, 2017—months after the completion of our audit work—when we were provided copies of meeting minutes for two meetings in 2015. A cursory review of those minutes reinforced our concern that the Advisory Committee and the CRO did not provide sufficient accountability through regular reports to the entire Board on this committee's discussions and decisions related to the District's efforts to achieve financial recovery.

Further, while we found that the District's Athletic Committee meeting minutes were regularly posted on the District's website, the Advisory Committee meeting agendas and minutes were never posted there. At the exit conference on March 8, 2017, District officials even stated that few members of the public attended the Advisory Committee meetings. This observation by the District is all the more reason for the Advisory Committee to have made access to its discussions and decisions more widespread via reports to the Board and the posting of agendas and minutes on its website. This lack of accountability further adds to our concern expressed in the finding that, with regard to its fiscal affairs, the District was too centralized and lacking in transparency.

The District's high debt service ratio—a measure of annual debt payments as a percentage of annual expenditures—was 14 percent as of June 30, 2015, indicating the District's debt burden is still high.

The District stated that it had "made progress toward reducing that percentage." This is an incorrect assertion by the District because the 14 percent debt service ratio as of June 30, 2015, was actually the highest debt service percentage in the five-year audit period ending June 30, 2015, which includes two fiscal years prior to it entering the recovery process. We disagree with the District's assertion that the actual debt service that should be used in the calculation is $13,000,414 as opposed to $15,769,267. The number used in our calculation is sourced to the District's own Independent Auditor's Report. The District did receive long-term savings due to refunding in the 2014-15 fiscal year, but that revenue would not affect the gross amount of the District's debt service in that year and used in our calculation. We reiterate our concern that the District's high debt service ratio might impede the District's ability to provide funds for educational programs in order to achieve its educational goals.

Financial Recovery Plan Weaknesses

The District asserted that its "strategic financial goal is to make the schools of the District the schools of choice, thereby lessening the financial drain on the District . . . ." While making the District a school of choice is a worthy goal, it is broad and wholly insufficient as a financial strategy. School districts must also develop specific financial strategies to manage their resources, and as we pointed out in the finding, the District is not currently providing the public with sufficient, concrete financial strategies that are routinely monitored and adjusted based on actual financial and educational outcomes.

Reliance non-recurring revenues

The District's assumption about the Department's reference to the tax monetization is incorrect. As stated in our finding, the tax monetization transaction was entered into in order to shore up the District's cash position. Here we reiterate that, during the audit period, the District not only relied on a one-time revenue source such as the tax monetization transaction in 2011-12, it also relied on several non-recurring and unpredictable revenues and other financing sources that allowed the District to improve its General Fund balance. The District states "If the Auditor General's position is that the School District of the City of York has had sufficient resources to succeed and should not have to rely on additional state funding, we would have to disagree." It is important to state that we are not taking a "position" on the District's funding sources. We evaluated the District's financial position over the audit period and our conclusions on the District's financial position, which is supported by our audit evidence as discussed in this finding. The District goes on to state that they "strongly disagree" with the characterization that additional basic education subsidies are non-recurring revenue sources. This section of our finding clearly states and shows that the District is relying on additional state funding for distressed schools to cover budget shortfalls. It is surprising to see the District disagreeing with our characterization of additional basic education subsidies as non-recurring revenue sources after the District lamented "the unpredictability of our revenue sources, particularly as they relate to our funding from the State." Again we caution the District about continued reliance on such revenues and other sources since those types of revenues require the District to rely on external decision-makers and those revenues may not be available in the long-term.

Further, the District disagrees with the amounts used for *Proceeds from Refinancing Bonds (Net of Payment)* and *Additional Title I and II Revenues* displayed on Figure 2. The District's breakdown of the proceeds from refinancing bonds is included in *Revenue & Other Financing Sources* line item in Figure 2 and, therefore accurately reflects the District's reliance on debt refinancing during the 2014-15 fiscal year. The intent of breaking out the *Additional Title I and II Revenues* was to emphasize the District's reliance on non-recurring revenue sources. Figure 2 shows both the District's improved financial standing and the non-recurring revenue sources that led to this improved standing.

Significant Revenue Variances

The District asserts that the statements regarding the federal revenue budgets are “inaccurate.” The Department relied upon the District’s own independently audited financial statements, and therefore, if the numbers used in our analysis are incorrect, then the District’s own independently audited financial statements were incorrect and should be revised and reissued. The numbers used by the District in the corresponding tables are unaudited, and we did not verify them. Furthermore, the District’s explanation actually underscores our recommendation that the District must routinely monitor its budgets and timely make adjustments in order to avoid potential future errors in its own budgets, financial statements, and other reports. As stated in our finding, the District can improve accountability for certain fiscal operations, and the District’s response to this particular budgeting issue further reveals the improvements that can made in the area of accountability. The District’s need to correct methods of accounting used previously by the District and the District’s disagreement with budget vs. actual numbers stated on publicly available financial statements show the internal improvements that can be made by the District to be more accountable and transparent to the public.

Significant Expenditure Variances

The District asserts that the explanation regarding the regular program expenditure variances are “inaccurate.” It is important to note that the District is not disagreeing that expenditures were budgeted incorrectly, but instead is disagreeing with the reasons the budget was inaccurate. Once again, we relied upon the District’s own independently audited financial statements and engaged in multiple conversations with the District concerning the budgeting process for charter school tuition. While the District believes that a reasonable approach was taken in developing this budget item, the budget to actual variance amount shows that the District can improve by routinely monitoring its budgetary line items and timely making adjustments in order to avoid potential future budgetary errors. The District should have adjusted its budget early in the school year for this significant expenditure category, once it had an improved understanding of its actual enrollment.

Debt service costs

The debt service cost explanations have no correlation to anything in our finding. Further, with regard to the District’s *Support Central* expenditure overages, the District’s explanation that it erroneously accounted for a debt refunding transaction seems to support our recommendation that the District needs to routinely monitor its budgets.

Provide additional information on the District website

While the District claimed its website was under construction in the fall of 2015, the documentation provided to auditors to support this claim indicated the work began in the summer of 2016 (e.g. an agreement with a vendor for website design services was dated June 2016; other documentation was dated after June 2016.) Our review period spanned nearly an entire twelve-month period beginning in March 2016. In addition, since board agendas were always available, before and during the claimed construction period, board meeting minutes probably could have been available, too. Likewise, since the 2016 recovery plan was posted on the website, the 2013 plan and the District's budgets and independently audited financial statements could have been posted, as well.

Management's additional response to Finding No. 1 is below:

Response to Finding No. 1	**The District Did Not Provide Sufficient Public Accountability of Its Fiscal Operations**

In order to respond to "Finding No. 1," it is necessary to provide an outline of events that have occurred in the District before and since it was declared to be in financial recovery on December 12, 2012. The District had been in a downward financial spiral over several years and by June 30, 2012, the District's fund balance was reduced to $288,643.

1. David Meckley was appointed as Chief Recovery Officer of the District on December 12, 2012 and began work on the District's Recovery Plan.
2. That work on the Recovery Plan concluded, among other things, that the financial instability of the District was significantly impacted by the movement of York City students to charter schools. It was further determined that this movement of students to the charter schools was, to a significant extent, driven by perceptions of deficiencies in academic performance and safety in the schools of the District.
3. The concentrated poverty of the District presented challenges in terms of services required to be provided by the District and its community partners in order for the District to meet the academic and safety needs of its students. This is on top of the obvious inherent financial resource limitations which is part of a concentrated poverty environment. This is the situation faced by many urban school districts, a higher level of service required with diminished local resources available.
4. Over the next several months a Recovery Plan was developed and on May 15, 2013 completed. That Plan recognized that, "While Act 141 focuses on financial recovery, the District will not be able to stabilize its finances without addressing parents' concerns about academic performance and safety." The Plan focused on strategies improving the academic performance and safety in the District's schools with the objective of making the District's schools the preferred option for parents and students.
5. The Plan recognized that the "turn around" of the District would be an extended process that would first require addressing the academic performance and safety concerns before any financial stability could be sustained. An important component of the Plan was to provide the necessary financial resources to fund the academic and safety changes that needed to be made. The Plan provided for salary and benefit reductions by employees in order to provide a portion of that funding. The planned savings from the salary and benefits, in the end, were not achieved because the District was not able to obtain the necessary modifications to the collective bargaining agreements of the District's two unions.
6. The component of the Plan that dealt with improving the academics and safety of the District was referred to as the "internal plan" because the plan called for these improvements to be achieved by the District's existing staff. That Plan provided goals to be achieved on a building-by-building basis with the ultimate consequence of not achieving the academic and safety goals being a conversion of the non-achieving building to a charter school.

7. Numerous iterations of the various options came to the forefront in the process of development and execution of the recovery plan. There were serious considerations of taking parts or all of the District charter at various times in the process. Additionally, the teacher CBA expired June 30, 2013 and was not finally settled until June 2015. During this recovery process, the direction and plans of the District were under constant development and change.
8. In early 2015, it was determined that conversion to charter schools would no longer be considered. In February 2015, David Meckley resigned as Chief Recovery Officer of the District.
9. In March 2015, Dr. Carol Saylor was appointed as the Chief Recovery Officer of the District and began work on a Revised Recovery Plan.
10. In January 2016, a Revised Recovery Plan was adopted that built on the May 2013 Plan by incorporating a structure designed to improve the curriculum and leadership in order to accelerate student achievement. It provided a structure to direct the improvements called for in the "internal plan" by implementing processes for curriculum, pedagogical, structural and leadership improvements.

Financial and Other Challenges of the District

We agree with the comment in the Auditor General's report that the District has made improvements in its financial standing during the period that it has been in financial recovery. We also agree with the comment that the District continues to experience economic and other challenges. We recognize that and the unpredictability of our revenue sources, particularly as they relate to our funding from the State. Unfortunately that is the reality for many urban districts. We do not have the local resources to fund the needs of our school district and we are therefore reliant on the Commonwealth. The school funding issues in the Commonwealth are well documented and yet to be resolved. The mechanism to address this unpredictability is not within the control of the District. We work within the system that is provided.

With respect to the "other challenges" of the District, this has been identified as a "core" issue in the development of Recovery Plan and there is a focus on activities designed to improve student achievement, safety and security in the District. The approach in the Recovery Plan is based on the concept "While Act 141 focuses on financial recovery, the District will not be able to stabilize its finances without addressing parents' concerns about academic performance and safety."

Insufficient Public Engagement in Financial Matters

As part of the Act 141 process, the District is required to hold Advisory Committee meetings. The Advisory Committee includes several members of the general public, school board members, and representatives of the District's unions, social support organizations, and neighboring school districts. These meetings have been held almost on a monthly basis throughout this process. Discussions and presentation of the financial situation of the District, including financial projections for the District under various recovery scenarios, were presented. These meetings were advertised and open to the public. Those meetings are documented by hundreds of pages of minutes and other materials presented. In addition to the Advisory

Committee meetings as required by Act 141, there have been numerous meetings of other committees and other groups providing input into the recovery process. The public involvement in the Recovery Plan process has been extensive.

The business manager has taken responsibility for the failure to prepare management discussion and analysis in conjunction with the issuance of the annual financial statements. The management discussion and analysis will be included with all financial statements issued in the future.

The District's high debt service ratio—a measure of annual debt payments as a percentage of annual expenditures—was 14 percent as of June 30, 2015, indicating the District's debt burden is still high.

While we agree that the annual debt payments as a percentage of total expenditures are higher than we would like to have it, it is also important to note the following:

a. The District came into the recovery process with a high percentage but has made progress toward reducing that percentage. That progress does not always appear in the calculation because the debt service number is sometimes inflated by a debt payment related to a current refunding. For example, in 2014-15 the reported debt service of $15,769,267 includes $2,768,853 of debt service payment, which is offset with the refunding debt revenue included in "Other Funding Sources." The actual debt service that should be used in calculating that percentage is $13,000,414.
b. The District is proactively utilizing debt refunding to lower the effective interest rate on its outstanding debt. The District is managing its debt, but it is a long process to lower this percentage and the related outstanding debt. We are not aware of any quick fix to this issue.

Financial Recovery Plan Weaknesses

There is really one overarching financial goal for the recovery plan and that is to achieve a sustainable, financially stable situation. As noted in the initial plan, "While Act 141 focuses on financial recovery, the District will not be able to stabilize its finances without addressing parents' concerns about academic performance and safety." As noted before, this all relates to the fact that much of the financial instability of the District is related to the movement of students to charter schools. The strategic financial goal is to make the schools of the District the schools of choice, thereby lessening the financial drain on the District of payments to charter schools. The current financial objective is to provide stable resources to fund the Recovery Plan activities that are attempting to provide the desired improvements in student achievement and safety. Only after that is accomplished can the required level of expenditure to maintain the needed academic and safety supports and then the corresponding level of revenues to achieve a sustainable, financially stable situation be determined.

Specific financial strategies noted in the Revised Recovery Plan are to align new funds and realign current funds to manage the new initiatives within the current and financial projections.

This means resources will be aligned and invested in the five priority areas identified in the Revised Recovery Plan. This is consistent with the Recovery Plan's objective since the beginning, which is to improve academics and safety.

Reliance non-recurring revenues

A. It is interesting that the 2011-12 tax monetization transaction is discussed under the topic of "Financial Recovery Plan Weaknesses-Reliance on Non-Recurring Revenues", apparently in an attempt to support that position in the Auditor General's Report. There are two significant issues with the use of this transaction in support of that position:
   1. The first is that the transaction that provided a one-time revenue by accelerating its collection of delinquent taxes, took place during the 2011-12 fiscal year, which was the fiscal year prior to the beginning of the recovery process and prior to the periods covered by the comment;
   2. The second issue is that the monetization contract was terminated in 2014-15 which created a negative one time revenue when the accelerated revenues created in 2011-12 were effectively recaptured.

The transaction is not only not supportive to the Auditor General's Report point, it is a counterpoint.

B. The report is accurate in describing the 2013 Recovery Plan goal of restoring financial stability so that recurring revenues exceeded recurring expenses, which would mitigate the District's reliance on one-time and other unpredictable revenue streams. Where the Auditor General's Report inaccurately portrays the 2013 Recovery Plan is in its lack of depth as to the details of the plan and why the projections included in that plan, particularly with respect to reductions in wages and retirement contributions were not achieved. The Report seems to want to portray the missing of the projections as a matter of poorly developed projections rather than providing some understanding as to what the strategies identified in the 2013 Recovery Plan were and the difficulties encountered in executing those strategies. The projections were not achieved largely because the operational strategies could not be executed.

We disagree with the calculation of the one-time revenues that the Auditor General's report used in support of its assertion of reliance on non-operating revenues. Certain assumptions in the Audit are inaccurate:

a. In Figure 2 "General Fund Revenues & Other Financing Sources":

   1. The Auditor General identifies increases in state basic-education funding as a non-recurring revenue. We strongly disagree with this characterization. While there are one-time subsidies from the state, increases to the basic education subsidy have been ongoing. We believe it is incorrect to classify increases to basic-education funding as one-time revenue streams. The School District of the City of York has the highest or close to the highest concentration of poverty for

school districts in the Commonwealth. The basic-education funding by the state is the most significant funding mechanism used to address the needs generated by this concentration of poverty and the related limited local resources.

If the Auditor General's position is that the School District of the City of York has had sufficient resources to succeed and should not have to rely on additional state funding, we would have to disagree. Urban districts such as ours do not have enough local resources to address students' needs, and we are therefore reliant upon the state for that funding. This represents, as much as anything, a vivid example of the issues with the State's school funding policies. In addition to the limited local resources, there are the additional demands put on the District by the concentration of poverty. For example, our students experience higher rates of mental-health issues, behavior problems, food insecurity, homelessness and exposure to a dangerous environment than students in the surrounding suburbs. In addition, a quarter of York City students are learning English as a second language and a fifth receive Special Education services. We devote considerable resources to addressing these needs so that our students can meet their full potential.

2. The Proceeds from Refinancing Bonds (Net of Payment) of $2,807,075 is incorrectly included in the 2014-15 analysis in Figure 2. The actual net proceeds from the refunding is $2,484.97. The remainder of the $2,807,075 includes the $2,610,340.03 which is the current refunding of the 2005 General Obligation Bonds which is included in Debt Service and the $194,250.00 of costs related to the refunding transaction.

3. Figure 2 incorrectly shows a subtraction of $1,100,000 in additional Title I and II revenues from net revenues. Federal programs never have a net impact on net operating surplus /deficit. Federal revenue can only be recorded when a qualifying expenditure is made. To subtract a revenue from net operating surplus/deficit which is not impacted by that revenue is questionable.

b. The real issue with this comment in the Auditor General's report is that it does not recognize the basic financial strategy outlined in the Recovery Plan. That strategy is to improve academics and safety within the District's schools in order to make the District's schools the schools of choice for parents and students. That will decrease the enrollments in the charter schools and significantly improve the District's financial stability. Repeating what the Recovery Plan stated, "While Act 141 focuses on financial recovery, the District will not be able to stabilize its finances without addressing parents' concerns about academic performance and safety."

Significant Revenue Variances

The statements made in the report regarding Federal revenue budgets are inaccurate. The issue that impacts both years' Federal revenues is the correction of a method of accounting that had been utilized by the District for several years. This correction has no impact on the net results of the District as previously reported, but it did require a gross up of Federal revenue and debt service to correct the accounting method. The District had been reporting the receipt of the subsidy by netting it against the related interest expenditure for the Federal financial assistance received by the District related to its QSCAB and QZAB bonds. The error was found during the closing of the 2013-14 fiscal year and the actual results for 2013-14 and 2014-15 were correctly reported. It did not change the bottom line net results for the District but did increase Federal revenues and debt service expenditures. Since it was discovered in the June 30, 2014 closing work, neither the 2013-14 or 2014-15 budgets reflected the gross up. The budgets for 2015-16 and forward do include the grossed up amounts. The 2013-14 comparison is as follows after consideration of QZAB/QSCAB:

	2013-14 Fiscal Year						
Federal Revenue		**Budget**		**Actual**		**Fav (Unfav) Variance**	
	$	103,417	$	61,227	$	(42,190)	
Federal Impact Aid	$	15,000	$	28,855	$	13,855	
Title I	$	4,021,176	$	4,356,070	$	334,894	
Title II	$	660,289	$	923,377	$	263,088	
Title III	$	273,016	$	289,658	$	16,642	
Access	$	627,759	$	270,392	$	(357,367)	
QSCB Bonds-Int Subsidy	$	-	$	1,093,720	$	1,093,720	
QZAB Bonds-Int Subsidy	$	-	$	415,881	$	415,881	
Totals	$	5,700,657	$	7,439,180	$	1,738,523	30%
	Corrected variance				$	228,922	4%

The 2014-15 variance has the same issue but, as shown in the analysis below, has an additional error in the calculation of the variance.

	2014-15 Fiscal Year						
Federal Revenue		**Budget**		**Actual**		**Fav (Unfav) Variance**	
Other Grants-Jr ROTC	**$**	103,417	**$**	42,261	**$**	(61,156)	
Federal Impact Aid	$	15,000	$	36,007	$	21,007	
Title I	$	4,021,176	$	4,876,486	$	855,310	
Title II	$	660,289	$	628,852	$	(31,437)	
Title III	$	273,016	$	384,397	$	111,381	
Access	$	627,759	$	111,405	$	(516,354)	
QSCB Bonds-Int Subsidy	$	-	$	1,102,037	$	1,102,037	
QZAB Bonds-Int Subsidy	$	-	$	419,045	$	419,045	
IDEA-Pass thru-6821	$	1,604,188	$	1,426,412	$	(177,776)	
Totals	$	7,304,845	$	9,026,902	$	1,722,057	24%
	Corrected variance				$	200,975	3%

In the 2014-15 calculation of the variance, the total actual revenue of $9.0 million includes the IU pass thru IDEA funds that are properly reported and budgeted as a local revenue source in accordance with the PDE accounting manual. The budgeted amount for the IDEA funds should have been included in the calculation of the variance. After the consideration of that and the previously discussed QZAB/QSCB, the variance is only 3 percent.

With respect to the budget variance for local revenue, in 2014-15, the contract for the tax monetization ended in January 2015. It was renewable and could have been renewed in January 2015. It was determined that the contract was costly and the District had adequate cash flows so the decision was made not to renew. The District took a conservative approach to the budget and the contract and waited until January 2015 to make the decision not to renew after it had information as to its cash position through December 2014. It was a good decision that saved money for taxpayers.

Significant Expenditure Variances

	Budget	**Actual**	**Variance**
Regular program expenditures	$ 49,472,297	$ 43,986,745	$ 5,485,552

While we agree that the expenditures were $5,485,552 lower than budget, the explanation provided in the Auditor General’s audit report is inaccurate. Charter school tuition is budgeted on a detail level with budgets developed for each of the “brick and mortar” charter schools and a separate budget for the cyber charter schools. All of these budgets are prepared based upon data that is tracked on a monthly basis with the projected enrollments for each combined with the estimated PDE-363 amounts to calculate the budgeted amounts. For 2014-15 the budget was based upon an estimated total enrollment of 2,279 students, which is a reduction of 296 students from the numbers used in the 2013-14 budget. The 2,279 students in the 2014-15 budget included 1,654 regular education students, 398 special education students and 297 cyber school students. The District was notified in May 2014 that a charter school with an enrollment of 701 students was closing. In response to this information, the District estimated that 450 of these students would enroll in District schools. The remaining 251 students (after the reduction of the 450 noted above) were budgeted under the assumption that they might enroll in cyber charter schools or that, if they enrolled in YCSD, the expenditures could be realigned to meet the requirements of the situation. To put these decisions in context, the closing of the charter school created a lot of anger in the community. There was a very strong anti-District reaction to the closing. Additional difficulties were encountered in developing the charter school budget for 2014-15 as some of the charter schools were not providing reconciliations and supporting enrollment information on a timely basis. The actual total charter school enrollment for the 2014-15 fiscal year was 1,974 students. The final analysis of the expenditures shows:

		2014-15	
	Budget	**Actual**	**Variance**
Regular program expenditures	$ 49,472,297	$ 43,986,745	$ 5,485,552
Includes-			
Charter school tuition	18,321,475	14,494,883	3,826,592
Other regular program expenditures	$ 31,150,822	$ 29,491,862	$ 1,658,960
Variance on remainder			5%

We believe a very reasonable approach was taken to developing this budget and dealing with the uncertainties included in the situation.

Debt service costs

The debt refunding transaction was Board reviewed and approved. The following is an analysis of the debt service costs for 2014-15:

		2014-15	
	Budget	**Actual**	**Variance**
Debt service	$ 11,352,831	$ 13,000,414	$ (1,647,583)
Gross up of QSCAB and QZAB bonds as explained under Federal revenue			1,521,082
Variance based on budget			(126,501)
			-1%
Impact of the refunding transaction			
1. Refunded a portion of GOB series of 2005		2,590,000	
2. Other costs related to refunding		178,853	
		15,769,267	

The transaction currently refunded $2,590,000 of the GOB Series of 2005 and advance refunded $6,690,000 of GOB Series of 2007 through the transfer of $7,032,925 to an escrow agent. The GOB Series of 2015 bonds issued in this transaction were used to pay the currently refunded portion of the 2005 GOB bonds ($2,590,000), establish the escrow to advance refund the 2007 GOB ($6,690,000), and pay the costs of the transaction. The District realized an estimated cash flow savings of $730,917 and an estimated economic gain of $741,903.

The increase in debt service as a result of this transaction was funded by the refunding debt. The transaction was Board reviewed and approved and was beneficial to the District.

The Auditor General's Report comment that, with respect to the refunding transaction, "…the District's Board should have also publicly reviewed the significant impact of the increased debt service on the budget…" is inaccurate in that the transaction did not have significant impact on the budget. I believe this explanation is further reinforced by the error in figure 2 where the Auditor General Report shows that it mistakenly believes there is a net payment from the refunding transaction of $2,807,075.

Instructional Staff Services

We agree with the variance analysis with respect to instructional staff services. The variance is primarily as a result of professional development in response to the recovery plan and funded by federal grant funds. Such expenditures exceeded originally budgeted amounts based on evolving needs identified in the Recovery Plan process.

Operations/Maintenance

The over-budget expenditure amount in operations/maintenance was primarily attributable to higher than-anticipated repairs being required due to maintenance deferred during the District's financial difficulties.

Support Central

The support central variance is 10 percent, not the 23 percent referenced by the Auditor General's report. The expenditures used in the Auditor General's report include $194,250 of expenditures related to the debt refunding transaction.

Provide additional information on the District website

The Mass Insight Report found concerns regarding internal and external communications functions of the School District. As a result, one of the 23 initiatives of the 2015 Recovery Plan was to "ensure consistent communication." Components of this initiative included hiring a communications director, publishing weekly, quarterly and end-of-the year newsletters, and redesigning our District website. The process of redesigning the website began in the fall of 2015. The company contracted to redesign, build and populate the website turned the final product over to the District in January of 2017. During that time the District was working with the website builder to transfer content to the new site. Most of this work occurred during the time the Auditor General's Office was in York conducting their audit. All of the financial information the Auditor General's report recommended to be placed on the district website is currently available to the public.

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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