



**SPRING COVE SCHOOL DISTRICT  
BLAIR COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**JULY 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

Mr. Jeffrey Brennecke, Board President  
Spring Cove School District  
1100 East Main Street  
Roaring Spring, Pennsylvania 16673

Dear Governor Corbett and Mr. Brennecke:

We conducted a performance audit of the Spring Cove School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 27, 2009 through October 16, 2012, 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. In addition, we identified one matter unrelated to compliance that is reported as an observation. 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 the Pennsylvania Department of Education.

Our audit findings, observation, 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.

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

July 15, 2013

cc: **SPRING COVE 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 Spring Cove 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.

Our audit scope covered the period April 27, 2009 through October 16, 2012, 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 99 square miles. According to 2010 federal census data, it serves a resident population of 13,281. According to District officials, the District provided basic educational services to 1,872 pupils through the employment of 134 teachers, 56 full-time and part-time support personnel, and 12 administrators during the 2009-10 school year. Lastly, the District received \$10.4 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. In addition, we identified one matter unrelated to compliance that is reported as an observation.

#### **Finding No. 1: Certification Deficiency.**

For the period July 1, 2011 through September 21, 2012, one professional employee was teaching in an area for which she was not certified (see page 6).

#### **Finding No. 2: Errors in Reporting Pupil Membership Data Resulted in a Reimbursement Underpayment Totaling \$4,017 for Children Placed in Private Homes.**

District personnel incorrectly coded a nonresident student as a resident, resulting in a 102 day understatement of nonresident days (see page 8).

#### **Finding No. 3: The District's Entitlement to \$1,163,564 in Transportation Subsidies is Questionable as a Result of a Lack of Documentation.**

District personnel were unable to provide documentation supporting the mileage data reported to the Pennsylvania Department of Education, resulting in our inability to verify the District's entitlement to the 2009-10 and 2008-09 transportation subsidies (see page 10).

**Observation: The District Spent \$69,580 in a Costly Buy-Out of the Technology Administrator.** The early termination of the technology administrator’s contract cost the District \$69,580 due to failure to abide by the termination provisions of the contract (see page 12).

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

## 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 April 27, 2009 through October 16, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through September 21, 2012.

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 (PDE) 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?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ 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 that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ 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 interest?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?

## 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 objective. 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 pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

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



# Findings and Observations

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## Finding No. 1

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## Certification Deficiency

*Criteria relevant to the finding:*

Section 1202 of the Public School Code, 24 P.S. § 12-1202, provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the Public School Code, 24 P.S. § 25-2518, provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in the Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Our audit of the Spring Cove School District’s (District) professional employees’ certification and assignments for the period July 1, 2011 through September 21, 2012, found one professional employee was teaching in an area for which she was not certified.

Information pertaining to the certificate in question was submitted to the Pennsylvania Department of Education’s (PDE), Bureau of School Leadership and Teacher Quality (BSLTQ), for its review. On November 9, 2012, BSLTQ made the determination that the employee was teaching without the proper English or Reading Specialist certificate.

As a result of this determination, the District is subject to a subsidy forfeiture of \$1,211 for the 2011-12 school year. The subsidy forfeiture for the 2012-13 school year could not be determined because the market value personal income aid ratio was not available at the time of our audit.

The certification deficiency occurred because the District incorrectly believed the individual had applied for and received an English certificate.

## Recommendations

The *Spring Cove School District* should:

1. Put procedures in place to ensure all professional employees are properly certified for their assignments.
2. Reassign the individual, if necessary, to an area for which the individual’s area of certification is proper.

The *Pennsylvania Department of Education* should:

3. Adjust the District’s allocations to recover the appropriate subsidy forfeitures.

## **Management Response**

Management stated the following:

“Management agrees with the finding with respect to the fact that the teacher in question did not obtain the necessary certification. This is, however, a technical breach due to the failure of the teacher to submit her paperwork to the state to have the additional certification added to her credentials. The teacher had passed the PRAXIS exams and had supplied copies of her scores to the district. The district, acting in good faith on this information, assigned the classes in question.

We would ask that the fine connected to the finding be waived due to the fact that the teacher was in fact, qualified to teach the classes. The finding is based on the failure of the teacher to complete the necessary application paperwork and is not due to her lacking the necessary skills or knowledge to teach the classes.

This teacher’s schedule for the 2012-13 school term has been modified so that she is not assigned to teach outside her current certification. She will not be assigned to teach the classes that triggered the finding until such time as she has completed the necessary paperwork and added the necessary certification to her credentials.”

## **Auditor Conclusion**

PDE’s certification requirement is in place so school districts do not have to “act in good faith.” It is the responsibility of the District, not the teacher, to have the proper certification on file. With suitable internal control procedures in place, the District would have assurance that its employees are appropriately certified, and that its state subsidy is not at risk of forfeiture.

The decision about whether to impose the subsidy forfeitures rests with PDE.

## Finding No. 2

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### Errors in Reporting Pupil Membership Data Resulted in a Reimbursement Underpayment Totaling \$4,017 for Children Placed in Private Homes

*Criteria relevant to the finding:*

According to the Pennsylvania Department of Education's (PDE) 2009-10 PIMS User Manual, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. Pennsylvania Information Management System data templates define fields that must be reported. Four important data elements from the child accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our audit of pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors. These errors caused the Spring Cove School District (District) to be underpaid \$4,017 in Commonwealth-paid tuition for nonresident children placed in private homes.

The underpayment was caused by District personnel coding a nonresident full-time kindergarten student as a resident student, which resulted in an understatement of 102 nonresident days.

Our audit also found coding errors for nine other students. Although they did not affect the District's funding, these errors are another indication of the weaknesses in the internal controls over the District's data submitted to PDE.

The reporting errors were caused by District personnel's lack of familiarizing with the new reporting requirements instituted for the 2009-10 school year, and by internal control weaknesses in the District's process for reporting data to PDE.

We have provided PDE with reports detailing the errors we identified so that it can recalculate the District's children placed in private homes reimbursement.

## **Recommendations**

The *Spring Cove School District* should:

1. Strengthen internal controls through reconciliations of data uploaded into PIMS.
2. Thoroughly review all child accounting data for accuracy prior to submission to PDE.
3. Review subsequent years' membership reports and revise as necessary.

The *Pennsylvania Department of Education* should:

4. Adjust future District allocations to correct the underpayment of \$4,017.

## **Management Response**

Management stated the following:

“This error occurred in the data entry portion of the registration process. The specific type of foster designation must be indicated in the categorical entries. Two categorical entries in [the software] must indicate the specific type of foster designation. The first entry was correctly entered for this student. The second was not.

A more thorough data verification process has been put into place to prevent such errors in the future.”

## **Auditor Conclusion**

We are pleased that the District has implemented a new verification process. We will evaluate the new process during our next cyclical audit. The current finding will stand as written.

### Finding No. 3

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### The District's Entitlement to \$1,163,564 in Transportation Subsidies is Questionable as a Result of a Lack of Documentation

*Criteria relevant to the finding:*

Section 518 of the Public School Code, 24 P.S. § 5-518, requires that records be retained for a period of not less than six years.

The Pennsylvania Department of Education guidelines and instructions require the maintenance and retention of adequate documentation to verify the District's entitlement to state payments. Failure to maintain and retain this documentation could result in the loss of state funding.

Our audit of the Spring Cove School District's (District) 2009-10 and 2008-09 school years' transportation data found that District personnel were unable to provide documentation supporting the mileage data reported to the Pennsylvania Department of Education (PDE), resulting in our inability to verify the District's entitlement to subsidies totaling \$1,163,564.

During our audit, District personnel were unable to provide mileage reports for the 2009-10 and 2008-09 school year. The District had one-way mileage documentation on file for the bus routes for each month of the school year. However, mileage documentation should be maintained for both morning and afternoon runs, since afternoon routes rarely mirror the morning routes.

District personnel explained that in the 2009-10 school year, the District was using an older software and computer system for transportation reporting. In school year 2010-11, the District updated its computer hardware and changed to a new vendor. Consequently, the old computer system was no longer available, and the data in that system was not accessible. Also, there was a change in personnel, and a new person was responsible for reporting transportation.

Internal controls are the responsibility of management. Weaknesses in the District's retention of records procedures, as detailed in this finding, did not provide management with the assurance that documentation supporting the District's mileage data was collected, recorded and reported accurately and in accordance with PDE instructions during the 2009-10 and 2008-09 school years.

### Recommendations

The *Spring Cove School District* should:

Put procedures in place to ensure that mileage documentation is retained for no less than six years.

**Management Response**

Management stated the following:

“Records for the years prior to and including the 2009/10 school year contain limited information on routes. The development of routes was carried out on software and hardware that is now obsolete and unavailable.

The District purchased and implemented new transportation software in the 2010/11 school year. The records of routes and ridership are now available in paper form and are archived in the software.

Confirmation of substantial data retention has been reviewed with the current auditor. A record of all routes, as submitted to the State from the year 2010/11 and forward, [is] on file.”

**Auditor Conclusion**

We are pleased that the District is making an effort to ensure that it has appropriate mileage documentation moving forward. We will evaluate these changes during our next cyclical audit. The current finding will stand as written.

**Observation**

**The District Spent \$69,580 in a Costly Buy-Out of the Technology Administrator**

On May 23, 2005, the Board of School Directors (Board) of the Spring Cove School District (District) entered into an employment contract (Contract) with an individual to serve as the District's technology administrator (Administrator). The Contract had a term of five years, July 1, 2005 through June 30, 2010. The Contract provided the Administrator with compensation of \$70,915 for the first year of the Contract, as well as a tax-deferred annuity and a variety of benefits. The Contract further provided that the Board would annually review and adjust the Administrator's salary and tax-deferred annuity in accordance with the following provisions:

“(1) The Technology Administrator shall receive a ‘Salary’ increase of no less than other ‘Management Employees’ in the ‘School District’ as described in the current agreement governing these employees.”

“(2) The ‘Technology Administrator’ shall receive a contribution to a tax-deferred plan in accordance with the agreement governing other ‘Management Employees.’”

The Contract included the following provisions with regard to the termination of the Administrator's employment with the District:

“(a) The ‘Technology Administrator’ shall, throughout the term of this AGREEMENT, be subject to termination of contract for valid and just cause for reasons specified under Section 1122 of the Public School Code of the Commonwealth of Pennsylvania.<sup>1</sup> However, the ‘School District’ shall not arbitrarily and capriciously call for her dismissal without first providing the ‘Technology Administrator’ with written charges, adequate notice of a hearing, a fair and impartial hearing, all elements of due process, and the right to appeal to a court of competent

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<sup>1</sup> The Public School Code, 24 P.S. 11-1122(a), provides, in part, “The only valid causes for termination of a contract heretofore or hereafter entered into with a professional employee shall be immorality; incompetency; unsatisfactory, teaching performance . . . ; intemperance; cruelty; persistent negligence in the performance of duties; willful neglect of duties; physical or mental disability. . . .”

jurisdiction. If the ‘Technology Administrator’ is found innocent of charges made, the ‘School District’ shall assume responsibility for payment of reasonable costs and attorney fees incurred by her in her defense.”

“(b) The ‘School District’ shall notify the ‘Technology Administrator’ in writing by certified mail, no later than February 1 of the final year of the AGREEMENT, of the ‘School District’s’ intent not to reappoint the ‘Technology Administrator. . . .”

Other provisions of the Contract provided for:

- A payment for unused accumulated vacation pay upon retirement, based on the per diem rate of the total compensation as certified by the payroll accountant.
- A “severance payment” in the event of retirement or resignation for unused accumulated sick leave in accordance with the District’s “Administrative Compensation/Statement of Benefits,” which for the Administrator was \$40 per day for 100 days and \$60 per day for 71.75 days. Payment was to be made in a lump sum as of the effective date of termination of employment.

The Contract also provided that the Administrator would be entitled to “any other personal benefits and incentives provided now and in the future to other ‘Professional Employees and Administrators’ of the ‘School District’ even though such benefits and incentives are not otherwise enumerated in this AGREEMENT.”

On November 25, 2009, after the Administrator had served four years four months and 25 days of the term of her contract, the Board approved a release and settlement agreement (Agreement) with the Administrator, which terminated her employment with the District effective November 25, 2009.

The Agreement required the District to make the following payments to the Administrator, totaling \$68,540:

- Remaining salary for the period from November 25, 2009 through June 30, 2010 (\$47,569).



- Payment for 171.75 unused sick days at the daily rate of \$40 for 100 days, and \$60 for 71.75 days, as required by the Contract (\$8,305).
- Payment for the health insurance opt-out of \$3,000, as required by the Contract.
- Payment for one unused personal day at \$100 per day, as required in the Contract (\$100).
- Payment of 30.5 unused vacation days at the daily rate of \$313.64 (\$9,566).

The District also agreed to continue to pay for her dental insurance, life insurance and income protection insurance until June 30, 2010, at a cost of \$783.

The \$68,540 paid to the Administrator and the \$783 for her dental, life, and income protection insurances paid by the District, resulted in a total cost to the District from the termination of \$69,323.

Based on language contained in the Administrator's Contract, the District was only required to pay a total of \$11,405, as follows:

- Unused sick days for a total of \$8,305.
- Unused personal days for a total of \$100.
- Payment for the health insurance opt-out of \$3,000.

Therefore, the unnecessary costs of the buyout totaled \$57,918 (\$69,323 minus \$11,405).

This buy-out may have been averted, or the costs significantly reduced, if the District had included and enforced provisions regarding the compensation and benefits payable upon premature termination in its original employment Contract with the Administrator.

Our review of school board minutes found that no reason was stated for the early termination of the Administrator's Contract. The motion to approve the termination, which passed, stated she would receive full compensation as due for the remainder of her Contract with the District.

The Department of the Auditor General requested further explanation of the District's buy-out of the Administrator. The business manager stated that the termination of the Administrator's Contract resulted from an increase in the technological needs of the District.

**Recommendations**

The *Spring Cove School District* should:

1. Abide by all termination provisions in employee contracts.
2. Document the reason for any contract buy-outs or additional payments in the board meeting minutes.

**Management Response**

Management stated the following:

“The interest of the District and students we serve was the primary consideration in moving to a technology leadership and service model that did not include the position of Technology Administrator as well as a Network Technician Technology Specialist position. The annual cost of the technology leadership and service model that the District moved to through a third party solution was \$94,999.92. We not only received enhanced quality service, but the net financial benefit to the District resulted in a savings of \$72,510 on an ongoing annual basis due to the reduction of two full-time positions.

The decision to immediately terminate all access privileges for this employee was due to the nature of information accessible to the Technology Administrator and the security and safety conditions that could be at risk with this termination. Recognizing the safety of students and the community was a priority in the decision to not allow this individual on District premises and to not have access to software or database information.

It is acknowledged that in the final year of this Agreement, funds were paid out in accordance with the Agreement that did not reflect an equal return of services. In subsequent years, contracts have not been issued to Act 93 [administrative] staff members; they instead fall strictly under the Act 93 Agreement.”

**Auditor Conclusion**

We did not conclude on the benefits of the District's decision to change the way it receives technology services.

Rather, we reviewed the District's decision to pay its former Administrator more than what was required under her Contract. Based on this review, we found that the District could have avoided or significantly reduced its costs if it had established and enforced early termination provisions in the former Administrator's Contract. The finding will remain as written.

## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the Spring Cove School District resulted in no findings or observations.

## **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  
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