



Abington School District
Abington, PA 19001
Phone (215) 884-4700

July 10, 2023

Timothy L. DeFoor, Auditor
General Department of the
Auditor General 613 No1th
Street, Room
229
Harrisburg, PA 17120-0018

**RE: Abington School District Auditor General Performance Audit Report
School Districts - General Fund Balances**

Dear Mr. DeFoor:

The Abington School District is in receipt of your letter, dated January 25, 2023, requesting that the District review, evaluates and respond to the Performance Audit Report prepared by the Pennsylvania Department of Auditor General for the audit period of July 1, 2017 through June 30, 2021. Attached please find the District's Act 44 Auditee Form.

The District appreciates the opportunity to respond to the report recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey S. Fecher".

Jeffrey S. Fecher, Ed.D.
Superintendent of Schools
Abington School District

Enclosure

Cc: Justin O'Donoghue, Solicitor



The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted (add attachments as necessary).

Please refer to the attached response to the July 1, 2017 through June 30, 2021 Performance Audit to which there were no findings and seven recommendations.

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There is no handwriting or other markings on the paper.

July 6, 2023

Abington School District
Abington, PA
AUN 123460302

Attachment to Act 44 Auditee Reporting Form

- Recommendation 1: Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if funds have been set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.
- District Response: The District does not agree with either aspect of this recommendation. The information available at the time the Preliminary Budget is adopted is so limited in terms both of revenues and expenditures for the then-current year and revenues and expenditures for the year for which the District is budgeting that the District does believe that it is fiscally prudent to foreclose potential revenue prematurely. The exception application process involved very little administrative burden on either the District or PDE.
- Recommendation 2: Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.
- District Response: The District does not agree with either aspect of this recommendation. The information available at the time the Preliminary Budget is adopted is so limited in terms both of revenues and expenditures for the then-current year and revenues and expenditures for the year for which the District is budgeting that the District does believe that it is fiscally prudent to foreclose potential revenue prematurely.
- Recommendation 3: More accurately reflect fund balances in its General Fund for the preliminary and adopted budgets.
- District Response: When the District can more accurately estimate General Fund balances, then it will do so in preparing budgets for the Board to review and, when appropriate, approve. The District did so with its proposed final budget for 2023-24. That said, the District is not able to do so in December, when the preliminary budget development process begins, because that is less than six months into the then-current fiscal year.
- Recommendation 4: As a best business practice, revise the General Fund policy to eliminate the restriction of using the General Fund as a revenue source when needed for an operating deficit, unexpected costs, or emergency circumstances.
- District Response: While as a general rule, the District sees the use of the General Fund balance to address an operating deficit is an unsustainable practice, the District's policies and procedures permit the use of the General Fund to address operating deficient "pursuant to the budget development process." The District has budgeted for such use in the past and continues to budget for such use "pursuant to the budget development process."
- Recommendation 5: As a best business practice, end its practice of committing all funds in the General Fund and maintain excess surplus funds in the unassigned fund balance to negate the need to raise taxes in future years.
- District Response: The District agrees that it should not typically commit all funds in the General Fund. The District will continue to commit funds for future uses as it deems necessary and appropriate for the financial stability of the District and as permitted by applicable laws, regulations, and standards.

- Recommendation 6: If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund.
- District Response: The District does not agree with this recommendation. The District agrees that if an anticipated expense does not ultimately arise, then committed funds should be repurposed; however, the fact that an expense did not occur in a particular year does not mean that the commitment of funds to that expense is no longer financially prudent. The District understands that commitments of funds must be reviewed periodically to determine whether they remain appropriate in terms of purpose and amount. The District will undertake that review at least annually.
- Recommendation 7: Reconsider the practice of transferring surplus funds to the Capital Projects Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases are appropriate and needed.
- District Response: The District does not agree that “excess surplus funds should be maintained in the General Fund as unassigned fund balances...” The District has always been and will continue to be open and transparent with its budgeting of funds, including commitment of any fund balances. The use of those funds for capital projects allows the District to perform certain capital projects without having to borrow funds, thereby saving taxpayer money.

July 6, 2023



BETHLEHEM

AREA SCHOOL DISTRICT

BUSINESS OFFICE

EDUCATION CENTER

1516 Sycamore Street
Bethlehem, PA 18017-6099
610-861-0500 Extension 60201

May 22, 2023

Timothy L. DeFoor, Auditor General
Department of the Auditor General
Finance Building
613 North Street, Room 229
Harrisburg, PA 17120-0018

RE: Performance Audit Report School Districts – General Fund Balances - Bethlehem Area School District

Dear Mr. DeFoor,

This letter is in response to the Performance Audit Report of School Districts – General Fund Balances that was issued in January 2023. The district's response to the auditor recommendations can be found below:

1. Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if funds have been set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.

The decision to opt out of Act 1 will remain with the Board. The district will continue to comply with the legal requirements under Act 1. If a tax increase greater than the district's adjusted Act 1 index is required to balance the district's budget, then the district may apply to PDE for referendum exceptions or request county officials to place a referendum on the ballot requesting voter approval to increase the taxes above the index.

2. Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.

The district will evaluate the district's anticipated needs vs. available and projected funds as part of the budget build process. The decision to opt in or out of the Act 1 index will remain with the Board.

3. As a best business practice, revise the General Fund policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance.

The district disagrees with the auditor's recommendation. It is ultimately the Board's responsibility to ensure that the district's budget meets the needs of the district. The district will continue to follow the PSBA policies to ensure compliance with current law, regulations and practice.

4. If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund.


We agree with the recommendation and will continue to review the committed and assigned fund balances for appropriate designation when not utilized.


5. Reconsider the practice of transferring surplus funds to the Capital Projects Fund and Capital Reserve Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases are appropriate and needed.

The district will reevaluate the process by which we budget for transfers in the General Fund budget.

Please do not hesitate to contact me should you require any additional information.

Respectfully,


Joseph J. Roy, Ed.D
Superintendent of Schools


Harry Aristakesian
Chief Financial Officer



Michael W. Daniels, M.S.
Superintendent of Schools

Scott W. Chambers, M.Ed.
Deputy Superintendent



CANON-McMILLAN
SCHOOL DISTRICT
— EST. 1954 —

**ADMINISTRATIVE
OFFICE**
200 Big Mac Boulevard
Canonsburg, PA 15317
Phone: 724-746-2940
Fax: 724-746-9184

May 26, 2023

Auditor General Timothy DeFoor
c/a sbuckley@paauditor.gov

RE: ACT 44 Response

Dear Mr. DeFoor:

Please be advised that the Canon-McMillan Board of School Directors, at their May 24, 2023 board meeting, approved the following Act 44 response with regard to the performance audit report containing the results of the Department of the Auditor General's evaluation.

The Canon-McMillan School District is pleased, but not surprised, that the Auditor General found that the District is in full compliance with the laws and regulations regarding referendum exceptions and budgeting. The Canon-McMillan School District will continue to comply with the Pennsylvania Public School Code and Act 1 of 2006. The District will continue its long standing practices of providing transparency to our residents in the budgeting process and will continue to have discussions, presentations and voting at our public committee and board meetings. Our Board of School Directors will continue to review and consider all relevant information and the needs of our District, including but not limited to contract negotiations and obligations, continuing construction projects and educational resources and programs for our students in the annual budget process and will additionally be mindful of maintaining its fund balance in accordance with the law and recommendations.

In response to the specific recommendations:

1. As noted and recognized in the Auditor General's report, the Canon-McMillan School District applied for referendum exceptions only one time since Act 1 was passed in 2006 and ultimately did not accept any money from the exception process that year. In all other years, the District has passed a Resolution to not exceed the Act 1 Index and any tax increase has been at or below the Index. As such, the Board of School Directors will consider, on an annual basis the recommendation of the Auditor General regarding applying for referendum exceptions and will continue to act in the best interest of the School District and follow the Pennsylvania Public School Code, Act 1 and any and all applicable laws and regulations.
2. As stated above, with the exception of one year, the Board of Directors has passed a Resolution during the preliminary budget phase to not increase taxes above the School District's Index and has not raised taxes above the Act 1 Index at any time. The Board of School Directors will take this recommendation into consideration annually during the

The Mission of the Canon-McMillan School District, in partnership with the community, is to invest in our greatest resource, our students. We strive to teach, challenge and support all students to prepare them for college and careers with the information and skills necessary to compete, achieve and serve as leaders in a global economy as ethical and responsible citizens.

We are an equal rights and opportunity school district.

budget process and will continue to follow all applicable laws and regulations.

3. The District's current Board Policy is in compliance with the Pennsylvania Public School Code as well as compliance with our current internal auditor's and Bond rating agency's recommendations. It is also in compliance with the Governmental Accounting Standards Board recommended best practices. The Board of School Directors will continue to consider the needs of the School District in a public and transparent manner and will continue to be good stewards of the District's taxpayers as evidenced by the District's low tax rates in comparison to other local School Districts.

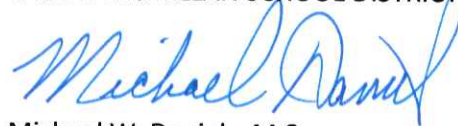
4. The Board will take this recommendation into consideration annually during the budget process in a public and transparent manner. While the Board generally agrees with this recommendation, there are circumstances that require multi-year budgeting and planning, such as, but not limited to, increases to PSERS and the large and multiple construction projects and capital projects that the District has engaged in during the time of this audit.

5. While the District generally agrees with this recommendation, the District has been involved in a long term capital improvement plan, including considerable multi-year construction projects during the time of the audit that requires funds to be maintained in the Capital Project Fund. The District will continue to take this recommendation into consideration on an annual basis and will continue, in a public and transparent manner, to follow all applicable laws and regulations.

If you have any questions or concerns, please feel free to contact me.

Sincerely,

CANON-McMILLAN SCHOOL DISTRICT



Michael W. Daniels, M.S.
Superintendent of Schools



200 Church Street
Landisville, PA 17538-1332
Phone: 717•898•5560
Fax: 717•898•5628
www.hempfieldsd.org

Michael J. Bromirski, M.Ed., M.B.A.
Superintendent of Schools
717•898•5560

May 18, 2023

Timothy L. DeFoor, Auditor General
Department of the Auditor General
613 North Street, Room 229
Harrisburg, PA 17120-0018

RE: Hempfield School District - Auditor General Performance Audit Report – General Fund Balances

Dear Auditor General DeFoor:

The Hempfield School District (the “District”) reviewed the Performance Audit Report (the “Report”) prepared by the Pennsylvania Department of Auditor General (the “Department”) for the covered period of July 1, 2017 through June 30, 2021. The District appreciated the opportunity to respond to the Report’s recommendations prior to its publication in January 2023.

To remain in compliance with Act 44, enclosed please find the District’s completed Act 44 Auditee Form containing the District’s response to the recommendations. Our comments have not wavered from when they were submitted in the past. The Board of School Directors reviewed the Report, discussed the Report and recommendations at a public meeting, and will take into consideration the recommendations as noted.

A brief summary of the District’s response to the recommendations is noted below:

- Recommendation 1: The District will consider this recommendation
- Recommendation 2: The District will consider this recommendation
- Recommendation 3: The District disagrees with this recommendation
- Recommendation 4: The District disagrees with this recommendation
- Recommendation 5: The District will consider this recommendation

Sincerely,

Michael J. Bromirski
Superintendent of Schools

Enclosures

cc: Mark. W. Fitzgerald, Solicitor
Karen M. Hall, Executive Director of Human Resources and Business Operations



**COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL**

Act 44 Auditee Reporting Form

The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Within **120 business days** of the publication of the audit, every department, board, and commission (Auditee) that receives recommendations in its audit must submit a response to the Department including the following:

Details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted (add attachments as necessary).

Response to the Department of Auditor General regarding the Performance Audit.

HEMPFIELD SCHOOL DISTRICT

Formal Act 44 Auditee response is attached.

Note: Pursuant to Section 1.5 of Act 44, if the Auditee fails to respond to the Department's recommendations within **120 business days**, the Department will notify the Governor and the Chairpersons and Minority Chairpersons of the Appropriations Committees of the Senate and the House of Representatives, which may consider an Auditee's failure to respond to the Department's audit when determining the Auditee's future appropriations.

HEMPFIELD SCHOOL DISTRICT
Act 44 – Auditee Report

The District would like to thank the Auditors General's office staff for conducting a performance audit for Hempfield School District and finding that the District was in compliance with all laws and regulations as it pertains to the Act 1 Budgeting process. Additionally, recognizing the Boards constitutional right to raise and administer funds in the betterment of the education of the youth in their community.

The following were the Recommendations for Hempfield School District

1. *"Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if you have funds set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index."*

RESPONSE:

The District will consider this recommendation, however the decision to either make a proposed preliminary budget public and apply for exceptions under Act 1 or approve a resolution pursuant to Section 311(d)(1) indicating that it will not raise the rate of any tax by more than its index must be left to the School Board. In addition, because new school board members are elected every two years, each board must be provided the opportunity to decide for itself which approach is in the best fiduciary interest of the District and its taxpayers.

2. *"Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund."*

RESPONSE:

The district will consider this recommendation, however consistent with our answer to the first recommendation the District reserves the right to leave this important decision to the Board of School Directors. We would further note that the approach of applying for exceptions and preparing a proposed preliminary budget is a more public and transparent approach to preparing a final budget.

3. *"As a best business practice, revise the General Fund Policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance."*

RESPONSE:

The District disagrees with this recommendation. To the extent the recommendation herein is targeting Board Policy, 620 - Fund Balance, the policy provides the necessary fiscal flexibility to the Board and Administration to budget as may be necessary for the needs of the District and community. As this audit has clearly pointed out, the District violated no laws or regulations in how it budgets on a yearly basis. Moreover, the District would add the audit dismisses the realities of non-negotiable liabilities that absolutely require the District have the necessary flexibility to budget accordingly. For instance, the District's total budgeted expenditures for

HEMPFIELD SCHOOL DISTRICT
Act 44 – Auditee Report

PSERSs exceeds the \$19 million dollar threshold as outlined in 24 P.S. 6-688. In other words, the obligations on District budgets including special education, pension, capital, and healthcare, absolutely necessitate flexibility in budgeting. Revising our policy would defeat this purpose.

4. *"If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund."*

RESPONSE:

The District disagrees with this recommendation. It would be fiscally negligent for the District to simply budget one year at a time. The reason the District has been fiscally sound is due to our multi-year budgeting practice. The District has and continues to designate funds to assigned funds such as the capital reserve fund. For example, this fund is used to not only provide minor capital building improvements, but major building renovations or new construction. Prior to 2012, the Commonwealth funded a school construction and improvement fund referred to as PlanCon. This fund allowed school districts to apply for and receive state funds to offset the cost of construction and or renovation. These funds were paid out over a 20-year period to reduce the burden on local taxpayers. Act 82 of 2012 authorized a Moratorium on the acceptance of new PlanCon applications. The moratorium went into effective on October 1, 2012. The District is preparing to undertake a \$100 Million dollar plus building renovation/new construction project.

The District participates in a self-funded medical plan. The District maintains funds in a reserve account to provide budget leveling. In the event the District experiences an extraordinary medical event, the District is able to cover this unexpected cost, without negatively impacting educational programs.

5. *"Reconsider the practice of transferring surplus funds to the Capital Projects Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases as appropriate and needed."*

RESPONOSE:

The District will consider this recommendation and share it with our auditors. The District maintains short- and long-term capital projects plans which are discussed publicly annually. These plans include estimated costs for improvements. In order to maintain the taxpayers' investment in the infrastructure the District has adopted a best practice of self-funding these projects whenever possible.

HEMPFIELD SCHOOL DISTRICT

Act 44 – Auditee Report

ADDITIONAL DISTRICT COMMENTS IN RESPONSE TO AUDIT:

“Hempfield did not use the funds committed for pension obligations in any of the four years audited because revenues were adequate each year to cover the expenditures incurred during the fiscal year.”

The District has established a restricted fund to address unpredictable PSERS increases in the PSERS Employer Contribution Rate, which is assessed to the school district annually. The additional rate increase is predicated by the previous year’s portfolio performance. During periods of stock market decline the District’s share is increased; in periods when the stock market is performing well the rate is still a fixed increase which is approved by the PSERS Board, since the pension program report has an unfunded liability of close to \$50 Billion dollars. (3)

“Hempfield did not use the funds designed as assignments for capital projects in any of the four years audited and the Board increased the assignment to \$7.9 million by the FYE June 30, 2021.”

The District has identified several major renovation/new construction projects to address aging infrastructure, new programming initiatives, and projected increases in enrollment. These projects have been and continue to be discussed publicly. The Board has chosen to designate funds to these projects in an effort to: 1. Reduce the need to obtain long-term financing, 2. Maintain its Moody’s rating, and 3. Provide the District flexibility in its planning phase.

“Hempfield had sufficient surplus funds in the General Fund to transfer \$13 million to its Capital Projects Fund during the four-year audit period. While we acknowledge that the district budgeted the interfund transfers we question if the tax increases were truly transparent to the Board and to the taxpayers because the amounts listed in the final adopted budgets were reported on the wrong line with debt service payments. The district should use the correct line in the budget for interfund transfers.”

The District did provide transparency about financial matters during their public committee meetings. The District was provided guidance from our local auditor for the interfund budget transfers.

Disclaimer: Please note that this audit is a performance audit and presents requirements of prudent stewardship of taxpayer funds, advancing transparency, best business practices, relevant provision of law, and related recommendations pertaining to requesting referendum exceptions as they relate to school districts’ General Fund, the raising of school property taxes, and the raising of taxes above the PSC index.

HEMPFIELD SCHOOL DISTRICT
Act 44 – Auditee Report

The District recommends that Table 1 be expanded to include columns listing the actual tax increase amount, the allowed index amount, and the allowed adjusted index amount to further demonstrate transparency.

FYE June 30	Did the District Request a referendum Exception?	Type of Exception Requested	Total Amount Requests & Approved	Funds Available July 1 (Prior year)	Taxes were Raised	Taxes Raised Above the Index	Amount of Tax Increase	Index	Adjusted Index
17-18	Yes	Pension & Special Ed	\$476,600	\$14,467,647	Yes	No	1%	2.5%	2.5%
18-19	Yes	Pension & Special Ed	\$998,428	\$13,856,242	Yes	No	1%	2.4%	2.4%
19-20	Yes	Special Education	\$1,017,836	\$14,726,602	Yes	No	2.15%	2.3%	2.7%
20-21	Yes	Special Education	\$1,286,361	\$18,008,899	No	No	0%	2.6%	3.0%
4-year average							1.0375%	2.45%	2.65%

Factors that the Board took into consideration in making their decisions to apply for Referendum exceptions include:

- The 8% fund balance does not cover 1 month of expenses including payroll and benefits.
- Incorporation of a conservative approach to budgeting.
- Unpredictability of revenue streams – State funding amounts, Earned income tax, Real Estate reassessments, are all factors in the decision-making process.
- Uncertainty on the timing for receipt of funds due the District

The audit has identified the systemic problem with the Act 1 budgeting process. Districts are required to develop a preliminary budget in January for the next School Year. At that time the District does not have clear guidance on the level of state funding that will be received. In an effort to be more transparent a recommendation would be for the State to approve school funding a year in advance. This method would provide more transparency to the taxpayers of both the state and local districts, as well as eliminating the guessing game as to what level the state will fund the District.

1. http://www.21csf.org/best-home/docuploads/pub/331_StateofOurSchools2016.pdf
2. http://www.pareportcard.org/PARC2014/downloads/PA_2014_RC_Schools.pdf
3. <https://www.pennlive.com/news/2021/07/the-66-billion-question-how-can-we-fix-pas-pension-crisis.html>

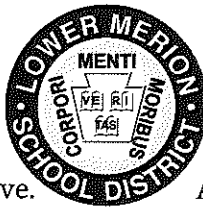
Lower Merion School District

301 East Montgomery Ave.

Ardmore, PA 19003-3399

Phone: 610-645-1930 ♦ Fax: 610-645-0703 ♦ www.lmsd.org

Megan E. Shafer, Acting Superintendent of Schools



May 17, 2023

Timothy L. DeFoor, Auditor General
Department of the Auditor General
613 North Street, Room 229
Harrisburg, PA 17120-0018

**RE: Lower Merion School District Auditor General Performance Audit Report –
General Fund Balances**

Dear Mr. DeFoor:

The Lower Merion School District (the "District") is in receipt of your letter, dated January 25, 2023, requesting that the District reviews, evaluates and responds to the Performance Audit Report (the "Report") prepared by the Pennsylvania Department of Auditor General (the "Department") for the covered period of July 1, 2017 through June 30, 2021. More specifically, the Letter requests that the District submits a response to the recommendations contained in the Report detailing adoption of all its recommendations or the reason why the enumerated recommendations have not been adopted.

The District appreciates the opportunity to respond to the Report's recommendations. Enclosed please find the District's completed Act 44 Auditee Form containing the District's response to such recommendations. Our comments are provided with the hope of displaying how the District currently and will continue to implement the Department's recommended principles and operational methodology.

Sincerely,

A handwritten signature in dark ink, appearing to read "M. Shafer", is written over a horizontal line.

Megan Shafer,
Acting Superintendent
Lower Merion School District

Enclosure

Cc: Victor Orlando
Kenneth A. Roos, Solicitor



The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted (add attachments as necessary).

The District is pleased that the recent General Fund Balance Audit conducted by the Pennsylvania Auditor General confirmed that our District was in compliance with the Public School Code in enacting tax increases during the audit period. Please see the attached for a more detailed response to each recommendation.

[illegible]

Attachment to Act 44 Auditee Form

The District is pleased that the recent General Fund Balance Audit conducted by the Pennsylvania Auditor General confirmed that our District was in compliance with the Public School Code in enacting tax increases during the audit period. The Lower Merion Board of School Directors confirmed its ongoing commitment to fiscal responsibility to the taxpayers of Lower Merion and Narberth by voting in December 2022 to keep any tax increases for the upcoming fiscal year at or below the Act 1 index set by the state. This marks the 7th consecutive year that the District has kept increases at or below the Act 1 index, while continuing to provide high quality public education to students. The Board is also currently considering measures that will provide additional tax relief to qualifying volunteer firefighters and senior citizens.

The District continues to use accounting and budgeting practices that are standard for school districts across the Commonwealth, as affirmed by every state and independent audit of the District over the past eight years.

The Auditor General's report did make some recommendations to the District; however, these were already in practice in the District, or made irrelevant by the recent litigation settlement that prescribes budgeting practices going forward. These recommendations and our responses are outlined below.

Auditor General Recommendations & District's Responses:

- 1. Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if funds have been set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.**

The District accepts this recommendation as this has been the District's practice even prior to this audit.

- 2. Pass a resolution during the preliminary budget phase to not increase taxes above the District's index when budgetary needs can be met with existing available funds in the General Fund.**

The District accepts this recommendation. However, it is important to note that since Act 1 was passed, the District is required to start the budget process for the July 1- June 30 fiscal year during December or early January. Absent a particularly high index, it is frequently difficult to justify not applying for any exceptions during the budgetary process because at the time that the District must set forth a preliminary budget the District has less than half of the current year's data upon which it bases its budget and no information regarding the coming year. For instance, when the District needs to declare that it will not raise taxes by more than the index it does not know its own tax base, what state and federal funding levels will be, nor its staffing needs. Further, there are often ongoing negotiations regarding collective bargaining agreements which also cause uncertainties in the budget. Nevertheless, the District passed the recommended resolution every year during the audit

except the 2017-18 school year. Further, before the District received these recommendations, on December 19, 2022, the District's Board of School Directors adopted the recommended resolution for the 2023-24 school year, confirming its ongoing commitment to fiscal responsibility to the taxpayers. This marks the 7th consecutive year that the District has kept increases at or below the Act 1 index, while continuing to provide high quality public education to students. The District has and will continue to display its commitment to fiscal responsibility.

3. More accurately reflect revenues and expenditures for its General Fund in the preliminary and adopted General Fund budgets.

The District accepts this recommendation. The District believes that its financial practices and financial standing are sound, and it has achieved consistent budget approval by the Pennsylvania Department of Education, a history of strong audit reports from the office of the Auditor General and continued clean audit reports from independent auditors. In fact, the Report confirms that there is no finding that the District failed to comply with law or regulations. Nevertheless, due to recent litigation the District now provides tax rebates if the variance between the budget and actual expenditures and revenues for a fiscal year is greater than two percent (2%) for a time period defined in the Settlement Agreement that resolved the litigation. Additionally, this tax rebate is separate and in addition to the rebates the District has agreed to provide in the 2023-25 tax years. Therefore, this budget recommendation is now redundant.

4. If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund.

Per the District's Policy No 620, *Fund Balance* ("Policy 620"), the District is already implementing and will continue to implement this recommendation. Policy 620, which was revised at the recommendation of the prior Auditor General Report and approved by the Pennsylvania Department of Education states the following:

On an annual basis, as part of the budget development process, the Business Manager or designee shall ensure that an item is included on the agenda of a Finance Committee meeting for the Finance Committee to review the District's general fund commitments and reserves to determine whether they should be maintained, increased, or used for their designated and authorized purposes. Any recommendations by the Committee to modify the level or planned use of general fund commitments and reserves shall then be presented to the full Board for consideration.

5. Reconsider the practice of transferring surplus funds to the Capital Projects Fund and Capital Reserves Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases are appropriate and needed.

The District accepts this recommendation although it has been made redundant due to recent litigation settlement.

The District appropriately, lawfully and publicly authorized the transfer of funds to its capital reserve for each and every year under auditor review. According to the state accounting manual¹ the District's practices are consistent with code which allows surpluses from the general operating fund to be transferred to capital reserve to fund budgeted capital reserve items. Nevertheless, recent litigation mandates specific budgeting for the Capital Projects and Capital Reserves Fund requiring that any funds transferred into these funds would have to had been budgeted for those funds. Any funds that are transferred into the Capital Projects Fund and the Capital Reserves Fund that is not budgeted for these funds are subject to the two percent (2%) variance and subject to rebate for a time period defined in the Settlement Agreement that resolved the litigation.

The District's lawful and financially responsible budget practices have enabled the preservation of high-quality educational programs in the face of unprecedented enrollment growth, perennial state budget uncertainty and the rising costs of mandates like pensions and special education. The District is in a fortunate position to have broad community support for high-quality public education. The community, through its elected school board, has made significant investments in program, infrastructure, staffing, and saving for the future. The financial decisions of the District are made in public, with thoughtful deliberation and transparency. The District's Administration and School Board will continue to monitor compliance with the Auditor General's recommendations. The District appreciates the Auditor General's consideration in reviewing this information and taking the time to understand some of the factors unique to budgeting in our District.

¹ Municipal Code P.L. 145, Act of April 30, 1943, also known as Purdon's 53§1431, accounts for (1) moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the treasury of the LEA at the end of any fiscal year, and (3) interest earnings of the fund itself.



We Build Futures

Neshaminy School District

Administrative Offices • 2250 Langhorne-Yardley Road • Langhorne, PA 19047

May 31, 2023

The Honorable Auditor General Timothy L. DeFoor
Commonwealth of Pennsylvania
329 Finance Building
Harrisburg, PA 17120-0018

Dear Auditor General DeFoor,

This correspondence represents Neshaminy School Districts' response to your performance evaluation of school district fund balances dated 25 January 2023.

Your report made 5 recommendations.

Recommendation #1:

Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if funds have been set aside specifically for the type of expenditure that is being required prior to increase taxes above the index.

The Neshaminy School District concurs with the Recommendation. The school district has implemented this recommendation prior to the review, since the adoption of the 2020-21 school year budget.

Recommendation #2:

Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.

The Neshaminy School District concurs with the Recommendation. The school district has implemented this recommendation prior to the review, since the adoption of the 2020-21 school year budget.

Main number – 215-809-6000

Superintendent – 215-809-6500 Assistant Superintendent – 215-809-6510 Director of Administration – 215-809-6510 Technology Services – 215-809-6572
Business Administration – 215-809-6520 Curriculum & Instruction – 215-809-6550 Facilities & Transportation – 215-809-6250
Food Services – 215-809-6541 Human Resources – 215-809-6606 Pupil Services – 215-809-6588 Purchasing & Receiving – 215-809-6280

Recommendation #3:

As a best practice, revise the General Fund policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance.

The Neshaminy School District concurs with the recommendation that the General Fund Policy needs to be revised to eliminate the restriction maintaining surplus funds in the unassigned fund balance. The school district has contracted with PSBA to thoroughly review all of the school district's policies. The school district's policy for the fund balance will be part of this comprehensive review.

Recommendation #4:

If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund

The Neshaminy School District does not fully concur with this recommendation. The district understands the intent of the recommendation; however, it belies what actually needs to occur in the finances of a school district since the implantation of Act 1 of 2006. For example, the school district has a glaring need for a new school or major school renovation in the Levittown area of our community. The taxpayers, parents and students are best served by beginning to plan now for this eventuality, even if building project is more than 3 years down the road. The school district cannot effectively and efficiently operate without properly planning for large capital infrastructure improvements encompassed completely in one fiscal year budget cycle, which is what this blanket recommendation requires. The evaluation makes this recommendation in part to ensure that funds designated as assigned or committed are legitimate at the fiscal year end. The district shall commit to examining the fund balances annually to ensure that they any funds committed or designated have a legitimate purpose with an expectation of action within a known and reasonable time-frame.

Recommendation #5:

Ensure financial transactions that are approved by the Board are properly recorded and reflected in the financial statements.

The Neshaminy School District concurs with the recommendation and has corrected the bookkeeping entry in the subsequent year as part of our internal reviews before this evaluation was initiated.

Respectfully,

A handwritten signature in blue ink, appearing to read 'DBI', with a stylized flourish extending from the end.

Donald B. Irwin, Jr.
Business Administrator



NORTH ALLEGHENY SCHOOL DISTRICT

***North Allegheny School District
200 Hillvue Lane
Pittsburgh, PA 15237-5391***

June 6, 2023

Bureau of Performance Audits
Department of Auditor General
Harrisburg, PA 17120-0018
Auditor General Timothy L. DeFoor

sent via email to sbuckley@paauditor.gov

Dear Mr. DeFoor:

In compliance with Chapter 501 of the Auditee Reporting Requirements, school districts are required to provide details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted within 120 business days.

Per the Act 44 Auditee Reporting Form, please find below the required detailed response to the School Reserves Audit report released on January 25, 2023.

Act 44 Auditee Reporting Form

The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Within **120 business days** of the publication of the audit, every department, board, and commission (Auditee) that receives recommendations in its audit must submit a response to the Department including the following:



NORTH ALLEGHENY SCHOOL DISTRICT

*North Allegheny School District
200 Hillvue Lane
Pittsburgh, PA 15237-5391*

Audit Recommendations:

While we did not find non-compliance with law or regulations, we offer the following recommendations for North Allegheny School District to improve stewardship of taxpayer funds and advance transparency:

1. **Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if you have funds set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.**

District Response: During the response phase of the audit, the district agreed to refrain from applying for referendum exceptions in the future unless the district's financial position is in a place that warrants the utilization of these exceptions as described above. In the most current budgeting process, the district was not in a financial position that warranted exceptions and did not apply for the referendum exceptions as recommended.

2. **Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.**

District Response: During the response phase of the audit, the district agreed that when a referendum exception is not needed, we will pass a resolution during the preliminary budget phase to not increase taxes above the district's index. At the January 25, 2023 Board meeting, the Board passed the Act 1 Resolution to not increase taxes above the district's index as recommended.

3. **As a best business practice, revise the General Fund policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance.**

District Response: As stated in our initial response during the audit, the Board continuously updates our Board policies based on community input, state and federal guidance and recommendations, and other factors. The current policy has a maximum of 8% of unassigned which is based on PA Act 14 of 1949, section 688.



NORTH ALLEGHENY SCHOOL DISTRICT

*North Allegheny School District
200 Hillvue Lane
Pittsburgh, PA 15237*

4. **If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance of the General Fund.**

District Response: As this fiscal year has not ended at the time of this response, this has not occurred to date. However, the district plans to utilize all funds that are assigned to specific purposes during the fiscal year and make additional assignments for the following fiscal year as appropriate. In addition, the amount designated for a specific purpose for Swaps is currently being released to the unassigned balance on the set schedule and will be fully released upon expiration or termination of the swap agreement, whichever occurs first.

5. **Reconsider the practice of transferring surplus funds to the Technological fund or Capital Reserve Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden of taxpayers. This will ensure tax increases are appropriate and needed.**

District Response: After the above recommendation was provided, the district updated the monthly reporting to include a more transparent disclosure of the estimated transfers of surplus monies to the public in the monthly forecast. In addition, any budgeted transfers are directly stated and communicated during all stages of the budgeting process.

To help lessen the burden to taxpayers, we do utilize all 3 funding methods permitted by the guidance to help maintain stable capital reserves for upcoming projects and other approved uses such as purchasing of buses, deferred maintenance, and debt payments, which is all permitted to be paid out of the Capital Reserve Fund. As we had a net negative balance in our Capital Reserve/ Tech Fund during 2018/19 timeframe, funding it through the three permitted methods has helped us keep one of the lowest millage rates in Allegheny County and will help us maintain only limited/targeted future millage increases.

In referencing the PDE Chart of accounts section B-2 in regard to Capital Reserve Funds, **Capital Reserve Fund**, per Municipal Code Section 1431 (School Districts ONLY) Authorized by Municipal Code P.L. 145, Act of April 30, 1943, also known as Purdon's 53 § 1431, accounts for:

- (1) monies transferred during any fiscal year from Appropriations made for any particular purpose which may not be needed,
- (2) surplus monies in the General Fund of the treasury of the LEA at the end of any fiscal year, and
- (3) interest earnings of the fund itself.

Sincerely,

Kermit J. Houser
Assistant Director of Finance/Treasurer

Appendix A

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

Act 44 Auditee Reporting Form

The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Within **120 business days** of the publication of the audit, every department, board, and commission (Auditee) that receives recommendations in its audit must submit a response to the Department including the following:

Details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted (add attachments as necessary).

Please refer to above letter for detailed response.

Note: Pursuant to Section 1.5 of Act 44, if the Auditee fails to respond to the Department's recommendations within **120 business days**, the Department will notify the Governor and the Chairpersons and Minority Chairpersons of the Appropriations Committees of the Senate and the House of Representatives, which may consider an Auditee's failure to respond to the Department's audit when determining the Auditee's future appropriations.



May 10, 2023

Mr. Timothy DeFoor
Auditor General
Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018

RE: Performance Audit Report Response

Dear Mr. DeFoor,

As per your letter dated January 25, 2023, we are responding to the Performance Audit Report, Audit Results, and Recommendations. We have reviewed the Audit Report and are pleased that you did not issue any findings or find non-compliance with any law or regulations when reviewing the fiscal years ending June 30, 2018, 2019, 2020, and 2021.

Per your report, the first objective of the audit was to determine whether each of the selected districts appropriately used the referendum exception method to raise local school property taxes. The second objective included determining if each district ensured that fund balances were properly designated and used for intended purposes.

While your report states that you did not find any non-compliance with laws or regulations, you conclude there were issues regarding the prudent stewardship of taxpayer funds. However, your report does not contain any reference to the impact of the district's Aa1 Moody's bond rating on interest expenses. Further, your report fails to mention how the prudent use of funds potentially available from the district's fund balance will factor into the district's ability to fund imminent and necessary high school and middle school construction projects estimated to be more than \$600 million. Additionally, your report does not mention that the district has a 10-year capital plan with projects totaling over \$100 million and a transfer of unspent budget funds in a given fiscal year was a very financially prudent approach to fund these projects. Finally, the one use of an Act 1 exception was necessary to cover the rising mandated and underfunded special education costs. The decision by the School Board to request the referendum exceptions is the essence of local control.

All actions regarding the use of Act 1 exceptions, property tax increases, commitment of funds, and interfund transfers were taken in public sessions after School Board discussion. Please see



the attached required Act 44 Auditee Form and note that it is being returned within the required timeframe of 120 business days of the publication of the audit.

Please contact me at bauertm@npenn.org if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Todd M. Bauer'.

Todd M. Bauer, Ed.D.
Superintendent of Schools

**COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL**

Act 44 Auditee Reporting Form

The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Within 120 business Days of the publication of the audit, every department, board, commission (Auditee) that receives recommendations in its audit must submit a response to the Department including the following:

Details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted (add attachments as Necessary).

Response to Recommendations for the North Penn School District

Noted: "we did not find any non-compliance with laws or regulations."

1. Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments, Additionally, refrain from applying for referendum exceptions if the district has set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.

Recommendation noted. The district used only one Act 1 exception during the fiscal years under review. This exception was necessary to cover the rising mandated and underfunded special educations cost. The district has not applied for an Act 1 exception in any of the three years since the Performance Audit.

2. Pass a resolution during the preliminary budget to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.

Recommendation noted. The resolution not to exceed the index has been passed by the School Board in each of the three years since the Performance Audit. The School Board considers all tax increases carefully and publicly before any decision is made.

3. As a best practice, revise the General Fund policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance.

Recommendation noted. North Penn School District maintains an unassigned fund balance for financial stability, cash flow, and to maintain the district's excellent Moody's Aa1 credit rating. The high credit rating saves taxpayers money by lowering borrowing costs for building projects. Further, the district's current unassigned fund balance provides for only 24 days of cash flow based on the average daily amount of

expenditures. Finally, the School Board periodically considers policy revisions.

4. If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund.

Recommendation noted. North Penn School District will review and discuss fund balance commitments on an annual basis in a public session. As a result of the Performance Audit, the district did change a fund balance commitment from PSERS obligations to capital projects due to the pending high school and three middle school renovation projects.

5. Reconsider the practice of transferring surplus funds to the Capital Reserve Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases are appropriate and needed.

Recommendation noted. The School Board discusses interfund transfers during the budget process (planned transfers) and during the audit process (unplanned transfers). Unplanned transfers typically occur when expenditures come in significantly lower than budgeted for any number of reasons. The district has over \$100 million in capital projects planned for the next ten years, not including the high school and three middle school renovation projects. Transfers of unspent funds to the Capital Reserve Fund to fund high-priority capital needs are both prudent and appropriate.



"Learn, Listen, Lead"

NORTHAMPTON AREA SCHOOL DISTRICT

HOME OF THE KONKRETE KIDS

District Business Office
2014 Laubach Avenue
Northampton, PA 18067
Phone: 610-262-7811
Fax: 610-262-3237

May 9, 2023

Timothy DeFoor
Auditor General
Bureau of Performance Audits
Department of the Auditor General
Finance Building
Harrisburg, PA 17120

Sent via email: SBuckley@paauditor.gov

Dear Mr. DeFoor:

Pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018, this letter shall serve as the Northampton Area School District's response to the recommendations of the Department of the Auditor General as it relates to the Performance Audit Report of School District Fund Balances dated January 25, 2023.

As noted in the performance audit report, the Northampton Area School District (NASD) was in compliance with all applicable laws and regulations during the audit period. NASD compliance is further supported by our Annual Independent Auditor's Report. This report has indicated, for at least the last ten years, that the NASD has maintained strong financial compliance, presented financial statements in accordance with accounting principles generally accepted (GAAP) in the United States of America, exhibited a strong internal controls environment, deployed appropriate accounting policies, and has had no audit findings that were determined to be a significant deficiency or a material weakness.

Subsequent to the publishing of the Auditor General's Performance Audit Report, the NASD analyzed Fund Balances across the Commonwealth. We feel compelled to share that as of June 30, 2021, the NASD's total fund balance as a percentage of revenue was 13.0%. Based on this metric, the 13.0% ranks the NASD 506 out of 672 reported School Districts and Charter Schools according to data submitted via the 2020-21 Annual Financial Report (PDE-2057). Taking into consideration that the NASD's fund balance as a percentage of revenue is in the bottom 25% of the Commonwealth, we believe the Performance Audit Report portrays a misleading representation of our financial situation.

Recommendation 1 & 2

The NASD will continue to follow the guidance related to Act 1 of 2006. Given an adjusted index of the 5.1% for the 2023-24 school year, the Board of School Directors passed a resolution at their January 2023 meeting to not exceed the index for the 2023-24 school year. The passage of this resolution defined the NASD's budget path for 2023-24 and determined that referendum exceptions would not be required to

balance the budget. It should also be noted that the NASD did not file for referendum exceptions related to the 2022-23 school year.

Recommendation 3

NASD Policy 620 indicates the following:

The School District will strive to maintain an unassigned general fund balance of not less than five percent (5%) and not more than eight percent (8%) of the budgeted expenditures for that fiscal year.

The NASD maintains that Policy 620 defines an appropriate threshold for the unassigned general fund balance. This was further confirmed during public discussion at the NASD's February 2023 Board of School Directors meeting. Furthermore, this is within the allowable limits of the Pennsylvania School Code.

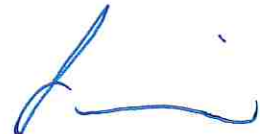
Recommendation 4

Historically, the NASD has reviewed fund balance designations annually. This practice will continue, and when appropriate, fund balance designations will be released. However, many of the designations span multi-year initiatives and need to be carried from year to year until the completion of the related program.

Respectfully submitted,



Joseph Kovalchik
Superintendent of Schools



Craig Neiman
Business Administrator

April 14, 2023

Mr. Timothy DeFoor
Auditor General
Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018

RE: Performance Audit Report Response

Dear Mr. DeFoor,

As per your letter dated January 25, 2023, we are responding to the Performance Audit Report, Audit Results and Recommendations.

We have reviewed the Audit Report and are pleased with your assessment that you did not find non-compliance with any law or regulations when reviewing the fiscal years ending June 30, 2018, 2019, 2020 and 2021.

Per your report, the first objective of the audit was to determine whether each of the selected districts appropriately used the referendum exception method to raise local school property taxes, and the second objective included determining if each district ensured that fund balances were properly designated and used for intended purposes.

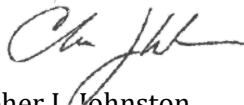
While your report states that you did not find any non-compliance with laws or regulations, you conclude there were issues regarding prudent stewardship of taxpayer funds. However, your report does not contain any reference to the \$100 million high school renovation project that the district was in the midst of or that the tax increases, fund commitments and interfund transfers were all part of a multi-year district strategy that had been discussed in public sessions and approved by the board of directors. These actions were taken in an effort to lower the amount of bond financing required and to build millage capacity to accommodate the resulting additional debt burden. The use of exceptions was necessary to cover the rising pension and special education costs as the district used what remained of the Act 1 Index to build millage capacity and raise funds to be directly used for the high school construction project.

All actions regarding the use of Act 1 Exceptions, property tax increases, commitment of funds, and interfund transfers were taken in public sessions after board discussion.

Please see the attached Act 44 Auditee Form as per your request and note that it is being returned within the required timeframe of 120 business days of the publication of the audit.

If you have any questions concerning this letter, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Johnston", written over the printed name.

Christopher L. Johnston
Chief Financial Officer
Penn Manor School District

**COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL**

Act 44 Auditee Reporting Form

The Department of the Auditor General provides this form for every department, board, and commission and every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Within 120 business Days of the publication of the audit, every department, board, commission (Auditee) that receives recommendations in its audit must submit a response to the Department including the following:

Details of the Auditee's adoption of the Department's recommendations, or the reason why recommendations have not been adopted (add attachments as Necessary).

Response to Recommendations for the Penn Manor School District

Noted: "we did not find any non-compliance with laws or regulations."

1. Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments, Additionally, refrain from applying for referendum exceptions if the district has set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.

Recommendation noted: The district has sought and used exceptions as allowed and approved four times since the inception of Act 1. The decision was not taken lightly and was discussed in public sessions by the Board of Directors as part of a multi-year approach to funding not only operational expenses, but anticipated operational expenses from the \$100 million 3-year phased high school renovation project. The Board passed the resolution not to exceed the index in all previous and subsequent budgets.

2. Pass a resolution during the preliminary budget to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.

Recommendation noted: The resolution not to exceed the index has been passed by the Board of Directors in 14 of the 18 years since the inception of Act 1. The Board considers all tax increases carefully and publicly before any decision is made.

3. As a best practice, revise the General Fund policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance and to accommodate current practices regarding increasing taxes prior to reaching 6% of estimated expenditures.

Recommendation noted: Penn Manor maintains an unassigned fund balance for financial stability, cash flow, and for maintenance of the district's credit rating. The board will periodically consider policy revisions.

4. If the district has designations for funds that are not used within a few years as intended, the Board should consider the funds as unassigned fund balance in the General Fund.

Recommendation noted: Penn Manor discusses and commits a portion of its fund balance twice a year in public session. Commitments will continue to be based upon the best available information and will allow for flexibility as situations change.

5. Reconsider the practice of transferring surplus funds to the Capital Reserve Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases are appropriate and needed.

Recommendation noted: The Board of Directors of Penn Manor discusses interfund transfers during the budget process (planned transfers) and during the audit process (unplanned transfers). Unplanned transfers typically occur when expenditures come in significantly lower than budgeted for any number of reasons. The large unplanned transfer on fiscal year 2020-21 was directly related to extraordinary issues stemming from the Covid-19 pandemic.

June 1, 2023

Auditor General Timothy DeFoor
Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018

Re: Act 44 Response

I am writing to provide the School District of Lancaster's official response to the recommendations outlined in the auditor's report dated January 25, 2023. We have thoroughly reviewed the report and have prepared a detailed letter that addresses each recommendation and expresses our agreement or disagreement with them.

Attached to this cover letter, you will find the aforementioned response letter, which contains our stance on each recommendation. Our approach is as follows: for recommendations we agree with, we commit to adopting them within the next available time frame. Conversely, for recommendations we disagree with, we have noted our decision not to adopt them, accompanied by a comprehensive explanation of our rationale.

We greatly appreciate the insights and expertise shared in the auditor's report, as it serves as a valuable resource for enhancing our operations and ensuring the best possible outcomes for our students, staff, and community. Your recommendations have been thoroughly considered, and we have taken into account their potential impact on our district's goals and objectives.

We would like to express our gratitude to your team for the diligence and professionalism demonstrated throughout the auditing process. Your dedication to fostering transparency and accountability is commendable, and we believe that through collaborative efforts, we can continue to improve our practices and fulfill our mission of providing an exceptional education to our students.

Sincerely,

Kimberly Reynolds

December 5, 2022

Scott D. King

Director of Bureau Audits

Commonwealth of Pennsylvania

Department of the Auditor General

Harrisburg, PA 17120-0018

Re: Performance Audit Report Response

Dear Mr. King,

Per your letter dated November 18, 2022, regarding the Performance Audit Report Response-Draft Audit Results and Recommendation, this is our response to your comments.

We reviewed your report that states there were no findings of non-compliance with law or regulations for the audited years of June 30, 2018, 2019, 2020 and 2021.

Per your report, the first objective of the audit was to determine whether each of the selected districts appropriately used the referendum exception method to raise local school property taxes, and the second objective included determining if each district ensured that fund balances were properly designated and used for intended purposes.

The School District of Lancaster is an urban, high-needs school district that faces many challenges such as aging buildings, a large (18%) special education population and growing numbers of refugee students and families in transition. The School District of Lancaster complies with the requirement not to exceed 8% of the next year's budgeted expenditures for funds balance. We disagree with your statement on Page 12 that says "appearance of questionable budgeting practices" related to PCS 8% threshold in FYE June 30, 2019.

School boards are required by law to apply for exceptions months before approving a final budget, which is also approved before the state Legislature appropriates basic education funding. It is common practice for school boards to apply for exceptions in the interest of prudence and, when more information about expenditures and state subsidies becomes known, limit tax increases to the Act 1 index—or below. In doing this, the District continues to be in compliance with state rules and regulations.

Kim Reynolds | Director of Finance
School District of Lancaster

251 South Prince Street | Lancaster, PA 17603
717.299.2700



www.SDLancaster.org

Response to Recommendation from the School District of Lancaster

Noted: "We did not find any non-compliance with laws and regulations"

- 1) Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if you have funds set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.
 - a. Recommendation noted: The District applied for one referendum exception during the four audited years and did not use it to raise taxes above the index. Financial unknowns such as rising pension costs and PlanCon reimbursement uncertainties made it prudent for the District to apply for referendum exceptions. It is unreasonable and financial imprudent for boards to commit usage of fund reserves in advance of critical information coming from the state on what it may, or may do with budget allocations. That issue is further complicated by dynamic changes in state funding formula metrics that are also not known in most cases until June of each fiscal year. The action to apply for exceptions to hold open board options until more knowns are evident is prescribed local board authority, it is prudent, sound and lawful. We disagree with the recommendation.
- 2) Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.
 - a. Recommendation noted: The Board reviews and discusses all tax increases in public settings and makes decisions based on the "known" information at that time. The District did not raise taxes above the index during the four years audited. Whether or not to pass such a resolution is local board authority and control by statute.

- 3) If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund.
 - a. Recommendation noted: Due to District issues such as age of buildings and technology needs, it is prudent to designate fund balance for unexpected maintenance projects and instructional expenses. Designations made are often for many funds that avoid costs as well mitigate shock costs that can disrupt general fund operations and programs serving students. They are designed to protect the general fund. These protections (the designations) do not just disappear in a year, or even years where good stewardship tax payer resources and experiences favor the district. They serve to stabilize potential disruptions and pay for unexpected, but reasonably anticipated variability in costs that can strike. Every year these positions are evaluated.
- 4) Ensure financial transactions that are approved by the Board are properly recorded.
 - a. Recommendation noted: The District complies with required financial statement representation as audited by an independent auditor and the state's prescribed AFR reporting and manual.
- 5) Reconsider the practice of transferring surplus funds to the Capital Projects Fund unless there is a specific need or purpose. Excess surplus funds should be maintained in the General Fund as unassigned fund balances to meet future operation costs to reduce the burden on taxpayers. This will ensure tax increases are appropriate and needed.
 - a. Recommendation noted: The District was planning for a \$90 million dollar building renovation project and found it fiscally responsible to transfer those funds to decrease future tax increases due to future debt. Such transfers are clearly provided for in the school code and the district evaluated its future capital intensive infrastructure needs and acted accordingly, and prudently, with the tax payer resources provided. Pay as you go methodology and portions thereof for capital intensive projects avoid borrowing and issuance costs and represent a component of the district's responsibility to care for the \$100's of millions in dollars of their infrastructure and buildings tax payers entrust us to manage. The state has stopped funding all PlanCon activities so either districts

prepare as best they can with capital formation, or they let repairs and upgrades lapse. Leaving the monies as a rule in the General Fund also will serve to use one time reserves for ongoing and rapidly growing costs including inflationary growth which if not monitored well can lead to the district to a deficit position rapidly.

We look forward to the opportunity to speak with you during the exit conference to address these concerns. If you have further questions, please contact me.

Sincerely,

Kimberly Reynolds
Director of Finance

CC :
Matthew Przywara
Acting Superintendent

RESOLUTION

WHEREAS, the Pennsylvania Department of the Auditor General (the "Department"), on January 25, 2023, issued a Performance Audit Report titled: "School Districts – General Fund Balances: Applying for Referendum Exceptions, Designation Funds and Increasing Taxes", covering the period of July 1, 2017 through June 30, 2021 (the "Report"); and

WHEREAS, the West Chester Area School District ("District") was one of twelve school districts selected for the performance audit; and

WHEREAS, no findings were made by the Department for the District in the Report; and

WHEREAS, five recommendations were made by the Department for the District in the Report; and


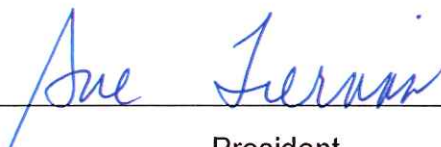
WHEREAS, the District is required to provide a response to the Department on the Department's Act 44 Auditee Reporting Form.

NOW THEREFORE BE IT RESOLVED, this 24th day of May, 2023, the West Chester Area School District Board of School Directors (the "Board") hereby adopts Recommendations #3 and 5 in the Report and takes notice of Recommendations #1, 2, and 4, as set forth on the Act 44 Auditee Reporting Form, attached hereto as Exhibit "A" (the "Response");

BE IT FURTHER RESOLVED, the Board authorizes the Superintendent and Director of Business Affairs to sign and submit the Response to the Department, and take such other steps as may be necessary carry out the adopted recommendations.

ATTEST:

WEST CHESTER AREA SCHOOL BOARD

 By: 
Secretary President

Appendix A



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COMMONWEALTH OF PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

Act 44 Auditee Reporting Form(School District Audits)

The Department of the Auditor General provides this form for every school district to report its adoption of the Department's recommendations in its most recent audit pursuant to Act 44 of 2017 amendments to The Fiscal Code regarding Auditee reporting requirements and the Department's STATEMENT OF POLICY and FORM in 4 Pa. Code Part XIV published in the Pennsylvania Bulletin on February 10, 2018.

Within **120 business days** of the publication of the audit listed below, the school district must submit a response to the Department detailing the adoption of the Department's recommendations, or the reason why recommendations have not been adopted.

AUN: School: CAN:
Audit Period: Findings: Recommendations:

The Board of Directors of the West Chester Area School District at its public Board meeting held on May 24, 2023 voted to adopt two of the recommendations (Recommendations #3 and #5) that were made in the Auditor General's Performance Audit Report ("Report"). Attached you will find a copy of the motion adopted by the Board accepting the recommendations.

Recommendation #1 Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments. Additionally, refrain from applying for referendum exceptions if funds have been set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.

District Response: This recommendation is noted. In each of the last five budget cycles, the District has not sought a referendum exception from the Pennsylvania Department of Education ("PDE"). All decisions regarding whether to seek a referendum exception are made after public discussion and analysis. The District maintains commitments and/or assignments of fund balance intended to be used for specific purposes and continues to utilize its discretion when using such commitments or assignments for the purpose designated. However, as a standard practice, the District does not apply for referendum exceptions if funds have been set aside specifically for the type of expenditure for which a referendum exception may be sought in that budget year. Prior Report submissions are incorporated herein by reference.

Recommendation #2 - Pass a resolution during the preliminary budget phase to not increase taxes above the district's index when budgetary needs can be met with existing available funds in the General Fund.

District Response: This recommendation is noted. As a standard practice, the District passes a resolution during the preliminary budget phase to not raise property taxes above the District's Act 1

index when unassigned or uncommitted funds balances are available to offset the needed tax increases. In each of the last five budget cycles, the District has passed such a resolution, after thoughtful and public discussion. As previously discussed at length in prior Report submissions, due to the constraints of the timeline of the budget process and the limited information available to the District at the time the decision to pass the resolution must be made, in some years it may be fiscally prudent and responsible to maintain flexibility early in the budget process, with the understanding that even if approved by PDE the District has no obligation to utilize granted exceptions in whole or in part. Prior Report submissions are incorporated herein by reference.

Recommendation #3 - Comply with PDE procedures and formally approve the purpose of General Fund commitments and assignments prior to the applicable fiscal year-end, even if the amounts are to be determined at a later date.

District Response: The District adopts this recommendation and will implement the process with the year ended June 30, 2023.

Recommendation #4 - If the district has designations for funds that are not used in the next fiscal year as intended, the Board should repurpose the funds or the funds should be considered as unassigned fund balance in the General Fund.

District Response: This recommendation is noted. As acknowledged in the Auditor's Conclusion to the District's Response on page 161 of the Report, assigned or committed funds do not need to be utilized within a specific time frame. The use of the funds is the prerogative of the local elected officials. Prior Report submissions are incorporated herein by reference.

Recommendation #5 - As a best business practice, prepare budgets based on actual audited fund balances and current financial conditions rather than prior year budget estimates to reflect a more accurate financial position.

District Response: The District adopts this recommendation. The District will continue to prepare budgets based on actual audited fund balances and current financial conditions rather than prior year budget estimates to reflect a more accurate financial position

[Note: Pursuant to Section 1.5 of Act 44, if the Auditee fails to respond to the Department's recommendations within 120 business days, the Department will notify the Governor and the Chairpersons and Minority Chairpersons of the Appropriations Committees of the Senate and the House of Representatives, which may consider an Auditee's failure to respond to the Department's audit when determining the Auditee's future appropriations.