



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF EDUCATION
333 MARKET STREET
HARRISBURG, PENNSYLVANIA 17126-0333

SECRETARY OF EDUCATION

August 14, 2012

717-787-5820 (TEL)
717-787-7222 (FAX)
717-783-8445 (TTY)

Via Email and Certified Mail

Wanda Mann
President, Board of School Directors
Chester Upland School District
1720 Melrose Avenue
Chester, PA 19013

Re: Declaration of Financial Recovery Status

Dear Ms. Mann:

Enclosed please find the Declaration of Financial Recovery Status that was issued today.

Sincerely,

A handwritten signature in black ink that reads "Ronald J. Tomalis".

Ronald J. Tomalis

Enclosure

cc: Leo A. Hackett, Solicitor, Chester Upland School District (via email only)



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF EDUCATION
333 MARKET STREET
HARRISBURG, PA 17126-0333

717-787-5820
FAX 717-787-7222
TTY 717-783-8445

SECRETARY OF EDUCATION

DECLARATION OF FINANCIAL RECOVERY STATUS

WHEREAS, I, Ronald J. Tomalis, Secretary of Education state and declare that I am aware of the financial condition of the Chester Upland School District (the "District"), the administrative practices of the elected board of school directors, and other pertinent matters concerning the District; and

1. **WHEREAS**, the District's financial condition is plagued by serious, systemic, and aggregating financial problems, such that:

- A. Despite a dramatic projected operating deficit of approximately \$10-12 million for the 2011-2012 fiscal year, and millions of dollars of debt owed to the Commonwealth of Pennsylvania and other entities, in the Fall of 2011, the District's elected board cost the District additional millions of dollars when it approved the re-hiring or recall of multiple furloughed professional and other staff for the 2011-2012 school year;
- B. The District ultimately incurred obligations of more than \$20 million in excess of its adopted 2011-12 budget;
- C. The District does not reconcile bank statements, monitor accounts payable, or prepare and submit regular financial reports to the elected board of school directors;
- D. The District's elected board of school directors does not insist upon receiving regular financial reports from the District's Administrators;
- E. The preparation of the District's annual budget is inept, as expenditure allocations are not fully supported; categorical expenditures are not separated from non-categorical expenditures; revised allocations for charter school expenditures are not supported by written assumptions; and the appropriation of benefits is simply prorated against salaries and not itemized in major functions or objects based on actual or historical costs;

- F. The District has no plan nor has it made any effort to prepare for the District's 2011-2012 local audit;
- G. As of July 16, 2012, the District failed to submit its 2010-2011 Annual Financial Report to the Department, which was initially due October 31, 2011, and the current draft of the Annual Financial Report shows a substantial difference in 2010-2011 ending balance and 2011-2012 beginning balance in the Statement of Indebtedness;
- H. The District has been unable to attract and maintain highly qualified business administrators essential to validating and sustaining the District's financial integrity;
- I. The District does not have an insurance risk management plan that would provide a structured, systematic, and economical approach to decision-making, which includes the identification, assessment, and prioritization of the effect of uncertainty in the areas of health and safety, legal and regulatory compliance, and contract-based risks;
- J. The District has not prepared an action plan to address its deficiency in ACCESS funding;
- K. The District does not have any formal board policy regarding tax collection, and the lack of guidelines for tax collectors (including, but not limited to, interest-bearing district-controlled accounts and the frequency of deposits) creates cash flow problems;
- L. The District has not engaged in any multi-year budgeting efforts designed to provide long-range planning and built-in budgetary controls;
- M. The District has not updated job descriptions or the organizational chart for the Business Office; thus, employee supervision is lacking, the distribution of responsibility is unequal, and overall accountability is non-existent;
- N. The District has not kept current on bond issue payments; therefore, the District must participate in the Department's Intercept Program where bond payments are withheld from state subsidy payments and made directly to banks;

- O. The District has not stayed current on the filing of PlanCon reimbursement forms regarding construction projects, and it is estimated that there is in excess of \$665,000 due the District;
- P. The District has repeatedly failed to stay current with contractual obligations; vendor invoices, including health insurance premiums, are often many months in arrears, and in the case of the Delaware County Intermediate Unit, payments for special education services are years behind; and

2. **WHEREAS**, these findings highlight alarming deficiencies in the District's financial management and operations and demonstrate that the District is plagued by serious, systemic, and aggregating financial problems; and

3. **WHEREAS**, the District requested and received numerous advances of its basic education subsidy during the 2010-2011 fiscal year, including:

- A. On December 6, 2010, the District requested one of many advance payments of its basic education subsidy in the amount of \$7 million, to cover various operational costs; and the Department advanced the funds on December 6, 2012;
- B. On December 30, 2010, at the request of the District, the Department advanced \$4,450,000 of the District's basic education subsidy, again to cover operational costs;
- C. In February of 2011, the District sought yet another advance payment of its basic education subsidy in the amount of \$2 million, this time to cover payroll obligations; and the Department advanced that amount on February 14, 2011;
- D. On April 6, 2011, the District sought an advance payment of \$2.9 million from its basic education subsidy to again meet payroll obligations; and the Department advanced the funds on April 21, 2011; and

4. **WHEREAS**, the District requested and received numerous advances of its basic education subsidy to cover operational costs during the 2011-2012 fiscal year, including:

- A. On January 18, 2012, the Department advanced the District \$3.2 million;
- B. On April 10, 2012, the Department advanced the District \$1,096,900;
- C. On April 25, 2012, the Department advanced the District \$3,099,064;

D. On May 23, 2012, the Department advanced the District \$1,588,668; and

5. **WHEREAS**, the District has requested and received an advance of its basic education subsidy to cover operational costs during the 2012-2013 fiscal year; on July 27, 2012, the Department advanced the District \$7,885,194; and

6. **WHEREAS**, the District is currently engaged in multiple lawsuits against the Commonwealth in which the District seeks financial assistance from the Department to allow the District to continue to operate. Specifically:

A. In January of 2012, the District filed a lawsuit in the U.S. District Court for the Eastern District of Pennsylvania (docketed at *Chester Upland School District, et al. v. Commonwealth of Pennsylvania, Department of Education, et al.*, No. 2:2012-cv-00132) (the “Federal Action”);

B. Through the filing of the Federal Action, the District asked the Court, *inter alia*, to direct the Department and the Secretary of Education to make available to the District payment of discretionary funds from the Department’s budget so that the legal obligation to maintain the operation of District schools, to pay salaries of teachers and support staff, and make payment to charter schools could be accommodated in whole or in part. (*See Exhibit 1, page 22*);

C. In February of 2012, the District filed a lawsuit in the Commonwealth Court of Pennsylvania (the “State Action”) (docketed at *Chester Upland School District, et al. v. Commonwealth of Pennsylvania, Department of Education, et al.*, No. 213 MD 2012);

D. Through the filing of the State Action, the District requested that the Court, *inter alia*, declare that the Legislature, the Department, the Secretary of Education, and the Governor of the Commonwealth have a duty to maintain a through and effective school system as it relates to the District, including the obligation to make available from state financial resources sufficient funds to the District to operate the District for the remainder of the 2011-12 school year. (*See Exhibit 2, page 14*); and

7. **WHEREAS**, the District lacks a concrete plan to deal with its financial management and operational deficiencies; and

8. **WHEREAS**, on July 31, 2012, Department of Education Deputy Secretary Carolyn Dumaresq issued a Preliminary Declaration of Financial Recovery Status to the District with the foregoing statements, and the District was afforded an opportunity to be heard; and

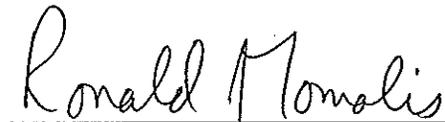
9. **WHEREAS**, the District responded to the Preliminary Declaration by denying some of the factual statements contained therein, but did not request a hearing;

NOW, THEREFORE, I find as follows:

1. The District has received an advance of its basic education subsidy.
2. As evidenced by the pending Federal and State Actions, the District is engaged in litigation against the Commonwealth in which the District seeks financial assistance from the Commonwealth to allow the District to continue in operation.

AND FURTHER, on this 14th day of August, 2012, in consideration of the facts described herein, I make the following declaration:

The Chester Upland School District is in Financial Recovery Status as defined in section 621-A of the Public School Code of 1949, 24 P.S. § 6-621-A, and is subject to the provisions of Article VI-A of the Public School Code that apply to Severe Financial Recovery School Districts as defined in section 661-A, 24 P.S. § 6-661-A.



Ronald J. Tomalis
Secretary of Education