

PERFORMANCE AUDIT

Burgettstown Area School District Washington County, Pennsylvania

May 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Dr. James Walsh, Superintendent
Burgettstown Area School District
100 Bavington Road
Burgettstown, Pennsylvania 15021

Mr. Chris Kramer, Board President
Burgettstown Area School District
100 Bavington Road
Burgettstown, Pennsylvania 15021

Dear Dr. Walsh and Mr. Kramer:

Our performance audit of the Burgettstown Area School District (District) evaluated the application of best practices in the areas of finances and contracting for student transportation. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). This audit covered the period July 1, 2013 through June 30, 2017, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

We also evaluated the application of best practices in the area of school safety. Due to the sensitive nature of this issue and the need for the results of this review to be confidential, we did not include the results in this report. However, we communicated the results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate officials as deemed necessary.

Dr. James Walsh
Mr. Chris Kramer
Page 2

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale
Auditor General

May 6, 2019

cc: **BURGETTSTOWN AREA SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Burgettstown Area School District (District). Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period July 1, 2013 through June 30, 2017, except as otherwise indicated in the audit scope, objectives, and methodology section of the report (see Appendix).

Audit Conclusion and Results

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

Finding No. 1: A Cumulative Operating Deficit Reduced the District's General Fund Balance to Negative \$1.2 Million as of June 30, 2017. Our review of the District's financial position over a four-year period revealed that the District's unassigned General Fund Balance decreased at an alarming rate of more than 200 percent. At the beginning of our audit period, on July 1, 2013, the District's unassigned General Fund balance was \$1,024,092. Due to operating deficits in three of the four years of our review, the

District's unassigned General Fund balance was negative **(\$1,204,433)** as of June 30, 2017. (See page 10).

Finding No. 2: The District Paid Its Transportation Contractor, Which It Utilized for Approximately 10 Years, Over \$1 Million Dollars Without a Contract, and Failed to Solicit Bids. Our current review found that the District did not have a contract in place with its transportation provider and did not solicit requests for proposals for transportation services. The District's Transportation Contractor has provided services for the District for at least ten years without a contract. Without a contract, the District lacked key accountability provisions and financial agreed upon terms to ensure that it received the most cost effective service. (See page 22).

Status of Prior Audit Findings and Observations. With regard to our prior audit recommendations, we found that the District did implement all but one of our prior audit recommendations pertaining to the lack of sufficient controls over its student data. (See page 27).

Background Information

School Characteristics 2017-18 School Year	
County	Washington
Total Square Miles	106
Number of School Buildings	2
Total Teachers	101
Total Full or Part-Time Support Staff	62
Total Administrators	10
Total Enrollment for Most Recent School Year	1,100
Intermediate Unit Number	1
District Vo-Tech School	Western Area Career & Technology Center

A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

In the Burgettstown Area School District, we believe...

All students can be successful learners.

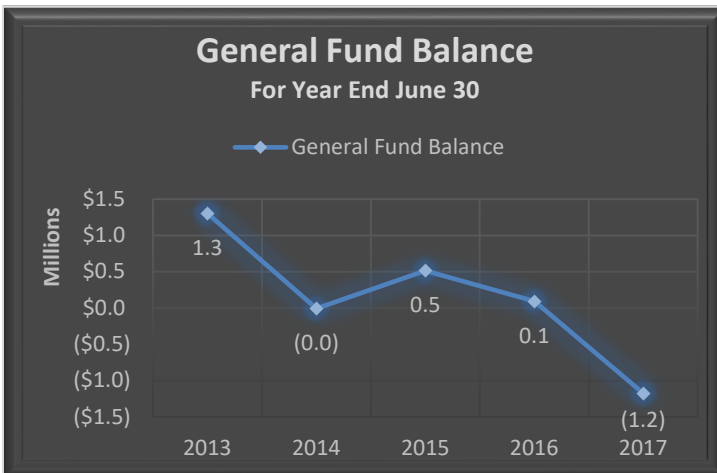
All students are welcomed and valued in a safe learning environment.

Students become life-long learners through their participation in academic, extra-curricular, and community activities.

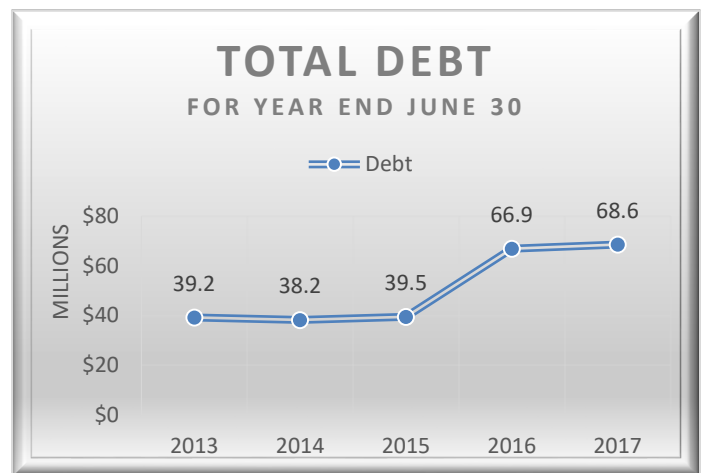
That the development of successful citizens is the shared responsibility of students, staff, home, and community.

Financial Information

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

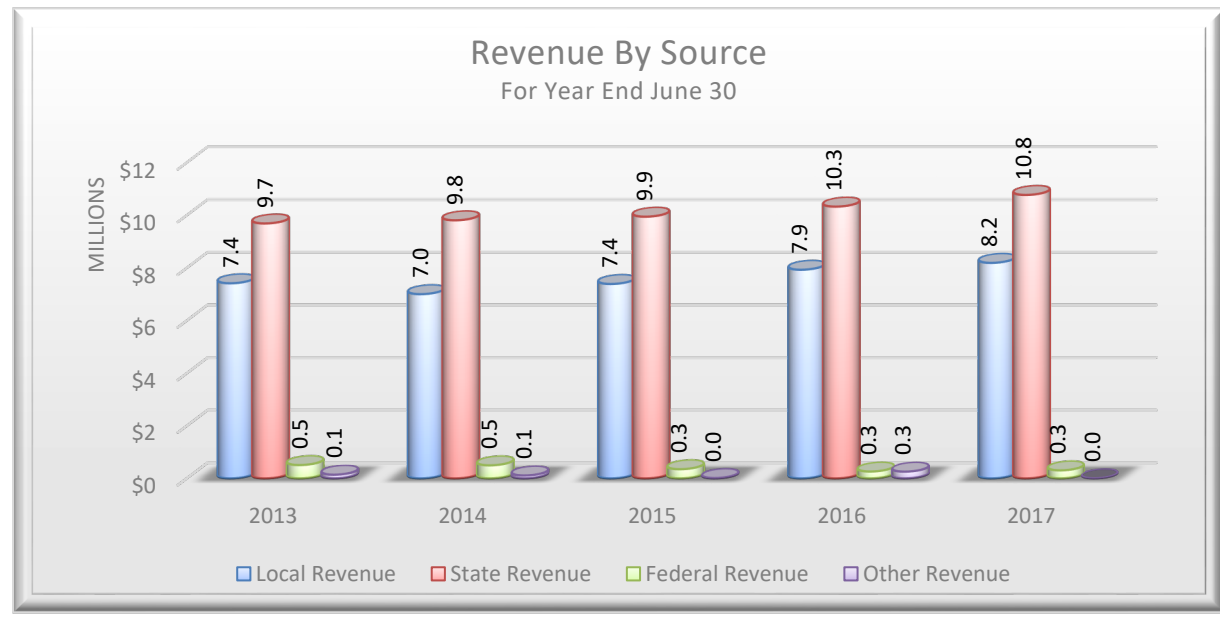
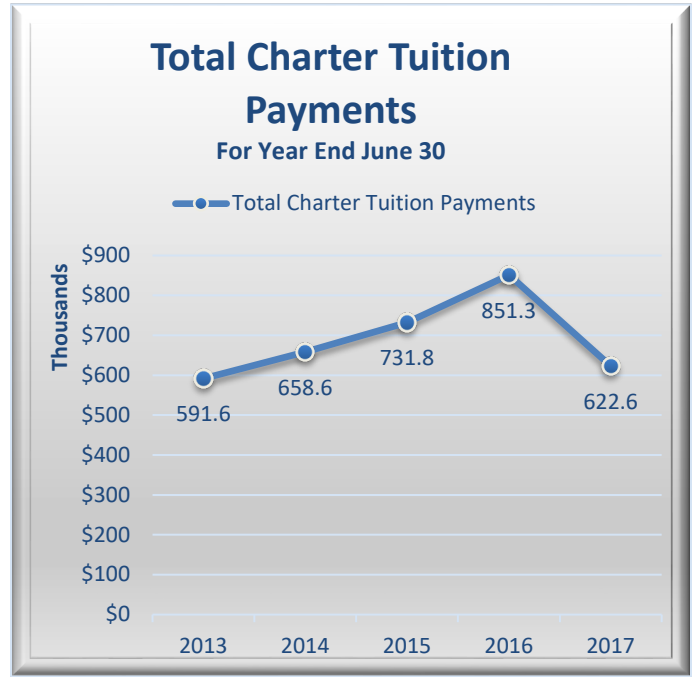
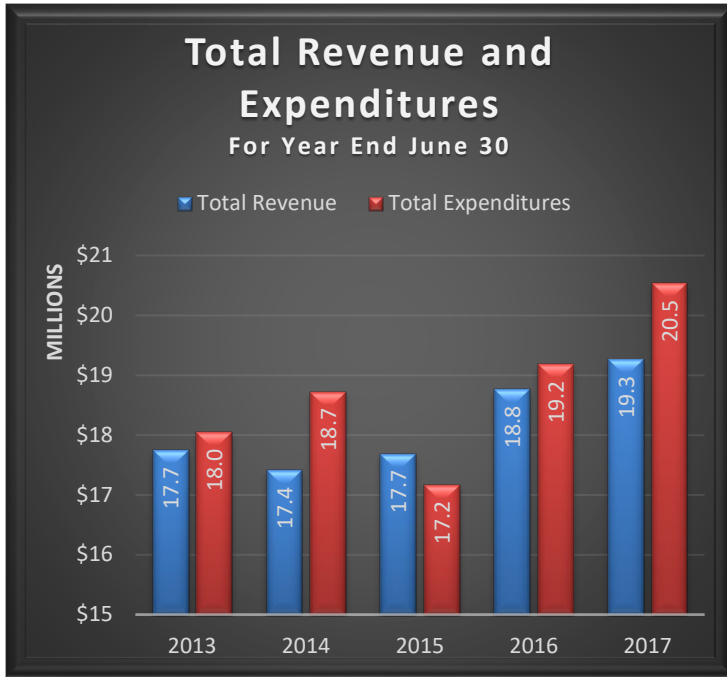


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



Note: Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits, Compensated Absences and Net Pension Liability.

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from the PDE's data files for the 2014-15, 2015-16 and 2016-17 school years.¹ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding graph.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. The PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e., PSSA and Keystone exam scores), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

The PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, the PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁴ The PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until the 2020-21 school year.⁵ In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

¹ The PDE is the sole source of academic data presented in this report. All academic data was obtained from the PDE's publically available website.

² The PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to the PDE's website for general information regarding the issuance of academic scores.

³ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁴ According to the PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of the PSSA exams to align with PA Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

⁵ Act 39 of 2018, effective July 1, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement for an additional year until the 2020-21 school year. *See* 24 P.S. § 1-121(b)(1).

What is the PSSA?

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁶ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

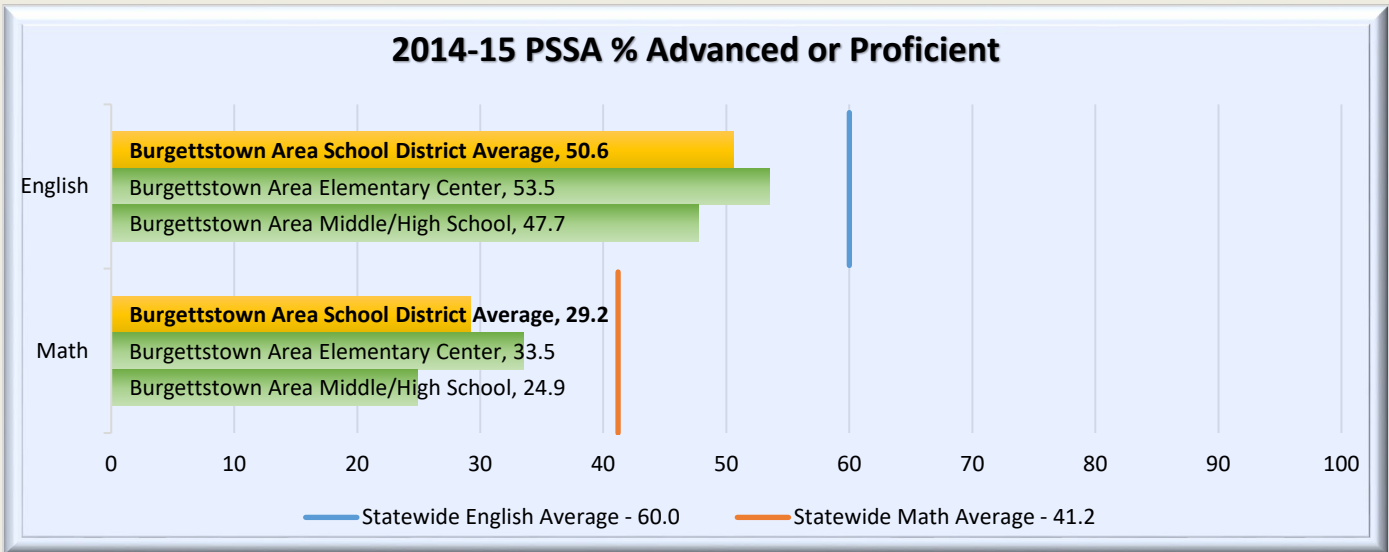
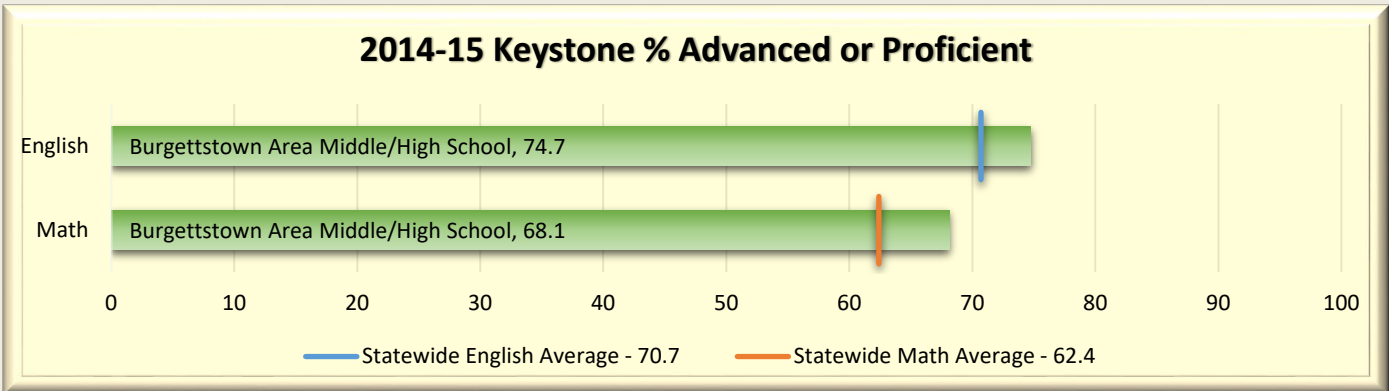
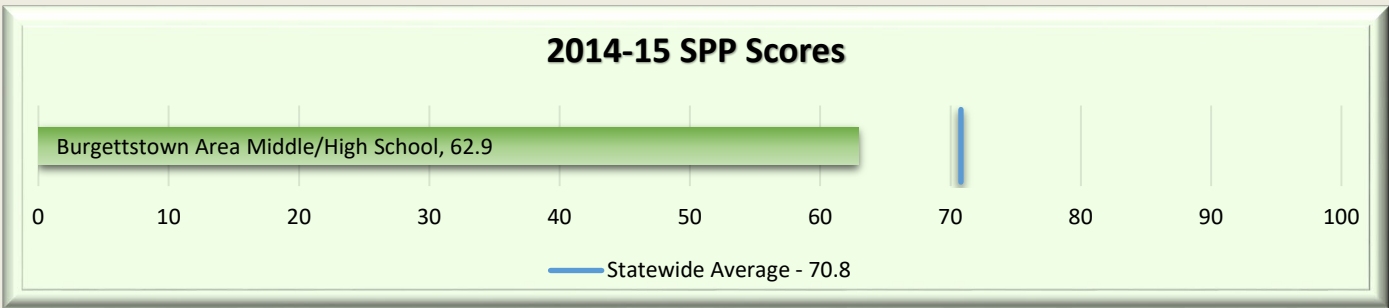
What is a 4-Year Cohort Graduation Rate?

The PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.⁷

⁶ The PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam.

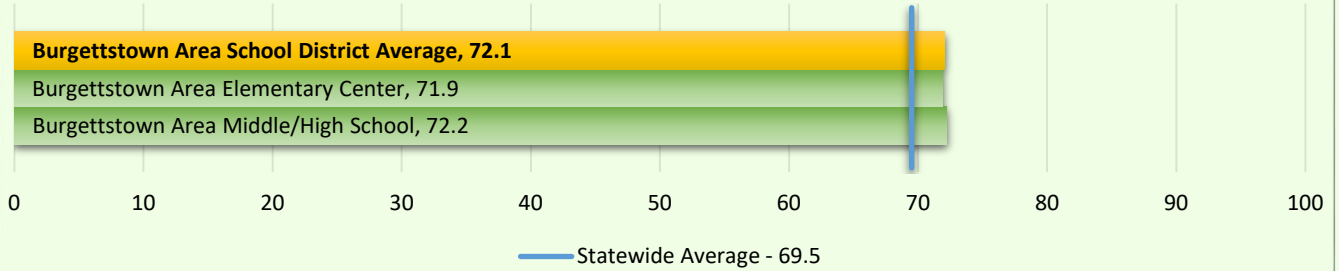
⁷ The PDE also calculates 5-year and 6-year cohort graduation rates. Please visit the PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

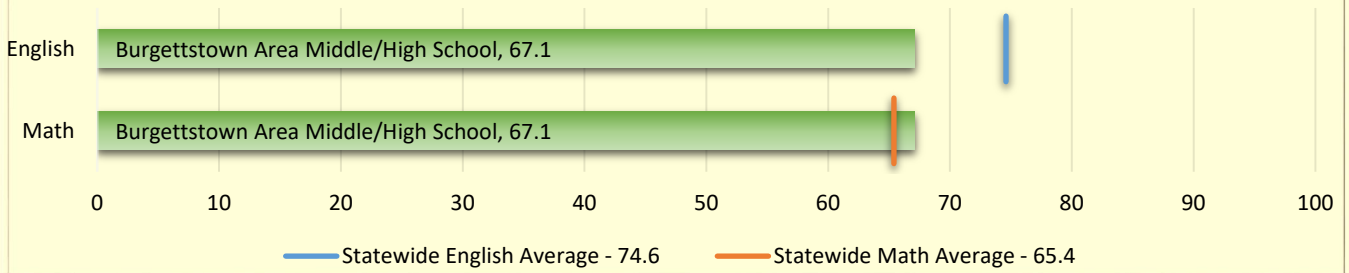


2015-16 Academic Data
School Scores Compared to Statewide Averages

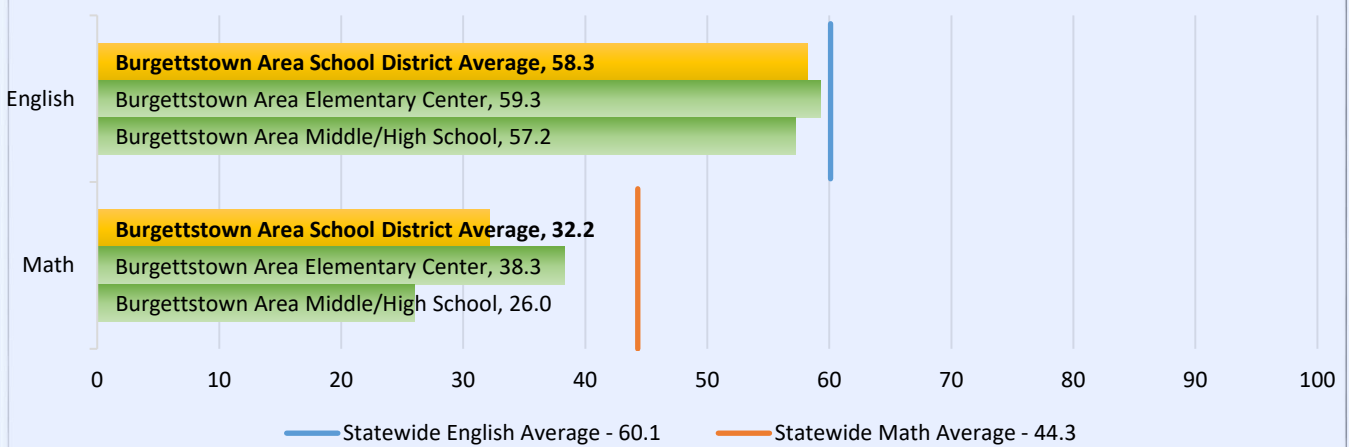
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

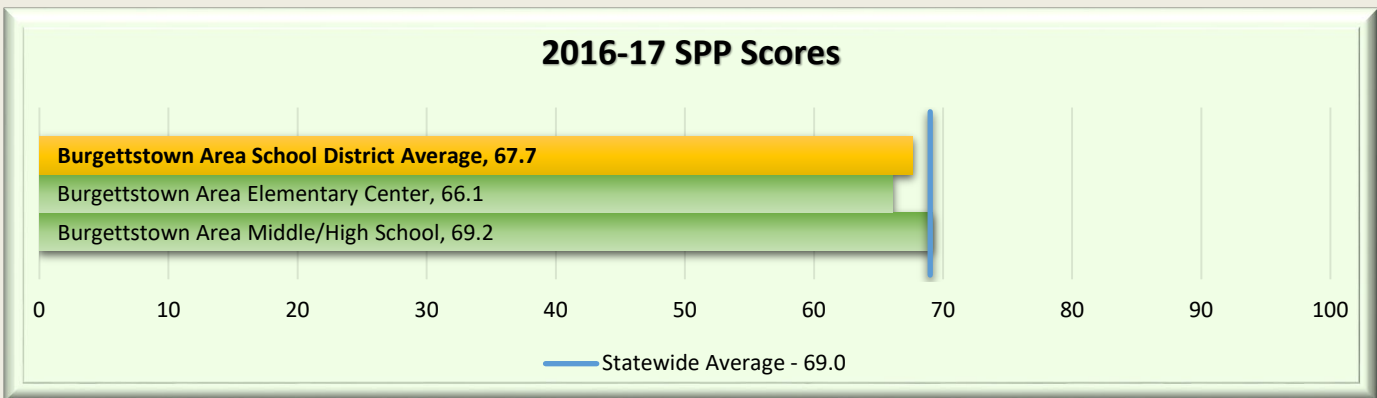


2015-16 PSSA % Advanced or Proficient

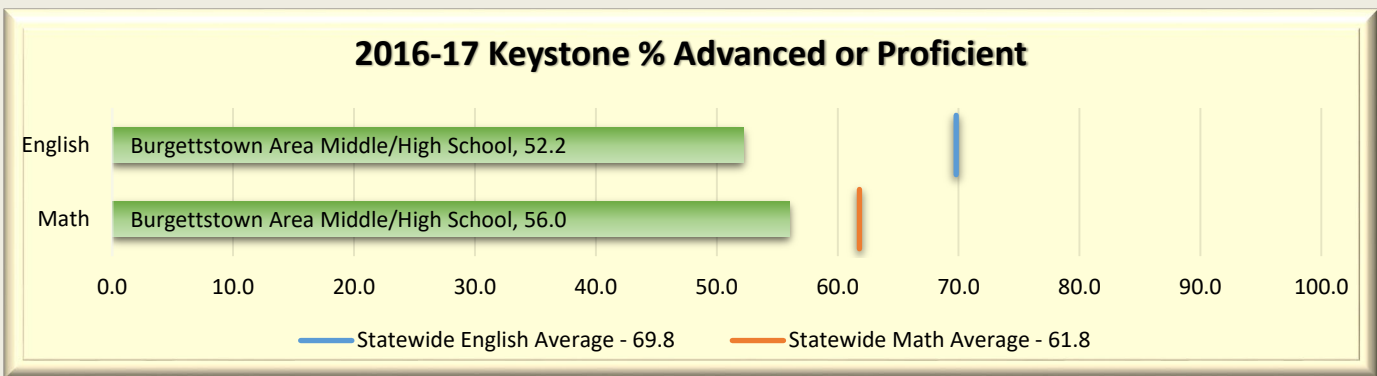


2016-17 Academic Data
School Scores Compared to Statewide Averages

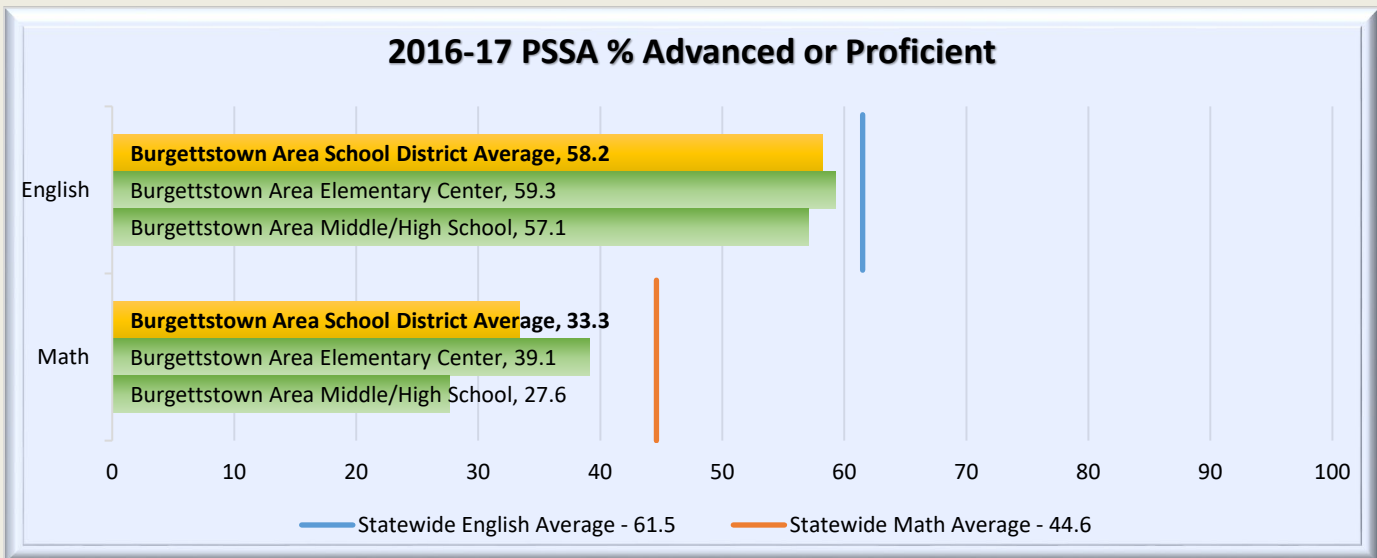
2016-17 SPP Scores



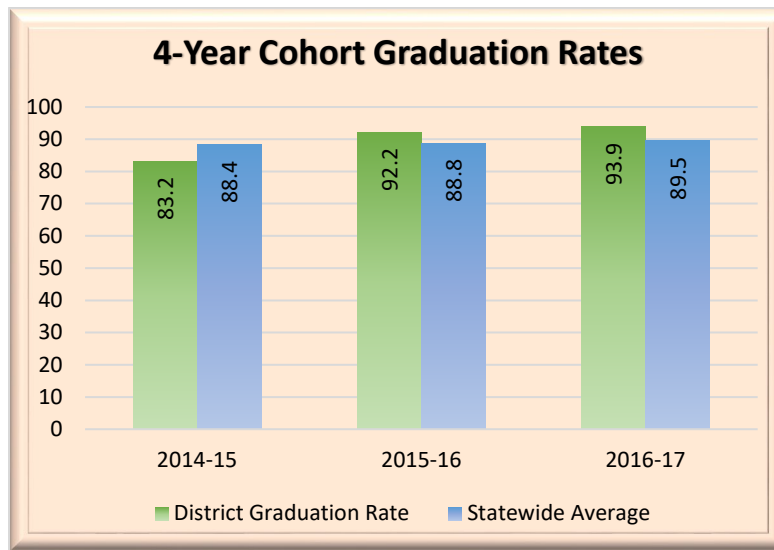
2016-17 Keystone % Advanced or Proficient



2016-17 PSSA % Advanced or Proficient



Graduation Data
District Graduation Rates Compared to Statewide Averages



Finding

Finding No. 1

A Cumulative Operating Deficit Reduced the District's General Fund Balance to Negative \$1.2 Million as of June 30, 2017

Criteria relevant to the finding:

The Government Finance Officers Association (GFOA) has developed Budgeting Best Practices for School Districts. Among the best practices are:

General Fund Reserve. School districts should establish a formal process on the level of the unrestricted fund balance that should be maintained in the General Fund as a reserve to hedge against risk.

The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating expenditures and operating transfer out.

Budgeting and maintaining adequate fund balances allow school boards and superintendents to maintain their educational programs and services with level tax adjustments. They also provide financial stability in emergency situations so that it is certain that employees and vendors are paid on time. Fund balances reduce interest expense or interim borrowing. In addition, stable fund balance history appeals more to underwriters and other creditors when construction projects are undertaken and the school district must enter the bond market.

Our review of the Burgettstown Area School District's (District) financial position over a four-year period revealed that the District's unassigned General Fund Balance decreased at an alarming rate of more than 200 percent. At the beginning of our audit period, on July 1, 2013, the District's unassigned General Fund balance was \$1,024,092. Due to operating deficits in three of the four years of our review, the District's unassigned General Fund balance was negative **(\$1,204,433)** as of June 30, 2017. A deficit unassigned General Fund balance of this size leaves the District in a vulnerable financial position and resulted in the District consistently refunding its debt to meet principal and interest obligations.

In order to assess the District's financial stability, we reviewed several financial benchmarks to evaluate changes in its financial position over a period of four years from July 1, 2013 through June 30, 2017. The following benchmarks raised concerns related to the District's finances and will be discussed in the remainder of the finding:

- General Fund Balance
- Operating Position
- Current Ratio
- Debt Service
- Budgeted Expenditures

General Fund Balance

As illustrated in Chart 1 below, the District's unassigned General Fund balance has deteriorated during the period reviewed. The District's deficit **(\$1,204,433)** unassigned General Fund balance as of June 30, 2017, is significantly less than the fund balance recommended by Government

Criteria relevant to the finding (continued):

The Pennsylvania School Boards Association in its Overview of Fiscal Health for the 2013-14 school year provided the following fiscal benchmarks.

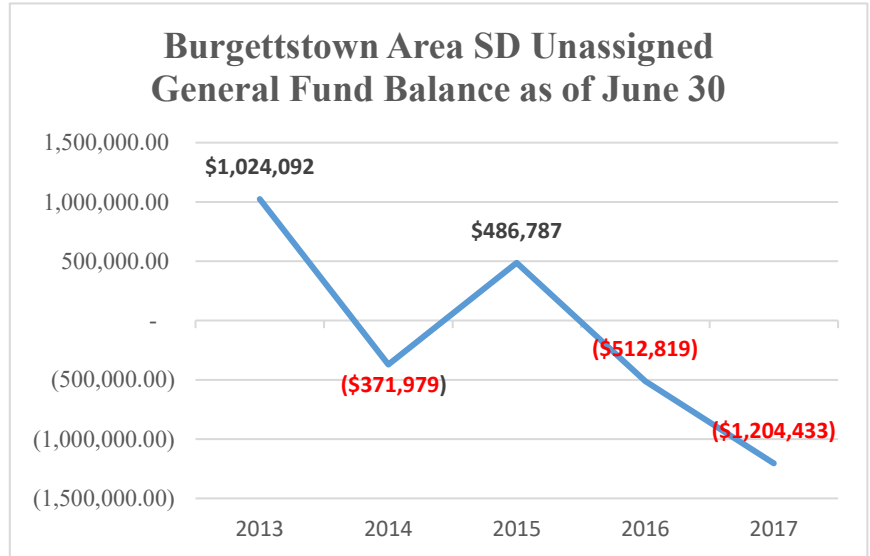
- Financial industry guidelines recommend that fund balances be between five percent and ten percent of annual expenditures.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

Current Ratio (National Forum on Education Statistics “Forum Guide to Core Finance Data Elements)

This ratio is used to evaluate a school district’s ability to cover its obligations with existing resources. This is a liquidity ratio that is used to evaluate whether a school district will be able to meet its obligations in the short run and whether it will have sufficient resources to cover operation costs. Ratios above 2.0 are considered strong, while ratios under 1.0 are considered weak and concerning.

Finance Officers Association (i.e., two months of regular General Fund operating revenues or regular general operating expenditures).

Chart 1



The District’s General Fund decline is concerning given that the District raised local real estate taxes in accordance with the Act 1 index each year of our audit period.⁸ The 2014-15 fiscal year was the only fiscal year in the audit period with an increase in the District’s General Fund balance. The increase in the 2014-15 fiscal year was solely attributable to debt restructuring which reduced the debt service payments by approximately \$1.5 million for that year.

The General Fund balance consists of five distinct classifications: nonspendable, restricted, committed, assigned, and unassigned. The unassigned fund balance is equivalent to a “rainy day fund” for individuals and should contain funds to deal with emergencies, unanticipated expenses, or a disruption of revenue. As the chart above illustrates, the Districts unassigned fund balance was negative for three out of the four years of our audit period.

⁸ According to the Pennsylvania Department of Education, Act 1 of 2006 as amended, entitled the Taxpayer Relief Act, “eases the financial burden of home ownership by providing school districts the means to lower property taxes to homeowners, especially senior citizens, via the funding provided by gaming revenue. It is anticipated that, ultimately, gaming will generate \$1 billion each year for local property tax relief.” <https://www.education.pa.gov/Teachers%20-%20Administrators/Property%20Tax%20Relief/Pages/default.aspx> (Accessed March 13, 2019).

Criteria relevant to the finding
(continued):

Section 609 of the PSC provides, in part:

“No work shall be hired to be done, no materials purchased and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.” See 24 P.S. § 6-609.

Operating Position

A school district’s operating position is an important indicator of a district’s financial health and is determined by comparing total operating revenues to total operating expenditures. The result of total expenditures and other financing uses exceeding total revenues and other financing sources is an operating deficit.⁹ The following table shows the District’s operating position for the four year audit period and the operating surplus/deficit that occurred during the period.

Table 1¹⁰

Burgettstown Area School District General Fund Operating Position					
Fiscal Year Ended June 30	Total Revenue	Expenditures			Operating Surplus/(Deficit)
		Instructional, Support Services, Nonsupport Services	Debt Service and Capital Outlay	Other Financing Sources/(Uses)	
2014	\$17,299,537	\$16,231,736	\$2,468,518	\$89,169	(\$1,311,548)
2015	\$17,686,283	\$16,584,068	\$578,080	(\$4,990)	\$519,145
2016	\$18,510,341	\$16,566,725	\$2,361,908	\$1,650	(\$416,642)
2017	\$19,259,826	\$17,286,346	\$2,476,662	(\$766,178)	(\$1,269,360)
Total:	\$72,755,987	\$66,668,875	\$7,885,168	(\$680,349)	(\$2,478,405)

Criteria relevant to the finding
(continued):

The Local Government Unit Debt Act (Act 177 of 1996, as amended)

Section 8002 of the Act defines the borrowing base as the annual arithmetic average of the total revenues for the three full fiscal years immediately preceding the incurring of nonelectoral debt or lease rental debt. See 53 Pa.C.S. § 8002.

As shown in the table above, the District’s total expenditures exceeded total revenues for each year reviewed except for the 2014-15 fiscal year. As mentioned previously, debt restructuring reduced the debt service payment by approximately \$1.5 million or the District would have experienced an operating deficit for each of the four years analyzed.

Revenues

The District relies on two main revenue sources: Commonwealth subsidies and local revenues. Revenue from the Commonwealth comprised over 55 percent of the

⁹ Other financing sources and uses are more variable in nature and are commonly referred to as one time revenue or expenditures. Common examples are borrowings and transfers from other District funds.

¹⁰ Information obtained from the District’s Independent Auditor’s Report, Statement of Revenue, Expenditures and Changes in Fund Balance, fiscal years ending 2014 through 2017. We did not perform procedures to verify the accuracy of the amounts presented.

Criteria relevant to the finding (continued):

Section 8022 of the Act provides, in part:

“(a) ...no local government unit shall incur any new nonelectoral debt if the aggregate net principal amount of such new debt together with all other net nonelectoral debt outstanding would cause the total net nonelectoral debt to...exceed...:

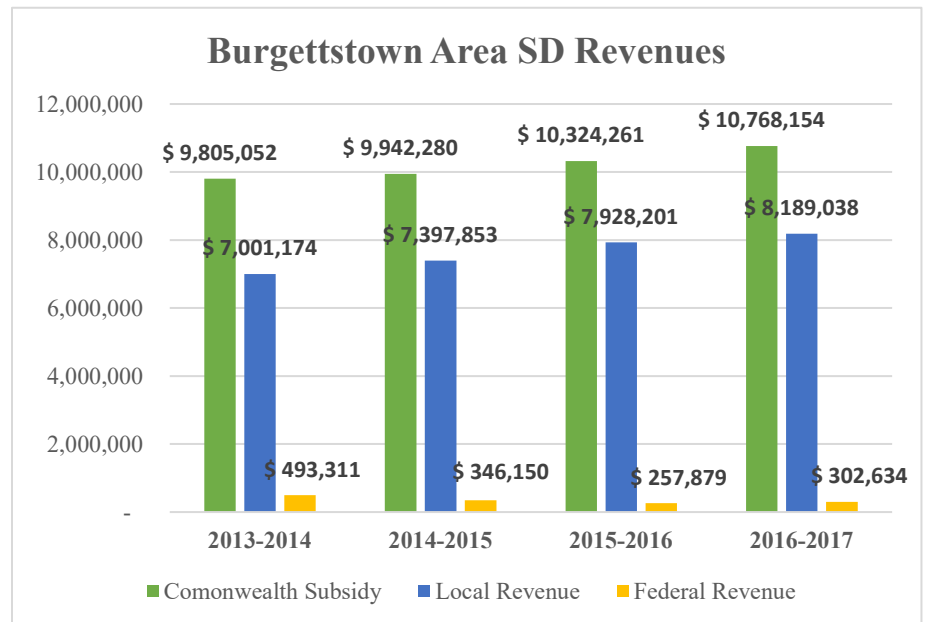
(3) 225% of its borrowing base in the case of a school district of the first class A through fourth class.” See 53 Pa.C.S. § 8022(a)(3).

See

<https://www.legis.state.pa.us/cfdoc/legis/LI/consCheck.cfm?txtType=HTM&ttl=53&div=0&chpt=80>

District’s total revenues in the 2016-17 fiscal year. The District’s Commonwealth subsidy increased by 10 percent or approximately \$1 million over the four-year period analyzed. Local revenues are primarily generated from property taxes and comprised over 43 percent of the District’s total revenue in the 2016-17 fiscal year.¹¹ The District’s millage rate was 119.0 for the 2013-14 fiscal year, and increased for each fiscal year we reviewed. The 2016-17 fiscal year millage rate was 132.0, which was an 11 percent increase from the beginning of our audit period. The District’s local revenue increased by 17 percent or approximately \$1.2 million over the four-year period analyzed. Overall, the District’s total revenue increased by 11 percent over the audit period. The chart below shows the District’s revenue sources for each year of the audit period.

Chart 2



Expenditures

District expenditures are categorized into four major functions: instructional,¹² support services,¹³

¹¹ Federal revenues comprise the remaining 2 percent of the District’s 2016-17 total revenues.

¹² Includes all activities dealing directly with the interaction between teachers and students and related costs (salaries, contracted services, travel expenses, equipment rental, supplies, and books), which can be directly attributed to a program of instruction.

¹³ Those services that provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction.

non-instructional,¹⁴ and other financing uses/debt service.¹⁵ The District’s operational (instructional, support services, and non-instructional services) expenditures increased from \$16.2 million in the 2013-14 fiscal year to \$17.3 million in the 2016-17 fiscal year or a 6 percent increase. These expenditures comprise approximately 88 percent of the District expenditures. Debt service of \$2.4 million remained consistent over the audit period, except for the decrease in the 2014-15 fiscal year due to a bond refinancing. Debt service was approximately 11 percent of the total expenditures for each year we reviewed. These expenditures are detailed in the table below.¹⁶

Table 2¹⁷

Burgettstown Area School District Expenditures					
Total Expenditures Per IAR	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2017	Totals
Instructional	\$10,478,194	\$10,665,864	\$11,005,175	\$11,147,675	\$43,296,908
Support Services	\$5,333,595	\$5,592,530	\$5,204,445	\$5,749,495	\$21,880,065
Non-Instructional Services	\$419,947	\$325,674	\$357,105	\$389,176	\$1,491,902
Debt Service	\$2,461,943	\$576,280	\$2,361,908	\$2,473,162	\$7,873,293
Capital Outlay	\$6,575	\$1,800	-	\$3,500	\$11,875
Total:	\$18,700,254	\$17,162,148	\$18,928,633	\$19,763,008	\$74,554,043

Overall, the District’s total expenditures increased by 6 percent. This is the same percentage increase as the increase in the District’s instructional expenditures. Instructional expenditures were the District’s largest expenditure during the audit period. The District kept this expenditure relatively stable despite the inability to furlough staff due to a “no furlough” clause in the District’s instructional staff contract. With total revenues increasing at a greater rate than annual expenditures, it is very

¹⁴ Activities concerned with providing non-instructional services to students, staff or the community. Examples include food services, student activities, and community services.

¹⁵ The refunding of debt and transfers of monies from one fund to another and to component units. Other financing uses represent the disbursement of governmental funds not classified in other functional areas that require budgetary and accounting control.

¹⁶ The table also includes capital outlay. This expenditures was less than 1 percent of total District expenditures over the audit period, but when included, Table 2 represents all District expenditures.

¹⁷ The information was obtained from the District’s Independent Auditor’s Report, *Statement of Revenues, Expenditures, and Changes in Fund Balances*, for fiscal years ending 2014 through 2017. We did not perform procedures to verify the accuracy of the amounts presented.

concerning that the District experienced multiple operating deficits and a deteriorating unassigned General Fund balance during the audit period.

The table below illustrates the District’s operating income before debt service, debt service payments, other financing uses, and net change in operating position.

Table 3¹⁸

Burgettstown Area School District General Fund - Net Change in Operating Position				
Fiscal Year Ended June 30	2014	2015	2016	2017
Operating Income Before Debt Service	\$1,061,226	\$1,100,415	\$1,943,616	1,969,980
Debt Service Payments	(\$2,461,943)	(\$576,280)	(\$2,361,908)	(\$2,473,162)
Other Financing Sources/(Uses)	\$89,169	(\$4,990)	\$1,650	(\$766,178)
Net Change in Operating Position	(\$1,311,548)	\$519,145	(\$416,642)	(\$1,269,360)

The District’s operational income increased during the period we reviewed. However, it did not increase at the rate needed to meet existing debt service obligations. The District has refinanced bonds in three of the four years we reviewed. In addition to the District’s struggle to meet its debt service obligations, it transferred \$766,178 into the Cafeteria Fund to fund operations in 2016-17. The District is in a precarious position due to approximately \$32 million of bonds issued from 2006 through 2009 to build the District’s high school and middle school. With the rising personnel costs including the Public School Employees’ Retirement System’s retirement contribution rate, which increased by approximately 28 percent since construction of the two new schools, the District has to continue to explore ways to generate additional revenue or reduce operational expenditures.

Current Ratio

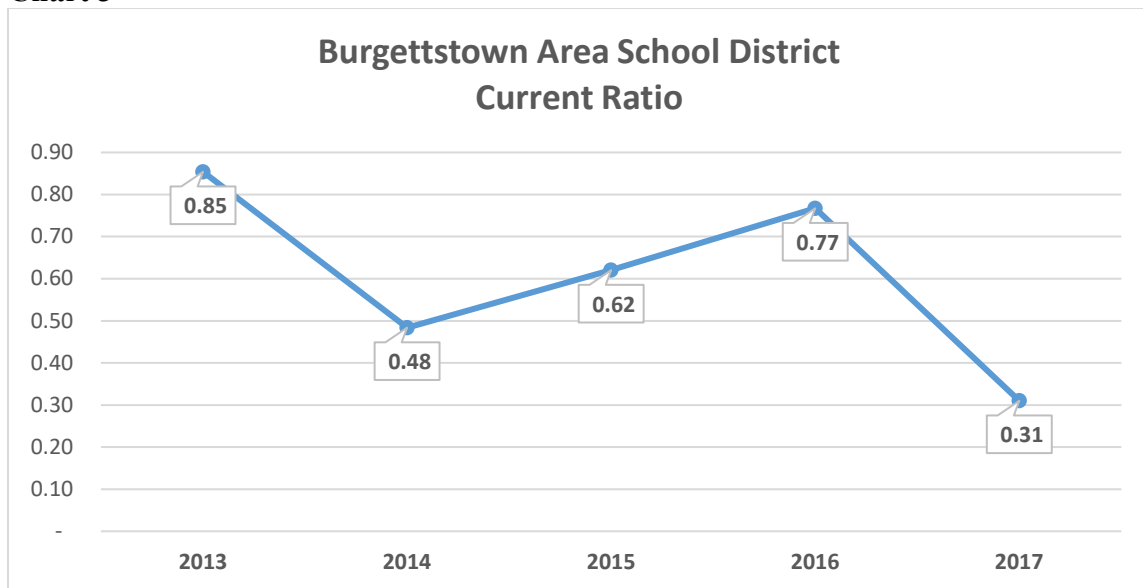
The District’s current ratio (current assets/current liabilities) was below the recommended level for all four

¹⁸ The information was obtained from the District’s Independent Auditor’s Report, *Statement of Revenues, Expenditures, and Changes in Fund Balances*, for fiscal years ending 2014 through 2017. We did not perform procedures to verify the accuracy of the amounts presented. Operating Income before debt service is calculated by Total Revenues less Instruction, Support Services, Operation of Non-Instructional Services expenses, and capital outlay.

years reviewed.¹⁹ Best business practices state that current ratios below two are considered weak. A current ratio under one is especially troubling, because liabilities exceed assets. The District’s current ratio was under one for all four years reviewed.

Potential creditors use this ratio to measure a district’s ability to pay its short-term debts. A current ratio below one coupled with the District issuing Tax Anticipation Notes to assist with cash flow demands for the four year period is very concerning. The following chart illustrates the District’s current ratio over the four year audit and the concerning current ratio as of June 30, 2017.

Chart 3



Debt and Debt Service Payments

As of June 30, 2017, the District’s debt service payments (principal and interest) were \$2,473,162. The debt service payments equate to a debt ratio of 13 percent.²⁰ The District has refunded General Obligation Bonds (GOB) for five out of the last six years to pay principal and interest due and reduce future interest payments. The refunding of bonds year after year has effectively shifted this debt burden onto future generations of taxpayers. In the most

¹⁹ Current assets and current liabilities amounts were obtained from the District’s Independent Auditor’s Report, *Balance Sheet – Governmental Funds*. The current portion of long-term liabilities was obtained from the *Statement of Net Position*, for fiscal years ending 2013 through 2017. We did not perform procedures to verify the accuracy of the amounts presented.

²⁰ Debt ration = debt service/total expenditures. \$2,473,162/\$19,763,008.

recent fiscal year, 2017-18, the District issued two General Obligation Notes for \$8,435,000 one to refund three GOBs and to pay bond issuance costs, and the second note to fund a portion of the District’s unfunded pension liability. The future debt service payments will require the District to plan and budget accurately to meet these requirements. The following chart shows the Districts future debt service payments as of June 30, 2018.²¹

Chart 4²²

Burgettstown Area SD - Debt to Maturity			
Fiscal Year Ended	Principal	Interest	Total
2019	\$690,000	\$1,191,791	\$1,881,791
2020	\$1,375,000	\$1,173,766	\$2,548,766
2021	\$1,405,000	\$1,140,815	\$2,545,815
2022	\$1,440,000	\$1,106,346	\$2,546,346
2023	\$1,465,000	\$1,075,422	\$2,540,422
2024-2028	\$7,840,000	\$4,804,855	\$12,644,855
2029-2033	\$9,415,000	\$3,556,591	\$12,971,591
2034-2038	\$11,100,000	\$1,889,446	\$12,989,446
2039-2040	\$3,900,000	\$184,613	\$4,084,613
Total	\$38,630,000	\$16,123,645	\$54,753,645

The District’s debt burden and negative General Fund balance makes it a candidate to be placed in *financial watch status* by the Pennsylvania Department of Education (PDE).²³ Financial watch status is a precursor to being placed in financial recovery status for districts that do not improve financially.²⁴ A district placed in *financial recovery status* loses local control of district operations. In these instances, the District’s Board of School Directors (Board) no longer has the authority to provide oversight of District operations. School districts in *financial recovery status* have a PDE-appointed chief recovery officer whose

²¹ The information was obtained from the District’s Independent Auditor’s Report accompanying Notes to the Financial Statements. We did not perform procedures to verify the accuracy of the amounts presented.

²² The information was obtained from the District’s Independent Auditor’s Report accompanying Notes to the Financial Statements. We did not perform procedures to verify the accuracy of the amounts presented.

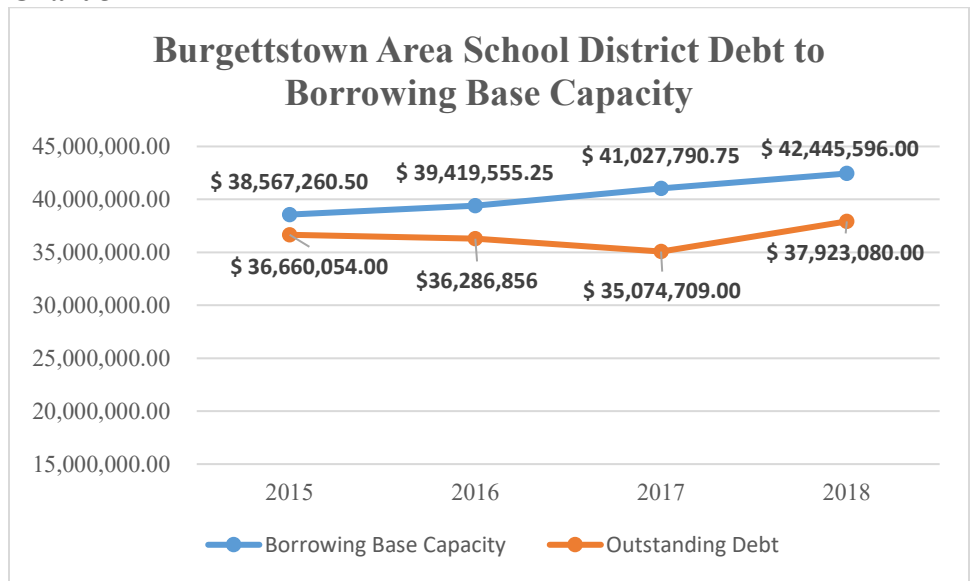
²³ 24 P.S. § 6-611-A; see also Pennsylvania Code, Chapter 731. Early Warning System--Statement of Policy and 22 Pa. Code § 731.2 (“Early Warning System”).

²⁴ 24 P.S. § 6-601-A *et seq.*

responsibilities include oversight of the district and the development of a district-wide financial recovery plan.²⁵

One of the components of the PDE’s early warning system is borrowing base capacity available.²⁶ The borrowing base capacity indicates to what extent a school district can incur additional debt. The chart below illustrates the borrowing base capacity available to outstanding debt of the District. The District is dangerously close to its borrowing base capacity and must be cognizant of this concern when considering future borrowings.

Chart 5²⁷



Budgeted Expenditures

The Public School Code (PSC) requires that all school districts develop a balanced General Fund budget each year. In addition, the PSC prohibits districts from spending more than the amount budgeted. Despite this prohibition in the PSC, the District expended more than its General Fund budgeted amounts in three of the four years reviewed.

The following table shows the District’s actual General Fund expenditures compared to budgeted amounts for each

²⁵ 24 P.S. § 6-631-A (relating to Appointment [of a chief recovery officer]) and 24 P.S. § 6-641-A (relating to Contents [of plan]).

²⁶ Section 731.2 (Early warning system) of the PSC, 24 P.S. § 6-611-A.

²⁷ The outstanding principal/debt in this calculation differs from Chart 4 due to utilizing Bond Payable net of related premium/discount which was obtained from the District’s Independent Auditor’s Report, *Statement of Net Position* for fiscal years ending 2015 through 2018. We did not perform any procedures to verify the accuracy of the amount presented.

year. The table also shows that the District cumulatively over spent the budgeted amounts by over \$292,000 during the period reviewed. The only fiscal year that the District did not spend more than it budgeted was the 2014-15 fiscal year, when a bond refinancing allowed the District to spend only \$576,280 in debt service cost while \$2,160,323 was budgeted for debt service. If we remove the refinancing that occurred during the 2014-15 fiscal year, the District’s cumulative actual expenditures would have exceeded the budgeted amounts by close to \$1.8 million.

Burgettstown Area School District Comparison of Budget vs. Actual General Fund Expenditures			
Fiscal Year Ended June 30	Budgeted Expenditures	Actual Expenditures	(Under)/Over Budget
2014	\$18,022,932	\$18,700,254	\$677,322
2015	\$18,534,924	\$17,162,148	(\$1,372,776)
2016	\$18,553,818	\$18,928,633	\$374,815
2017	\$19,149,410	\$19,763,008	\$613,598
Total:	\$74,261,084	\$74,554,043	\$292,959

The District spent over \$650,000 more than the budgeted amount for special education services during the audit period. Additionally, the District spent over \$100,000 more than the budgeted amount for contracted special education transportation in the 2015-16 and 2016-17 fiscal years (see Finding No. 2 in this report for more information about this issue). Budgeting and managing operational expenditures will be extremely critical in order to meet the District’s annual debt service obligations.

Conclusion

The District’s unassigned General Fund balance decreased significantly during the period we reviewed, despite revenues exceeding instructional, support, and non-instructional expenditures. The decrease in the unassigned General Fund balance occurred due to debt service payments that exceeded \$2.3 million for three of the four years reviewed. The District has borrowed close to its capacity and shifted the debt burden to future generations and must institute operational changes to meet increasing debt service obligations in the future.

Recommendations

The *Burgettstown Area School District* should:

1. Prepare a multi-year budget that reduces expenditures or increases revenue to allow the District to achieve operating surpluses.
2. District management should monitor the approved fiscal budget in comparison to actual revenues and expenses, and report to the Board of School Directors (Board) on cost overruns or revenue shortfalls to determine ways to reduce expenditures during the remainder of the school year.
3. Display the multi-year budget prominently on its website for the public so that taxpayers and District officials can publicly discuss the details of the budget at open meetings.

Management Response

Management stated the following:

“We fully acknowledge the lack of fund balance in those years. This is a source of deep frustration and concern by the Board of Directors and administrators. Equally frustrating, most of the issues causing the overspending are beyond the control of the Board and administrators. Nonetheless, we accept our mission to provide the "education for a lifetime of achievement," so this Board will do whatever is necessary to meet the mission for all of our students. For instance, we are legally bound to provide a free and appropriate education to a special education child, regardless of disability. When a student with significant needs enrolls in our district or is identified by a psychologist to be needing specialty designed instruction, the district accepts the child and all the services required to educate the child. A child in a special education placement, which includes related services and transportation, will cost the district tens of thousands of dollars, none of which can be foreseen in a 5-year budget plan.

At the same time, we are pleased to point to several important facts which point to the priority this district is placing on fiscal responsibility. These examples do not point to a district in need of "financial watch status." First,

thanks to careful spending and reducing payroll costs wherever possible, the fund balance for the 2017-18 school year exceeded \$300,000. Moreover, this community has accepted a tax hike every year for the past five years to keep-up with the rising cost of health insurance and teacher retirement payments (PSERS). In those same years, the percentage of our increases has exceeded the percentage of the state subsidy increases. And the payroll was reduced again this fiscal year: two positions were eliminated. We expect to increase that fund balance through this year's budget.

In response to this finding, the Burgettstown Area School District will: (1) monitor the approved fiscal budget in comparison to actual revenues and expenses, and report to the Board of School Directors on cost overruns or revenue shortfalls to determine ways to reduce expenditures during the remainder of the school year; (2) monitor the approved fiscal budget in comparison to actual revenues and expenses, and report to the Board of School Directors on cost overruns or revenue shortfalls to determine ways to reduce, and (3) display the multi-year budget prominently on its website for the public so that taxpayers and District officials can publicly discuss the details of the budget at open meetings.”

Auditor Conclusion

We are pleased that the District intends to implement our recommendations. While we are encouraged to see that the District's financial position has improved during the 2017-18 fiscal year, the District will need to continue to make significant operational changes to ensure its General Fund balance meets or exceeds GFOA recommendations. We will review the effectiveness of the District's implementation of our recommendations, as well as the other efforts documented in the response as part of our next audit of the District.

Finding No. 2

The District Paid its Transportation Contractor, Which it Utilized for Approximately 10 Years, Over \$1 Million Dollars Without a Contract, And Failed to Solicit Bids

Criteria relevant to the finding:

Public School Code

Section 427 (relating to Duties of the [Board] President) of the PSC states, in part: “[t]he [P]resident shall be executive officer of the board of school directors and as such he, together with the secretary, when directed by the board, shall execute any and all deeds, contracts, warrants to tax collectors, reports, and other papers pertaining to the business of the board, requiring the signature of the president.” *See* 24 P.S. § 4-427.

Section 2541 of the PSC provides that school districts shall be paid by the Commonwealth for every school year for costs related to pupil transportation.

Daily miles traveled, the greatest number of pupils transported, days of service, and contractor cost are an integral part of the transportation reimbursement calculation. These factors must be reported accurately to the Pennsylvania Department of Education in order to receive the correct reimbursement. *See* 24 P.S. § 25-2541.

We found that the District did not have a contract in place with its transportation provider and did not solicit requests for proposals for transportation services. The District’s Transportation Contractor has provided services for the District for at least ten years without a contract. Without a contract, the District lacked key accountability provisions and financially agreed upon terms to ensure that it received the most cost effective service. It is vitally important that all districts have a written transportation contract that contains clear and concise terms, and we have found that districts often significantly reduce costs when soliciting bids for transportation services.²⁸

Background

The District provided transportation to students during our audit period with both district-owned vehicles and vehicles owned by a Transportation Contractor. The District uses a Transportation Contractor to provide transportation for students enrolled in special education programs, homeless students, and placement students. For the 2016-17 school year, the District spent \$1,003,154 on total transportation costs. District-owned vehicles represented 65 percent of total transportation costs, while contractor costs comprised the remaining 35 percent.

Contracted Transportation Services

The District’s payments to its Transportation Contractor increased during each year of the audit period. The table below shows the annual payments made to the contractor and the percentage increase.

²⁸ The State Board of Education’s regulations provide a district’s board of directors “is responsible for **all aspects** of pupil transportation programs, including the following: . . . (7) **The negotiation and execution of contracts or agreements** with contractors, drivers of district’s vehicles and common carriers and submission of pertinent documents to the Department for approval of operation.” (Emphasis added.) *See* 22 Pa. Code § 23.4(7).

Criteria relevant to the finding
(continued):

**State Board of Education
Regulations**

Chapter 23 (relating to Pupil Transportation) of the State Board of Education Regulations provides that a school district’s board of directors is responsible for the negotiation and execution of contracts or agreements with contractors, drivers of District vehicles, and common carriers. See 22 Pa. Code Chapter 23.

Section 23.4 (relating to Responsibilities of the district board of school directors) of the regulations states as follows, in part: “The board of directors of a school district is responsible for **all aspects** of pupil transportation programs, including the following: . . . (1) The selection of means of transportation in conformance with the law and regulations. (2) The selection and approval of appropriate vehicles for use in district service and eligible operators who qualify under the law and regulations . . . (7) **The negotiation and execution of contracts or agreements** with contractors, drivers of district’s vehicles and common carriers and submission of pertinent documents to the Department for approval of operation.” See 22 Pa. Code § 23.4(1), (3), and (7). (Emphases added.)

Table 1

Burgettstown Area School District Contracted Transportation Costs		
Fiscal Year	Amount Paid to the Contractor	% Increase
2013-14	\$212,150	N/A
2014-15	\$271,828	28%
2015-16	\$285,243	5%
2016-17	\$358,775	26%
Totals:	\$1,127,996	69%

The District did not solicit requests for proposals for transportation services. When the District needed to transport a student to a special education facility, either the Special Education Director, the Assistant to the Superintendent, or the Business Manager would contact the District’s Transportation Director. When the Transportation Director stated that the District did not have the resources to transport the student, one of those three individuals would contact the Transportation Contractor to arrange transportation services. The Business Manager and Transportation Contractor verbally agreed to a daily rate based on the service needed by the District. The Business Manager was the sole District employee who approved the amount paid to the contractor. Despite these expenditures increasing significantly during the audit period, District officials did not change the process for obtaining transportation services or require a contract with the contractor.

The table below illustrates the budgeted and actual amounts for contractor provided transportation during the 2013-14 through 2016-17 fiscal years. As these expenditures increased, the District’s actual expenditures exceeded the budgetary amount by a significant margin. This was occurring as the District’s financial situation was declining, with total expenditures exceeding the budgetary amounts (see Finding No. 1 for more information).

Table 2

Burgettstown Area School District Budgeted vs. Actual Contracted Transportation Costs			
Fiscal Year	Budgeted Amount	Actual Amount	(Over)/Under
2013-14	\$300,000	\$212,150	\$87,850
2014-15	\$275,000	\$271,828	\$3,172
2015-16	\$275,000	\$285,243	(\$10,243)
2016-17	\$275,000	\$358,775	(\$83,775)
Total:	\$1,125,000	\$1,127,996	(\$2,996)

Payment and Approval Process

The Transportation Contractor billed the District monthly based on the services provided. The District did not have a secondary review process in place to reconcile the invoices provided by the Transportation Contractor to the agreed upon rate. Without this review and reconciliation, the District was at risk of being billed an amount that was different than the verbally agreed upon amount. Without a contracted rate, determined via a bidding process, the District is potentially overpaying for transportation services. Additionally, a contract would allow the District to document service requirements and allow for repercussions if these requirements are not met.

As stated earlier in the finding, the District’s Business Manager was solely responsible for arranging contracted transportation services and agreeing to the daily rate. The District’s Board did not approve the contracted transportation service or the rates agreed upon for this service. Further, the District never solicited bids for the service over a ten-year period.²⁹ However, the Board was presented monthly with the amount spent on contracted transportation services and the Board approved the payments. The publically available board meeting minutes do not show a discussion of the payments made to this contractor or a discussion about the lack of a formal agreement or bidding for these services.

²⁹ Please note that the Auditor General has consistently recommended that the General Assembly enact legislation to require public bidding for transportation contracts in the PSC.

Conclusion

The District spent over \$1 million dollars on special education transportation services during the audit period without a contract with its vendor. Instead of soliciting bids and contracting for the transportation services at the rate determined by a bid process, the District relied on its Business Manager to obtain and negotiate a rate for each day of service needed. Further, the District failed to institute a secondary review process of the invoices submitted by the Transportation Contractor, instead merely relying on the contractor to invoice the District for the amount agreed to prior to service delivery. The lack of a bidding process, no contracting for the services, and the failure to adequately review invoices prior to payment left the District vulnerable to paying more than necessary for transportation services.

Recommendations

The *Burgettstown Area School District* should:

1. Immediately enter into a Board approved agreement with its Transportation Contractor that contains clear and concise payment terms, service requirements, and accountability provisions.
2. Consider soliciting bids for this service through the Request for Proposals process prior to the 2019-20 school year.
3. Institute a second level review process where a District employee, independent of the payment process, reviews the invoice submitted by the contractor to ensure that it agrees to the payment terms contractually agreed upon.

Management Response

Management stated the following:

“The district recognizes the problem and has already taken steps to address it. Within a month, the district will solicit bids for specialty transportation services beginning with the 2019-20 school year. A copy of the RFP is attached to this response as "Attachment A." The district will establish a multi-year contract with the winning bidder, the lowest

responsible, which will be approved by the Board of School Directors at their next soonest meeting.”

Auditor Conclusion

We are pleased that the District has taken corrective actions to address the issues detailed in our finding. We will review the effectiveness of these action steps as well as the implementation of our recommendations as part of our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Burgettstown Area School District (District) released on January 15, 2015, resulted in one observation, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on January 15, 2015

Prior Observation: **The District Lacks Sufficient Controls Over Its Student Data.**

Prior Observation
Summary:

During our prior audit of the District's pupil membership for the 2010-11 and 2011-12 school years, we found errors in the reports submitted by the District to the Pennsylvania Department of Education (PDE) and weaknesses in the internal control over data integrity. The District did not maintain an effective process for ensuring its staff reported membership data accurately. The District did not have adequately documented procedures in place to ensure continuity over the Pennsylvania Information Management System (PIMS) data submission in the event of a sudden change in personnel or child accounting vendors with the exception of the PIMS procedures manual received from the PDE. Also, District personnel failed to reconcile the vendor membership reports to the PIMS statement reports to ensure accuracy.

Prior Recommendations: We recommended that the District should:

1. Review membership reports submitted to the PDE for years subsequent to the audit, and if similar errors are found, submit revised reports to the PDE.
2. Develop procedure manuals, policies, written instructions, etc. to ensure continuity over the PIMS data submission.
3. Perform reconciliations between the PIMS data and child accounting software to help ensure accurate reporting of child accounting data.
4. Cross-train individuals to familiarize them with the PDE's child accounting reporting requirements and the PIMS reporting procedures, in the event of a sudden change in personnel.

Current Status:

During our current review, we noted the District implemented all but one of our prior recommendations. District personnel have conducted a review of subsequent school years reports for discrepancies and found no errors. The District provided evidence of multiple reconciliations prior to submission of membership data to the PDE. The District's Assistant to the Superintendent and her Administrative Assistant are currently cross-trained in the PIMS data reporting. However, the District continues to use the PDE procedures manuals for the PIMS and has not developed their own procedures manual as stated in the management reply to our prior audit. We continue to stress the importance of creating such a procedures manual specific to District operations that would help ensure continuity in the event of personnel turnover.

Appendix: Audit Scope, Objectives, and Methodology

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

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,³⁰ is not a substitute for the local annual financial audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2013 through June 30, 2017. In addition, the scope of each individual audit objective is detailed on the next page.

The Burgettstown Area School District's (District) management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements).³¹ In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, if applicable that we considered to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

³⁰ 72 P.S. §§ 402 and 403.

³¹ Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as: effectiveness and efficiency of operations; relevance and reliability of operational and financial information; and compliance with certain relevant state laws, regulations, contracts, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2013 through June 30, 2017. We also determined if the District had key personnel or software vendor changes since the prior audit.

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

- ✓ Financial Stability
- ✓ Transportation Operations
- ✓ Bus Driver Requirements
- ✓ School Safety

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

- ✓ Based on an assessment of financial indicators, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District's budget?
 - To address this objective, we reviewed the District's annual financial reports, General Fund budgets, and independent auditor's reports for the 2013-14 through 2016-17 fiscal years. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, debt ratio, and current ratio. These financial indicators were deemed appropriate for assessing the District's financial stability. The financial indicators are based on the best business practices established by several agencies, including Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. The results of our review of this objective can be found in Finding No. 1 on page 10 of this report.
- ✓ Did the District ensure compliance with applicable laws and regulations governing transportation operations, and did the District receive the correct transportation reimbursement from the Commonwealth?³² Additionally, did the District act in the best interest of the taxpayers when the District used a transportation vendor to transport District students to special education facilities during the 2013-14 through 2016-17 fiscal years?

³² See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

- To address this objective, we selected all 16 contracted vans reported by the District to the PDE as used to transport students during the 2016-17 school year. We also requested documentation to verify the accuracy of the number of students reported, miles with students, and miles without students reported. The results of our review of this objective can be found in Finding No. 2 on page 22 of this report.
 - We also reviewed interviewed District officials involved in obtaining and paying the District special education transportation vendors. We also reviewed a variety of documentation including special education transportation invoices and the District's budget to actual reports for transportation. The results of our review of this objective can be found in Finding No. 2 on page 22 of this report.
- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances³³ as outlined in applicable laws?³⁴ Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
- To address this objective we randomly selected 13 of the 23 drivers transporting district students as of January 10, 2019.³⁵ We reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures, when followed, ensure compliance with bus driver hiring requirements. Our review of this objective did not result in any reportable issues.
- ✓ Did the District take actions to ensure it provided a safe school environment?³⁶
- To address this objective, we reviewed a variety of documentation including, safety plans, fire drill documentation, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at both of the District's school buildings to assess whether the District had implemented basic safety practices.³⁷ Due to the sensitive nature of school safety, the results of our review for this objective are not described in our audit report. The results of our

³³ Auditors reviewed the required state, federal and child abuse background clearances from the most reliable sources available, including the FBI, the Pennsylvania State Police and the Department of Human Services. However, due to the sensitive and confidential nature of this information, we were unable to assess the reliability or completeness of these third-party databases.

³⁴ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 *Pa. Code Chapter 8*.

³⁵ While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

³⁶ 24 P.S. § 13-1301-A *et seq.*

³⁷ Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

review of school safety are shared with District officials, the PDE, and other appropriate agencies deemed necessary.

Distribution List

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

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