



CORRY AREA SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

DEPARTMENT OF THE AUDITOR GENERAL





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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Dr. Doris Gernovich, Board President  
Corry Area School District  
540 East Pleasant Avenue  
Corry, Pennsylvania 16407

Dear Governor Corbett and Dr. Gernovich:

We conducted a performance audit of the Corry Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 2, 2009 through August 29, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 significant noncompliance with state laws and administrative procedures, as detailed in the three audit findings within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education.

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 administrative requirements. We appreciate the District's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**EUGENE A. DEPASQUALE**  
Auditor General

June 3, 2013

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

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Corry Area School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, 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 December 2, 2009 through August 29, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 214 square miles. According to 2010 federal census data, it serves a resident population of 14,849. According to District officials, the District provided basic educational services to 2,288 pupils through the employment of 196 teachers, 111 full-time and part-time support personnel, and 14 administrators during the 2009-10 school year. Lastly, the District received \$17.9 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

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

**Finding No. 1: The Board Did Not Include Adequate Provision in its Employment Contract with the former Superintendent, Leading to a Costly Buy-Out of the Contract Totaling \$130,000.** An early buy-out of the former Superintendent's Contract cost the District \$130,000 (see page 6).

**Finding No. 2: Errors in Reporting Social Security and Medicare Wages and Internal Control Weaknesses Resulted in Reimbursement Overpayments of \$39,397.** Our audit of the District's Social Security and Medicare wages reported for the 2008-09 and 2009-10 school years found internal control weaknesses, which resulted in inaccurate reports being submitted to the Pennsylvania Department of Education. These inaccuracies resulted in overpayments of \$27,970 and \$11,427 in the 2009-10 and 2008-09 school years, respectively (see page 10).

**Finding No. 3: Failure to Have All School Bus Drivers' Qualifications on File.** Our audit of the District's school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit (see page 13).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our audit recommendations from a prior audit released on July 1, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to a certification deficiency (see page 15).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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, 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 December 2, 2009 through August 29, 2011, except for the verification of professional employee certification, which was performed for the period July 1, 2010 through June 30, 2011.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 Pennsylvania Department of Education 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

*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 statute, regulation, policy, 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.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with applicable state laws, 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?
- ✓ In areas where the District received state subsidies 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 received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances which may pose a risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and did 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?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interests?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, were there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## 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, 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control 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.

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes and reimbursement applications.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2010, we performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

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### Finding No. 1

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#### **The Board Did Not Include Adequate Provisions in its Employment Contract with the former Superintendent, Leading to a Costly Buy-Out of the Contract Totaling \$130,000**

*Criteria relevant to the finding:*

Section 1073 of the Public School Code, 24 P.S. § 10-1073(a), requires school districts to enter into three-to-five-year employment contracts with their superintendents.

The former Superintendent (Superintendent) of the Corry Area School District (District) was originally hired on May 9, 2005, for a period of five years, from August 1, 2005 through June 30, 2010. However, on November 17, 2008, slightly over two years and three months into the initial contract, the Board of School Directors (Board) approved a new five-year contract (Contract) with the former Superintendent, extending his employment through November 17, 2013.

The former Superintendent's Contract provided annual compensation of \$114,937 for the first contractual year, as well as a variety of benefits. The Contract further provided for a 3 percent annual increase plus up to an additional 2 percent performance-based increase for achievement of no less than three measurable goals that would be agreed upon by the Board and the former Superintendent.

In addition to his annual salary, the former Superintendent was also permitted each year to redeem up to 10 days of unused sick leave and up to 30 days of unused vacation at his per diem rate as computed on June 30 of each year. Sick and vacation days were credited at the beginning of each year on July 1.

The "Cause for Discharge" clause in the former Superintendent's Contract provided that the former Superintendent would be "subject to discharge for cause as provided for in the Public School Code."<sup>1</sup> The Contract provided that the former Superintendent would be paid at his per diem rate for any unused personal and vacation days upon termination of the former Superintendent's employment for any reason, and that "[t]he District shall

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<sup>1</sup> The Contract did not reference a specific section of the Public School Code, but presumably it referred to Section 1080, 24 P.S. § 10-1080 (removal "for neglect of duty, incompetency, intemperance, or immorality" following a hearing with due process).

comply with the provisions of law relating to the method of terminating the contract of a superintendent of schools.” No other relevant terms of separation were included in the Contract.

The subsequent buy-out may have been averted, or the costs reduced, if the District had included provisions in its employment contract regarding the compensation payable upon premature termination of the Contract. The time to negotiate these terms is at the outset of the employment relationship and not when matters turn potentially hostile between the parties.

At the beginning of August 2011, the former Superintendent approached the Board President and other board members to discuss and present a contract buy-out proposal. The former Superintendent proposed a cash settlement of \$217,000 plus maintenance of his insurance benefits through June 30, 2012, at a cost to the District of \$10,800.

The Board President, in consultation with the District’s Solicitor and other Administrative personnel, reviewed the proposal in relation to the defined provisions of the former Superintendent’s Contract. Based on the Contract in effect, the District computed the former Superintendent’s per diem rate, \$475.38, and applied this rate to 10 sick and 25 vacation days for an initial cost of \$16,638. The District then computed the former Superintendent’s remaining salary for the 2011-12 school year, \$92,700. These two computations became the District’s initial counteroffer, \$109,338. In addition, the District proposed that no insurance coverage would be provided.

The Board and the former Superintendent entered into negotiations and on August 19, 2011, after the former Superintendent had served only two years and nine months of his Contract, the Board approved a Release and Settlement Agreement (Agreement) with the former Superintendent, which terminated his employment with the District effective August 24, 2011.

The Agreement stated that the former Superintendent desired to resign his employment in consideration for a “severance payment” of \$130,000, thus releasing the

District from any and all further obligations. The Agreement did not provide for additional health benefits. The Board's negotiated settlement was \$97,800 less than the initial request from the former Superintendent. However, the terms of the Contract required only the payment for unused personal and vacation days, or \$16,638.

During our review of the District's Board meeting minutes, we did not note any documented issues or concerns relating to problems between the Board and the former Superintendent. However, during our audit, we received information from multiple sources indicating that there were issues related to the working relationship between the former Superintendent and the Board. Specifically, the former Superintendent told us that he had concerns about his annual reviews because he believed that his ratings on these evaluations were being based on Board's personal feelings, rather than on objective criteria. In addition, other District personnel stated that the former Superintendent had openly criticized the Board, their relationship with him, and the newly elected board members' approach regarding school consolidation and overall spending, including already-approved capital projects.

Our follow-up discussions with District administrators found that the Board's concerns with the former Superintendent were discussed in executive sessions with no outside parties present. No copies of the Superintendent's annual reviews were maintained in his personnel file, adding to the lack of transparency regarding the former Superintendent's performance.

After the buy-out, the Board President was quoted in the *Erie Times News*, August 20, 2011, stating that "with a new board coming in, I think [the former Superintendent] didn't feel he'd be able to work with them very well. In looking at what's best for the District and not wanting any turmoil in the District we decided buying out his contract was best." Neither the Board president nor District personnel were specific about why the former Superintendent could not or would not work with the new Board.

The Board appointed the District's Assistant Superintendent as Acting Superintendent, at no additional compensation, effective August 24, 2011, until the Board

determined her services as Acting Superintendent were no longer needed. Subsequent to the completion of fieldwork, we learned that a new superintendent had been hired by the District, effective February 14, 2012. We requested a copy of the contract and found that it was for a three-year period. As was the case with the former Superintendent's contract, the "Cause for Discharge" clause again simply states that "[t]he Superintendent shall, throughout the term of this Agreement, be subject to discharge for cause as provided in the Public School Code."

## **Recommendations**

The *Corry Area School District* should:

1. Ensure that future employment contracts contain adequate provisions sufficient to protect the interests of the taxpayers of the District and that these provisions are followed in the event that the employment ends prematurely for any reason.
2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent's employment and justifying the District's expenditure of public funds to buy-out the Superintendent's contract.
3. Ensure that any future terminations are paid out pursuant to the employment contract in effect at the time of the termination.

## **Management Response:**

Management stated the following:

"Recommendation[s] will be reviewed with School Board and District Solicitor for future contracts."

**Finding No. 2** →

**Errors in Reporting Social Security and Medicare Wages and Internal Control Weaknesses Resulted in Reimbursement Overpayments of \$39,397**

*Criteria relevant to the finding:*

The 1986 Budget Reconciliation Act requires Local Education Agencies (LEA) to deposit Social Security and Medicare tax contributions for wages earned on or after January 1, 1987, directly to authorized depositories or Federal Reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's share. LEAs are subsequently reimbursed for the Commonwealth's share based on wages reported to the Pennsylvania Department of Education, excluding wages paid with federal funds.

Our audit of the Corry Area School District's (District) Social Security and Medicare wages reported for the 2009-10 and 2008-09 school years found administrative internal control weaknesses, which resulted in inaccurate reports being submitted to the Pennsylvania Department of Education (PDE). These inaccuracies resulted in overpayments of \$27,970 and \$11,427 for the 2009-10 and 2008-09 school years, respectively.

The District had entered into a consortium agreement with the Northwest Tri-County Intermediate Unit #5 (IU) for their federal grant programs. Based on available funds at the end of the school year, as determined by the IU, the District submitted wage invoices to the IU for reimbursement. The District only requested reimbursement for one-half of the Social Security and Medicare expenses. The IU then paid these invoices with the District's portion of the consortium's federal grants' award. Therefore, because they were paid with federal money, the wages were ineligible for PDE reimbursement, because they had been paid with federal money.

Because the District was billing for only one-half of the Social Security and Medicare expenses, they did not develop any internal control procedures to address the reporting of the federal wages on the Reconciliation of Social Security and Medicare Contributions reports.

In consultation with IU personnel the District found that they should have been invoicing for the full Social Security and Medicare reimbursement, since the Consortium Federal Grant Programs precluded the District from claiming the invoiced wages for PDE reimbursement. Consequently, the IU allowed the District to resubmit the invoices claiming full Social Security and Medicare expense to offset the overpayments received from PDE.

Additionally, our audit noted that the District's wages reported to PDE did not reconcile to their Internal Revenue Service (IRS) Quarterly Form 941 reports. The differences

were attributed to a software problem in which manual corrections were reflected in the IRS reports but not on the District's wage reporting system. District personnel contacted the software vendor concerning the reporting differences and corrective action was implemented by the vendor.

Wages eligible for Social Security and Medicare reimbursement were incorrectly submitted to PDE, as follows:

<u>Reporting Period</u>		<u>Audited</u>	<u>Wages Subject to State Reimbursement</u>			<u>Reimbursement Overpayment</u>
			<u>Reported</u>	<u>Wages Overstated</u>	<u>Rate</u>	
Existing Employees						
7/09 - 6/10	*	\$6,788,377	\$6,825,193	\$36,816	0.031	\$ 1,141
7/09 - 6/10	**	6,852,814	6,889,630	36,816	0.00725	267
7/08 - 6/09	*	6,794,097	6,796,608	2,511	0.031	78
7/08 - 6/09	**	6,832,939	6,835,450	2,511	0.00725	18
New Employees						
7/09 - 6/10	*	6,468,369	6,928,446	460,077	0.046791	21,527
7/09 - 6/10	**	6,468,369	6,928,446	460,077	0.010943	5,035
7/08 - 6/09	*	6,232,608	6,428,788	196,180	0.04681	9,183
7/08 - 6/09	**	6,232,608	6,428,788	196,180	0.010948	<u>2,148</u>
					Total	<u>\$39,397</u>
			*Social Security Wages	**Medicare Wages		

**Recommendations**

The *Corry Area School District* should:

1. Comply with PDE instructions for the completion of the Reconciliation of Social Security and Medicare Tax Contributions form when reporting wages paid by federal funds.
2. Implement internal control procedures to ensure that wages reported to the IRS and PDE are balanced prior to submission of quarterly and annual reports.
3. Determine what corrective action is required to correct the differences in IRS and PDE reports.

4. Perform an internal review of the 2010-11 school years' reports prior to submitting them to PDE and IRS, making necessary revisions as required.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the reimbursement overpayments of \$39,397.

## **Management Response**

Management stated the following:

“These Federal Programs funded through IU #5 were invoiced by our district for salaries and benefits of employees that were not properly recorded as federal wages on our Social Security and Medicare Reimbursement Reconciliations Report. We now are aware of the proper reporting requirements for these employees and will report their wages as Federal Wages.

Further, we will properly identify and balance all federal wages quarterly to insure correct payment and reimbursement of Social Security and Medicare payments.”

### Finding No. 3

### Failure to Have All School Bus Drivers' Qualifications on File

*Criteria relevant to the finding:*

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Corry Area School District's (District) school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit. Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to ensure the safety and welfare of the students transported in school buses.

Our review of the District's Agreement for Transportation Services (Contract) found that the Contract also required all original background checks to be provided to an agent of the District for review prior to the driver providing service under the Contract. In addition, the District reserved the right to refuse drivers supplied by the contractor who, in the opinion of the District, have records that are unsuitable or not satisfactory to the District.

We reviewed the files for six of the ten drivers who were hired since the date of our previous audit. Our review found that the District did not have on file, at the time of the audit, one child abuse clearance, four Pennsylvania criminal history records, and four federal criminal history records.

Review of our initial finding with administrative personnel found that they were unaware of the breakdown in established internal controls requiring the creation and maintenance of a complete driver file prior to approval by the board and the transporting of students. We also learned that the District experienced personnel changes that contributed to the misunderstanding relating to the requirements of the Public School Code regarding the necessity of maintaining appropriate copies of required clearances on file.

On June 29, 2011, we informed District personnel of the missing documentation. As of our fieldwork completion, none of the necessary documentation had been provided to the auditor. We were informed by administrative personnel that a complete review of drivers' files would be completed prior to the start of the 2011-12 school year and all missing



documentation would be obtained to ensure compliance with requirements. We will evaluate this corrective action during our next audit.

By not having the required bus drivers' qualification documents on file at the District, the District was not able to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

## **Recommendations**

The *Corry Area School District* should:

1. Ensure that District maintained files are up-to-date and complete.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to board approval.
3. Ensure that the transportation contractor does not allow any driver to transport students without required board approval.

## **Management Response**

Management stated the following:

“The problem was caused by not reviewing each individual driver's file to ensure compliance with the required background checks.

Our corrective action is to keep all of the required background evidence in each individual driver's file and review each file each year prior to the school starting.

Our Transportation Coordinator will be responsible for ensuring each driver is compliant and will be assisted by our Personnel Secretary for any compliance questions.”

## Status of Prior Audit Findings and Observations

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Our prior audit of the Corry Area School District (District) was released on July 1, 2010. The finding pertained to a certification deficiency. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We tested the District's current procedures and questioned District personnel regarding the prior finding. As shown below, we found that the District did implement recommendations related to certification.

### Auditor General Performance Audit Report Released on July 1, 2010

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**Finding:**                      **Certification Deficiency**

Finding Summary:      Our prior audit of the professional employees' certification for the period July 1, 2007 through December 2, 2009, found that one professional employee's Level I certificate had lapsed at the end of the 2007-08 school year and was not converted to a Level II certificate until August 2009. On December 13, 2009, the Pennsylvania Department of Education's (PDE) Bureau of School Leadership and Teacher Quality confirmed that the employee's certificate had lapsed, resulting in a subsidy forfeiture of \$1,472.

Recommendations:      Our audit finding recommended that the District:

Continue to strengthen the procedures for the tracking of professional employees to ensure that the employees do not instruct under a lapsed certificate.

We also recommended that PDE:

Adjust the District's allocations to recover the subsidy forfeiture.

Current Status:              During our current audit we found that the District implemented our recommendations by requiring the assistant superintendent and her secretary to monitor all Level I certificate holders by keeping track of certified employees' completed credits and the time remaining for Level II application.

On June 1, 2012, PDE adjusted the District's basic education funding payment by \$1,472 to assess the subsidy forfeiture.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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