

Details of Auditor General's Report

Background

The Department of the Auditor General conducted a performance audit for 12 of 500 school districts in the Commonwealth of Pennsylvania, including Penn Manor School District. The audit was performed in accordance with applicable Government Auditing Standards and the audit covered the districts' fiscal years ended (FYE) June 30, 2018, 2019, 2020, and 2021.

As part of the performance audit, each selected district had their annual audited financial statements, budget information, and other documents reviewed for the time period mentioned above.

The objectives of the audit were to:

1. Determine whether each of the selected districts appropriately used the referendum exception method to raise local school property taxes; and
2. Determine if each district ensured that fund balances were properly designed and used for intended purposes

The reports and supporting audit opinions of the independent accounting firms that conducted the annual audits of each district FYE June 30, 2018, 2019, 2020, and 2021 were reviewed, as well as a review of the accounting firms' assessments of the districts' internal controls.

How Districts Were Selected

The Department of the Auditor General selected 12 school districts to be part of their audit. Seven districts (including Penn Manor School District) were selected because each had fiscal years not audited by the Department of the Auditor General since June 30, 2017; each had a total balance for Governmental Funds greater than \$60 million as of the FYE June 30, 2020 (as opposed to just the General Fund balance), and each proposed to raise local taxes using a PDE referendum exception at least once during the audit period. The other 5 districts were selected based on similar criteria, but with varying thresholds.

Findings

Non-compliance with law or regulations.

- **No findings for Penn Manor School District.**

Recommendations

Despite finding Penn Manor School District to be in compliance, the Department of the Auditor General offered some recommendations as part of the performance audit. The following are the recommendations for Penn Manor School District and the district's response to the recommendations:

1. **Auditor General Recommendation:** "Refrain from applying for referendum exceptions unless the district has utilized unspent funds in the General Fund's commitments and/or assignments, Additionally, refrain from applying for referendum exceptions if the district

has set aside specifically for the type of expenditure that is being requested prior to increasing taxes above the index.”

Penn Manor Response: Recommendation noted: The district has sought and used exceptions as allowed and approved four times since the inception of Act 1. The decision was not taken lightly and was discussed in public sessions by the Board of Directors as part of a multi-year approach to funding not only operational expenses, but anticipated operational expenses from the \$100 million 3-year phased high school renovation project. The Board passed the resolution not to exceed the index in all previous and subsequent budgets.

2. **Auditor General Recommendation:** “Pass a resolution during the preliminary budget to not increase taxes above the district’s index when budgetary needs can be met with existing available funds in the General Fund.”

Penn Manor Response: Recommendation noted: The resolution not to exceed the index has been passed by the Board of Directors in 14 of the 18 years since the inception of Act 1. The Board considers all tax increases carefully and publicly before any decision is made.

3. **Auditor General Recommendation:** “As a best practice, revise the General Fund policy to eliminate the restriction of maintaining excess surplus funds in the unassigned fund balance and to accommodate current practices regarding increasing taxes prior to reaching 6% of estimated expenditures.”

Penn Manor Response: Recommendation noted: Penn Manor maintains an unassigned fund balance for financial stability, cash flow, and for maintenance of the district's credit rating. The board will periodically consider policy revisions.

4. **Auditor General Recommendation:** “If the district has designations for funds that are not used within a few years as intended, the Board should consider the funds as unassigned fund balance in the General Fund.”

Penn Manor Response: Recommendation noted: Penn Manor discusses and commits a portion of its fund balance twice a year in public session. Commitments will continue to be based upon the best available information and will allow for flexibility as situations change.

5. **Auditor General Recommendation:** “Reconsider the practice of transferring surplus funds to the Capital Reserve Fund unless the funds were specifically budgeted for and disclosed to the taxpayers. Excess surplus funds should be maintained in the General Fund as unassigned fund balances for future operation costs to lessen the burden on taxpayers. This will ensure tax increases are appropriate and needed.”

Penn Manor Response: Recommendation noted: The Board of Directors of Penn Manor discusses interfund transfers during the budget process (planned transfers) and during the audit process (unplanned transfers). Unplanned transfers typically occur when expenditures come in significantly lower than budgeted for any number of reasons. The large unplanned transfer on fiscal year 2020-21 was directly related to extraordinary issues stemming from the Covid-19 pandemic.