

PERFORMANCE AUDIT

Norristown Area School District Montgomery County, Pennsylvania

February 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Christopher Dormer, Superintendent
Norristown Area School District
401 North Whitehall Road
Norristown, Pennsylvania 19403

Mr. Shae Ashe, Board President
Norristown Area School District
401 North Whitehall Road
Norristown, Pennsylvania 19403

Dear Mr. Dormer and Mr. Ashe:

Our performance audit of the Norristown Area School District (District) evaluated the application of best practices in the area of finance. 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 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 area 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.

Mr. Christopher Dormer

Mr. Shae Ashe

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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

February 6, 2019

cc: **NORRISTOWN 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 Norristown 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.

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). Compliance specific to state subsidies and reimbursements was determined for the 2013-14 through 2016-17 school years.

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: The District's General Fund Balance Decreased by More Than \$9 Million During the Period from 2013-14 through 2016-17 Fiscal Years.

Our review of the District's financial position over a five-year period revealed that the District's General Fund balance decreased by more than \$9 million or 86 percent from July 1, 2013 through June 30, 2017. The District experienced four consecutive years of operating deficits, reducing the District's fund balance to \$1.5 million as of June 30, 2017. These operating deficits are concerning and

continued increasing expenditures and operating deficits could deplete its General Fund further. (See page 13).

Finding No. 2: Transportation Reporting Errors Resulted in a Net Overpayment of \$56,087.

The District received a net overpayment of \$56,087 in transportation reimbursements from the Pennsylvania Department of Education. This net overpayment was due to the District improperly reporting the number of nonpublic students transported during the 2014-15 through 2016-17 school years as well as improperly reporting transportation cost data for the 2015-16 and 2016-17 school years. (See page 25).

Status of Prior Audit Findings and Observations. There were no findings or observations in our prior audit report.

Background Information

School Characteristics 2016-17 School Year ^A	
County	Montgomery
Total Square Miles	15
Number of School Buildings	12 ¹
Total Teachers	599
Total Full or Part-Time Support Staff	342
Total Administrators	42
Total Enrollment for Most Recent School Year	7,420
Intermediate Unit Number	23
District Vo-Tech School	Central Montco Technical High School

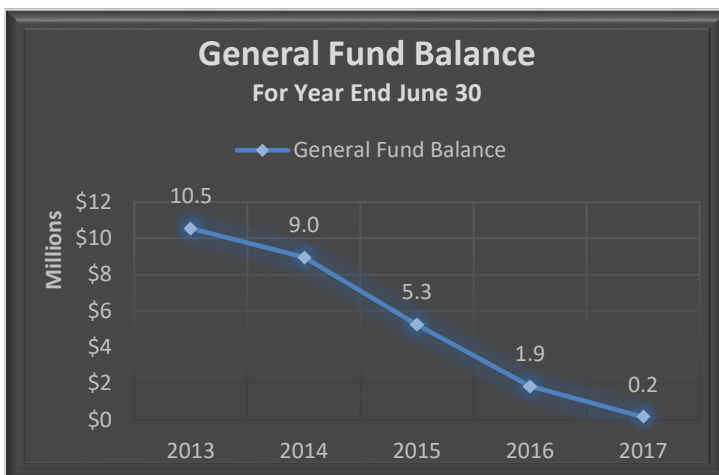
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

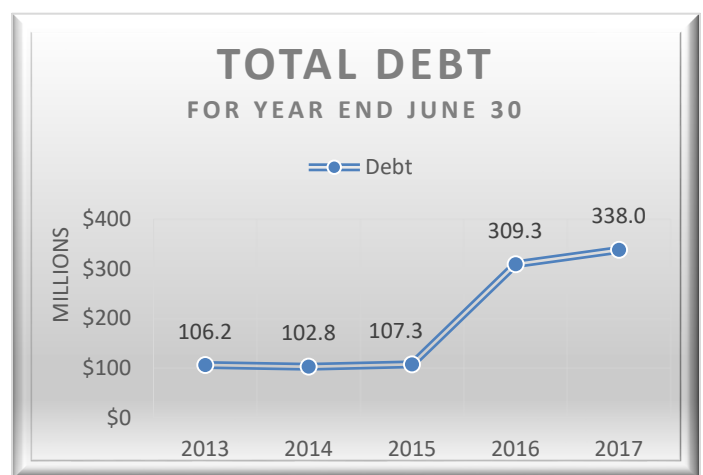
To educate all students of the Norristown Area School District to become responsible, thinking, creative, literate citizens who strive for personal excellence, function successfully, and enrich society.

Financial Information

The following pages contain financial information about the Norristown 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**.



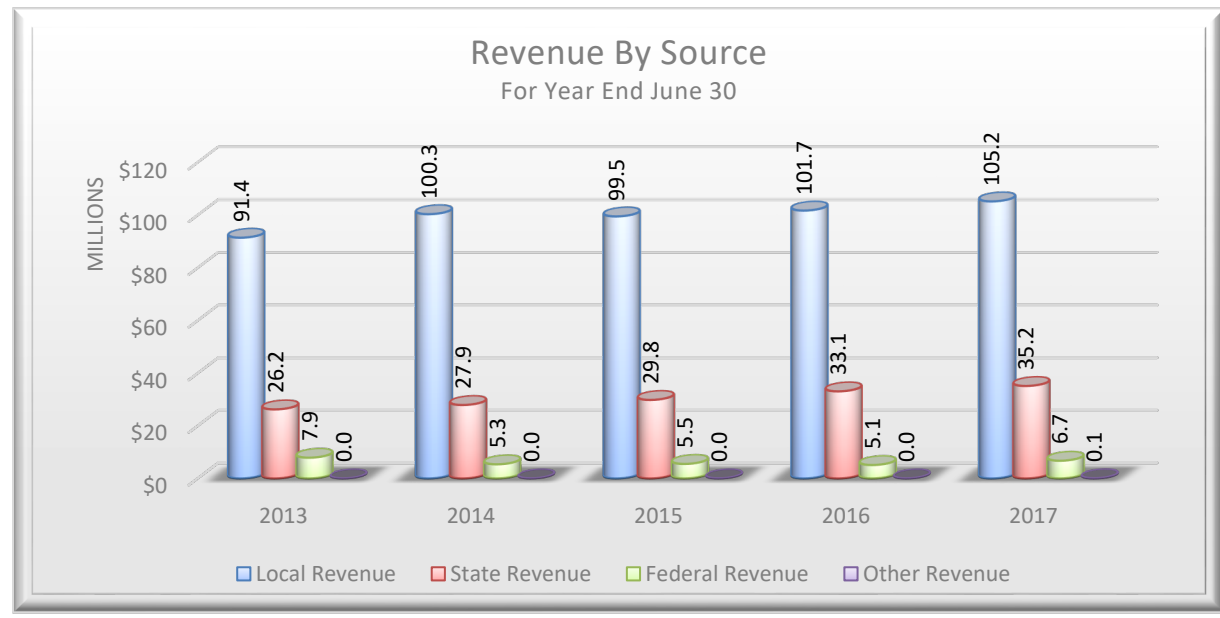
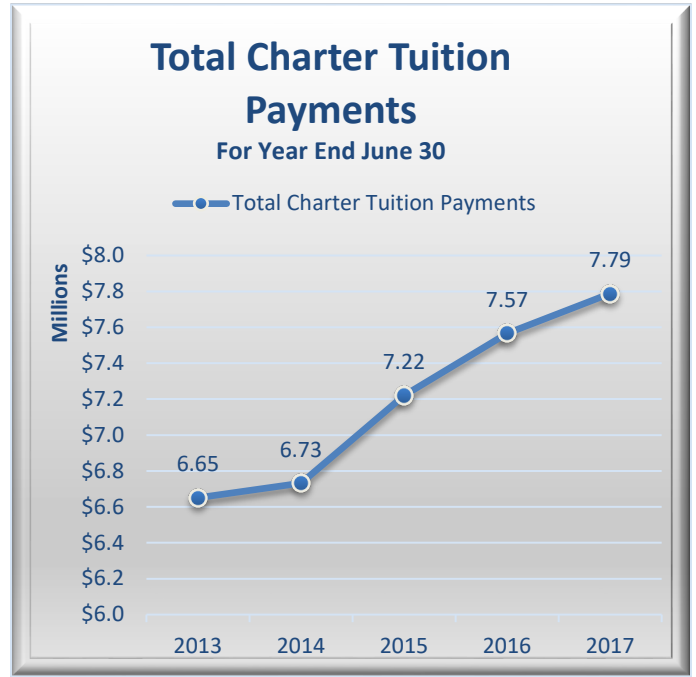
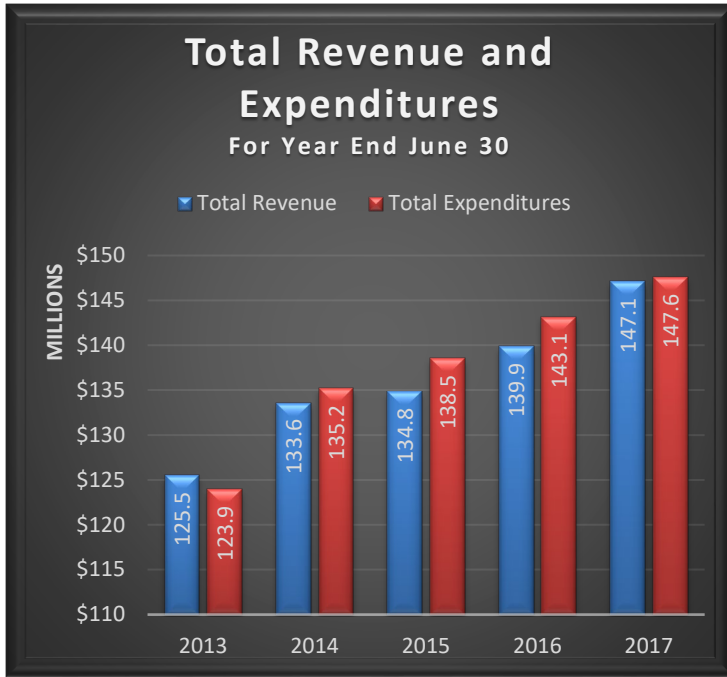
Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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.

¹ No academic data is presented for the Ray S Musselman Center, which serves only kindergarten students. Kindergarten students do not participate in standardized testing.

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.² 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.³ 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.⁴

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.⁵ 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.⁶ 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.

² 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.

³ 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.

⁴ 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.

⁵ 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.

⁶ 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.⁷ 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?

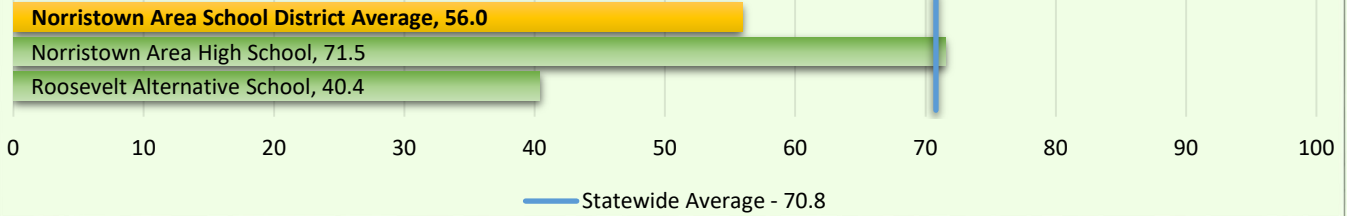
The PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student 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.⁸

⁷ 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.

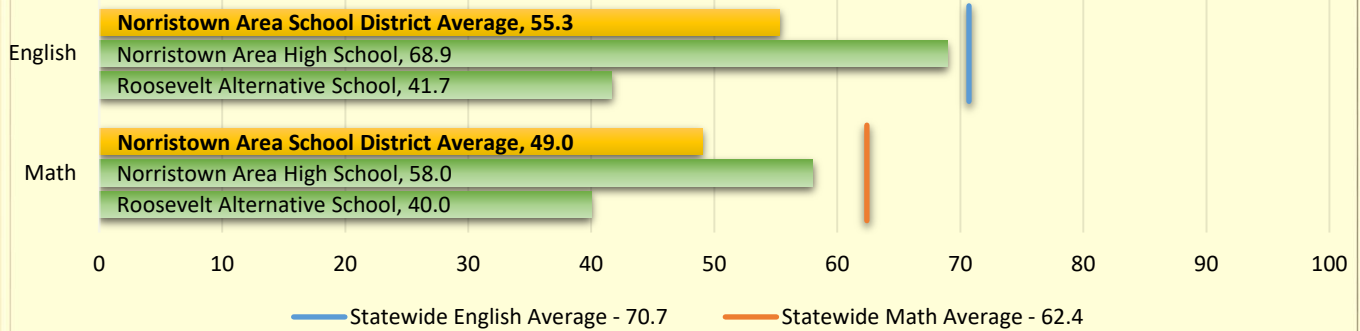
⁸ The PDE also calculates 5-year and 6-year cohort graduation rates. Please visit the PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

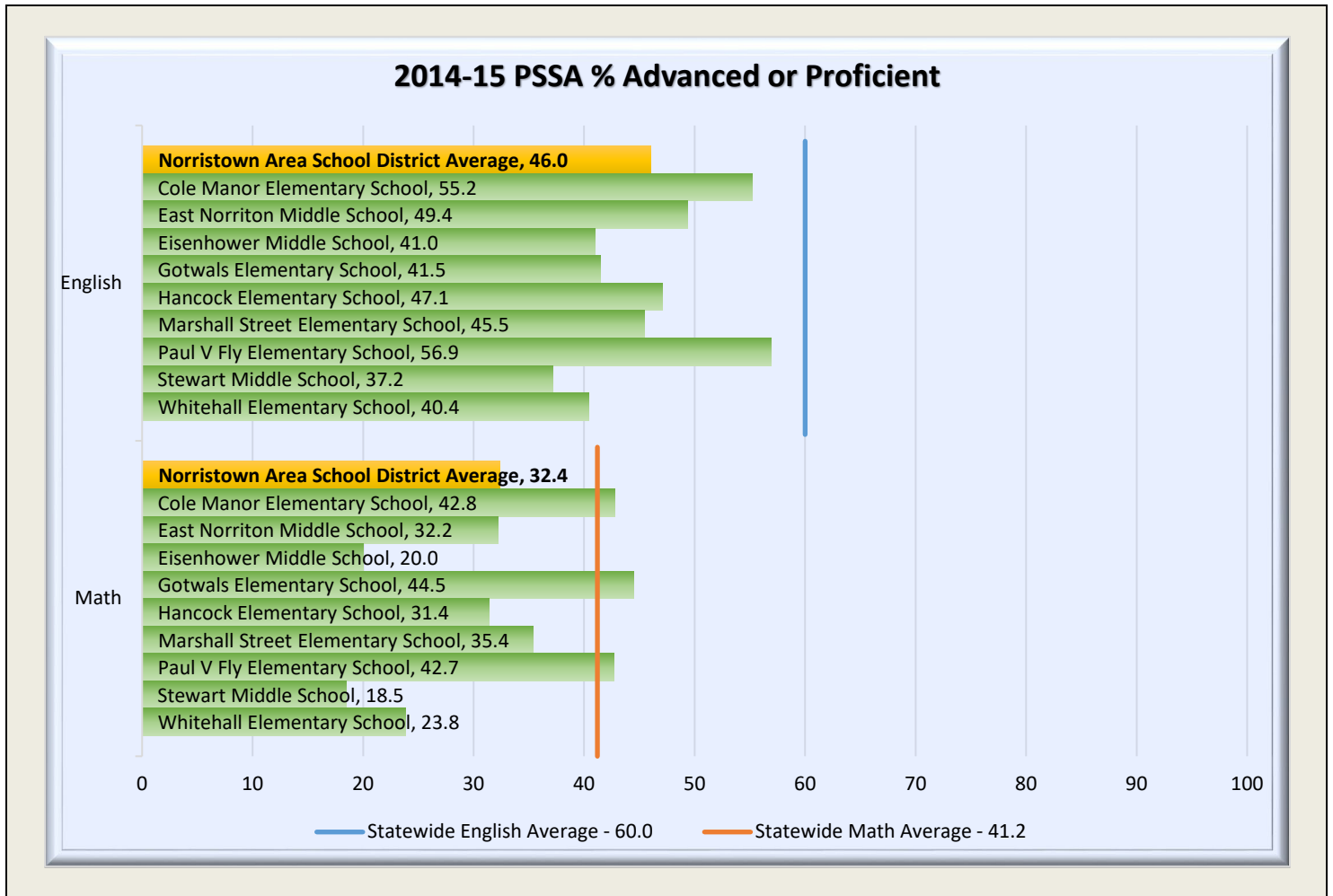
2014-15 SPP Scores



2014-15 Keystone % Advanced or Proficient

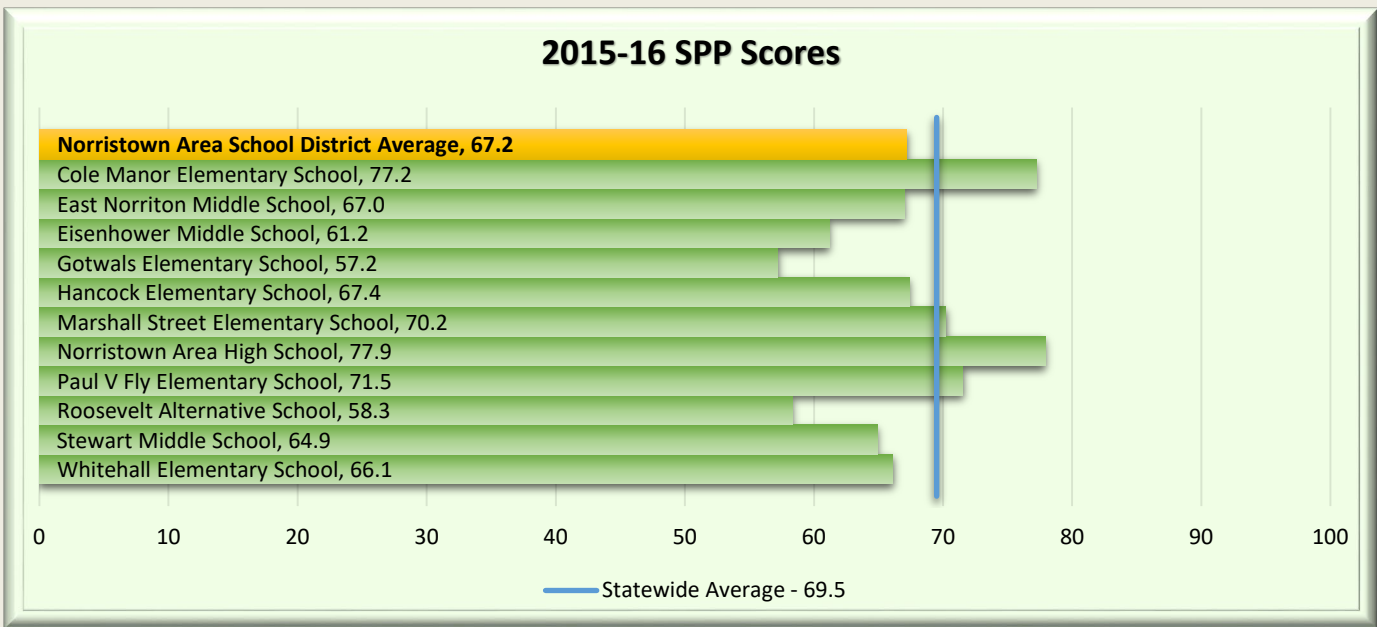


2014-15 Academic Data
School Scores Compared to Statewide Averages (continued)

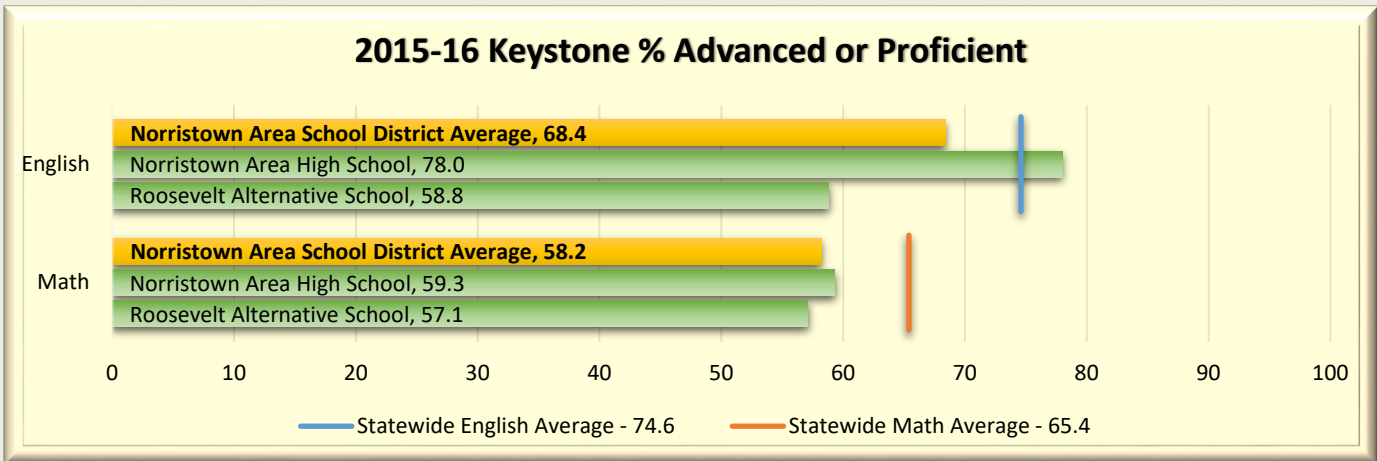


2015-16 Academic Data
School Scores Compared to Statewide Averages

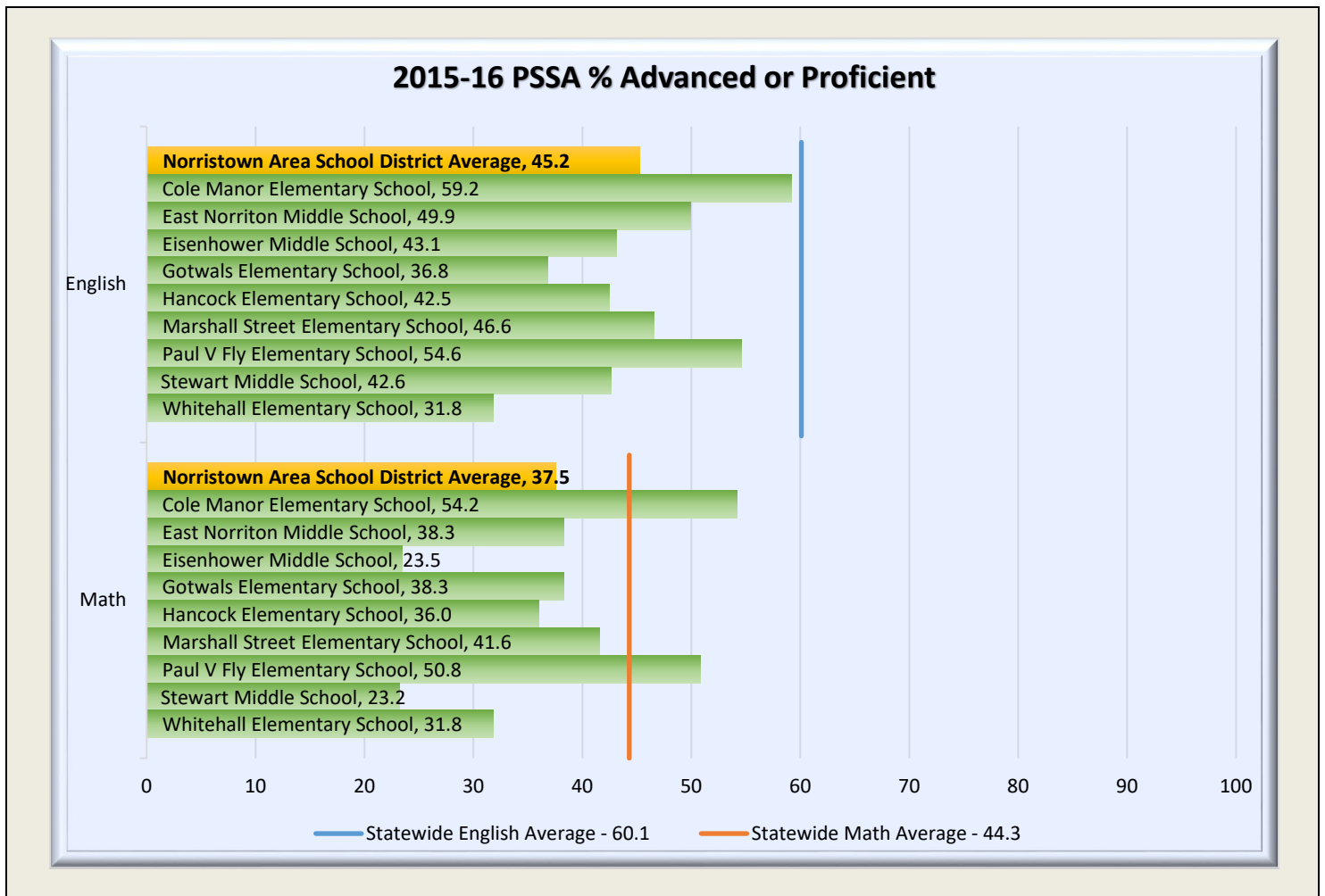
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

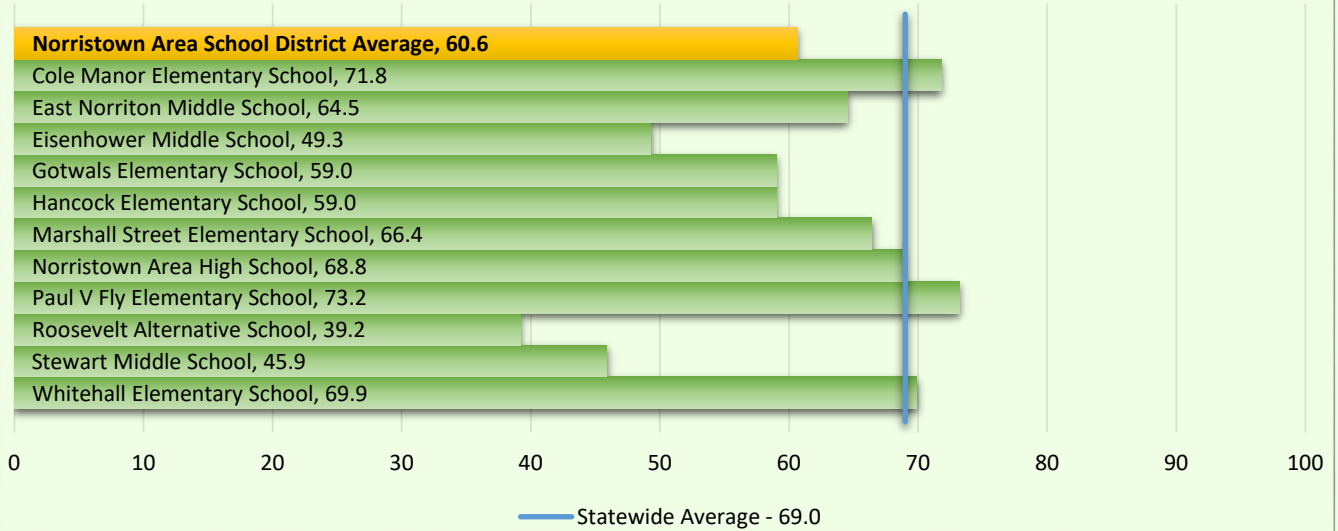


2015-16 Academic Data
School Scores Compared to Statewide Averages (continued)

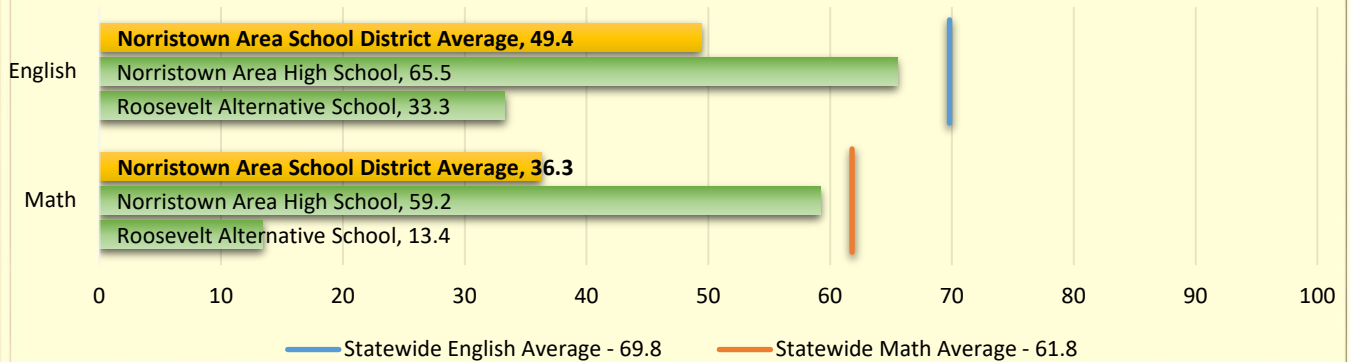


2016-17 Academic Data
School Scores Compared to Statewide Averages

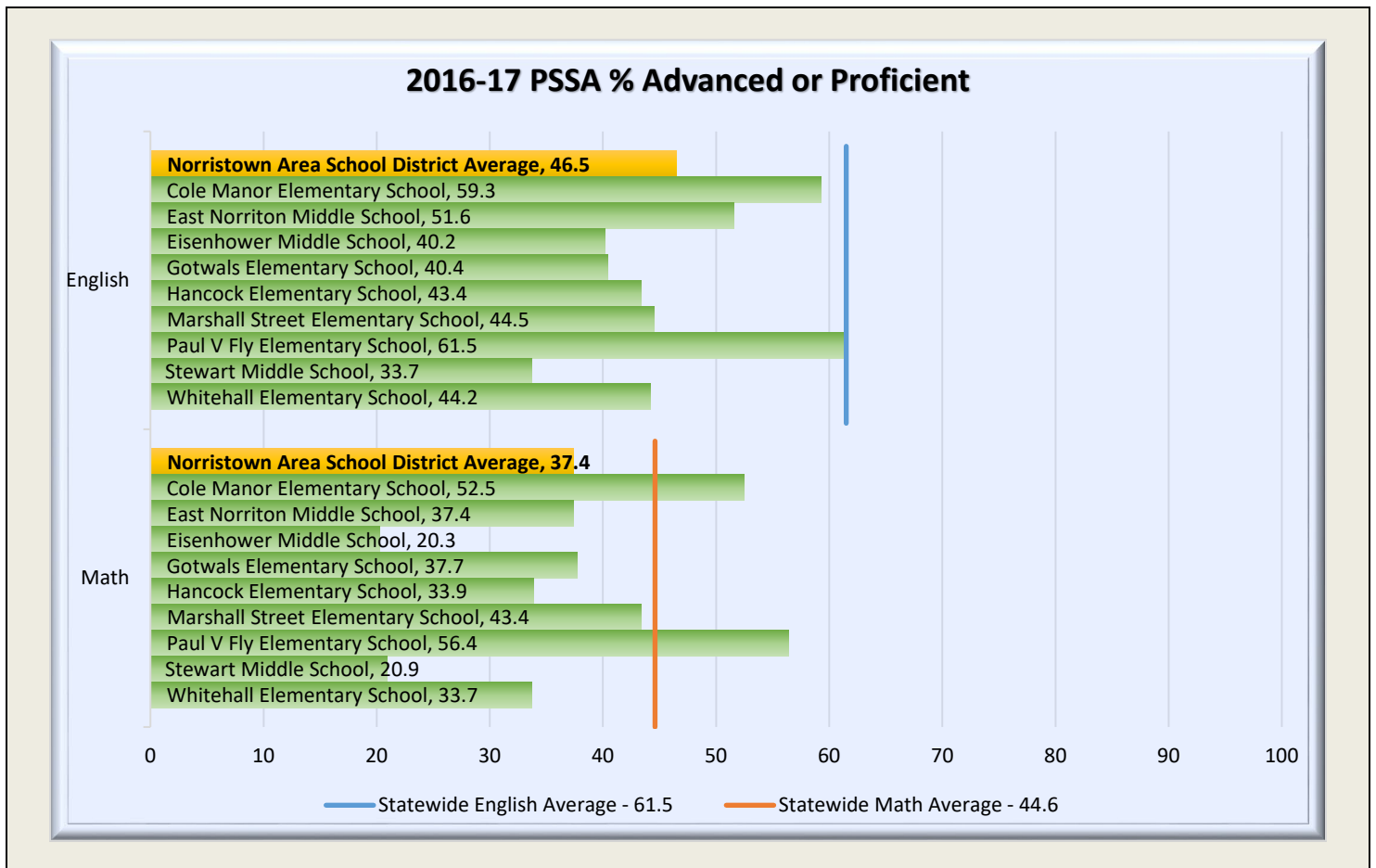
2016-17 SPP Scores



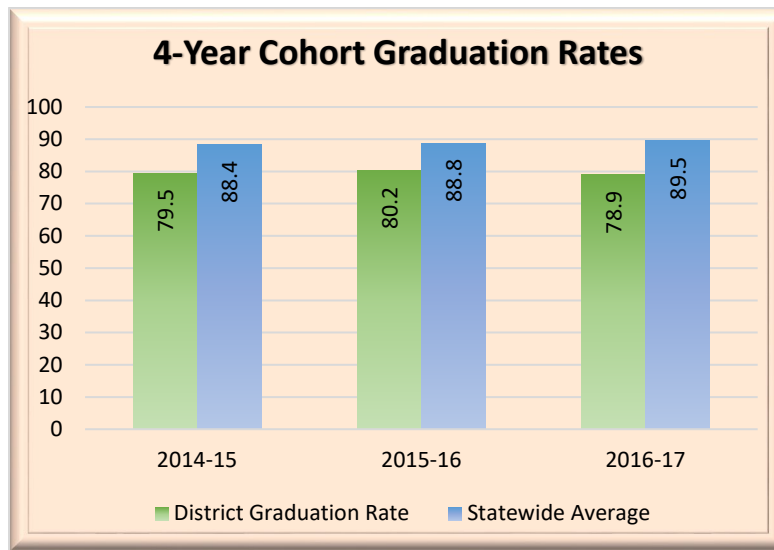
2016-17 Keystone % Advanced or Proficient



2016-17 Academic Data
School Scores Compared to Statewide Averages (continued)



Graduation Data
District Graduation Rates Compared to Statewide Averages



Findings

Finding No. 1

The District's General Fund Balance Decreased by More Than \$9 Million During the 2013-14 through 2016-17 Fiscal Years

Criteria relevant to the finding:

Section 609 of the Public School Code (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.

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 operating revenues or regular General Fund operating expenditures and operating transfer out.

Our review of the Norristown Area School District's (District) financial position over a four-year period revealed that the District's General Fund balance decreased by more than \$9 million or 86 percent from July 1, 2013 through June 30, 2017.

The District's four consecutive operating deficits during the 2013-14 through 2016-17 fiscal years were the result of the District's expenditures increasing more than revenues. The District's General Fund balance of \$1.5 million, as of June 30, 2017, is significantly less than recommended by the Government Finance Officers Association (GFOA). The sizable operating deficit experienced by the District during the 2013-14 through 2016-17 fiscal years is concerning, and continued operating deficits could deplete its General Fund further.

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 this finding:

- General Fund
- Operating Position
- Revenues and Expenditures
- Budgeted Expenditures

General Fund

As illustrated in Chart 1, the District's General Fund had its highest balance on July 1, 2013. The General Fund balance was \$10.5 million, which equated to 8.5 percent of the District's 2012-13 actual expenditures. However, even this percentage of expenditures did not comply with the

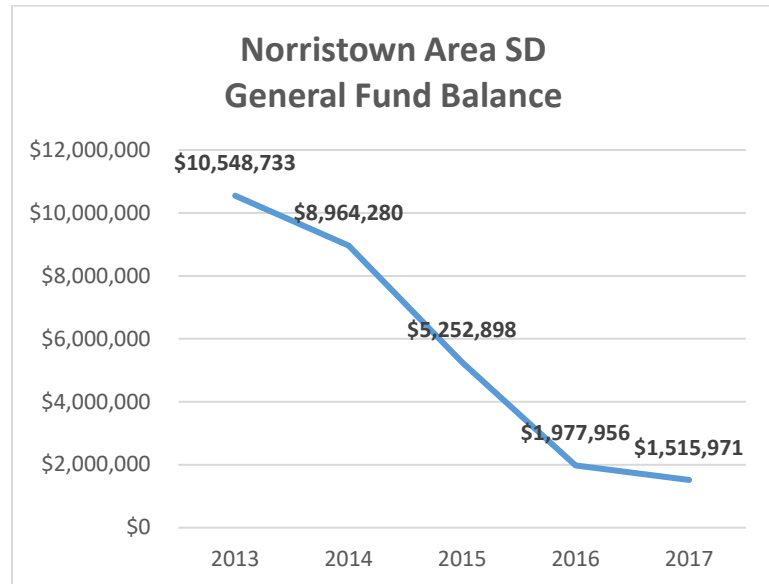
*Criteria relevant to the finding
(continued):*

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

minimum recommended by the GFOA. In subsequent years, the fund balance decreased while expenditures increased, thereby further decreasing the General Fund balance as a percentage of expenditures.

During the 2013-14 through 2016-17 fiscal years, the District’s fund balance decreased by over \$9 million due to yearly operating deficits. As of June 30, 2017, the District’s General Fund balance was \$1,515,971. This amount was just 1 percent of actual expenditures, significantly less than the fund balance recommended by the GFOA (i.e., two months of regular general fund operating revenues or expenditures). A fund balance decrease of this magnitude is troubling and leaves the District in a precarious financial position.

Chart 1⁹



School districts, like individuals, should have a “rainy day fund” to deal with emergencies or unforeseen needs, unanticipated expenses, and disruptions to revenue. The lack of available reserve funds could compel the District to borrow funds to meet unforeseen needs and/or unanticipated expenses. In addition, borrowing costs will increase as a result of a lack of available reserve funds.

In addition, if the District’s fund balance continues to decrease, the District is in danger of being placed on *financial watch status* by the Pennsylvania Department of

⁹General Fund balance is the net of the Nonspendable and Unassigned Fund Balances. Information obtained from Independent Auditors Reports, statements of revenue, expenditures, and changes in fund balance.

Education (PDE).¹⁰ Financial watch status is a precursor to being placed in *financial recovery status* for districts that do not improve financially.¹¹ A district placed in financial recovery status loses local control of district operations. In these instances, a district’s board of school directors would no longer have the authority to provide oversight of district operations. Further, school districts in financial recovery status have a PDE-appointed chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.

Operating Position

A school district’s operating position, which is expressed as either an operating surplus or an operating deficit, is determined by subtracting operating expenditures and other financing uses from operating revenues and other financing sources. Other financing sources (uses) are generally referred to as one-time revenue (expenditures) items and are more variable in nature than recurring revenues/ (expenditures). The District did not have other financing sources during our period reviewed and its other financing uses did not have a significant effect on operating position.

The following table illustrates the District’s operating position for the four years reviewed.

Table 1

Norristown Area School District General Fund Operating Position				
Fiscal Year Ended June 30	Total Revenues¹²	Total Expenditures¹³	Other Financing Sources (Uses)¹⁴	Operating Surplus/(Deficit)
2014	\$133,591,023	\$135,175,476	\$0	(\$1,584,453)
2015	\$134,811,575	\$138,472,957	(\$50,000)	(\$3,711,382)
2016	\$139,872,871	\$143,147,813	\$0	(\$3,274,942)
2017	\$147,089,570	\$147,551,555	\$0	(\$461,985)
Total:	\$555,365,039	\$564,347,801	(\$50,000)	(\$9,032,762)

¹⁰ 24 P.S. § 6-611-A; see also 22 Pa. Code § 731.2 (“Early Warning System – Statement of Policy”).

¹¹ 24 P.S. § 6-601-A *et seq.*; see also <https://www.education.pa.gov/Documents/Teachers-Administrators/School%20Finances/Financial%20Recovery%20for%20School%20Districts/Early%20Warning%20System.pdf>, accessed November 28, 2018.

¹² Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2013 through 2017.

¹³ Ibid.

¹⁴ Ibid.

The District's fund balance decreased significantly from the 2013-14 through 2016-17 fiscal years due to consecutive operating deficits. The District was unable to generate sufficient revenue to meet increasing expenditures. The District was compelled to close the operating deficit with reserve funds from the General Fund. While this was an option for the District during the 2013-14 through 2016-17 fiscal years, the General Fund balance as of June 30, 2017 makes this practice unsustainable moving forward.

Revenues

The District relies on revenue from local sources for the majority of its total revenue. In the 2016-17 fiscal year, revenue from local sources comprised 70 percent of the District's total revenues. Twenty-four percent of total revenues was derived from the Commonwealth while federal and other revenues were the source of the remaining 6 percent.

Overall, the District's revenue was relatively stagnant between the 2013-14 and 2014-15 fiscal years. Between the 2014-15 and 2015-16 fiscal years, total revenues increased by approximately \$5 million. This was due to a \$2 million increase in local revenue coupled with a \$3 million increase in state revenue. Between the 2015-16 and 2016-17 fiscal years, total revenue increased again by approximately \$7 million. This total increase was comprised of a \$3.5 million increase in local revenue, coupled with a \$2 million increase in state revenue and a \$1.5 million increase in federal revenue.

The District was unable to achieve operating surpluses and generate more revenue than expenditures during the 2013-14 through 2016-17 fiscal years despite increasing revenues and increasing millage rates by at least 1.9 percent during each fiscal year of the period we reviewed. As illustrated in Table 1 above, the largest operating deficits occurred during the 2013-14 through 2015-16 fiscal years. Even though the District raised taxes, this was not enough to generate sufficient revenue to cover its expenditures. This led to an over \$9 million cumulative operating deficit and the significant decrease in the General Fund balance.

Expenditures

District expenditures increased approximately 9 percent over the audit period reviewed. Instructional expenditures comprise the majority of the District's expenditures. These expenditures increased by approximately 15 percent during the period reviewed, from \$82,823,747 in the 2013-14 fiscal year to \$95,107,116 in the 2016-17 fiscal year.

Similar to other school districts in the Commonwealth, the Norristown Area School District is facing an increase in mandated expenditures like the District's contributions to the employee retirement plan. Retirement contributions have increased more than 92 percent over the audit period from \$10,551,465 for the fiscal year ended June 30, 2014 to \$20,308,000 for the year ended June 30, 2017. During the 2014-15 and 2015-16 fiscal years, increases in retirement contributions appear to be due to the increasing employer contribution rates set by the Public School Employees' Retirement System (PSERS). However, in the 2016-17 fiscal year, the increase in retirement contributions appears to be due not only to an increase in the employer contribution rate, but also to an increase in staff who are eligible to participate in PSERS. The District also experienced a concerning trend in special education costs as discussed below. These categories of expenditures played a significant role in the District's operating deficits during the 2013-14 through 2016-17 fiscal years.

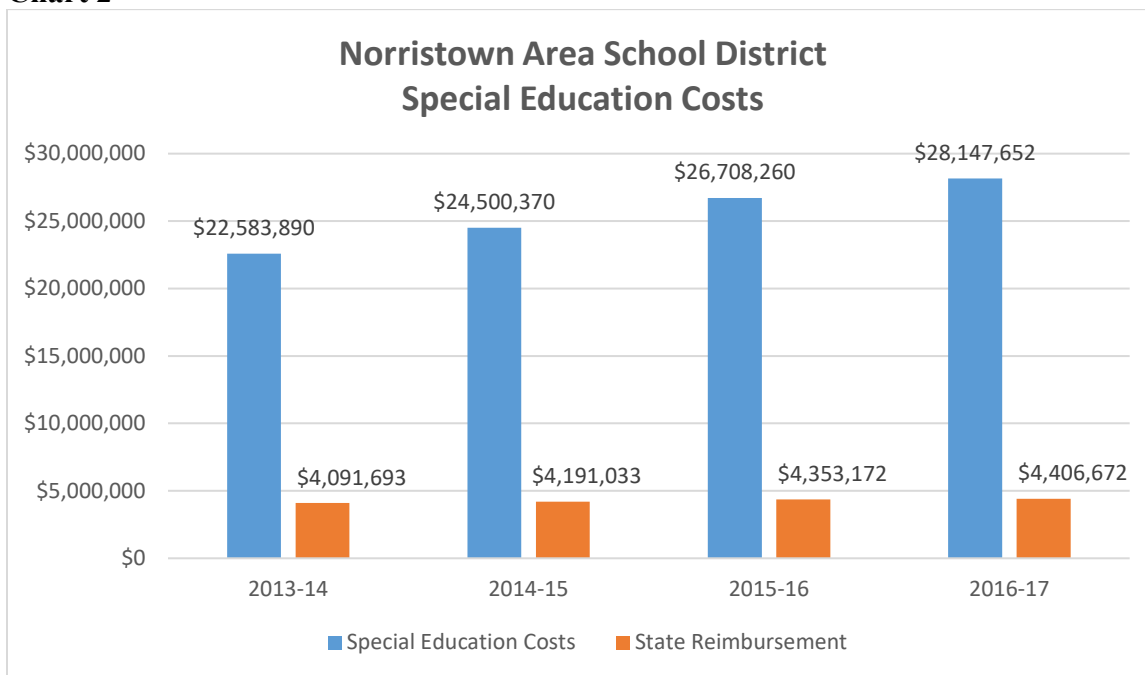
Increased Special Education Costs

The District experienced a rapid increase in special education costs over the four-year period reviewed. The District's special instructional expenditures increased 24.6 percent, from \$22,583,890 in the 2013-14 fiscal year to \$28,147,652 in the 2016-17 fiscal year. The number of special education students and types of services provided and/or institutions attended, based on each individual student's level of need, fluctuates from year-to-year and may even fluctuate significantly within the same school year as students' needs change. The District indicated that it places a significant number of special education students in programs outside of the District, including at charter schools. Given the number of special education students being served each year and rising program and personnel costs, the District expects special education expenses to continue rising.

While the District’s special education costs increased by 24.6 percent during this time period, Commonwealth reimbursements for special education costs were relatively flat, increasing by only 7.7 percent. Without a healthy General Fund balance to absorb these increasing costs, it is imperative for the District to reduce other operational costs or generate additional revenue to offset this increasing expenditure.

The following chart illustrates the District’s special education costs and the amount of reimbursement received by the District during the four years reviewed.

Chart 2



Budgeted Expenditures

The Public School Code (PSC) prohibits districts from spending more than the amount budgeted.¹⁵ However, in the 2013-14, 2015-16, and 2016-17 fiscal years, the District’s actual expenditures exceeded the budgeted amounts. In those three years, the District also experienced an operating deficit.

¹⁵ See 24 P.S. § 6-609.

The table below illustrates the District’s actual expenditures compared to the District’s budgeted expenditures for the period reviewed.

Table 2

Norristown Area SD			
Comparison of Budget vs. Actual General Fund Expenditures			
Fiscal Year Ended June 30	Budgeted Expenditures	Actual Expenditures	(Under)/Over Budget
2014	\$134,083,550	\$135,175,476	\$1,091,926
2015	\$140,607,950	\$138,472,957	(\$2,134,993)
2016	\$142,370,350	\$143,147,813	\$777,463
2017	\$147,334,095	\$147,551,555	\$217,460
Total:	\$564,395,945	\$564,347,801	(\$48,144)

It is important for the District to accurately budget expenditures due to its direct impact on the budgeted General Fund balance. The budgeted General Fund balance is integral to the discussion of millage rate modifications and operational changes, and it is essential that this number be as accurate as possible.

We found that the primary reason expenditures exceeded budgeted amounts in the 2013-14 fiscal year was the larger than anticipated expenditures associated with support services, especially operation and maintenance of facilities. The primary reason expenditures exceeded budgeted amounts in the 2015-16 and 2016-17 fiscal years was larger than anticipated expenditures associated with instructional expenditures, specifically special education expenditures, and support services, specifically student transportation.

Budgeted Expenditures for Operation and Maintenance of Facilities

The District overspent its budgeted amounts during the 2013-14 fiscal year primarily due to exceeding the budgetary amount in the operation and maintenance of facilities expenditures. The District budgeted \$12,839,000 for the operation and maintenance of facilities but actually spent \$16,088,167, meaning that the District overspent its budget in this category by \$3,249,167. Actual operation and maintenance of facilities expenditures were less than budgeted expenditures in all other years of our analysis. The District attributed the significantly larger than

anticipated expenditures to unexpected difficulties in renovating the Musselman Learning Center that caused the renovation to go over budget. The District acquired the Center from the federal government in a lengthy process that took almost ten years. During those years, the building was unoccupied and its mechanical systems deteriorated greatly, causing the renovation to go over budget.

Budgeted Expenditures for Special Instructional Programs and Transportation Services

The District overspent its budgeted amounts during the 2015-16 and 2016-17 fiscal years primarily due to exceeding the budgetary amounts in special instructional programs and transportation services expenditures. The District attributed the larger than anticipated expenditures to a significant amount of administrative turnover within the Special Education department, specifically with its Director of Special Education. District officials indicated that four individuals have served in the position of Director of Special Education since 2011. Only the current Director has served in the position for more than two years.

Because of this unstable leadership, the District experienced increased out-of-district student placements and due process filings as well as increased transportation costs that occur with out-of-district placements.¹⁶ Often, the District must contract for additional vehicles to transport students to out-of-district placements. These vehicles tend to transport very few students. District administration believes that a committed administrative team is currently in place in the Special Education department and has launched targeted initiatives to try to contain costs and reduce due process filings.

¹⁶ For more information about these due process hearings, please see Office for Dispute Resolution (ODR), *Understanding Special Education Due Process Hearings*, available at, http://odr-pa.org/wp-content/uploads/pdf/DPH_parent_guide.pdf (accessed on January 30, 2019). The Pennsylvania Department of Education (PDE) fulfills its statutory mandate to maintain a special education due process system through ODR and contracting with the Central Susquehanna Intermediate Unit to provide fiscal and certain management support for that office, without becoming involved in substantive operations. See the introduction to ODR's 2018 Annual Report, <https://odr-pa.org/wp-content/uploads/pdf/2017-2018-Annual-Report.pdf> (accessed on January 30, 2019).

As illustrated in Table 3 below, the District spent less for special instructional programs than it budgeted for in the 2013-14 and 2014-15 fiscal years. However, during the 2015-16 and 2016-17 fiscal years, the expenditures significantly exceeded budgetary amounts.

Table 3

Norristown Area School District Special Programs Instruction Expenditures (Budget vs. Actual)			
Fiscal Year Ending June 30	Budgeted <i>Special</i> Instructional Expenditures	Actual <i>Special</i> Instructional Expenditures	Under/(Over) Budgeted
2014	\$24,241,000	\$22,583,890	\$1,657,110
2015	\$24,934,000	\$24,500,370	\$433,630
2016	\$24,371,000	\$26,708,260	(\$2,337,260)
2017	\$26,951,100	\$28,147,652	(\$1,196,552)
Total	\$100,497,100	\$101,940,172	(\$1,443,072)

Transportation services expenditures are detailed below in Table 4. The District spent more for transportation services than it budgeted for in all years where operating deficits also occurred. Additionally, in the 2014-15 through 2016-17 fiscal years, the District budgeted less for transportation services than it had expended in the previous year. For example, in 2016-17 fiscal year, the District budgeted \$8.9 million for transportation when it had spent \$9.9 million in 2015-16. The District’s budget indicated that the District expected to pay less for transportation than it had the previous year. By the 2016-17 fiscal year, historical data showed that this was not likely to occur. District management indicated that budgeting for transportation costs has been challenging due to increases in the number of special education students and types of services needed, as well as homeless students needing transportation outside the District, which are difficult to predict.¹⁷

¹⁷ For more information about the PDE’s homeless student resources pertaining to the federal Stewart B. McKinney Homeless Assistance Act, 42 U.S.C. § 11431 *et seq.*, please see the attached link: <https://www.education.pa.gov/K-12/Homeless%20Education/Pages/default.aspx> (accessed on January 30, 2019). *See also* the PDE’ Basic Education Circular (BEC) on Education for Homeless Youth: <https://www.education.pa.gov/Documents/Codes%20and%20Regulations/Basic%20Education%20Circulars/US%20Code/Education%20for%20Homeless%20Youth.pdf> (accessed on January 30, 2019).

Table 4

Norristown Area School District Transportation Services Costs			
Fiscal Year Ended June 30	Total Amount Budgeted¹⁸	Total Amount Expended¹⁹	Amount Under/(Over) Expended
2014	\$8,618,000	\$8,925,537	(\$307,537)
2015	\$8,728,000	\$9,474,719	(\$746,719)
2016	\$8,885,500	\$9,872,661	(\$987,161)
2017	\$8,948,500	\$10,152,664	(\$1,204,164)
Total:	\$35,180,000	\$38,425,581	(\$3,245,581)

Additionally, in each year from the 2014-15 through 2016-17 fiscal years, approximately half of the District’s contracted vehicles were capable of transporting fewer than 10 students. For example, in the 2016-17 fiscal year, 77 of the 157 contracted vehicles had vehicle capacities of less than 10 students. In our experience, this is an unusually high number of low capacity vehicles.

During this same period, transportation costs increased each year and the District had difficulty budgeting for its transportation costs as shown in Table 4 above. The District indicated that it had not completed an analysis of its use of low capacity vehicles or alternative methods of providing transportation services. Alternative methods might include sharing vehicles with another district or arranging for transportation with the local intermediate unit. Such an analysis may provide opportunities to consolidate vehicles and lower transportation costs.

By not accurately budgeting special instructional programs and transportation service expenditures, the District’s fiscal challenges were not adequately reflected in the budget and, therefore, not properly communicated to those who analyzed the District’s budgets. If the District had accurately budgeted these expenditures, the extent of the District’s financial challenges would have become apparent at the beginning of the budget process and the Board would have had more reliable data to make informed decisions.

¹⁸ Information obtained from the District’s Independent Auditor’s Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2013 through 2017.

¹⁹ Ibid.

Conclusion

The District's General Fund balance deteriorated over the four-year period we reviewed. The General Fund balance decreased by more than \$9 million or 86 percent from the 2013-14 through 2016-17 fiscal years due to annual operating deficits. Increasing transportation service and special instructional program expenditures contributed to these operating deficits. The District's increasing expenditures and limited General Fund balance as of June 30, 2017, are concerning financial indicators for the District. It will be imperative for the District to make operational changes to reverse the financial downturn that occurred during the 2013-14 through 2016-17 fiscal years.

Recommendations

The *Norristown Area School District* should:

1. Prepare a multi-year budget that adequately reflects annual commitments to help ensure that the District is prepared to meet future financial obligations.
2. Identify the reasons transportation service and special instructional program expenditures are increasing and take a more conservative budgetary approach based on previous year expenditures to these line items in the future.
3. Analyze transportation services to determine if the number of low capacity contracted vehicles that transport few students can be reduced.

Management Response

District management provided the following response:

NASD agrees with the finding related to the declining fund balance during fiscal years 2013-14 through 2016-17. It is, however, extremely important to note that fund balance was increased during the 2017-18 school year. And, at 6/30/18, the General Fund had an audited fund balance of \$3,377,588; more than doubling the audited fund balance at 6/30/17.

NASD is aware of the fund balance level recommendations developed by the GFOA, and discusses them frequently

with our Facilities/Finance Committee. We currently have a strong commitment to maintain/improve fund balance. Unfortunately, the mandates that exist in public education (PSERS, charter tuition, special education, etc.) coupled with inadequate/ inequitable state funding and a stagnant local economy, make this commitment extremely challenging.

Auditor Conclusion

We are pleased to hear that the District's financial position appears to be improving. We did not review the District's financial statements for the 2017-18 fiscal year since they were completed after our fieldwork was completed. We continue to recommend that the District prepare a multi-year budget to improve its General Fund to recommended levels. We will evaluate the District's implementation of our recommendations and its financial position in our next audit of the District.

Finding No. 2

The District Inaccurately Reported Transportation Costs and the Number of Nonpublic School Students Transported Resulting in a Net Overpayment of \$56,087

Criteria relevant to the finding:

Student Transportation Subsidy

The Public School Code (PSC) provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 (relating to Payments on account of pupil transportation) of the PSC specifies the transportation formula and criteria. *See* 24 P.S. § 25-2541.

Total Students Transported

Section 2541(a) of the PSC states, in part: "School districts shall be paid by the commonwealth for every school year on account of pupil transportation which, and the means and contracts providing for which, have been approved by the Department of Education, in the cases hereinafter enumerated, an amount to be determined by multiplying the cost of approved reimbursable pupils transportation incurred by the district by the district's aid ratio. In determining the formula for the cost of approved reimbursable transportation, the Secretary of Education may prescribe the methods of determining approved mileages and the utilized passenger capacity of vehicles for reimbursement purposes." *See* 24 P.S. § 25-2541(a).

The District was overpaid \$56,087 in transportation reimbursements from the PDE. This net overpayment was due to the District inaccurately reporting transportation costs for the 2015-16 and 2016-17 school years, as well as inaccurately reporting the number of nonpublic school students transported during the 2014-15 through 2016-17 school years. Inaccurately reporting transportation costs resulted in the District being overpaid, while inaccurately reporting the number of nonpublic school students transported resulted in the District being underpaid. We did not identify any transportation reporting errors for the 2013-14 school year.

Districts receive two separate transportation reimbursement payments from the PDE. One reimbursement is based upon the number of students transported, the number of miles vehicles were in service both with and without students, the number of days students were transported, and transportation costs (regular transportation reimbursement). The other reimbursement is based upon the number of charter school and nonpublic school students transported by the District (supplemental transportation reimbursement). The errors identified in this finding involve both the District's regular and supplemental transportation reimbursements received.

Transportation Costs Reporting Errors

Districts are required to report the amounts paid to each of its transportation contractors annually by filing a sworn statement of student transportation data for the prior and current school year with the PDE. The PDE utilizes these amounts, as attested to by the district's sworn statement, along with other elements like the number of students transported, total days transported, and total mileage to determine each district's regular transportation

Criteria relevant to the finding (continued):

Supplemental Transportation Subsidy for Nonpublic School Students

Section 2509.3 of the PSC provides that each school district shall receive a supplemental transportation payment of **\$385** for each nonpublic school student transported. [Emphasis added.] See 24 P.S. § 25-2509.3.

Sworn Statement and Annual Filing Requirement

Section 2543 of the PSC sets forth the requirement for school districts to annually file a sworn statement, in a format prescribed by the Secretary of Education, of student transportation data for the prior and current school year with the PDE in order to be eligible for the transportation subsidies. See 24 P.S. § 25-2543.

Section 2543 of the PSC, entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” states, in pertinent part:

“Annually, each school district entitled to reimbursement on account of student transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to student transportation for the prior and current school year. . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied with the law or regulations of the State Board of Education.” Id.

reimbursement amount. In the 2015-16 school year, the District incorrectly reported \$268,525 of an individual transportation contractor’s costs twice. The District paid \$268,525 to a taxi service to transport some students. This was correctly reported to the PDE as an amount paid to a transportation contractor; however, the District also reported this amount to the PDE as fare-based transportation services (see criteria box to the left of the finding for more information on fare based transportation). Incorrectly reporting this cost twice resulted in the District being overpaid regular transportation reimbursement for the 2015-16 school year. District officials stated that there was confusion in regard to how to accurately report costs paid for taxi services. Despite this confusion, District officials acknowledged that reporting the same costs twice was an error.

In the 2016-17 school year, the District inaccurately reported the amount paid to one of its transportation contractors. The District made a clerical error and incorrectly reported the amount paid as \$17,140. The actual amount paid to the specific transportation contractor was \$517,140. This clerical error resulted in the District receiving less regular transportation reimbursement than it was entitled to receive for the 2016-17 school year. The District did not have a process in place to review transportation contractor cost prior to submission to the PDE. A review by someone other than the person responsible for reporting this information could have helped identify the transportation costs reporting errors made for the 2015-16 and 2016-17 school years.

The table below illustrates the District’s transportation costs reporting errors and the resulting net regular transportation reimbursement overpayment.

Table 1

Norristown Area School District Transportation Cost Reporting Errors		
School Year	Total Transportation Costs (Under)/Over reported	Regular Transportation (Under)/Over Payment
2015-16	\$268,525	\$119,914
2016-17	(\$500,000)	(\$44,853)
Total	(\$231,475)	\$75,061

*Criteria relevant to the finding
(continued):*

PDE instructions for Local Education Agencies (LEA) on how to complete the PDE-1049. The PDE-1049 is the electronic form used by LEAs to submit transportation data annually to the PDE.

<http://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE%201049.pdf> (accessed 10/10/18)

Fare Based Service

Fare based service is service by a public transportation company with vehicles that are being used at the same time by the general public. Payment for this service is by purchase of tokens, payment of a fare, or purchase of a ticket. An LEA that contracts with a public transportation company (for example, a taxi service) for trips during which the general public could not use the same vehicle must be reported as contracted with a contractor.

Amount Paid Contractor

Enter the total amount paid to this contractor for the service described for the vehicles listed under this Notification Number. This amount should include payment for any activity run service (some schools refer to this as a late run), but should not include payment for field trips, athletic events, extended school year or any service provided other than to-and-from school transportation.

Nonpublic School Student Reporting Errors

According to the PSC, a nonpublic school is defined as a nonprofit school, other than a public school within the Commonwealth of Pennsylvania, wherein a resident of the Commonwealth may legally fulfill the compulsory school attendance requirements under the act and Title VI of the Civil Rights Act of 1964.²⁰ The PSC requires school districts to provide transportation services to students who reside in its district and attend a nonpublic school, and provides for a reimbursement from the Commonwealth of \$385 for each nonpublic school student transported by the District. It is important to note that if the District transports one nonpublic student at any time during the school year, the District would be eligible for \$385 in reimbursement for that nonpublic student.

We found that the District inaccurately reported the number of nonpublic school students transported during the 2014-15 through 2016-17 school years, which resulted in an underpayment of \$17,710 in supplemental transportation reimbursement. It follows that the District's incorrect reporting of the number of nonpublic school students transported resulted in the District also incorrectly reporting the total number of students transported. This resulted in an underpayment of \$1,264 in regular transportation reimbursement.²¹ The District did not have an adequate process in place to annually reconcile requests for transportation for nonpublic school students to nonpublic student lists generated by the District's transportation software. Each student must have a request for transportation prior to being transported and reported to the PDE as a nonpublic school student.

²⁰ See Section 922.1-A(b) (relating to "Definitions") of the PSC, 24 P.S. § 9-922.1-A(b).

²¹ Incorrectly reporting nonpublic students transported only affects a district's regular transportation reimbursement if the district's aid ratio is below .50. The Norristown School District aid ratio was below .50 for the 2014-15 through 2016-17 school years.

The table below summarizes the District’s nonpublic school student reporting errors by school year and the resulting regular and supplemental transportation reimbursement underpayment.

Table 2

Norristown Area School District Nonpublic Student Reporting Errors				
School Year	Nonpublic Students (Under) Reported	Supplemental Transportation (Underpayment) ²²	Regular Transportation (Underpayment)	Total (Underpayment)
2014-15	(16)	(\$6,160)	(\$550)	(\$6,710)
2015-16	(6)	(\$2,310)	(\$164)	(\$2,474)
2016-17	(24)	(\$9,240)	(\$550)	(\$9,790)
Total	(46)	(\$17,710)	(\$1,264)	(\$18,974)

The District incorrectly reported transportation cost data and the number of nonpublic school students transported. The transportation cost reporting errors resulted in an overpayment of \$75,061 for the regular transportation reimbursement, while the nonpublic school student reporting errors resulted in an underpayment of \$18,974 for the supplemental transportation reimbursement, for a net overpayment of \$56,087. The errors identified in this finding may have been avoided had the District implemented a process to review the transportation cost data submitted to the PDE for reimbursement.

We provided the PDE with reports detailing the transportation data reporting errors for the 2014-15, 2015-16, and 2016-17 school years. The PDE requires these reports to verify the over/under payments to the District.

Recommendations

The *Norristown Area School District* should:

1. Institute a second level review of transportation data by someone other than the person compiling the data to help identify transportation data reporting errors.

²² This underpayment amount is computed by multiplying the number nonpublic school students under reported by \$385.

2. Conduct annual multi-year trend analyses of student transportation data and transportation reimbursements to help identify unexpected fluctuations. The results of the analyses should be investigated to provide additional assurance that data is accurately reported to the PDE.
3. Establish training to be provided on a periodic basis for all new and current District personnel responsible for calculating and submitting transportation subsidy data to the PDE.
4. Perform yearly reconciliations of nonpublic student lists to requests for transportation to ensure the students reported to the PDE are accurate.

The *Pennsylvania Department of Education* should:

5. Adjust the District's future transportation reimbursements to resolve the net overpayment of \$56,087.

Management Response

District management provided the following response:

NASD agrees with the finding related to the pupil transportation and is working to develop short term and long term solutions to address our weaknesses.

From a short-term perspective, we have already implemented new internal controls and training procedures related to the annual reporting requirements. And while we engaged a consultant for our local training efforts, it should be noted that in October 2018, the Office of the Auditor General issued a press release about the need for training on pupil transportation reporting procedures; indicated that many public school districts are also struggling to get the complex annual reports filed accurately. The release also indicated that the Auditor General's office would be working closely with PASBO (PA Association of School Business Officials) to develop training on the required reporting. NASD looks forward to using the PASBO training to enhance our local efforts.

From a long-term perspective, we anticipate restricting our transportation department within the next 12 months to

better support our needs, goals, and mandated responsibilities. We will deliberately address our annual reporting weaknesses as part of our restructuring plan.

Auditor Conclusion

We are pleased that the District intends to improve its controls regarding transportation data reporting. We will evaluate the effectiveness of this and any other corrective actions implemented by the District during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Norristown Area School District resulted in no findings or observations.

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,²³ 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 Norristown 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).²⁴ In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, which 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 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.

²³ 72 P.S. §§ 402 and 403.

²⁴ 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
- ✓ Administrator Contract Buyout
- ✓ 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 2012-13 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 best business practices established by several agencies, including the 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 13 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?²⁵

²⁵ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

- To address this objective, we randomly selected 25 of 1,502 nonpublic students reported to the PDE as transported during the 2016-17 school year.²⁶ We reviewed requests for transportation to nonpublic schools to determine if the students were eligible for the supplemental transportation reimbursement. Based on the errors identified during our review, the District made adjustments to its reported number of reported for the 2013-14 through 2015-16 school years. In those years, we reviewed documentation to support the adjustments made. The errors we identified can be found in Finding No. 2 on page 25 in this report.
- We also reviewed costs paid to all transportation contractors for the 2015-16 and 2016-17 school years. We reconciled contractor cost data reported to the PDE against general journal entries to determine if the District reported accurate contractor costs. The errors we identified can be found in Finding No. 2 on page 25 in this report.
- Additionally, we reviewed all 379 charter school students reported to the PDE as transported during the 2016-17 school year. We compared a roster of charter school students transported to requests for transportation to the charter school to determine if the students were eligible for the supplemental transportation reimbursement. No reportable issued were identified.
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buyout, what were the reasons for the termination/settlement, and did the employment contract(s) comply with the Public School Code²⁷ and the Public School Employees' Retirement System guidelines?
 - To address this objective, we reviewed the contracts, board meeting minutes, board policies, and payroll and leave records for the three administrators who separated employment from the District during the period July 1, 2013 through July 31, 2018. Our review of this objective did not disclose any reportable issues.
- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances as outlined in applicable laws?²⁸ 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 25 of the 245 District employed and contracted bus drivers transporting District students as of June 4, 2018.²⁹ We

²⁶ 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.

²⁷ 24 P.S. § 10-1073(e)(2)(v).

²⁸ 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*.

²⁹ 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.

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 disclose any reportable issues.

- ✓ Did the District take actions to ensure it provided a safe school environment?³⁰
 - To address this objective, we reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, fire drill reports, and after action reports. In addition, we conducted on-site reviews at three out of the District's twelve school buildings (one from each education level)³¹ to assess whether the District had implemented basic safety practices.³² Due to the sensitive nature of school safety, the results of our review for this objective area are not described in our audit report. The results of our school safety review were shared with District officials, the PDE, and other appropriate agencies deemed necessary.

³⁰ 24 P.S. § 13-1301-A *et seq.*

³¹ 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.

³² Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

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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