

BERMUDIAN SPRINGS SCHOOL DISTRICT
ADAMS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2009

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. James J. Lott, Board President
Bermudian Springs School District
7335 Carlisle Pike
York Springs, Pennsylvania 17372

Dear Governor Rendell and Mr. Lott:

We conducted a performance audit of the Bermudian Springs School District (BSSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 13, 2006 through March 27, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the BSSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with BSSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BSSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BSSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

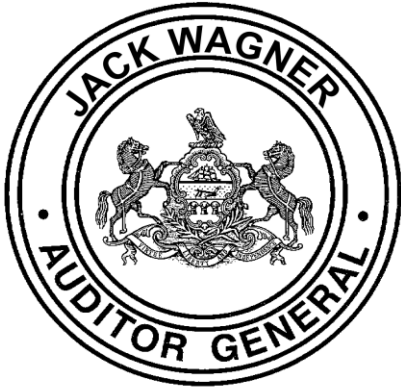
JACK WAGNER
Auditor General

October 29, 2009

cc: **BERMUDIAN SPRINGS SCHOOL DISTRICT** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Bermudian Springs School District (BSSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BSSD in response to our prior audit recommendations.

Our audit scope covered the period January 13, 2006 through March 27, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The BSSD encompasses approximately 75 square miles. According to 2005 local census data, it serves a resident population of 13,102. According to District officials, in school year 2005-06 the BSSD provided basic educational services to 2,143 pupils through the employment of 149 teachers, 93 full-time and part-time support personnel, and 9 administrators. Lastly, the BSSD received more than \$8 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the BSSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings.

Finding 1: Lack of Adherence to Department of Education Requirements Resulted in Vocational Education Subsidy Overpayments of \$80,973.

Our audit found that BSSD had overstated district-operated vocational education membership days by a total of 38,631 total days for the 2005-06 and 2004-05 school years combined. These reporting errors resulted in reimbursement overpayments of \$80,973 (see page 6).

Finding 2: Transportation Reimbursement Overpayments of \$22,984.

Our audit found transportation data reporting errors in daily mileage, greatest number of pupils transported, nonpublic pupils transported, vehicle year of manufacture and contracted costs. These reporting errors resulted in reimbursement overpayments of \$22,984 (see page 9).

Finding 3: Possible Conflict of Interest Transactions.

Our audit of Statements of Financial Interests filed by BSSD board members for the calendar years 2007, 2006 and 2005 found one board member was an employee of an insurance company that conducted business with BSSD. This board member did not abstain from voting to approve bill lists that contained payments to his company. We are forwarding a copy of this finding to the State Ethics Commission for additional review and investigation, as it deems necessary (see page 12).

Status of Prior Audit Findings and Observations. With regard to the status of our prior recommendations to BSSD from an audit we conducted of the 2003-04, 2002-03, 2001-02 and 2000-01 school years, we found BSSD had taken appropriate corrective action in implementing our recommendations pertaining to documentation of bus drivers' qualifications

(see page 14) and the observation regarding bus drivers' qualifications (see page 15).

We found BSSD had not taken appropriate corrective action in implementing our recommendations pertaining to board members failing to file Statements of Financial Interests (see page 15).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period January 13, 2006 through March 27, 2009, except for the verification of professional employee certification which was performed for the period December 2, 2005 to February 10, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with DE reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the BSSD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BSSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with BSSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 8, 2006, we reviewed the BSSD's response to DE dated March 13, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Lack of Adherence to Department of Education Requirements Resulted in Vocational Education Subsidy Overpayments of \$80,973

Criteria relevant to the finding:

Section 2502.8(b) of the Public School Code provides, in part:

[E]ach school district . . . shall be paid, in addition to any other subsidy to which it is entitled, an amount on account of students enrolled in vocational curriculums. . . .

DE instructions for the PDE-4504 provide, in part:

C.(3) Students reported on the PDE-4504 should meet the following criteria: . . .

(c) student is taking courses in the reporting year that are part of the approved career and technical education program. . . .

Our audit of district-operated vocational education membership data reported to the Department of Education (DE) for the 2005-06 and 2004-05 school years found reporting errors that resulted in the following vocational education subsidy (VES) overpayments to the District:

	<u>Overpayments</u>
2005-06	\$42,615
2004-05	<u>38,358</u>
Totals	<u>\$80,973</u>

Our initial review of district-operated vocational education membership records found that the District had not completed the “Individual Data for Students in Approved Secondary Career and Technical Education Programs” forms (PDE-4504) for the 2005-06 and 2004-05 school years. DE instructions require that this form or a similar form, listing students and vocational education courses they took, should be prepared and maintained for audit purposes, as back-up for the vocational education membership days report to DE. A list of students lacking the required details was provided to us by District personnel. We tested this list to individual student records and found that many of the students submitted for state reimbursement had not met the minimum approved class requirements as set forth on the District’s most recent Pennsylvania secondary vocational education program approval. We then met with the District’s superintendent and administrators, and they agreed to have their staff revise the records and reports in accordance with DE vocational education membership requirements. We received the revised reports on March 6, 2009. In completing the revisions, District personnel disallowed membership days for those students that they felt did not meet the program requirements. Our audit of the revised data confirmed those disallowances.

<u>School Year</u>	<u>Membership Days</u>		
	<u>Reported</u>	<u>Audited</u>	<u>Days Overstated</u>
2005-06	28,277	7,890	20,387
2004-05	26,704	8,460	18,244

We have provided DE with reports detailing the errors for use in recalculating the District's VES.

Recommendations

The *Bermudian Springs School District* should:

1. Review DE's instructions for proper completion of the vocational education membership reports and ensure that all staff involved in the completion of these reports are familiar with the requirements of each approved vocational education program.
2. Implement an internal system of review to ensure accurate reporting of data.
3. Review reports for school years subsequent to the audit period, and if errors are noted, submit corrected reports to DE.

The *Department of Education* should

4. Adjust the District's allocations to recover the overpayments of \$80,973.

Management Response

Management stated the following:

The cause of the problem is the direct result of administrative oversight of not adhering to the planned courses of study for vocational students in certain programs. Some students were mistakenly given credit for courses in the vocational field when they did not have enough credits earned.

The corrective action for this oversight has been to: 1) remove the administrative responsibility for coding vocational students from the high school principal to the assistant superintendent's office, 2) to update all of our course programming on the vocational website so that we are in compliance and updated with the regulations, and 3) careful attention will be paid to this specific population to make sure that any students coded as vocational students meet all of the necessary criteria as stipulated by PDE.

Finding No. 2 →

Transportation Reimbursement Overpayments of \$22,984

Criteria relevant to the finding:

Internal controls are the responsibility of management. Weaknesses in internal control procedures as disclosed here, did not provide management with the assurance that data supporting the District's transportation operations were collected, recorded and reported accurately in accordance with DE instructions.

Our audit of the District's transportation records for the 2005-06 and 2004-05 school years found errors in data reported to DE, resulting in the following transportation reimbursement overpayments:

<u>Description</u>	<u>2005-06</u>	<u>2004-05</u>	<u>Totals</u>
Regular Reimbursement	\$17,493	\$1,256	\$18,749
Nonpublic Reimbursement	<u>385</u>	<u>3,850</u>	<u>4,235</u>
Total overpayments	<u>\$17,878</u>	<u>\$5,106</u>	<u>\$22,984</u>

Our review of the District's records found that the reporting for the 2005-06 and 2004-05 school years was completed by two different employees, neither of whom is still employed by the District. This employee turnover and a lack of administrative oversight led to the transportation data reporting errors. No procedures were in place to check the clerical accuracy of mileage and pupil averaging calculations completed by the transportation coordinator.

These internal control deficiencies resulted in the following errors in transportation data reported to DE:

Daily Mileage

For the 2005-06 school year, miles *with* pupils was overstated by 0.4 miles/day for eight contracted vehicles and was overstated by 10.7 miles/day for five district-owned vehicles. Miles *without* pupils was overstated by 5.0 miles/day for 11 contracted vehicles and was understated by 2.7 miles per day for four district-owned vehicles. For the 2004-05 school year, no errors were noted in daily mileage reported by the District.

Greatest Number of Pupils Transported

For the 2005-06 school year, the greatest number of pupils transported was overstated by 38.4 pupils/day for 13 contracted vehicles, and was overstated by

5.6 pupils/day for four district-owned vehicles. For the 2004-05 school year, the pupil count was overstated by 4.0 pupils/day for nine contracted vehicles, and was understated by 3.0 pupils/day for four district-owned vehicles.

Nonpublic Pupils Transported

For the 2005-06 school year, District personnel overstated the number of nonpublic pupils transported by one pupil. For the 2004-05 school year, the District overstated the number of nonpublic pupils transported by 10 pupils.

Year of Manufacture

The District reported the year of manufacture incorrectly for five vehicles in 2005-06 and one vehicle in 2004-05.

Contractor Costs

For the 2005-06 school year, District personnel incorrectly reported the amount paid to one contractor, resulting in a \$2,174 overstatement of contracted cost. For the 2004-05 school year, District personnel correctly reported contractor costs.

Daily mileage, the greatest number of pupils transported, nonpublic pupils transported, year of vehicle manufacture, and contractor costs are all an integral part of the transportation reimbursement formula and as such must be reported accurately to DE.

We have provided DE with a report detailing the errors for use in recalculating the District's transportation reimbursement.

Recommendations

The *Bermudian Springs School District* should:

1. Establish an internal review procedure to ensure the accuracy of transportation data for daily mileage and the greatest number of pupils transported prior to completing the DE reports.
2. Accurately report contractor costs, the number of nonpublic pupils transported, and the year of

manufacture for contracted and district-owned buses in accordance with DE instructions.

3. Review reports for years subsequent to our current audit period and, if errors are found, submit revised reports to DE.

The *Department of Education* should:

4. Adjust the District's allocations to resolve the overpayments of \$22,984.

Management Response

Management stated the following:

It is not possible to know for sure the cause of the transportation reporting errors, due to a change in staff. It is the opinion of this district administration that the errors that occurred for the 2004-2005 school year were due to recording a particular month's bus miles with and without students instead of the yearly average, in some cases. It also appears the number of non-public students reported was overstated by 10 pupils.

The staff member who reported transportation for the district for many years retired in October of 2005, and a replacement staff member was hired. That new staff member transferred to another position in the spring of 2006, and the position was filled with a second replacement. These new staff members were trained by the retiree, and a transportation consultant was also used at that time for the transition. Apparently the administrative staff was confident that the transportation reports were in order. Unfortunately that was not the case, and our bus mileage was not reported properly. The second staff member hired is no longer employed by the district.

Corrective Action: The district has recently purchased a new software system for the transportation department which will be maintained in addition to the monthly paper reporting by the bus drivers. A comparison of these total numbers will be kept for review prior to submission to PDE. The administration is also confident that the recently hired administrative assistant for transportation has learned a great deal through this current audit.

Finding No. 3 →

Possible Conflict of Interest Transactions

Criteria relevant to the finding:

The Public Official and Employee Ethics Act (Ethics Act) Section 1102 (65 Pa. C.S. § 1102), defines “conflict of interest” as use by a public official or public employee of the authority of his office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.

Additionally, Section 1103(f) of the Ethics Act provides, in part:

No public official or public employee or his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract valued at \$500 or more with the governmental body with which the public official or public employee is associated or any subcontract valued at \$500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for implementation or administration of the contract.

Our audit of District records and board members’ Statements of Financial Interests found possible conflict of interest transactions.

During the 2005 through 2007 calendar years the Bermudian Springs School District purchased its commercial and auto insurance from an insurance company through an insurance broker acting on behalf of the District. The total cost of the insurance was \$39,538, \$38,810 and \$37,562 for the 2007-08, 2006-07 and 2005-06 school years, respectively.

Our review of board members’ 2006 Statements of Financial Interests found that a board member was employed by the insurance company as a “loss prevention representative.” Our review of the board minutes and discussion with school personnel found that the board member did not abstain from voting to approve the bill lists that contained the actual payments for the premiums.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

Recommendations

The *Bermudian Springs School District*, in conjunction with the State Ethics Commission's review, should, if necessary:

1. Require that the administration strengthen controls regarding the review of Statements of Financial Interests, to help ensure detection of any potential conflicts of interest.
2. Strengthen controls to help ensure compliance with state laws regarding board members conducting business with the District.

The *State Ethics Commission* should:

3. Review and investigate this possible conflict of interest.

Management Response

Management stated the following:

Bermudian Springs School District Board Member is employed by [the insurance company]. The district's liability insurance broker . . . and our representative negotiates the best coverage and pricing for our insurance coverage. For the 2004-05 school year and thereafter our liability carrier has been [the insurance company]. Because we made payment direct to [the broker] for our insurance coverage and not to [the insurance company], our board member did not abstain from approving payment to [the broker].

From this point on, payments being made to a company that has any affiliation to a Board Member will be listed separately on an accounts payable bill report, so that board members can abstain from voting on those particular payments.

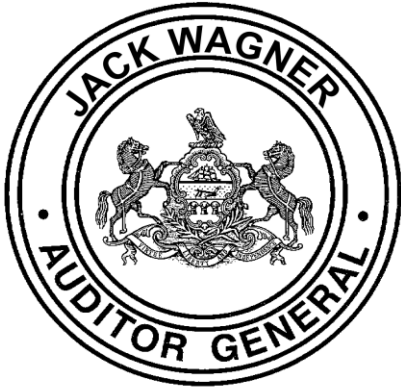
Status of Prior Audit Findings and Observations

Our prior audit of the Bermudian Springs School District (BSSD) for the school years 2003-04, 2002-03, 2001-02 and 2000-01 resulted in two reported findings and one reported observation. The first finding pertained to bus driver qualifications, the second finding pertained to board members' Statements of Financial Interests, and the observation pertained to administrative policies regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the BSSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the BSSD did implement recommendations related to bus driver qualifications and internal control weaknesses in administrative control policies, but did not implement recommendations related to board members' failure to file Statements of Financial Interests.

<i>School Years 2003-04, 2002-03, 2001-02 and 2000-01 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><i><u>I. Finding No. 1:</u></i> <i><u>Documentation of Bus Drivers' Qualifications Was Not Provided Timely</u></i></p> <ol style="list-style-type: none"> 1. Revise the District's transportation contract to require the contractors to provide current, valid copies of the documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications. 2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students. 3. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District files are up-to-date and complete. 	<p>Background:</p> <p>Our prior audit found that three contracted school bus drivers did not have the required clearances to operate a school bus in Pennsylvania. Management noted that beginning July 1, 2006 the District would have a permanent file on all bus drivers, in which all required information will be kept.</p>	<p>Current Status:</p> <p>Our current audit found that District personnel complied with our recommendations and all contracted drivers had the required clearances.</p>

<p><u>II. Finding No. 2: Board Members Failed to File Statements of Financial Interests</u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District’s solicitor in regard to the board’s responsibility when an elected board member fails to file a Statement of Financial Interest. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act. 	<p>Background:</p> <p>Our prior audit found that one former board member failed to file a Statement of Financial Interest for the year ended December 31, 2003, and one former member failed to file a Statement of Financial Interest for the year ended December 31, 2001.</p>	<p>Current Status:</p> <p>Our current audit found that the board did not comply with our recommendations and as a result we noted that one member failed to file their Statement of Financial Interest for calendar year 2006 and another board member failed to file for calendar year 2005. However, all board members properly submitted their Statements of Financial Interests for 2007.</p> <p>We will forward this information to the State Ethics Commission for its review and determination of any further action it deems necessary.</p>
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<p><u>III. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications</u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District’s transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children. 	<p>Background:</p> <p>Our prior audit found neither the District nor the transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual’s continued suitability to be in direct contact with children.</p>	<p>Current Status:</p> <p>Our current audit found that the District and contractors complied with our recommendations and have established procedures to require existing drivers to notify management if they are charged with or convicted of any criminal or child abuse issues.</p>
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Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

The Honorable Edward G. Rendell
Governor
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Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.
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The Honorable Robert M. McCord
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Senator Andrew Dinniman
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Representative James Roebuck
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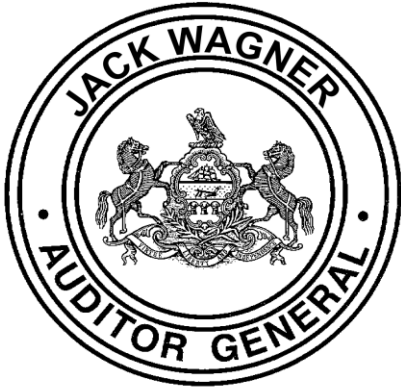
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

