

PERFORMANCE AUDIT

East Allegheny School District Allegheny County, Pennsylvania

August 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Donald L. Mac Fann, Superintendent
East Allegheny School District
1150 Jacks Run Road
North Versailles, Pennsylvania 15137

Mr. John Savinda, Board President
East Allegheny School District
1150 Jacks Run Road
North Versailles, Pennsylvania 15137

Dear Mr. Mac Fann and Mr. Savinda:

Our performance audit of the East Allegheny School District (District) evaluated the application of best practices in the areas of finance and school safety.¹ 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, 2012 through June 30, 2016, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 403), and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the District applied best practices in the area of finance 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 did not include the results of our review of the District's procedures related to certain areas of school safety in this report due to the sensitive nature of this issue and the potential malicious use of our findings. However, we communicated the results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate agencies we deemed necessary.

¹ Refer to the appendix in this report for details regarding our objectives, scope, and methodology.

Mr. Donald L. Mac Fann

Mr. John Savinda

Page 2

Our audit findings and recommendations have been discussed with the District's management, and their responses are hereby incorporated 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 at the end.

Eugene A. DePasquale
Auditor General

August 13, 2018

cc: **EAST ALLEGHENY 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 East Allegheny School District (District). Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, and administrative procedures, and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period July 1, 2012 through June 30, 2016, 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 2012-13 through 2015-16 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: Increasing Debt Service Fund Payments Reduced the District's General Fund Balance from Negative \$1.9 Million on June 30, 2012 to Negative \$4.8 Million as of June 30, 2016. Our review of the District's financial position over a four year period revealed that the District's General Fund balance decreased significantly. The General Fund balance decreased from negative **\$1,965,608** on June 30, 2012 to negative **\$4,865,212** as of June 30, 2016. The significant decrease to

the District's General Fund balance was the result of the transfers from the District's General Fund to its Debt Service Fund (see page 9).

Finding No. 2: The District Failed to Retain Required Documentation to Support the More Than \$4 Million in Regular Transportation Reimbursements and Incorrectly Reported Transportation Data to PDE Resulting in a \$455,840 Overpayment of Supplemental

Transportation Reimbursements. We found that the District did not comply with the record retention provisions of the Public School Code due to its failure to retain adequate source documents to verify over \$4 million in regular transportation reimbursements from the Pennsylvania Department of Education (PDE) for the 2012-13 through 2015-16 school years. Despite the lack of adequate supporting documentation, some reporting errors by the District were so blatant that we were able to readily calculate that the District was overpaid. These errors resulted in the District being overpaid \$25,776 in regular transportation reimbursement.

Additionally, we found that the District incorrectly reported the number of nonpublic school students transported by the District to PDE, which resulted in overpayments of \$455,840 in supplemental transportation reimbursements (see page 18).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations, we found that the District implemented some, but not all, of our recommendations pertaining to its declining financial position (see page 26).

Background Information

School Characteristics 2015-16 School Year ^A	
County	Allegheny
Total Square Miles	5.3
Number of School Buildings	2
Total Teachers	128
Total Full or Part-Time Support Staff	56
Total Administrators	11
Total Enrollment for Most Recent School Year	1,595
Intermediate Unit Number	3
District Vo-Tech School	Forbes Road CTC

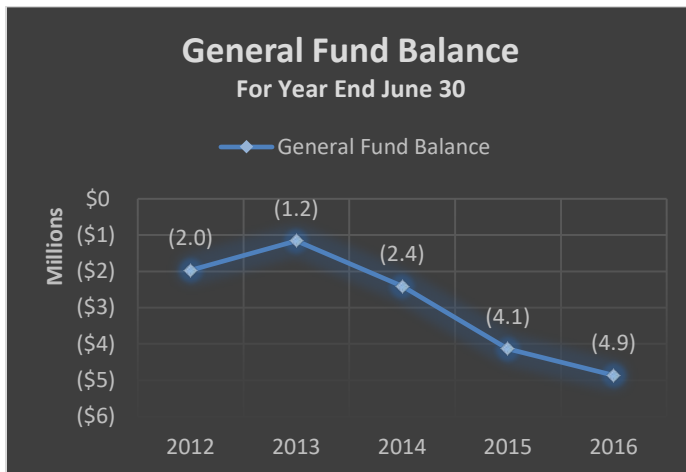
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

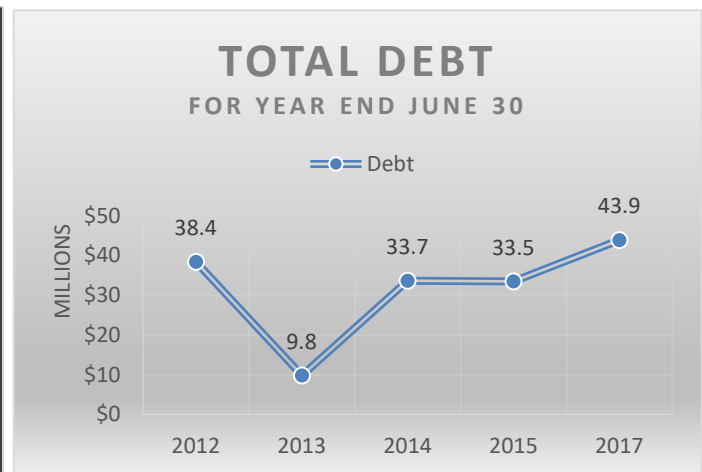
To recognize that each student is unique and that through cooperation with parents, community and schools, each student will have educational opportunities to achieve individual success within district fiscal constraints.

Financial Information

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

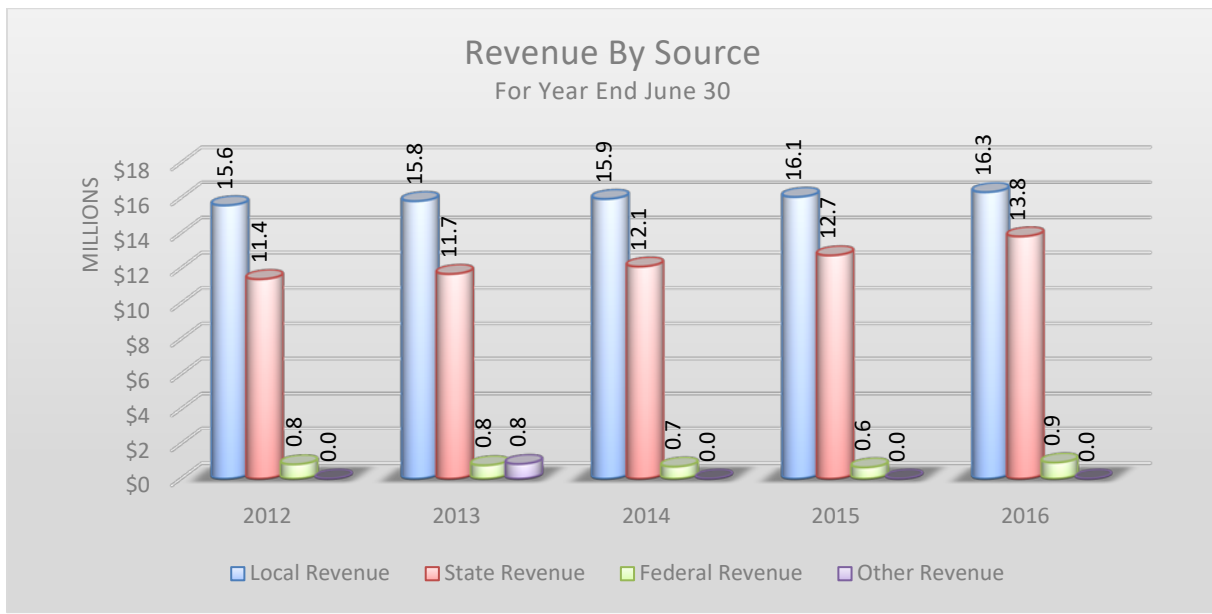
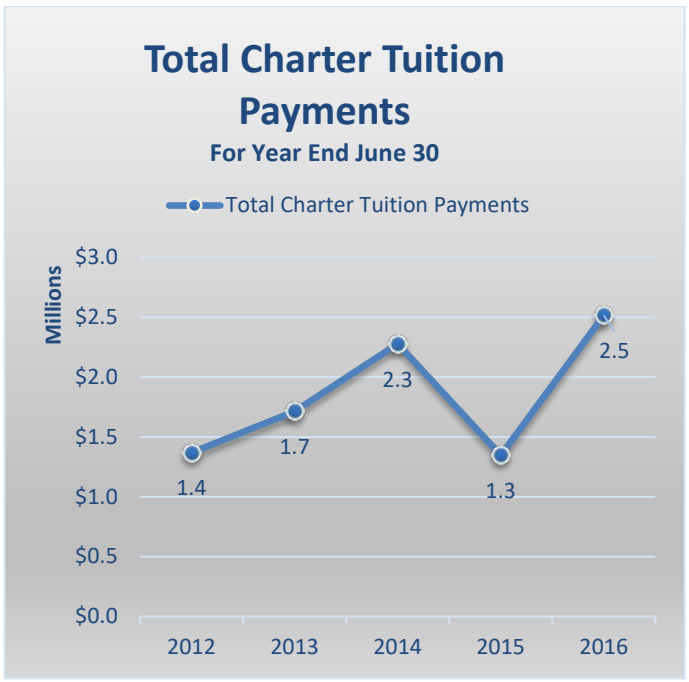
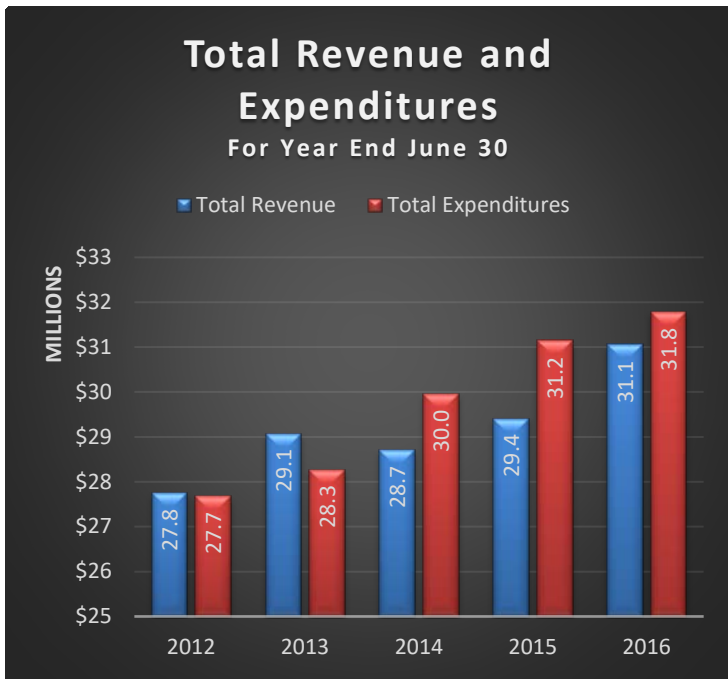


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



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

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from PDE's data files for the 2014-15 and 2015-16 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 chart.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. 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 exams 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.

PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, 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 PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

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.

² PDE is the sole source of academic data presented in this report. All academic data was obtained from PDE's publically available website.

³ 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 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 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 state Common 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.

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

What is 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.⁷ 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.

What is a 4-Year Cohort Graduation Rate?

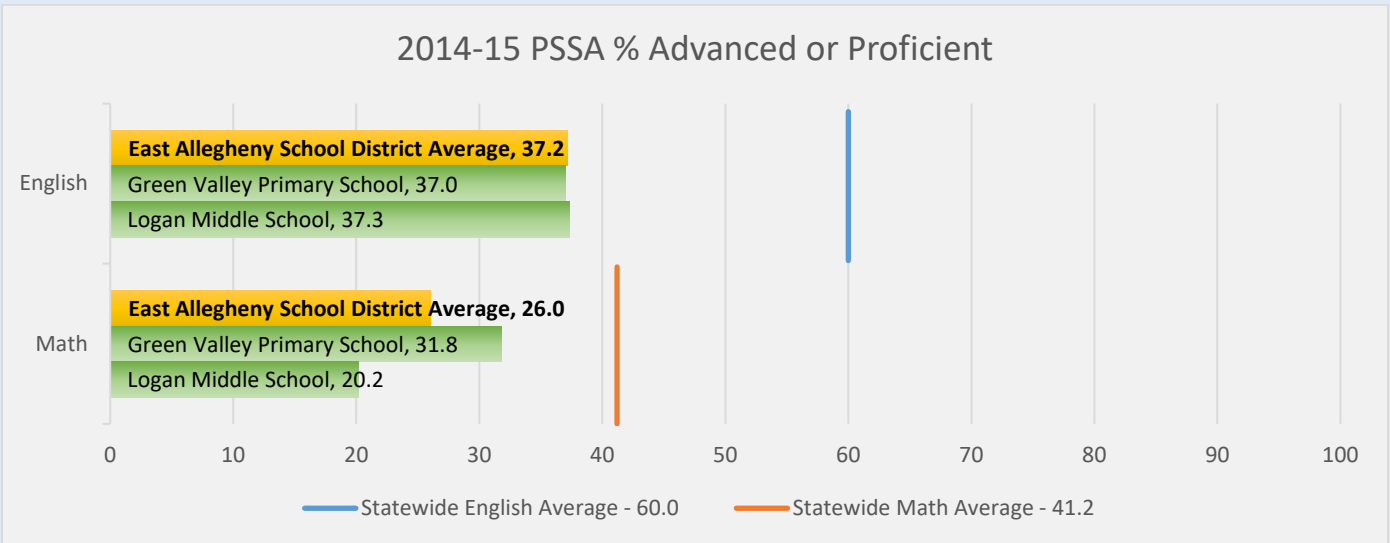
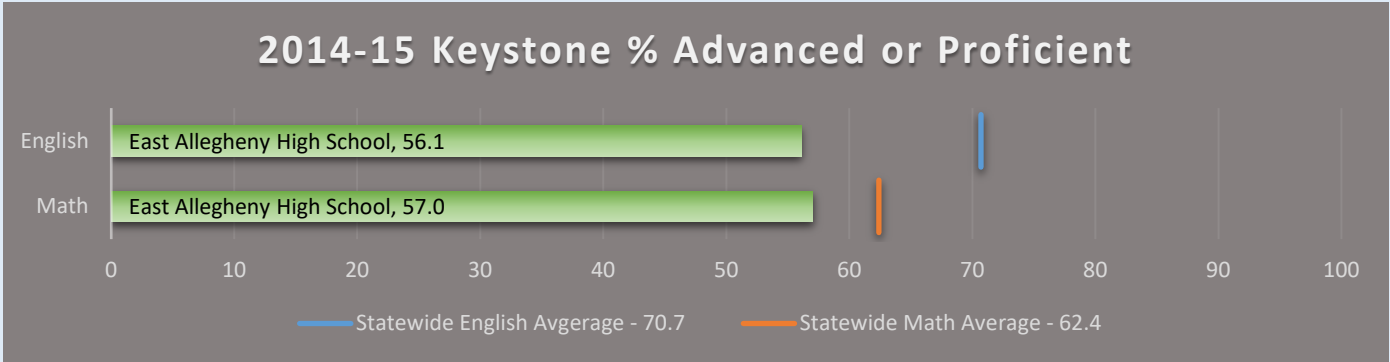
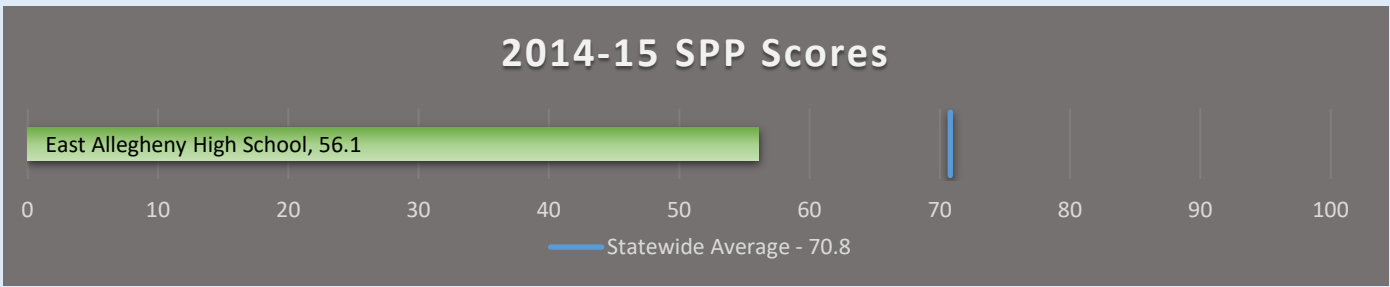
PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student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

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

⁷ 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).

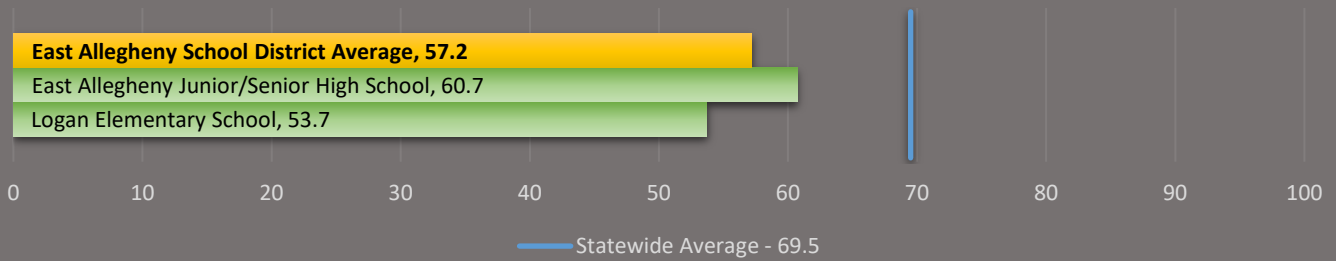
⁸ PDE also calculates 5-year and 6-year cohort graduation rates. Please visit PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

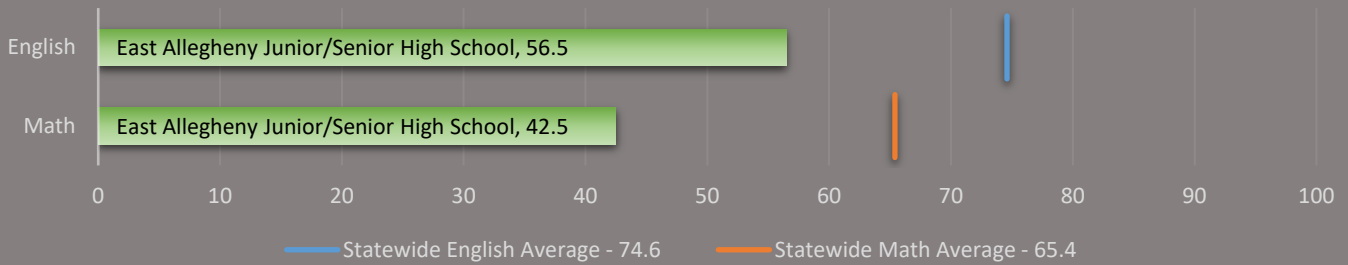


2015-16 Academic Data
School Scores Compared to Statewide Averages

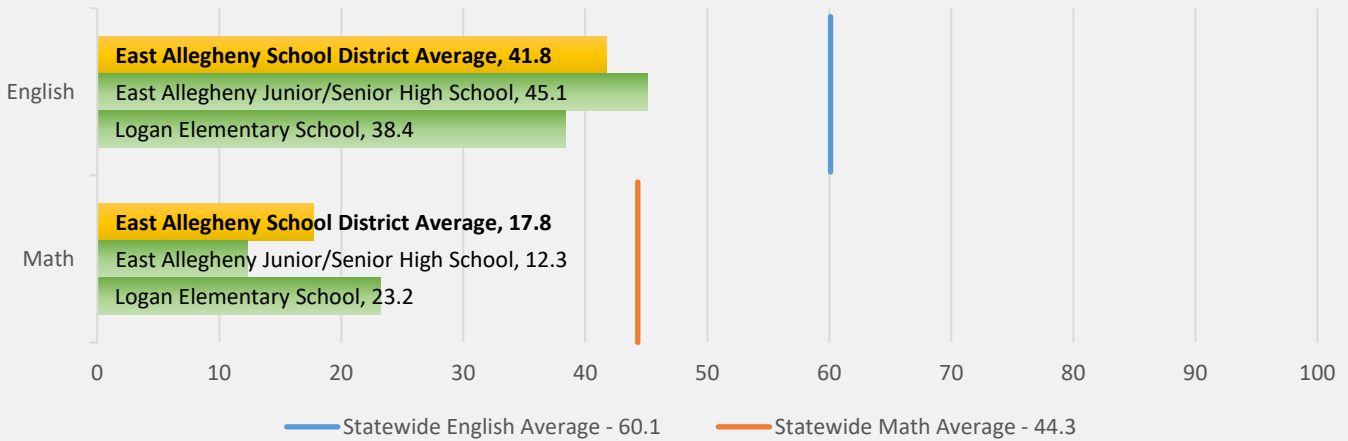
2015-16 SPP Scores



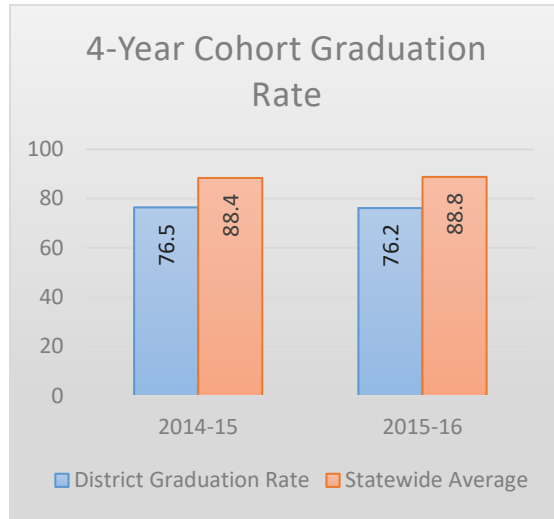
2015-16 Keystone % Advanced or Proficient



2015-16 PSSA % Advanced or Proficient



4-Year Cohort Graduation Rate



Findings

Finding No. 1

Increasing Debt Service Fund Payments Reduced the District's General Fund Balance from Negative \$1.9 Million on June 30, 2012 to Negative \$4.8 Million as of June 30, 2016

Criteria relevant to the finding:

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

General Fund Reserve. School districts should establish a formal policy on the level of 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 ten percent of regular general fund operating revenues or regular general operating expenditures and operating transfers out.

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

Our review of the East Allegheny School District's (District) financial position over a four-year period revealed that the District's General Fund balance decreased significantly. The General Fund balance decreased from negative **\$1,965,608** on June 30, 2012 to negative **\$4,865,212** as of June 30, 2016. A negative General Fund balance of this size leaves the District in a precarious financial position and makes the District a candidate to be placed in financial watch status by the Pennsylvania Department of Education (PDE).

The District is in this precarious financial position even though revenue exceeded expenditures for each year during our review period. The significant decrease to the District's General Fund balance was the result of the transfers from the District's General Fund to its Debt Service Fund. These transfers were necessary to meet obligations that were a result of the District incurring other financing uses each year. Such transfers are classified as "other financing uses" by the Governmental Accounting Standards Board. These transfers depleted the District's operational surpluses and decreased the District's General Fund balance to a level that, as explained later in the finding, threatens local control of the District.

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, 2012 through June 30, 2016. The following benchmarks raised concerns related to the District's finances and will be discussed in the remainder of the finding:

- General Fund
- Operating Position
- Other Financing Uses

Criteria relevant to the finding (continued):

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

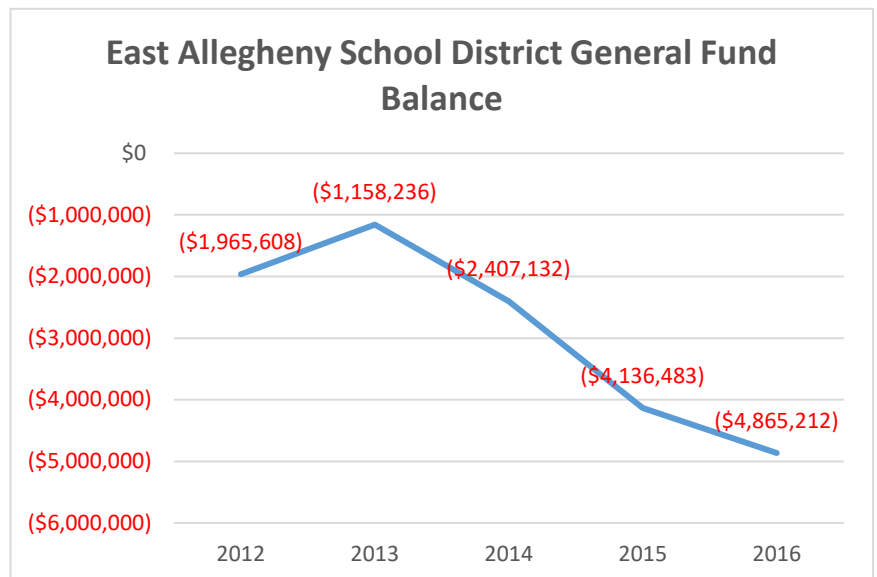
- Financial industry guidelines recommend that fund balances be between 5 percent and 10 percent of annual expenditures.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

- Charter School Costs

General Fund

As shown in Chart 1, the District’s General Fund balance increased during the 2012-13 fiscal year and then decreased steadily in the following three fiscal years. The District’s negative **\$4,865,212** General Fund balance as of June 30, 2016, is significantly less than the fund balance recommended by GFOA (i.e., 10 percent of regular general fund operating revenues or expenditures). A negative fund balance is also concerning for the following three reasons.

Chart 1



First, 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 led the District to borrow funds and incur significant annual debt service costs.

Secondly, the District’s credit rating has been adversely affected, which could increase the cost of borrowing. The District’s general obligation bond rating was *Aaa* in the 2012-13 fiscal year. However, during the 2014-15 fiscal year, the District’s general obligation bond rating was downgraded by Moody’s Investor Services to *Baa3*. *Baa* indicates that the obligations are judged to be

medium-grade and subject to moderate credit risk.⁹ The modifier 3 indicates a ranking in the lower end of this rating category.

Thirdly, due to the District's consecutive operating deficits and negative General Fund balance, it is in danger of being placed on financial watch status¹⁰ by PDE. Financial watch status is a precursor to being placed in Financial Recovery Status¹¹ for districts that don't improve financially. A district placed in Financial Recovery Status loses local control of district operations. In these instances, the District's Board of School Directors no longer has the authority to provide oversight of District operations. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.

Operating Position

A school district's operating position is determined by comparing total operating revenues to total operating expenditures. An operating surplus occurs when revenues are greater than expenditures. The District experienced an operating surplus for each of the four years reviewed; however, its General Fund balance continued to decrease due to the significant amount of other financing uses each year. The following table shows the District's operating position, other financing uses, and the change in the District's General Fund balance for the four years reviewed.

⁹ Information obtained from the District's Management Discussion and Analysis in the Independent Auditor's Report, 2014-15 school year, page 17.

¹⁰ 24 P.S. § 6-611-A; see also 22 Pa. Code Chapter 731 – Statement of Policy; please see particular 22 Pa. Code § 731.2 (relating to Early Warning System).

¹¹ 24 P.S. P.S. Ch. 1, Art. VI-a

Table 1

East Allegheny School District General Fund Operating Position					
Fiscal Year Ending June 30	Total Revenues¹²	Total Expenditures¹³	Operating Surplus	Other Financing Sources/(Uses)	Increase/(Decrease) to General Fund
2013	\$28,246,366	\$25,667,970	\$2,578,296	\$1,771,024	\$807,372
2014	\$28,718,356	\$27,411,514	\$1,306,842	\$2,555,738	\$1,248,896
2015	\$29,422,317	\$28,590,528	\$831,789	\$2,561,140	\$1,729,351
2016	\$31,059,080	\$29,173,385	\$1,885,695	\$2,614,424	\$728,729
Total:	\$117,446,119	\$110,843,397	\$6,602,622	\$9,502,326	\$2,899,604

As shown in the table above, the District is not generating sufficient total revenues to meet expenditures and other financing uses, specifically debt service payments. The significant decrease to the District’s General Fund balance highlights the need for the District to generate revenue in excess of expenditures and other financing uses.

Other Financing Uses

The other financing uses cited in the table above are all the result of the District transferring money from the General Fund to the Debt Service Fund to meet obligations that were due as a result of past borrowings. As discussed previously in the finding, these obligations were more than the District’s operating surpluses for the four years we reviewed. As a result of these obligations, the District’s General Fund balance decreased to negative \$4,865,212.

Debt Service Fund obligations will continue to be a significant future cost for the District. The District transferred over \$2.6 million from the General Fund to the Debt Service Fund during the 2016-17 fiscal year and the table below illustrates the District’s future Debt Service Fund obligations.

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 2016.

¹³ Ibid.

Table 2

East Allegheny School District Debt Service Fund Obligations¹⁴	
Fiscal Year Ending June 30	Debt Service Fund Obligations
2018	\$2,570,134
2019	\$2,560,937
2020	\$2,555,538
2021	\$2,554,036
2022	\$2,560,162
Total	\$12,800,807

The District’s future Debt Service Fund obligations will continue to put financial stress on the District to generate additional revenue or reduce other expenditures to increase its General Fund balance. The District risks further downgrades to its credit rating unless it is able to increase its General Fund balance to healthy amount. Additional security for the District’s bonds are provided by the Pennsylvania School District Enhanced Intercept Program.¹⁵ This Program provides for undistributed state aid to be diverted to bond holders in the event of default by the District.

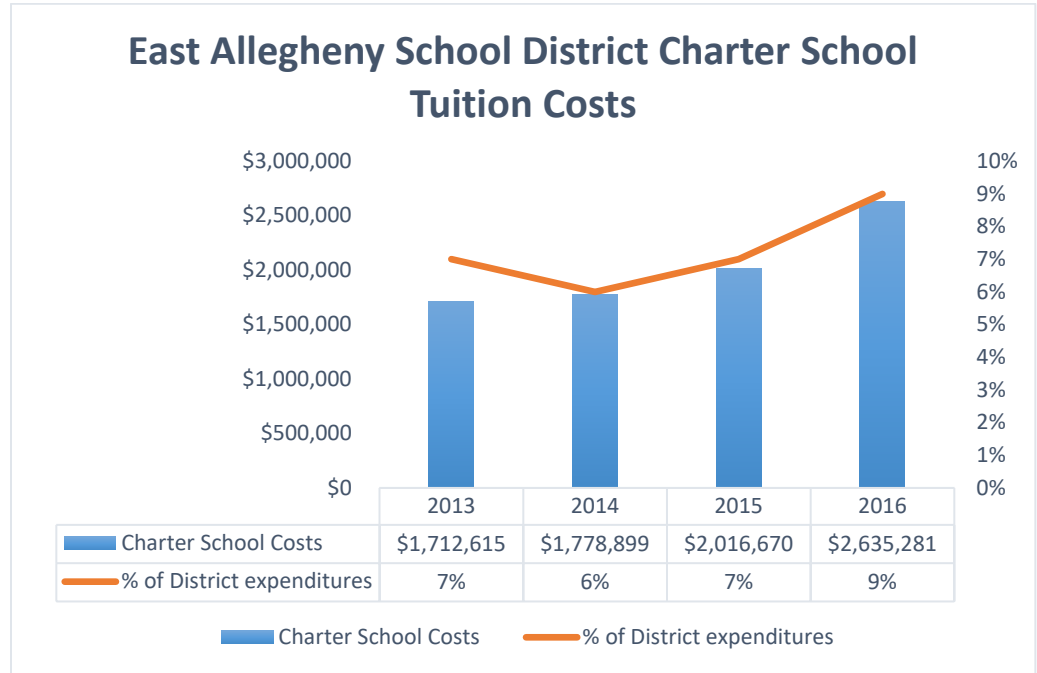
Increased Charter School Costs

The District’s charter school tuition costs were a significant expenditure for each year of the audit period. Both charter school tuition costs and enrollment in charter schools increased during the period reviewed. The financial burden on the District grew from \$1.7 million in the 2012-13 fiscal year to \$2.6 million in the 2015-16 fiscal year. Charter school tuition costs adversely affected the District’s financial status and also reduced funds available to support academic programs for the District. The chart below illustrates the charter school costs as a percentage of total expenditures during the period reviewed.

¹⁴ Information obtained from the District’s Independent Auditor’s Report, *fiscal year ending 2017*. Obligations due after 2022 are not included in table.

¹⁵ Section 633 (relating to Reports to Secretary of Education; withholding state appropriations) of the PSC, 24 P.S. § 6-633.

Chart 2



Charter school costs increased most significantly during the 2015-16 fiscal year. This increasing cost reinforces the District’s need to generate additional revenue. Charter school growth in this District has created a negative feedback loop, wherein the diversion of limited resources to charter schools threatens the quality of District schools, further driving students to charter schools and thereby exerting more financial pressure on the District.

District enrollment in charter schools increased by 12 percent from 2012-13 through 2015-16 to 204 students; whereas the District’s overall enrollment decreased by 6 percent to 61,595 students in the same period. As a result, charter school enrollment, as a percentage of District enrollment, increased from 7 percent in the 2012-13 fiscal year to 9 percent in the 2015-16 fiscal year.

The following table illustrates the growth in charter school enrollment and the decreasing District enrollment during the same time period.

Table 3

East Allegheny School District Public and Charter School Enrollment					
	2012-13	2013-14	2014-15	2015-16	% change¹⁶
Public	1,693	1,668	1,616	1,595	-6%
Charter	182	184	202	204	12%
Total:	1,875	1,852	1,818	1,799	-4%

Conclusion

The District’s inability to generate sufficient revenue to meet expenditures and Debt Service Fund obligations resulted in the District’s General Fund balance decreasing to negative \$4,865,212 as of June 30, 2016. The District is in danger of being placed by PDE on financial watch status. It will be imperative for the District to make operational changes to reverse the financial downturn that occurred during our review.

The District did approve a tax increase for the 2016-17 fiscal year. However, real estate tax collections continue to be difficult due to a declining tax base, vacant unused land, and high delinquent tax accounts. Despite closing a school during the 2015-16 school year and not replacing non-essential staff retired staff, increasing charter school costs and future Debt Service Fund obligations continue to impact the economic climate of the District.

Recommendations

The *East Allegheny 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. Evaluate the District’s future debt service obligations and ensure that all future General Fund budgets incorporate these costs into the projections.

¹⁶ Percentage change from the 2012-13 school year to the 2015-16 school year.

3. Identify the reasons District students are transferring to charter schools and make operational changes to retain District students.

Management Response

District management provided the following response:

Management acknowledges the finding as stated above and the reasons which have caused the negative fund balance that has been increasing to its current negative \$4.8 million.

The District demographics, lack of commercial business for a stronger tax base, low collection rate, and limitations as per Act 1 index to raise taxes as needed, as well as school board support to do so, all factor into the budget process. Annually all of these factors will be used to prepare a budget that can reflect what the district needs to meet current and future obligations.

Debt service is a very large commitment in the District's annual operating budget. This is due to prior years' school building renovations, new school, and emergency upgrades to buildings and grounds. The District management has and will continue to evaluate the bond payment schedules along with school council and bank treasury officials. We have refinanced bonds in prior years and most recently in March, 2018, the refinancing of GOB Ref series of 2014, resulted in a reduction of \$461,825.00 of the bond payment. We also expect to have a reduction of \$225,000. For the 2018 B Bonds, the District plans to work closely with bank officials regarding the debt service obligations.

Each school year the District, like many others, has students who choose to attend a brick and mortar or cyber charter school. This is occurring more frequently because of the growing charter entities permitted to be established. However, it has become a very common practice to have East Allegheny students come back to the District home schools after attending a charter school. We actively reach out to parents and students to encourage them to stay within the public education system and attend our home schools. Each summer, the Director of Pupil Personnel has meetings, sends letters and makes phone calls to all current charter students to bring them back to East Allegheny. The District has their own cyber program and provides students with laptops for instruction. The program is structured to be

flexible to appeal to the needs of charter school students. The District will continue to make our cyber program a priority.

Auditor Conclusion

We are pleased that the District is attempting to prepare a multi-year budget that adequately reflects the District’s financial commitments. We are also encouraged that the District is actively trying to lower charter school costs. We continue to recommend that the District generate sufficient revenue to meet expenditures and debt service obligations. The failure to address this issue could possibly result in the elimination of District programs and the continuing exodus of District students to charter schools. We will review this and any other corrective action taken by the District during our next audit.

Finding No. 2

The District Failed to Retain Required Documentation to Support the More Than \$4 Million in Regular Transportation Reimbursements and Incorrectly Reported Transportation Data to PDE Resulting in a \$455,840 Overpayment of Supplemental Transportation Reimbursements

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 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 students 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).

We found that the District did not comply with the record retention provisions of the Public School Code (PSC) due to its failure to retain adequate source documents to verify over \$4 million in regular transportation reimbursements from PDE for the 2012-13 through 2015-16 school years. Despite the lack of adequate supporting documentation, some reporting errors by the District were so blatant that we were able to readily calculate that the District was overpaid. These errors resulted in the District being overpaid \$25,776 in regular transportation reimbursement.

Additionally, we found that the District incorrectly reported the number of nonpublic school students transported by the District to PDE, which resulted in overpayments of \$455,840 in supplemental transportation reimbursements.

Districts receive two separate transportation reimbursement payments from PDE. One reimbursement is broadly based on the number of miles and days students were transported (regular transportation reimbursement). The other reimbursement is based on the number of charter school and nonpublic students transported (supplemental transportation reimbursement).

Without proper documentation, we were unable to determine the appropriateness of the regular transportation reimbursement received by the District. It is absolutely essential that records related to the District's transportation expenses and transportation reimbursements be retained in accordance with the requirements of the PSC and be readily available for audit.

Criteria relevant to the finding (continued):

Annual Filing Requirement

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

Section 2543 of the PSC, which is entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” states, in part: “Annually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to pupil 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.” (Emphasis added.) Id.

Supplemental Transportation Subsidy for Nonpublic and Charter School Students

The Charter School Law (CSL), through its reference to Section 2509.3 of the PSC provides for an additional, per student subsidy for the transportation of charter school students. *See* 24 P.S. § 17-1726-A(a); 24 P.S. § 25-2509.3.

Lack of Supporting Documentation for Regular Transportation Reimbursement Received

Regular transportation reimbursement received by a District is based on several components that are reported by the District to PDE for use in the calculation of the yearly reimbursement amount. These components include, but are not limited to, the following:

- Miles with and miles without students for each vehicle.
- Students assigned to each vehicle.
- Total number of days each vehicle is used to transport students to and from school.
- Total number of students transported during the school year.

As evidenced by the components listed above, the number of students transported, miles driven, and number of days students are transported are the basis for calculating the yearly reimbursement amount. Therefore, it is essential for districts to document, verify, and retain odometer readings, student rosters, and changes that occur during the year for each vehicle transporting students.

In this case, the District did not maintain sufficient documentation for the four years reviewed. Table 1 below shows the student and vehicle data reported to PDE and the total reimbursement received for each school year.

Table 1

East Allegheny School District Transportation Data Reported to PDE			
School Year	Reported Number of Students Transported	Reported Number of Vehicles	Total Reimbursement Received
2012-13	1,934	60	\$1,106,004
2013-14	1,939	67	\$1,134,875
2014-15	1,890	61	\$1,065,618
2015-16	2,090	44	\$875,748
Totals	7,853	232	\$4,182,245

*Criteria relevant to the finding
(continued):*

Section 1726-A(a) of the CSL (cited above) addresses the transportation of charter school students in that, “[s]tudents who attend a charter school located in their school district of residence, a regional charter school of which the school district is a part or a charter school located outside district boundaries at a distance not exceeding ten (10) miles by the nearest public highway shall be provided free transportation to the charter school by their school district of residence on such dates and periods that the charter school is in regular session whether or not transportation is provided on such dates and periods to students attending schools of the district”

Section 1726-A(a) further provides for districts to receive a state subsidy for transporting charter school students both within and outside district boundaries in that, “[d]istricts providing transportation to a charter school outside the district and, for the 2007-2008 school year and each school year thereafter, districts providing transportation to a charter school within the district shall be eligible for payments under section 2509.3 for each public school student transported.”

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. This payment provision is also applicable to charter school students through Section 1726-A(a) of the CSL. *See* 24 P.S. § 17-1726-A(a); 24 P.S. § 25-2509.3.

As illustrated in Table 1, the reported number of students transported increased significantly from the 2014-15 to 2015-16 school year, yet the reported number of vehicles decreased by 17 vehicles. The total reimbursement received for the 2015-16 school year was significantly less than the 2014-15 school year, despite transporting more students. Based on past accumulative experience, fluctuations like this typically occur when a district reports inaccurate data and necessitates a review of the reported information. In this case, we were unable to substantiate the fluctuations due to the District’s lack of supporting documentation.

Each local education agency (LEA) that transports students is required to report detailed transportation data annually to PDE. PDE reimburses LEAs based on the detailed information submitted. Transportation data is submitted through an application on PDE’s secure website and is then certified by the District Superintendent or the LEA’s Director.

The East Allegheny School District reported the number of students transported, the miles transported with and without students, and the number of days transported, but the District failed to obtain or maintain the odometer readings, rosters, and school calendars to support the information submitted. This is in direct noncompliance with the record retention provisions of the PSC, which require that all source documents be maintained.

Current District officials stated that the transportation data submitted annually to PDE came directly from the District’s transportation contractor. Current District officials also attributed the lack of supporting documentation to changes to the District’s primary transportation contractor; however, it is the responsibility of the District to accurately report transportation data and maintain supporting documentation for this information.

In an attempt to obtain this information, we contacted the District’s transportation contractor; however, the District’s transportation contractor was also unable to provide complete data supporting the information submitted. The documentation provided by the contractor lacked critical elements like the number of students transported and the mileage driven to transport students.

Criteria relevant to the finding (continued):

Non-reimbursable students

Section 2541 of the PSC states that Non-reimbursable students are elementary students who reside within 1 ½ miles of their elementary school and secondary students who reside within 2 miles of their secondary school. Non reimbursable students do not include special education students or students who reside on routes determine by PennDot to be hazardous. See 24 P.S. § 25-2541(c)(1).

Record Retention Requirement

Section 518 of the PSC requires that financial records of a district be retained by the district for a period of not less than six years. See 24 P.S. §5-518

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 PDE.

<http://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE%201049.pdf> (accessed on May 30, 2018).

Daily Miles With

Report the number of miles per day, to the nearest tenth, that the vehicle traveled with pupils. If this figure changed during the year, calculate a weighted average or sample average.

We noted that the District lacked procedures detailing the collection, reporting, and retention of source documentation to support the transportation data submitted to PDE.

Incorrect Reporting of Transportation Data Elements

Non-reimbursable students are defined as elementary students residing less than 1.5 miles from school and secondary students residing less than 2 miles from school.¹⁷ Districts can choose to transport these students, but if transported, the District must report these students as non-reimbursable to PDE. The District failed to report any students as non-reimbursable during the 2012-13 through 2015-16 school years. However, as Table 2 below shows, the District had 200 students who met the definition of a non-reimbursable student during this time period.

The District was overpaid \$25,776 in transportation reimbursement for the 2012-13 through 2015-16 school years due to incorrectly reporting non-reimbursable students as reimbursable.

Table 2

East Allegheny School District Transportation Reporting		
School Year	Non-Reimbursable Students Incorrectly Reported as Reimbursable	Overpayments
2012-13	63	\$8,222
2013-14	49	6,375
2014-15	44	6,064
2015-16	44	5,115
Total	200	\$25,776

Supplemental Transportation Subsidy

According to the PSC, a nonpublic school is defined, in pertinent part, as a nonprofit school other than a public school within the Commonwealth of Pennsylvania, wherein a resident of the Commonwealth may legally fulfill the

¹⁷ Excluding special education and vocational students, as well as students who live on a Pennsylvania Department of Transportation (PennDot) defined hazardous route.

*Criteria relevant to the finding
(continued):*

Daily Miles Without

Report the number of miles per day, to the nearest tenth, that the vehicle traveled without pupils. If this figure changed during the year, calculate a weighted average or sample average.

Number of Days

Report the number of days (a whole number) this vehicle provided to and from school transportation. Count any part of a day as one day. Depending upon the service the vehicle provided, this number could exceed or be less than the number of days the district was in session; however, summer school or “Extended School Year” (*Armstrong v. Kline*) transportation may not be included in this number. “Early Intervention” program transportation may be included. If the district received a waiver of instructional days due to a natural or other disaster (e.g., a hurricane), the waiver does not extend to transportation services. Only days on which transportation was actually provided may be reported.

compulsory school attendance requirements.¹⁸ The PSC requires school districts to provide transportation services to students who reside in its district and who attend a charter school or nonpublic school, and it provides for a reimbursement from the Commonwealth of \$385 for each nonpublic school student transported by the district. This reimbursement was made applicable to the transportation of charter school students pursuant to an equivalent provision in the CSL,¹⁹ which refers to Section 2509.3 of the PSC.

Table 3 below summarizes the total for supplemental transportation reimbursement received by the District and the cumulative overpayment.

Table 3

East Allegheny School District Supplemental Transportation Reimbursement			
School Year	Nonpublic Students Incorrectly Reported	Charter School Students Incorrectly Reported	Overpayment²⁰
2012-13	155	115	\$103,950
2013-14	144	145	\$111,265
2014-15	151	149	\$115,500
2015-16	145	180	\$125,125
Total	595	589	\$455,840

The District attributed the incorrect reporting of nonpublic students to the District’s failure to retain supporting documents, specifically bus rosters and individual nonpublic student’s requests for transportation.

We provided PDE with a discrepancy report detailing the errors for the 2012-13 through 2015-16 school years to assist PDE in verifying the overpayment and reducing the

¹⁸ See Section 922.1-A(b) (relating to “Definitions”) of the PSC, 24 P.S. § 9-922.1-A(b).

¹⁹ See 24 P.S. § 17-1726-A(a); See also 24 P.S. § 25-2509.3. A charter school is an independent public school and educates public school students within the applicable school district. See 24 P.S. § 17-1703-A (relating to “Definitions”).

²⁰ Calculated by multiplying the students over reported columns by \$385, which is the per student amount PDE reimburses a school district for providing transportation service to each nonpublic/charter school student pursuant to Section 17-1726-A(a) of the CSL and Section 2509.3 of the PSC. See 24 P.S. § 17-1726-A(a) which refers to 24 P.S. § 25-2509.3.

*Criteria relevant to the finding
(continued):*

**East Allegheny School District
Board Policy Number 810,
provides in part:**

“The Board shall provide
transportation for students living

District’s future transportation subsidy by the amount of the cumulative overpayment.

Conclusion

The PSC requires that all financial records be retained for a period of not less than six years. We found that the District did not comply with the PSC’s record retention requirements in maintaining supporting documentation for its transportation reimbursements.

The District failed in its fiduciary duty to taxpayers by not retaining this information given that without the documentation, we could not determine whether the amount of regular transportation reimbursement received was appropriate. Additionally, the District incorrectly reported the number of reimbursable, nonpublic and charter school students transported during the 2012-13 through 2015-16 school years, which resulted in an overpayment of \$481,616 in transportation reimbursements.

Transportation expenses and the subsequent transportation reimbursements are significant factors that can impact the District’s overall financial position. Therefore, it is in the best interest of the District to ensure that it regularly and consistently complies with the PSC’s record retention requirements. The District should accurately report transportation data to PDE so that it does not potentially jeopardize its future transportation subsidies.

Recommendations

The *East Allegheny School District* should:

1. Retain documentation supporting the transportation data reported to PDE, including the number of students transported, days transported, and vehicle odometer readings, in accordance with the PSC’s record retention requirements.
2. Prepare and retain documentation to support the number of charter school and non-public students’ requests for transportation as reported being transported by the District.
3. Establish District procedures that specifically address how transportation data is collected, reviewed, and

reported to PDE. Ensure that staff are trained on these procedures.

The *Pennsylvania Department of Education* should:

4. Adjust the District's future transportation reimbursement to recover the transportation overpayments of \$481,616.

Management Response

District management provided the following response:

The District's lack of retention of date (sic) reported to PDE for transportation is acknowledged. The District takes responsibility to retain supporting documentation that is provided annually to the PDE, which includes the number of students transported, days with and without, and vehicle odometer readings. The District has procedures they follow, however, the procedures in place apparently do not fulfill the end result required. Procedures will be modified and improved to verify records which are received from internal departments and the bus company who provides all data relative to miles with and without students transported, number of days and vehicle information. Non-public and public, as well as other charter school enrollment figures have been reviewed, but improvement is needed. The District, along with the bus company, need to coordinate and compare all transportation data monthly and not just annually.

The supporting data not being fully accounted for, in order to comply with auditor's requests for said information is highly unusual and the District is willing to do whatever is necessary to put better controls in place from this point forward. It was never the intent to not have the documents and failure to provide information in a timely manner. During (sic) this audit was an honest mistake. We respectfully request to be granted an exception to compile the outstanding data and lesson the negative financial impact that this finding will have on the District. The District cannot afford to incur more loss as it is currently carrying a negative \$4.8 million fund balance.

The District does retain documentation to support the number of charter school and non-public students. It is believed that there may have been a miscommunication

relative to information provided to the auditor. The District does keep registration data for these requests for transportation.

In summary, the District will make it a priority to keep more accurate transportation documentation including ongoing tracking, training relative to those students considered to be public, non-public and private, and verifying odometer readings of miles with and without students.

Auditor Conclusion

Districts are required to obtain requests for transportation for all nonpublic and charter school students transported during the school year. These requests for transportation can be completed by the student's parent/guardian or the nonpublic/charter school and the District is required, per PDE instructions, to retain these requests for transportation for review by the Pennsylvania Department of the Auditor General.

During the course of our audit, we requested these supporting documents for the charter and nonpublic students transported on numerous occasions. Subsequently, prior to the release of this report, the District did provide an enrollment list of charter and nonpublic students. However, this documentation was missing the key element of showing whether the District transported these students. Therefore, it appears that the issue resulted from the District not obtaining the requests for transportation required to report these students for reimbursement rather than miscommunication with the auditors. We encourage District officials to review PDE's instructions to help ensure nonpublic and charter school students are reported accurately. We also continue to encourage the District to obtain a better understanding of reporting all transportation data to PDE.

Status of Prior Audit Findings and Observations

Our prior audit of the East Allegheny School District (District) released on September 4, 2014, resulted in one finding, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on September 4, 2014

Prior Finding: **The District Continues to Face a Negative General Fund Balance, as well as Concerning Financial Indicators, And is Potentially in a Financially Declining Position**

Prior Finding Summary: Our prior review of the District's annual financial reports, independent auditor's reports, and general fund budgets for the school years ended June 30, 2006 through 2012 found the District reported a General Fund deficit each year. In addition, we reviewed several financial indicators in an effort to assess the District's financial stability. Our review found that the District is potentially in a financially declining position.

Prior Recommendations: We recommended that the District should:

1. Provide the Board of School Directors (Board) standard monthly updates on key financial benchmarks so that policy changes can be made before the District's financial condition worsens.
2. Maintain and monitor budgetary controls so that expenditures do not exceed revenues.
3. Open a dialogue with the District's communities, including Wilmerding, Wall, East McKeesport, and North Versailles, to keep stakeholders informed of the financial status and health of the school district.
4. Conduct a survey of parents sending children to a charter school to determine the reason why the District is losing more students to charter schools.

Current Status: During our current review, we found that the District implemented some of our prior audit recommendations. The District provides the Board with monthly updates and is actively looking for ways to

decrease charter school costs. However, as noted Finding No. 1, the District's General Fund balance decreased to negative \$4.8 million as of June 30, 2016. Please see Finding No. 1 in this report for the complete results of our review of the District's financial position during the 2012-13 through 2015-16 fiscal years.

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, Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,²¹ 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, 2012 through June 30, 2016. In addition, the scope of each individual audit objective is detailed on the next page.

The East Allegheny School District's (District) management is responsible for establishing and maintaining effective internal controls²² to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). 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.

²¹ 72 P.S. §§ 402 and 403.

²² 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, 2012 through June 30, 2016. 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
- ✓ Data Integrity
- ✓ 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 2015-16 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 Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. See Finding No. 1 for the results of the review of this objective.
- ✓ 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?²³

²³ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

- To address this objective, we randomly selected 10 buses of the 44 total vehicles used by the District’s contractors to transport students during the 2015-16 school year.²⁴ We requested documentation to verify the accuracy of the number of students reported, miles with students, miles without students reported and the transportation reimbursement received. After the District was unable to provide us supporting documentation for these vehicles, we expanded our request to the remaining 34 vehicles used to transport District students in the 2015-16 school year and all vehicles reported for the 2012-13 through 2014-15 school year.²⁵ Additionally, we reviewed all nonpublic school student and charter school students reported to PDE as transported by the District during the 2012-13 through 2015-16 school years.²⁶ The results of our review of this objective can be found in Finding No. 2 of this report.

- ✓ 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 Public School Employees’ Retirement System guidelines?
 - To address this objective, we reviewed the contracts, settlement agreements, board meeting minutes, board policies and payroll records for both administrators who separated employment from the District during the period July 1, 2012 through June 30, 2016. We reviewed board meeting minutes and board policies, to verify the reason for retirement/resignation and that total cost of any settlements were made public through board minutes. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District accurately report nonresident students to PDE? Did the District receive the correct reimbursement for these nonresident students?²⁸
 - To address this objective, we reviewed all 17 nonresident students reported by the District to PDE during the 2015-16 school year. We obtained the documentation to verify that the custodial parent or guardian was not a resident of the District and the foster parent received a stipend for caring for the student. Our review of this objective did not disclose any reportable issues.

²⁴ 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.

²⁵ The District reported to PDE that 60 vehicles transported students during the 2012-13 school year, 67 vehicles were used to transport students during 2013-14 school year, and 61 vehicles for the 2014-15 school year.

²⁶ The District reported to PDE 155 nonpublic school students transported during the 2012-13 school year, 144 nonpublic student transported during 2013-14 school year, 151 nonpublic school students transported during the 2014-15 school year, and 145 nonpublic school students transported during the 2015-16 school year. The District reported to PDE 115 charter school students transported during the 2012-13 and 145 transported during the 2013-14 school year, 149 transported during the 2014-15 school year and 180 transported during the 2015-2016 school year.

²⁷ 24 P.S. § 10-1073(e)(2)(v).

²⁸ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

- ✓ 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?²⁹ 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 10 of the 26 bus drivers transporting District students as of March 15, 2018.³⁰ We reviewed the bus drivers' credentials 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?³¹
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews of both of the District's two school buildings to assess whether the District had implemented basic safety practices.³² Due to the sensitive nature of school safety, the results of our review of this objective are not described in our audit report. The results of our review of school safety are shared with the District officials, PDE and, other appropriate agencies.

²⁹ 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.*

³⁰ 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.

³¹ 24 P.S. § 13-1301-A *et seq.*

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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