

PERFORMANCE AUDIT

Harrisburg City School District Dauphin County, Pennsylvania

October 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. Sybil Knight-Burney, Superintendent
Harrisburg City School District
1601 State Street
Harrisburg, Pennsylvania 17103

Ms. Jennifer Smallwood, Board President
Harrisburg City School District
1601 State Street
Harrisburg, Pennsylvania 17103

Dear Dr. Knight-Burney and Ms. Smallwood:

Our performance audit of the Harrisburg City School District (District) evaluated the application of best practices in the areas of academics, finance, governance, safety, contracts, technology, child accounting, and other operational areas as noted. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period October 15, 2010 through March 9, 2015, except as otherwise stated and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 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 significant instances of failing to apply best practices and noncompliance with relevant requirements, as detailed in the five audit findings. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education (PDE).

Dr. Sybil Knight-Burney
Ms. Jennifer Smallwood
Page 2

Our audit findings and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the 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

October 19, 2015

cc: **HARRISBURG CITY 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 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, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period October 15, 2010 through March 9, 2015, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

Audit Conclusion and Results

Our audit found significant noncompliance and instances of failing to apply best practices, as detailed in the five audit findings within this report.

Finding No. 1: The District Continues to Face Significant, Persistent Financial Challenges. We identified several financial benchmarks to evaluate the changes in the District's financial position over a period of seven years. Specifically, we reviewed benchmarks within each of the following general areas: the general fund balance, the current ratio, the amount of debt service, the effective tax rate, and the Charter School tuition costs.

Several of the benchmarks we reviewed reflected positive trends. The general fund balance, for instance, has increased during the period of 2007 through 2013, from \$7.6 million to \$29 million. Likewise, the current ratio, which is an indicator of liquidity, increased from 1.15 to 1.81 for the same period. Other benchmarks, however, reflected negative trends in the following areas: excessive debt service, a decrease in the collection rate of property tax revenues, also known as the effective tax rate, and significantly increased payments to charter schools (see page 9).

In addition, we noted the District's independent auditor found a material internal control weakness regarding significant budget variances. We also found fiscal problems related to the cafeteria fund (see page 17).

Finding No. 2: Continual Poor Management of the District's Cafeteria Operations Resulted in the General Fund Subsidizing an Accumulated Loss of Nearly \$1.3 Million and a Remaining Fund Deficit Over \$875,000. Chronically weak internal controls governing cafeteria fund activities—including the District's failure to provide adequate staffing to run cash registers and account for the number of meals served—resulted in annual operating deficits in the District's cafeteria fund. In the 2013-14 school year, the District reduced the accumulated deficit with a nearly \$1.3 million transfer from the general fund. Even after this transfer, the cafeteria fund had a remaining deficit of \$877,108 as of June 30, 2014, which may negatively

affect the District's general fund in the future (see page 17).

Finding No. 3: The District Employed Unlicensed Health Room Aides and an Uncertified School Nurse who Provided Medical Services to Students. The District allowed unlicensed and uncertified employees to provide health services, putting its students at risk of receiving inadequate or even erroneous care. In doing so, the District also violated the Public School Code (PSC), as well as PDE's certification guidelines, and, therefore, incurred a potential forfeiture of state subsidies (see page 22).

Finding No. 4: The District's Student Membership Data, which was Submitted to the Pennsylvania Department of Education Not Only to Calculate Subsidies but also for Educational Decision-Making, was Deemed Unverifiable, and Therefore Unreliable. The District's student membership data submitted to PDE for the school years 2008-09 through 2011-12 did not reconcile with the data records maintained by the District. As a result, the data was deemed unverifiable and, therefore, unreliable for the four-year audit period (see page 26).

Finding No. 5: The District's Continued Failure to Implement Stronger Access Controls, Require a Non-Disclosure Agreement, and Develop a Disaster Recovery Plan Weakened Data Security. As of the end of the 2013-14 school year, District personnel had not taken corrective action as recommended since 2005 regarding the following important computer controls: implementation of access controls to include adequate password syntax requirements and timed log-outs after inactivity, amendment of a software vendor agreement to include a non-disclosure

agreement, and development and implementation of a disaster recovery plan (see page 31).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to Memorandum of Understanding (see page 39), reimbursement requests (see page 40), and SWAPs (see page 42).

Due to changes in District operations and governmental accounting standards, the findings pertaining to instructional time in special programs (see page 38) as well as the athletic fund deficit were no longer relevant (see page 41).

We found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to the cafeteria fund (see page 34), certification (see page 34), membership reporting (see page 36), and debt management (see page 41).

Background Informationⁱ

Our audit of the District was unlike any other audit we have conducted due to the District being placed in PDE determined recovery status on December 12, 2012,¹ which was during the audit period. Our Background Information begins with an explanation of this recovery status and its effect on the District.

What is Act 141?

House Bill 1307 was signed into law on July 12, 2012, and designated as Act 141 of 2012. It is also known as the “School District Financial Recovery Law.” Under Act 141, school districts can be classified by PDE into one of two recovery status categories: *Moderate Financial Recovery Status*² or *Severe Financial Recovery Status*³. The Act restricts the number of school districts receiving a recovery status designation at any one time to nine.⁴ There are currently 500 school districts in the commonwealth. For each district designated in recovery status, PDE appoints a *Chief Recovery Officer (CRO)*. The CRO is charged with receiving input from the district’s school board and the community for the purpose of developing a recovery plan intended to lead the district into financial solvency and to position it for academic success.⁵

In the weeks and months shortly after the passage of Act 141, four school districts were placed in recovery status. As of the date of this audit report, all of the following four districts remain in the status in which they were originally placed, and no other districts have been assigned the designation of moderate or severe recovery status.

School District	County	Recovery Classification	Date of Recovery Classification
Chester-Upland	Delaware	Severe	August 14, 2012
Duquesne City	Allegheny	Severe	November 16, 2012
Harrisburg City	Dauphin	Moderate	December 12, 2012
York City	York	Moderate	December 13, 2012

Under Act 141, PDE was also required to develop an early warning system used to identify school districts in financial distress. A district is declared in *Financial Watch Status*⁶ if it meets established financial criteria. PDE must officially notify districts declared in *Financial Watch Status* and provide technical assistance to them with the goal of preventing them from becoming recovery status school districts. As of the date of this audit report, all of the following four districts remain in financial watch status, and no other districts have been put into financial watch status.

¹ Article VI–a. (relating to School District Financial Recovery) of the Public School Code pertaining to financial recovery in certain school districts. See 24 P.S. § 6-601-A *et seq.*, effective July 12, 2012.

² 24 P.S. §§ 6-651-A to 6-654-A.

³ 24 P.S. §§ 6-661-A to 6-664-A.

⁴ 24 P.S. § 6-621-A.

⁵ 24 P.S. §§ 6-631-A to 6-635-A. Other sources include Act 141 and a link on the District’s website, <https://www.hsdrecoveryplan.org/frequently-asked-questions/>.

⁶ 24 P.S. § 6-611-A.

School District	County	Date of Designation in Financial Watch Status
Aliquippa	Beaver	March 15, 2013
Reading	Berks	March 15, 2013
Steelton-Highspire	Dauphin	March 15, 2013
Wilkesburg Borough	Allegheny	March 15, 2013

Harrisburg’s Designation as *Moderate Financial Recovery Status*

The Secretary of Education designated the District in *Moderate Financial Recovery Status* on December 12, 2012. This designation required the appointment of a CRO by the Secretary of Education. The CRO was responsible for developing a recovery plan, which was to establish the framework for leading the District into financial solvency and position it for academic success. That plan was issued by the CRO on April 26, 2013. The development of the recovery plan included input from District administrators, board members, community members, and a financial advisory firm.

On April 21, 2014, the CRO released an amended recovery plan, which revised some of the initiatives, although the majority of initiatives did not change. On June 1, 2014, the CRO prepared the first annual update to the recovery plan. Based on the summary-conclusion section, the CRO acknowledged the District had made substantial progress over the past year, but also noted that more of the recovery plan’s initiatives needed to be completed in order for the recovery plan to be considered successful. As of the end of our fieldwork, the recovery plan was in year two of five.

On a monthly basis, the CRO reports to the Board of School Directors (Board) on the District’s progress based upon the initiatives set forth in the recovery plan. According to the CRO’s most recent annual update, the District had completed many of the financial goals set forth in the recovery plan. According to the District’s administration, the latest steps taken by the District to accomplish the academic goals of the recovery plan include the December 2014 approval of a new curriculum and attempts to place qualified academic coaches in all school buildings.

The remaining section of our Background Information focuses on District specific characteristics, mission statement, financial information, and academic information.

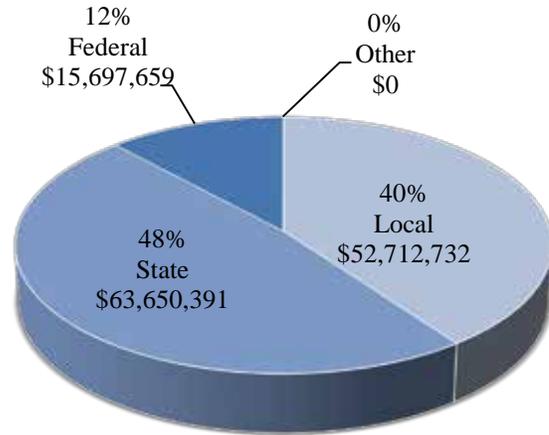
School Characteristics 2013-14 School Year ⁱⁱ	
County	Dauphin
Total Square Miles	11
Resident Population ⁱⁱⁱ	49,528
Number of School Buildings	11
Total Teachers	417
Total Full or Part-Time Support Staff	47
Total Administrators	19
Total Enrollment for Most Recent School Year	6,398
Intermediate Unit Number	15
District Vo-Tech School	Dauphin Co. Technical School

Mission Statement

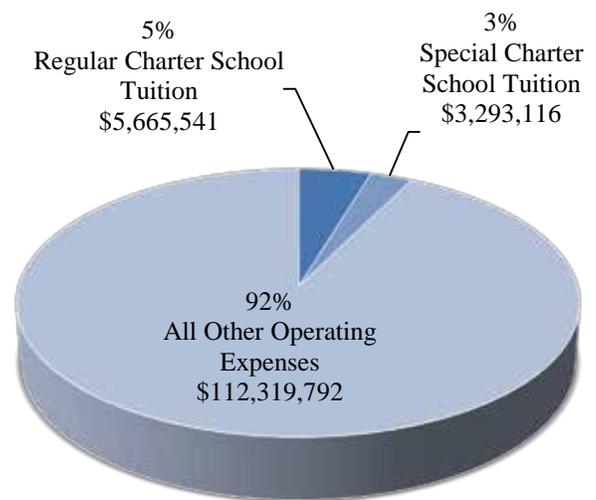
“The Harrisburg School District is committed to providing a rigorous and relevant education to all students in a learning environment that fosters high expectations and data driven and standards aligned instruction provided by committed, highly qualified teachers. A culturally responsive, safe, and positive school environment is provided to enhance, empower, and promote the value of lifelong learning for our students. Families and the Harrisburg community are active partners in the educational process.”

Financial Information

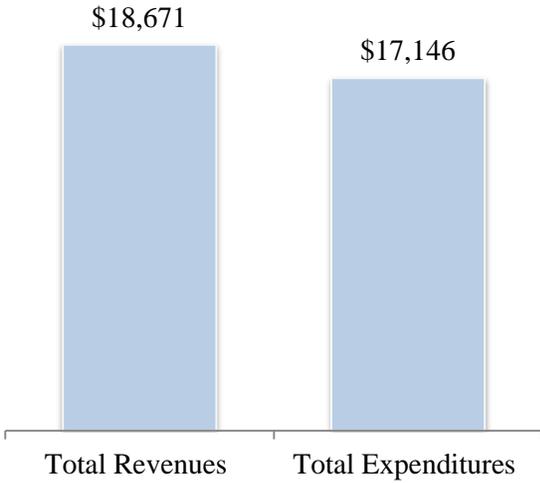
Revenue by Source for 2012-13 School Year



Select Expenditures for 2012-13 School Year

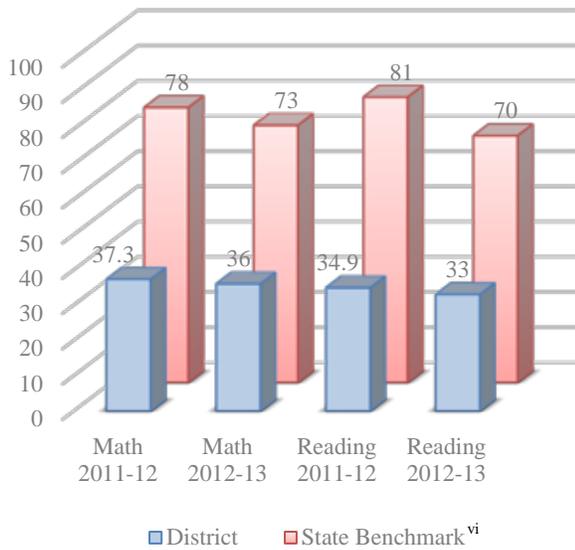


**Dollars Per Student
2012-13 School Year**



Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



District's 2012-13 SPP Score^{vii}

A	B	C	D	F
90-100	80-89.9	70-79.9	60-69.9	<60
▲	▲	■	▼	▼



Individual Building SPP and PSSA Scores^{viii} 2012-13 School Year						
School Building	SPP Score	PSSA % School Proficient and Advanced in Math	PSSA % Statewide Benchmark of 73% Above or Below	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark of 70% Above or Below	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
Benjamin Franklin Elementary School	58.1	30	43	30	40	Focus
Camp Curtin Elementary School	56.6	31	42	26	44	Priority
Downey Elementary School	61.4	41	32	32	38	Focus
Foose Elementary School	53.7	28	45	22	48	Priority
Harrisburg High School	52.5	12	61	26	44	Priority
Harrisburg High School-SciTech Campus	69.9	77	4	93	23	Reward
Marshall School	57.2	39	34	28	42	Focus
Math Science Academy	92.2	92	19	85	15	Reward
Melrose Elementary School	64.5	41	32	32	38	Focus
Rowland Elementary School	49.6	23	50	25	45	Priority
Scott Elementary School	60.0	41	32	34	36	Priority

The District's overall SPP score of 57.8 is comprised of the 11 individual school building scores. As shown in the table above, 9 of 11 District school buildings are labeled as "Priority" or "Focus". According to these new federal accountability designations, Title 1 schools are designated as "Priority" if their performance is in the lowest 5% and "Focus" schools are the next lowest 10% of all Title 1 schools.

As shown on the previous chart, Pennsylvania System of School Assessment proficiency in these nine schools was significantly lower than the statewide benchmark in Math and Reading. These nine schools were required to develop and file academic school improvement plans (SIPs) with PDE. Best practice research has found that continuous monitoring of the SIPs by individual District personnel will help to ensure that the SIPs are being followed and will allow for optimal communication between teachers, principals, the Superintendent, and the Board. Furthermore,

continuous planning and monitoring efforts are essential to providing increased student performance and achieving quality results.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

ⁱⁱⁱ Source: United States Census <http://www.census.gov/2010census>

^{iv} PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

^v PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a material weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vi} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{vii} SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^{viii} *Ibid.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a material deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.

Findings and Observations

Finding No. 1

The District Continues to Face Significant, Persistent Financial Challenges

Criteria relevant to the finding:

The benchmarks used as criteria for this objective were based on best business practices established by several entities/agencies, including the Pennsylvania Association of School Business Officials (PASBO), the Colorado State Auditor, and the National Forum on Education Statistics.

On January 24, 2012, PASBO provided testimony at a public hearing on fiscally distressed school districts to the Senate Education Committee. It suggested a number of indicators that should be reviewed annually. The following were among the benchmarks recommended for evaluating districts:

1. Total debt service should not exceed 10 percent of general fund expenditures.
2. The trend of effective tax rates as compared to levied tax rates should be stable or increasing to ensure the school district has sufficient tax revenues to maintain its educational services at an appropriate level.

In order to assess the District's financial stability, we reviewed financial benchmarks, several of which were also addressed by the District's CRO in its recovery plan. As discussed in the Background Information section of this report, the District is currently designated as an Act 141 district, which indicates that it is in moderate financial recovery status.

We identified several financial benchmarks to evaluate the changes in the District's financial position over a period of seven years. Specifically, we reviewed benchmarks within each of the following general areas:

1. The general fund balance.
2. The current ratio.
3. The amount of debt service.
4. The effective tax rate.
5. The charter school tuition costs.

Several of the benchmarks we reviewed reflected positive trends. The general fund balance, for instance, has increased during the period of 2007 through 2013, from \$7.6 million to \$29 million. Likewise, the current ratio, which is an indicator of liquidity, increased from 1.15 to 1.81 for the same period. Other benchmarks, however, reflected negative trends in the following areas:

- Excessive debt service.
- A decrease in the collection rate of property tax revenues, also known as the effective tax rate.
- Significantly increased payments to charter schools.

Criteria relevant to the finding (continued):

Regarding school district costs associated with charter schools, Section 2591.1 of the Public School Code, 24 P.S. § 25-2591.1, provides for the commonwealth to partially reimburse school districts for their charter school costs, but the state stopped providing reimbursements after 2011. Please note that prior to the 2011-12 school year, the state provided **indirect** financial support to charter school education by reimbursing districts a portion of their charter school tuition payments according to established rates (up to 30%, or 41.96% in some instances), but this reimbursement was eliminated in the Commonwealth's 2011-12 annual budget. (See our Department's *Special Report on Charter School Accountability and Transparency*, released in May 2014.)

Regarding the District's material weakness in internal control, good business practices dictate that budgets be prepared with a reasonable degree of accuracy in order to assist management in evaluating and controlling expenditures.

In addition, we noted the District's independent auditor found a material internal control weakness regarding significant budget variances. We also found fiscal problems related to the cafeteria fund (see Finding No. 2).

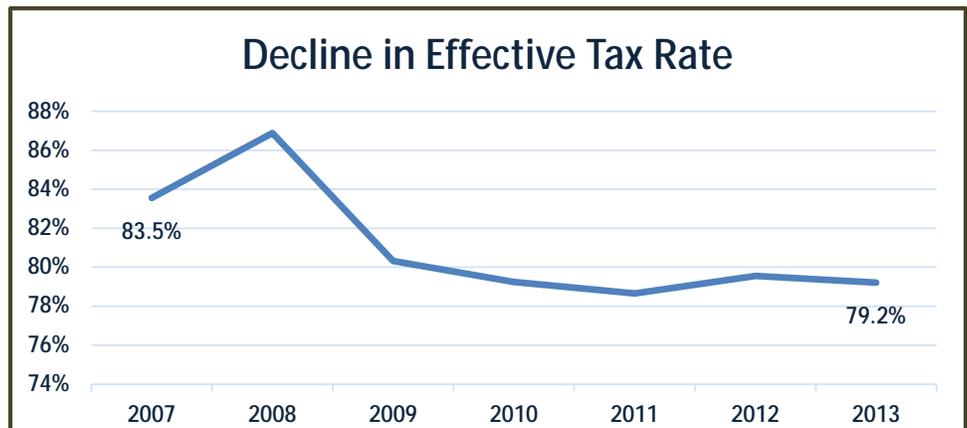
Excessive Debt Service

PASBO recommends school districts maintain a level of debt service not to exceed ten percent of general fund expenditures. For the 2012-13 school year, the District's debt service of nearly \$14.5 million equated to 13.8 percent of general fund expenditures. The excessive debt service means the District has less funds available to provide educational services to its students.

According to the District's recovery plan and subsequent updates, the CRO has consistently acknowledged the excessive debt service, as well as the District's efforts to restructure some of its debt. The CRO has also recommended the development of a debt service policy in order to improve management of its debt, and we agree with this recommendation.

Decrease in Collection Rate of Property Tax Revenues

For the period fiscal year ending 2007 to fiscal year ending 2013, collection rates for property taxes declined. The collection rate is also known as the effective tax rate.¹ A decrease in the effective tax rate indicates that the rate of tax collections is declining, which was the case for the District, as shown in the graph below.



¹ The effective tax rate is calculated by taking the actual taxes collected divided by the product of total assessed property values multiplied by the tax (or millage) rate.

In Harrisburg, millage rates increased 27 percent from 2007 to 2013, but actual property tax revenues only increased 17 percent for the same period, from \$29.4 million to \$34.4 million.

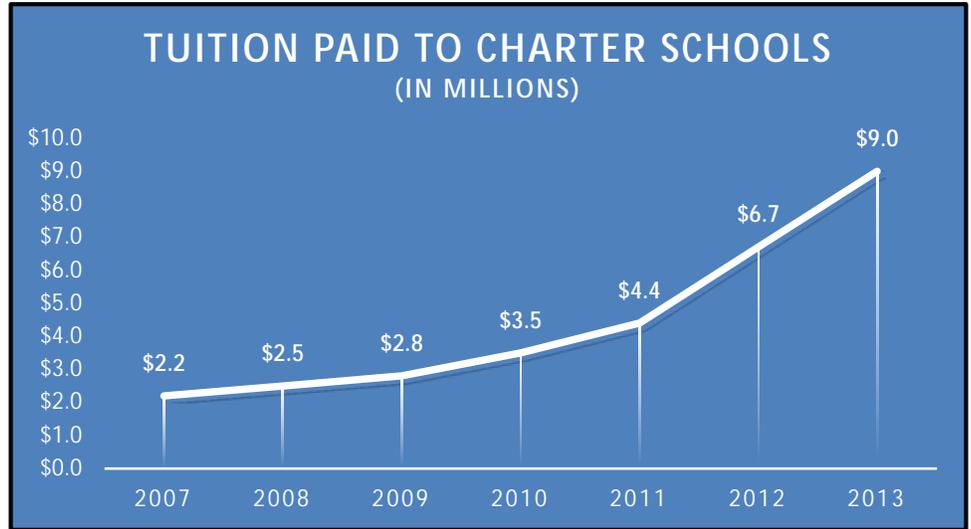
The effective tax rate is an indicator of the relative fiscal health of the community supporting the District. A reduction in the effective tax rate may indicate that levying increases in tax rates may not necessarily result in increased actual tax revenues. According to the recovery plan and subsequent updates, the CRO has been addressing options with regard to delinquent tax collections in order to improve the effective tax rate. However, it is important for the District, at a minimum, to continue to monitor this rate in determining its budgeted revenues.

Significantly Increased Payments to Charter Schools

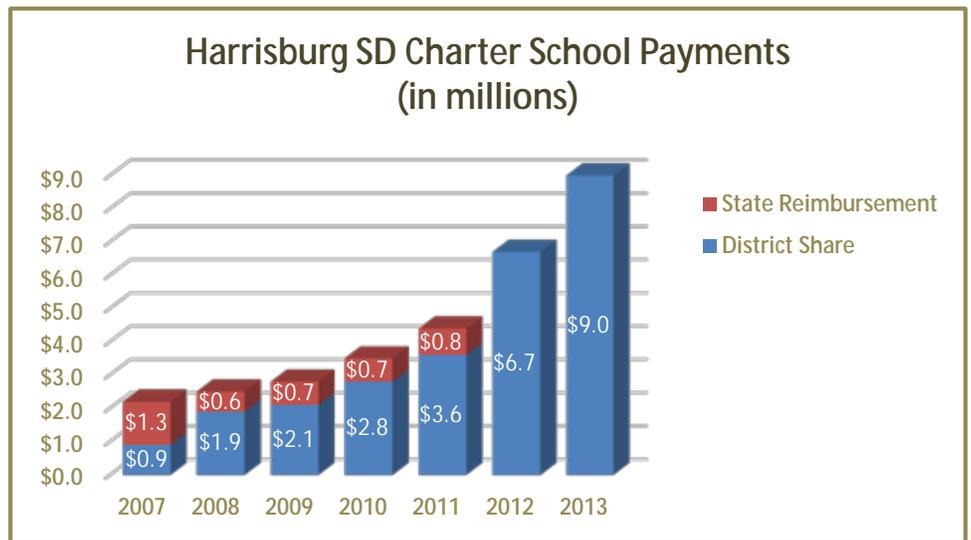
During the period of fiscal year ending 2007 to fiscal year ending 2013, average enrollment of students attending charter schools increased by more than 157 percent to nearly 650 while enrollment in the District's traditional schools decreased by 15 percent to approximately 7,000.

The District's mandated responsibility for charter school tuition costs increased substantially during the period. This cost, as a percentage of expenditures, increased more than fourfold from 1.8 percent in 2007 to 8.5 percent in 2013 when these costs approached \$9 million. Consequently, the amount of District funds available for in-house educational services was reduced.

The following graph illustrates the increased tuition payments made by the District to charter schools during the period.



To make matters worse for the District, in the 2011-12 school year, the Commonwealth eliminated the charter school reimbursements it had been paying to school districts that had students attend charter schools. Prior to 2011-12, the Commonwealth provided some financial support for charter school education by reimbursing school districts for a portion of their charter school tuition payments. As shown in the chart below, the District's charter school costs increased while state reimbursements decreased and then stopped altogether.



The District's original *Recovery Plan*, dated April 26, 2013, states: "It is clear that the failure of the Harrisburg School District to meet the academic needs of students has caused parents to seek alternatives to the traditional school setting."

More recently, the CRO again addressed the impact of the increase in charter school enrollment in its *Amended Act 141 Recovery Plan*, dated April 21, 2014. This updated plan acknowledged that the original plan focused on competition from cyber charter schools, but more recently, competition increased from the brick-and-mortar charter schools. Accordingly, the CRO stated in the amended plan that it was "vital that the entire Harrisburg school community focus on improving its academic performance . . ."

The CRO projected charter school enrollments to continue increasing at approximately 13.6 percent per year. The District will have to continue to monitor the charter school enrollment trend since tuition costs have had an increasing negative impact on the District's budget. In turn, the increased negative impact on the budget reduces the funds available to support academic improvement services for the District's students.

Material Internal Control Weakness: Budget Variances

The District's independent auditor reported a material internal control weakness in its report on the District's financial statements for the year ended June 30, 2013. The material weakness pertained to a significant variance between the budgeted fund balance and the actual fund balance for that year. The District projected a decrease of \$4.5 million in the general fund budget, but actual results yielded an increase of \$10.8 million. This disparity resulted from another significant variance in the District's budget: actual expenditures were \$16.4 million less than budgeted expenditures for the same period. According to the independent auditor's report, "variances of this magnitude are indicative that the methodology and process used by the District for its annual budget preparation and review are materially deficient."

Our review revealed the District also had a significant budget variance related to expenditures for the year ended June 30, 2011, when actual expenditures were less than budgeted expenditures by nearly \$15 million. We concur with the local auditor in concluding that deficient budgeting processes can lead to inappropriate financial decisions, and we add that these decisions can then negatively impact academic programming and other academic decisions.

The current administration could not explain why the budgets had such significant variances because the employees who prepared the budgets for those school years no longer worked for the District.

Recommendations

In order to strengthen its fiscal standing, the *Harrisburg City School District* should do the following:

1. Establish board-approved, written policies and procedures to address borrowing limits, debt-service management and debt restructuring.
2. Perform cost-benefit analyses, including the use of historical data and evaluation of assumptions and estimates when considering a change in regular or delinquent tax collection procedures. Analysis and recommendations should be presented to the public for discussion before authorization.
3. Improve budgeting processes to reduce large fluctuations between budgeted and actual expenditures, thereby improving the financial management of the school district.

Management Response

District management provided the following response:

- “1. The Harrisburg School Board of Directors approved Policy No. 630 Debt Management (attached) on April 20, 2015. This policy addresses the objectives of a debt policy including issuance, debt limits, purposes of debt, and the structure of all future debt service. This policy provides guidelines on interest rate risk and outlines the parameters for retiring debt through

refinancing opportunities. Based upon this policy the Board has taken the opportunity to restructure portions of the outstanding debt, including the retirement of one (1) of the remaining two (2) SWAP agreements to reduce future interest costs. The Board will continue to monitor the financial markets for opportunities to retire debt prior to the maturation date, and will consider the retirement of the final SWAP agreement during the 2018-19 fiscal year.

2. The Administration agrees that increases in tax assessment may result in a reduced percentage of the taxes collected in the current fiscal year, but when tax increases are necessary to fund programs, this should be accounted for in the budgeting process. The result may be reduction in the percentage of anticipated revenues for the current year, but the overall collection in subsequent years when delinquent tax collections are considered, typically results in a greater percentage of collections for that specific tax year.

During the audited years the Harrisburg School District “sold” the tax liens to realize a portion of the delinquent tax revenue from the current fiscal year as a one-time payment each year. Amounts collected in excess of that obligation are returned to the School District once the principal, interest and fees of the transaction are repaid to the banking institution to which the liens were transferred. The result of this transaction has been that the district realized a greater return on the payment of delinquent taxes than the original tax duplicate required. When factored into the total payment of assessed taxes for a fiscal year, the district actually realizes in excess of 100% of the duplicate, although this process takes four to five years.

3. The Administration agrees that the budget process utilized during the audited term lacked clarity and appeared to be based upon prior expenditure assumptions that were not accurate. The excessive fund balances were realized due to an overstatement of expenditures from prior years that did not include factors such as a reduction in staff, a reduction in the number of operating facilities, and the reduction of expenditures on materials and supplies.

The current budgetary process utilizes the actual expenditures from the prior year and fully considers the current environment within the district. This includes any adjustments for staffing, facility usage and other factors related to the educational programs. It is anticipated that the 2014-15 Budget will result in a difference of approximately \$1 million between revenues and expenditures, which indicates an accuracy within 0.7% of the total budget. Although the revenues/expenditures failed to meet the original budget levels, programs and expenses were adjusted during the year to provide that level of accuracy.

Charter School expenses have levelled during the past two years and it is anticipated that unless additional programs are approved within the school district, that the costs will be relatively stable. Based upon prior year trends and 800 students enrolled in 2013-14, it was estimated that the charter school enrollment for 2014-15 would be approximately 825 students. With the opening of a district operated cyber-school and alternatives for students, the enrollment for 2014-15 was approximately 790 students, resulting in an expenditure of \$9.4 million. Despite one local brick/mortar charter school increasing enrollment for 2015-16, the number of students enrolled has remained constant. Although the costs may increase based upon the tuition rate, it is anticipated that more students are returning to district programs and this cost has stabilized.”

Auditor Conclusion

We are encouraged that the District realizes the seriousness of its financial challenges and has implemented corrective action. We believe approving a new debt management policy, developing an improved budgeting process, continuing to sell tax liens to realize a portion of delinquent tax revenue, and the creation of a District operated cyber-school in an effort to give students alternatives and keep them in the District are positive first steps. Except for the selling of tax liens, all of these District implemented policies, procedures, and actions occurred after our audit work, and the effects can't be determined at this time. We will evaluate these and any other corrective actions during our next audit of the District.

Finding No. 2

Continual Poor Management of the District's Cafeteria Operations Resulted in the General Fund Subsidizing an Accumulated Loss of Nearly \$1.3 Million and a Remaining Fund Deficit Over \$875,000

Criteria relevant to the finding:

PSC, 24 P.S. § 5-504(a), (c), and (e):

Section 504(a) of the PSC states, in part: "(a) The board of school directors in any school district shall have power to establish, equip, maintain, and operate cafeterias, or to contract for any services necessary for the operation of a food service program . . ."

Section 504(c) of the PSC states: "(c) The food served shall be sold to the pupils, teachers, and school employees of the cafeterias at such price as will not materially exceed the cost of operation."

Section 504(e) of the PSC states: "(e) There shall be a cafeteria fund, and all payments from said fund shall be made upon a special order drawn by the school employee authorized to purchase food supplies [who] shall present each month to the board of directors, for approval, a statement of receipts and expenditures."

Chronically weak internal controls governing cafeteria fund activities—including the District's failure to provide adequate staffing to run cash registers and account for the number of meals served—resulted in annual operating deficits in the District's cafeteria fund. In the 2013-14 school year, the District reduced the accumulated deficit with a nearly \$1.3 million transfer from the general fund. Even after this transfer, the cafeteria fund had a remaining deficit of \$877,108 as of June 30, 2014, which may negatively affect the District's general fund in the future.

This is the second consecutive audit by the Department of the Auditor General containing a finding about the cafeteria fund deficit. A cafeteria fund finding was also noted in the independent auditor's report on the District's financial statements as of June 30, 2014.²

Cafeteria fund expenditures exceeded revenues for four of the five school years from 2010 through 2014. Revenues include payments from students and staff for breakfast and lunch sales, state and federal subsidies, and general fund reimbursements when subsidies and cost reimbursements are insufficient to cover expenditures.

² Stambaugh Ness, PC, Harrisburg City School District, Single Audit, June 2014, Schedule of Findings and Questioned Costs, C: Federal Award Findings and Questioned Costs, pages 96-98.

Revenues, Expenditures, & Changes in Cafeteria Fund Balance						
School Year Ending June 30	Beginning Fund Balance (Deficit)	Revenues	Expenses	Annual Revenues Less Expenses (Loss)	General Fund Subsidy	Ending Fund Balance (Deficit)
2010	\$(517,678)	\$5,849,526	\$6,152,980	\$(303,454)		\$(821,132)
2011	(821,132)	5,456,845	5,860,855	(404,010)		(1,225,142)
2012	(1,225,142)	5,426,778	5,561,731	(134,953)		(1,360,095)
2013	(1,360,095)	5,466,963	5,442,950	24,013		(1,336,082)
2014	(1,336,082)	4,388,173	5,197,243	(809,070)	1,268,044	(877,108)

The District offered the following reasons for expenditures frequently exceeding revenues for the school years prior to the hiring of the current cafeteria vendor:

1. Often there were not enough District staff on hand to serve food to the students, so “the staff running the register would serve and not run the register.” As a result, the District may have failed to receive payments for some of the meals distributed.
2. Staffing shortages also resulted in the District’s inability to timely reconcile cash in the register with the point-of-sale system. The District, therefore, often estimated the number of students who were served lunch based on daily school attendance.
3. Employee wages and benefits accounted for over 45 percent of the fund’s expenses. Of the wages and benefits, over 40 percent comprised benefits, which have continued to increase.

The District outsourced the management of cafeteria services beginning July 1, 2013. Soon afterward, however, the initial vendor and the District agreed to dissolve the relationship, and the District sought bids for another vendor. The second vendor began to manage cafeteria services in November 2013 and has remained as its vendor. According to the District, the decreased revenues in 2014, compared to prior years, is due to the current vendor accounting for actual sales, whereas in past years, as explained above, the District estimated sales based on daily attendance.

According to the District, although revenues decreased in 2014, expenditures remained steady compared to prior years not only because of the District's initial cost of working with two new vendors in that year, but also because its staffing costs remained constant due to a union contract which expires in 2016, after which the cafeteria vendor will begin to provide its own staffing as attrition occurs.

According to the District, the current cafeteria vendor has incorporated more internal controls, including a new point-of-sale transaction system for the 2014-15 school year. In addition, the vendor is providing revenue and expense reports to the District on a bi-weekly basis, which should allow for improved oversight. We will review the effectiveness of these new internal controls in the next audit of the District.

Recommendations

The *Harrisburg City School District* should:

1. Track revenues, expenditures, and changes in the fund balance on at least a monthly basis to timely address deficits, staffing issues, and other problems as they arise, so that in the future, operating deficits can be minimized or eliminated.
2. Prepare and submit to the Board, on a monthly basis, reports summarizing the cafeteria fund's revenues, expenditures, and changes in the fund balance.
3. Annually evaluate the cafeteria fund's year-end balance and determine if transfers to or from the general fund is warranted.
4. Evaluate the internal controls over cafeteria operations that were implemented by the vendor and develop procedures to ensure the controls are working as intended.

Management Response

District management provided the following response:

- “1. The Harrisburg School District had operated a full in-house operation, and due to significant increases in the cost of purchased food commodities, equipment repairs, salaries, medical benefits and PSERS payments, the operation continued to operate at a deficit. During the period of the audit, the accounts continued to operate in deficit because the participation of clients paying for meals declined while the increase in reimbursement for free and reduced meals did not meet the increased costs.
2. Following the retirement of the Director of Food Services in June, 2013 the Board engaged a Food Service Management Company (FSMC) to administer the operation. The original contractor provided services only a few months, and based upon their inability to administer the operation, a second FSMC (The Nutrition Group) was appointed to oversee the operation.

During the first several months of the 2013-14 school year the lunch counts were not properly documented, and the District was ineligible for reimbursement for costs based upon the lack of documentation for the meals served. In early 2014 the FSMC utilized an outdated POS system and implemented a manual documentation system that allowed the district to apply for full reimbursement for meals served.

The Harrisburg School District applied and was granted participation in the Community Eligibility Program for feeding, which provides free meals (breakfast and lunch) to all students within the school district. At that time a counting system had been installed, but an updated POS system for electronic counting was not yet in place.

3. The School District has continued progress with a guaranteed contract with the FSMC, initiated an updated POS system accounting for student participation, and appointed a Food Service Supervisor to directly oversee the operations. It is anticipated that the district will realize an increase in documented

participation, revenue from that participation, and overall improvement of the program during the 2015-16 fiscal year.”

Auditor Conclusion

We are encouraged that the District is taking appropriate steps to help improve the management of the cafeteria operations and anticipates an overall improvement during the 2015-16 fiscal year. We believe the implementation of the new controls of the cafeteria operations along with maintaining proper documentation for reimbursement are positive steps in an attempt to reduce and possibly eliminate operating deficits for cafeteria operations. All of these procedures were implemented after our audit work, and the effects cannot be determined at this time. We will evaluate these and any other corrective actions during our next audit of the District.

Finding No. 3

The District Employed Unlicensed Health Room Aides and an Uncertified School Nurse who Provided Medical Services to Students

Criteria relevant to the finding:

PSC:

Section 1212 of the PSC, 24 P.S. § 12-1212, requires the District superintendent to maintain “accurate [certification] records.”

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

“ . . . [A]ny school district, intermediate unit, area vocational technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the PDE but who has not been certificated for his position by PDE . . . 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.”

PDE’s Certification Staffing Policies and Guidelines (CSPG):

CSPG 80 states, in part:

“When a school district employs an individual in the job title ‘School Nurse,’ this person must be a certified School Nurse whether employed as a professional or temporary professional.”

“School districts may elect to use paraprofessional health room aides to supplement the certified School Nurse in providing health services.” (CSPG 101 addresses the utilization of paraprofessionals.)

The District allowed unlicensed and uncertified employees to provide health services, putting its students at risk of receiving inadequate or even erroneous care. In doing so, the District also violated the PSC, as well as PDE’s certification guidelines, and, therefore, incurred potential forfeiture of state subsidies.

For the four school years from 2010-11 through 2013-14, we found that 100 percent of the District’s Health Room Aides lacked the required Licensed Practical Nurse (LPN) license. During the audit period, the average number of Health Room Aides employed during a given school year was five. When we submitted a “Possible Citations” notification to PDE, it confirmed all of these employees, eight individuals altogether, lacked the required LPN license.³

Many of the duties assigned to Health Room Aides are similar to those of the School Nurse, such as providing “injections, flu shots, and other immunizations per doctors’ orders.”⁴ Other duties include providing first aid, dispensing medications, and maintaining health records. Health Room Aides are required to have an LPN license. Without that license and the training that goes with it, such aides have a greater risk of making mistakes that could jeopardize the health of students.

Health Room Aides are supervised by Certified School Nurses (CSNs). As part of our professional employees’ certification testing, we found that a School Nurse hired for the 2013-14 school year did not have the required certification. PDE confirmed that this employee was not certified as a school nurse for the 2013-14 school year.

Having an uncertified school nurse supervising unlicensed health room aides potentially exposes the District to even greater risks. The District should immediately review the certification status of all of its School Nurses and the

³ PDE, “Final Audit Review”, November 14, 2014.

⁴ Ibid.

licensing status of all of its Health Room Aides. Without proper licensing and certification of all health services employees, the increased risk of errors could further jeopardize the health of students, staff, and the entire school community.

In addition to the increased health risks, the District faces a financial penalty due to its failure to comply with the PSC. Specifically, since PDE confirmed these deficiencies pertaining to the Health Room Aides and the School Nurse, the District will be subject to the following subsidy forfeitures totaling nearly \$33,000.

School Year	Subsidy Forfeitures
2013-14	\$ 5,181
2012-13	8,428
2011-12	7,965
2010-11	<u>11,415</u>
Total	<u>\$32,989</u>

Due to administrative staff turnover, particularly in the Human Resources Department (HR Department), we were unable to determine the specific causes of the certification deficiencies. The HR Department’s high turnover itself may have contributed to the District’s failure to ensure proper certification and/or licensing *prior* to employment. Certification problems, however, have been a recurring problem in the District, as noted in three consecutive past audits by the Department of the Auditor General. Unless and until the District makes a greater effort to address this recurring problem, the District will continue to expose itself to unnecessary risks and financial penalties.

While this finding specifically addresses the qualifications of employees who provide health services to students and staff, we also provide a status update on certifications of other professional employees on page 34.

Recommendations

The *Harrisburg City School District* should do the following with regard to health services employees:

1. **Immediately** disallow any current employees lacking proper certification and/or licensing from providing health services to the District's students and staff, until it obtains the proper certification and/or licensing from these employees.
2. Promptly implement a tracking system to ensure all individuals providing health services in the District are appropriately licensed and/or certified.
3. Provide a secondary review, by the Superintendent's office, of the certification and licensure of its School Nurses and Health Room Aides. This review step should occur *prior* to hiring these employees.
4. Prior to hiring, submit all locally-titled positions, such as Health Room Aides, to PDE for review and determination of the appropriate certification and/or licensure requirements for the positions.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to recover any subsidy forfeitures as deemed necessary.

Management Response

District management provided the following response:

- “1. The Harrisburg School District acknowledges that the staff listed as Health Room Aides did not possess certification beyond first aid and CPR training required of the position.
2. As of July 1, 2014 the job description for the Health Room Aides was clarified and changed to eliminate any requirements or duties related to administering medicine, diagnosing illness, or performing any duties required of a professional nursing position. All references to LPN/RN certification have been removed from this job (attached) description. Since that time, it

has been required that all such duties are performed by professional nursing staff employed or contracted by the district.

3. The Human Resources Department has implemented a tracking system for all professional certifications, and can verify that all employed and contracted nursing staff are properly certified to perform duties prescribed for their position.”

Auditor Conclusion

We are encouraged that the District has implemented corrective action to improve medical services to students. We believe tracking professional certification and verifying all contracted nurses are properly certified are positive steps for providing the necessary medical services to students. We acknowledge the District has revised the job description for Health Room Aides as of July 1, 2014, and we encourage the District, if they haven't already done so, to obtain approval from PDE's Bureau of School Leadership and Teacher Quality (BSLTQ) for the revised job description to ensure that a LPN license is not required. All of these District implemented procedures and actions occurred after our audit work and the effects can't be determined at this time. We will review the District's corrective actions during our next audit.

Finding No. 4

The District's Student Membership Data, which was Submitted to the Pennsylvania Department of Education Not Only to Calculate Subsidies but also for Educational Decision-Making, was Deemed Unverifiable, and Therefore Unreliable

Criteria relevant to the finding:

School districts, charter schools, intermediate units, and other local education agencies (LEA) must report their student membership data in PDE's Pennsylvania Information Management System (PIMS). The term "membership" refers to the number of days a student is enrolled in a district or other LEA. Accurate reporting is essential to the appropriate evaluation of the data. According to PDE, accuracy of all data elements are important to:

- The School Performance Profile
- Title I Federal Differentiation
- Elementary & Secondary Education Act (ESEA) Federal Reporting

What is PIMS?

PDE's PIMS is a statewide data collection system used to manage student data in grades pre-kindergarten through 12. Data gathered from school districts and other LEAs throughout the state are used to meet state and federal reporting requirements and to improve educational decision-making. Data also affect the evaluation of academic performance in the context of demographics, which can then affect state and federal funding.

The District's student membership data submitted to PDE for the school years 2008-09 through 2011-12 did not reconcile with the data records maintained by the District.⁵ As a result, the data was deemed unverifiable and therefore unreliable for the four-year audit period.

Inaccurate reporting of student data has a two-fold effect—academic and fiscal. Since data such as Pennsylvania System of School Assessment scores are evaluated in the context of certain demographics, the unreliability of the District's student data may render such evaluations limited in their usefulness. Since these evaluations are used in educational decision-making, unreliable data may yield ineffective educational decisions on behalf of District students.

In addition, student membership data are used to determine certain types of funding, and its inaccuracy may result in either subsidy overpayments or underpayments to the District.

According to the data the District reported to PDE, overall average daily membership (ADM)⁶ during the four-year audit period decreased, as shown in the chart below.

School Year	ADM	Inc./ (Dec.) from Prior Year
2008-09	8,372	100
2009-10	8,014	(358)
2010-11	7,615	(399)
2011-12	7,268	(347)

⁵ For the 2008-09 school year, the District used the former Child Accounting Database (CAD) system for submitting data to PDE. PIMS replaced CAD beginning in 2009-10. Similar to the PIMS data, CAD data for 2008-09 was deemed unreliable.

⁶ ADM refers to a calculation of average daily enrollment.

*Criteria relevant to the finding
(continued):*

Therefore, PIMS data impact both the academic and fiscal environments of school districts and other LEAs.

PIMS data are also used for Pennsylvania System of School Assessment accountability reporting. The system is designed to keep individual student data confidential.

PIMS went into effect in 2009-10, replacing the former Child Accounting Database system.

Four important data elements from the *Child Accounting* perspective are:

- District Code of Residence
- Funding District Code
- Residence Status Code
- 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
- Location Code of Residence

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.

Since the membership data was determined to be unreliable, we could not verify the accuracy of the data. According to the CRO's annual recovery plan reports, the District has experienced a significant migration of students who have enrolled in charter schools, which could account for at least part of the decrease in enrollment.⁷ However, we could not confirm whether the decrease in overall ADM was due to the increased charter school enrollment or improper record-keeping and reporting or some combination thereof.

We found the following problems related to the accounting for student data:

- The District's student information system (SIS) reports, which were used to enter data into PDE, did not reconcile to PDE's final reports. The District could not provide documentation that it had performed reconciliation procedures to ensure its data had been submitted properly to PDE.
- Some of the original SIS reports used for submission of data to PDE were actually missing, so they had to be re-created from the system. These re-created reports also did not reconcile with the PDE data.
- The District's SIS reports did not provide sufficient details; for instance, they did not:
 - identify the difference between resident and non-resident students.
 - provide totals for resident and non-resident days of membership.
 - identify grade level totals.

Because of the lack of details in SIS reports, we were not able to effectively audit the classifications of membership data into categories such as resident, non-resident, and grade-level membership, and we could not conclude, therefore, on the accuracy of the data and the corresponding classifications. We also could not verify whether the District received appropriate subsidies, which were determined by using this data.

⁷ See Finding No. 1 for more information on the District's charter school enrollment and costs.

- The District's SIS reports did not identify the actual number of days in session for each of the four school years. As a result, we were unable to verify the accuracy of the ADM for the calendar days in PDE.
- For foster care students, the District incorrectly reported the district of residence as the District instead of the district of residence of the students' custodial parents for the 2009-10 school year.⁸ Based on membership days reported, the District could have received additional subsidies of \$87,705. Since we deemed the data unreliable, however, we did not submit revised foster care student data to PDE.

Since we determined that student membership data was unreliable, no other potential adjustments were made for subsidies to or from PDE.

We have found deficiencies with the District's reporting of student membership data dating back to the 2002-03 school year. We believe the full implementation of the following recommendations will help the District to alleviate its systemic student data accounting and reporting problems.

Recommendations

The *Harrisburg City School District* should:

1. Perform timely reconciliations of the District's SIS reports to the final PDE summary reports, and maintain documentation of these reconciliations.
2. Coordinate with the District's SIS vendor to ensure detailed, usable reports can be generated in order to provide comprehensive reconciliations with PDE's summary reports.
3. Ensure accurate coding of non-resident foster students in SIS so the District receives appropriate subsidies.
4. Compare the SIS reports with PDE summary reports for years subsequent to the audit. If errors are found and can be substantiated, submit revised reports to PDE.

⁸ Incorrect reporting of foster care student data occurred in many LEAs for the same period, since it was the first year of implementation of the PIMS data collection system which replaced the CAD system.

Management Response

District management provided the following response:

“The District is working with our student management system vendor to ensure the reports that gather membership summary and detail data are properly set up in our SIS, and to ensure that all district personnel involved in these technology and child accounting processes are properly trained. Our district is also adding another member to the child accounting staff whose position will be to solely concentrate on child accounting reporting and PIMS reporting.

The following steps are being taken to ensure the accuracy and reliability of the student data accounting and reporting:

1. Perform monthly reconciliations of membership data along with the existing reconciliations of attendance data by school.
2. Securely maintain documentation of individual schools' monthly membership data reconciliations, verified and signed by the school secretaries, principals and child accounting staff.
3. Continue to coordinate with the district SIS vendor to produce detailed, usable reports that are reconcilable with the PDE PIMS reports and are part of the monthly membership reconciliation with the individual schools as described in step 1.
4. Continue to coordinate with the district SIS vendor to ensure accurate coding of nonresident foster students in the SIS and continue to securely maintain documentation of nonresident foster student information and membership data.
5. Perform comparisons of the PDE PIMS summary reports with the validated, detailed, usable reports from the district SIS as described in steps 1, 2 and 3.
6. The district will submit revised reports to PDE, if errors are found, and the errors are substantiated as a result of the comparison described in step 5.

7. The district will complete a child accounting manual with all procedures and protocols needed to accomplish the reconciliation of membership data reporting. The goal is to have this completed by January 31, 2016.
8. The district will ensure that all personnel involved in data input, reporting and reconciliation will continue to be trained to accurately and with fidelity complete these tasks.”

Auditor Conclusion

We are encouraged that the District has initiated contact with its SIS vendor to help implement corrective action. We believe producing detailed reports and performing reconciliations will better enable the District to verify the accuracy and reliability of its student membership data. All of these actions are taking place after our audit work was completed, and the effects can't be determined at this time. We will evaluate these and any other corrective actions during our next audit of the District.

Finding No. 5

The District's Continued Failure to Implement Stronger Access Controls, Require a Non-Disclosure Agreement, and Develop a Disaster Recovery Plan Weakened Data Security

As of the end of the 2013-14 school year, District personnel had not taken corrective action as recommended since 2005 regarding the following important computer controls:

1. Implementation of access controls to include adequate password syntax requirements and timed log-outs after inactivity.
2. Amendment of a software vendor agreement to include a non-disclosure agreement.
3. Development and implementation of a disaster recovery plan.

With the exponential advances in technology and the increasing occurrences of computer systems being hacked, including cyberattacks, fundamental information technology controls are paramount to the District's responsibility to protect its critical data.

Best practices in information technology security include, but are not limited to the following: restricting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring system use to ensure integrity of key data; regulating changes to software; and providing for contingencies. Without fundamental information technology controls, including effective access controls such as strong password requirements and timed log-outs after inactivity, the District persistently increases its risk for unauthorized access to its data.

Data security may also be compromised because a software vendor has remote access to the District's network servers. In addition, the contract with the vendor does not contain a non-disclosure agreement. A non-disclosure agreement with the vendor is crucial in protecting the District's interests should a vendor employee compromise or divulge District data, including proprietary data. Without an

agreement, the District would have little or no recourse should a data breach occur.

District personnel indicated that they have a long-standing relationship with the software vendor dating back to 1993. A long term relationship with a vendor does not negate the necessity for a non-disclosure agreement.

Furthermore, failure to develop and implement a disaster recovery plan puts the District at risk of losing data in the event of a natural disaster, an unexpected emergency, or other kind of disaster, including a cyberattack. The District also imperils continuity of operations without a disaster recovery plan.

Fundamental access controls, including computer access controls requiring strong passwords, data security controls, and disaster recovery plans, are essential elements of any internal control system governing school districts and their academic and financial records.

Recommendations

While the *Harrisburg City School District* has implemented some recommendations made in past audits, it must do more to strengthen internal controls governing computer access and data security. We recommend the District:

1. Immediately improve access controls by strengthening password syntax requirements and logging off users after an established period of inactivity.
2. Amend the contract with the software vendor to include a non-disclosure agreement to protect the District's proprietary information.
3. Develop and implement a disaster recovery plan as soon as possible.

Management Response

District management provided the following response:
Portions of the Management Response to this finding were removed because of its sensitive and confidential nature.

- “1. In August, 2014 the district engaged our independent auditor to provide a full test on the security risks of the current IT operation. This resulted in a report indicating that the District had in place significant security measures to insure that invasive measures from outside threats were not possible without some additional source documents. In order to gain access to our current system, approval of an authorized user is required from those monitoring and maintaining the systems.
2. The School District is working with the provider of the system software to provide a non-disclosure agreement. This understanding has been a part of the original contract with the former owner of the software, but subsequent changes require an update in the contract language.
3. Due to the excessive cost of a full disaster recovery program, the District has implemented alternatives to a full off-site, independently owned system, which at this time is not financially viable for the district.

Auditor Conclusion

We are encouraged that the District is taking steps to implement corrective actions to address its computer controls deficiencies. We urge the District to meet current best practices and industry standards for active passwords. Due to potential risks, we suggest all accounts with access to the district’s systems should be subjected to password requirements.

We also acknowledge the District’s disaster recovery efforts and continue to recommend the District implement sufficient disaster recovery plans to ensure mission-critical operations could resume/continue timely in the event of an emergency or disaster. We will evaluate any other corrective actions during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on January 14, 2013, resulted in seven findings and two observations. 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 January 14, 2013

Prior Finding No. 1: Cafeteria Fund Deficit of \$517,678

Prior Finding Summary:

Our prior audit of the District's annual financial reports and a review of local auditor's reports for the school years 2007 through 2009 found the cafeteria fund had a deficit of \$517,678 as of June 30, 2009. Actual expenditures exceeded actual available revenues for all three years of the audit period.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Evaluate the cafeteria fund operations to ensure revenue collection procedures and internal controls are adequate.
2. Prepare realistic budgets based on historical data to ensure revenue projections are realistic.
3. Establish a realistic plan to address the revenue shortfall that has occurred over the past three years.

Current Status:

During our current audit, we reviewed the District's cafeteria fund revenues and expenditures, independent auditor reports, and interviewed the District administration to determine the amount of the fund balance and whether our recommendations were implemented. We found the District did not implement our recommendations as discussed in more detail in Finding No. 2.

Prior Finding No. 2: Continued Certification Deficiencies

Prior Finding Summary:

Our prior audit found 39 employees with certification deficiencies, 24 of which had been found deficient for the second consecutive

audit. Based on the 39 certification deficiencies, the District was subject to subsidy forfeitures totaling \$92,659.

Prior
Recommendations:

Our prior audit finding recommended that the District should:

1. Require the individuals cited to obtain proper certification for the positions assigned or reassign them to positions for which they are properly certified.
2. Review and determine if all current professional personnel are properly certified for their assignments.
3. Establish procedures to ensure that emergency permits are obtained in a timely manner.
4. Require all individuals employed by the District to obtain the appropriate certificate prior to starting employment with the District.
5. Submit all locally-titled positions to BSLTQ for review and determination of the appropriate certification for the positions.

We also recommended that PDE should:

6. Recover any subsidy forfeitures that may be levied.

Current Status:

During our current audit, we verified the District took corrective action pertaining to all 39 individuals who had certification deficiencies during the prior audit. The District either ensured the individual obtained proper certification for their assignment or terminated employees who failed to have the required certification for their assignment. However, we found the District did not implement our other recommendations. We also determined PDE did not recover any of the subsidy forfeitures levied because of a Settlement Agreement dated October 21, 2013, with the District.

Since the District did not fully implement our recommendations, we again performed procedures to determine whether the District was hiring properly certified professional employees. We reviewed all of the District's administrators along with newly hired professional employees for the 2013-14 school year, for a total of 106 employees.

We found a total of 17 individuals were not properly certified or licensed. BSLTQ confirmed nine individuals lacked proper

certification for their assignments and eight individuals were not properly licensed based on BSLTQ's Final Audit Review dated November 14, 2014.

Finding No. 3 includes information regarding the eight individuals who were not properly licensed and the one school nurse who was not properly certified, which PDE upheld and may result in a subsidy forfeiture of \$32,989. The remaining eight individuals were teachers or administrators who were not properly certified for their assignment, which also was upheld by PDE and may result in an additional subsidy forfeiture of \$10,197 for the 2012-13 and 2013-14 school years.

Along with the recommendations in Finding No. 3, we strongly recommend the District require all individuals to obtain appropriate certification prior to being hired by the District.

Prior Finding No. 3:

District's Reimbursements Based on Child Accounting Data Were Unverifiable

Prior Finding Summary:

Our prior audit of the District's child accounting data for the school years 2005-06 through 2007-08 found numerous child accounting errors resulting from computer program deficiencies, mass updates by the SIS vendor and/or the District's technology department, and data entry and calculation. In addition, the District lacked adequate documentation in its SIS to support the reimbursements. All these deficiencies, in particular the lack of supporting documentation, were significant enough for us to consider the membership data reported by the District to PDE to be unverifiable. Consequently, these deficiencies prevented us from verifying the District's entitlement to the \$5,179,283 in basic education and special education subsidies, which were based on this data.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Continue to work with the vendor to gain a better understanding of how membership data is being compiled and how membership days are calculated, in order to ensure that the membership reports are accurate.
2. Review detailed membership printouts to ensure that membership data calculations are accurate. The reviews

should include, but not be limited to, confirmation that membership days are not reported in duplicate, the calendar data is accurate, and entry/withdrawal dates are accurate. If program deficiencies are noted, the vendor should be contacted to resolve the deficiencies.

3. Reconcile membership summary reports to detailed membership printouts for agreement. If errors are found, corrections to the appropriate documents should be made and used to submit accurate data to PDE.
4. Membership printouts supporting the data reported to PDE should be retained, and not regenerated.
5. District personnel should maintain adequate documentation showing that appropriate actions are being taken for students who are maintained on District membership reports after ten consecutive days of unexcused absence (i.e., unexcused absence letters sent to parents, meetings with parents, citations, or other documentation supporting that the District is trying to get the students back into school).
6. The documentation used to support student membership records should be stored in a secure location.
7. Review reports for years subsequent to the audit and if errors are found submit revised reports to PDE.

We also recommended that PDE should:

8. Review the propriety of the subsidies and reimbursements paid to the District, particularly for the year 2006-07 when the District knowingly submitted incorrect data.

Current Status:

During our current audit, we interviewed District staff and reviewed documentation provided by the District to determine the corrective actions taken. We found the District only implemented corrective action for recommendations 5 and 6. However, we found that the District failed to implement corrective action for the other five recommendations, which resulted in Finding No. 4.

Prior Finding No. 4:

District Did Not Provide Students in Special Programs with Mandated Instructional Hours, in One Instance Resulting in a Loss of \$400,811 in State Funding

Prior Finding Summary:

Our prior audit of the District's secondary level alternative education strategy found that PDE had concluded that, during the 2007-08 school year, the District did not provide the minimum mandated 990 hours of instruction time for students in the alternative education program, which resulted in a loss of \$400,811 in basic education funding. No such funding adjustments by PDE were noted for the 2005-06 and 2006-07 school years.

In addition, our prior audit found the District may also have failed to provide the minimum mandated 990 hours of instructional time for students enrolled in the credit recovery program for the 2008-09 and 2009-10 school years. However, the District's lack of documentation related to attendance prevented us from determining how much time each student actually spent in the credit recovery program. Therefore, we could not recommend specific adjustments to the District's state subsidies.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Develop policies and procedures to ensure that minimum mandated hours are provided to all students, or that the appropriate mandate waivers are obtained from PDE prior to offering programs.
2. Contact PDE to determine how membership, attendance, and instructional time should be reported for the students in the credit recovery program for the 2008-09 and 2009-10 school years and determine what adjustments, if any, may be required to membership data submitted for those years.
3. Obtain and retain correspondence from PDE pertaining to the resolution of any membership or instructional time changes for the alternative education or credit recovery programs.
4. After receiving guidance from PDE, review the reports submitted for the 2008-09 and 2009-10 school years and submit revised reports as needed.

We also recommended that PDE should:

5. Provide any guidance it deems necessary to enable the District to accurately report membership and instructional hours in accordance with PDE guidelines for the alternative education and credit recovery programs for the 2008-09 and 2009-10 school years.
6. Review the propriety of the reimbursements provided to the District for the alternative education and credit recovery programs, and determine what adjustments, if any, should be made.

Current Status:

During our current audit, we determined both of the programs addressed in this finding were eliminated by the District after the 2009-10 school year. Therefore, follow-up procedures on corrective action taken by the District was no longer applicable.

Prior Finding No. 5:

Lack of Memorandum of Understanding

Finding Summary:

Our prior audit found the District had not implemented our recommendations regarding the failure to obtain a signed Memorandum of Understanding (MOU) with its local law enforcement agency. We made our recommendations in the interest of the protection of students and employees.

Recommendations:

Our prior audit finding recommended that the District should:

1. In consultation with the District's solicitor, develop and implement an MOU between the District and the appropriate law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit, we interviewed District administration and reviewed the District's MOU with local law enforcement. We found the District had partially implemented our recommendations by implementing an MOU, which lapsed June 30, 2013, and then later reissued on March 17, 2014. Therefore, we again recommend the District implement a procedure, for the safety of its students and the entire school community, to ensure the MOU is updated at a minimum of every two years so it does not lapse.

Prior Finding No. 6:

Continued Weak Internal Controls in Procedures Used to Process Requests for Reimbursement

Prior Finding Summary:

Our prior audit of the District found internal control deficiencies in the processing of travel and other employee expenses for the 2007-08 and 2008-09 school years. Deficiencies existed because the District did not adequately obtain or retain necessary documents to support the legitimacy of expenses.

Prior Recommendations:

Our prior audit finding recommended that the District should take the necessary steps to ensure that adequate documentation is submitted to support employee travel and other expenses. This includes, but is not limited to the following:

1. Requiring employees to submit their own requests for reimbursement.
2. Requiring receipts to be itemized in detail so that individual(s) approving the expenditures can ensure that non-reimbursable expenses are not incurred.
3. Revising the expense reimbursement form so that it requires individuals to list the business purpose of each of the expenditures incurred so individuals reviewing the form can ensure that all expenditures are for District business purposes only.
4. Ensuring that required vendor invoices are attached to the documentation to support the reimbursement.
5. Ensuring that all expense requests are marked “paid” to avoid duplicate payments.

Current Status:

During our current audit, we interviewed District personnel and reviewed expense reports and reimbursements to ensure the District had taken adequate corrective action to address our recommendations. We found the District had taken corrective action to address our recommendations as of November 2012 and documentation required for reimbursement was maintained by the District.

Prior Finding No. 7: Continued Athletic Fund Deficit of \$1,405,094

Prior Finding Summary:

Our prior audit of the District found the athletic fund had a deficit of \$1,405,094 as of June 30, 2009. This finding was a continuation from another prior audit, which reported a deficit of \$944,883, as of June 30, 2006.

Prior Recommendations:

Our prior audit finding recommended that the District should:

1. Reevaluate the athletic program to determine why actual expenditures continue to exceed budgeted expenditures.
2. Review procedures for the monitoring of revenue and expenditures to ensure there are adequate internal controls over the collection of revenue and expenditures of funds for the athletic program.
3. Establish realistic budgets for revenues and expenditures based on historical data and the Board's directives for the program.
4. Determine a method of how the amount due the general fund will be resolved.

Current Status:

During our current audit, we found the District no longer had a separate athletic fund. As of the 2010-11 school year, the athletic fund became a part of the general fund due to a Governmental Accounting Standards Board (GASB) change.

Prior Observation No. 1: District Continues to Increase Debt Obligations

Prior Observation Summary:

Our review of the District's annual financial reports, local auditor's reports, and general fund budgets for fiscal years 2007 through 2009 found the District had increased its debt obligations from \$232,473,315 as of July 1, 2006 to \$269,154,692 as of October 6, 2010. The District also calculated its debt limit factor to be \$293,274,275 as of June 30, 2010. Consequently, the District could only borrow an estimated \$24,219,583 in additional funds. Therefore, although the District no longer had a deficit fund balance as noted in our prior audit, its debt load was of serious concern to its financial health, even with its current positive fund balance of \$2,761,201 as of June 30, 2009.

Recommendations:

Our prior audit observation recommended that the District should:

1. Continue to use monthly budget status reports to monitor revenue and expenditure activity.
2. Continue to monitor debt obligations to avoid financial burdens on future budgets.
3. Provide for a systematic reduction of the debt obligations and decrease the financial burden on the District and the taxpayers.
4. Prepare realistic budgets based on verifiable revenue projections. Instead of budgeting grants on a speculative basis, District personnel should wait to budget speculative state and federal grant revenue and expenditures when the grants are approved.
5. Adopt budgets which more accurately estimate the beginning general fund balance in order to project the true financial condition of the District.
6. Continue to evaluate the early childhood program to determine whether the program should continue to operate given the fact that the revenues for the program do not meet program expenditures.
7. Monitor the athletic and cafeteria funds to reduce and/or eliminate operating deficits.

Current Status:

During our current audit, we interviewed the District administration and reviewed the District's financial documents. We found the District is monitoring its debt schedule and has adopted debt management Policy 630, which was approved by the Board on April 20, 2015. Finding No. 1 addresses fiscal operations, and Finding No. 2 addresses the cafeteria fund. Responsibility for the early childhood program was transferred to another entity.

Prior Observation No. 2:

The District Finances Some of Its Debt with Interest Rate Management Agreements, Which Could Jeopardize Taxpayer Funds

Prior Observation
Summary:

Our prior audit found that although the District had eliminated three of its SWAPs deals during the prior audit period, it still had

\$207 million of variable-rate debt tied to SWAP agreements as of June 30, 2010.

The District already had a “negative experience with SWAPs.” According to the District’s Comprehensive Annual Financial Report for fiscal year ended June 30, 2009, the District had already made three termination payments to investment bank counterparties totaling \$11.5 million to get out of SWAPs “deals that turned sour.” The payments made on May 1, 2009, were in the amounts of \$6.58 million, \$4.35 million, and \$576,000.

Recommendations:

Our prior audit observation recommended that the District should:

1. Eliminate the remaining SWAPs as soon as it is fiscally responsible to do so and replace the debt associated with the SWAPs with conventional fixed-rate debt.
2. Avoid entering into any new SWAPs agreements in the future.

Current Status:

During our current audit, we interviewed District personnel to determine the extent of the District’s SWAP agreements. We found the District has terminated several SWAP agreements and has not entered into any new agreements. The District has one SWAP agreement as of August 31, 2015. Management noted they intend on reviewing the last agreement for possible termination during the next bond restructuring, which is anticipated to occur sometime in 2018 or 2019.

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 LEA. The results of these audits are shared with LEA management, the Governor, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code,¹ is not a substitute for the local annual financial audit required by the PSC 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 October 15, 2010 through March 9, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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 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.

The District's management is responsible for establishing and maintaining effective internal controls² to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal 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.

¹ 72 P.S. § 403

² 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, grant requirements, 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, financial reports, annual budgets, and new or amended policies and procedures. 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 performance in the following areas:

- Ü Academics
- Ü Governance
- Ü Financial Stability
- Ü Contracting
- Ü Data Integrity
- Ü School Safety
- Ü Certification
- Ü Technology Controls

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- Ü Did the LEA's Board and administration maintain best practices in governing academics and student achievement by developing and executing a plan to improve student academic performance at its underperforming school buildings?
 - To address this objective, we considered a variety of District and school level academic results for the 2007-08 through 2012-13 school years to determine if the District had schools not meeting statewide academic standards established by PDE.³ Since failing schools were identified, we selected three of ten underperforming schools for further review. This review consisted of conducting interviews with the Superintendent and any other designated employees. In addition, we reviewed required School Improvement Plans and/or optional School Level Plans to determine if the selected underperforming schools have established goals for improving academic performance, are implementing goals, and are appropriately monitoring the implementation of these goals.
- Ü Did the LEA's Board and administration maintain best practices in overall organizational governance?

³ Academic data for the District and its school buildings included a five year trend analysis of Adequate Yearly Progress results from the 2007-08 through 2011-12 school years, Pennsylvania System of School Assessment results in Math and Reading for the "all students" group for the 2011-12 and 2012-13 school years, School Performance Profile scores for the 2012-13 school year, and federal accountability designations (i.e. Priority, Focus, Reward, and No Designation) for Title I schools for the 2012-13 school year. All of the academic data standards and results we examined originated with PDE.

- To address this objective, we conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- Ü Based on an assessment of fiscal benchmarks, 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, independent auditor’s reports, summaries of child accounting, and general ledgers for the fiscal years ending June 30, 2007 through 2013. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks, which were deemed appropriate for assessing the District’s financial stability. The benchmarks are based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics.
- Ü Did the District ensure that its significant contracts were current and were properly obtained, approved, executed, and monitored?
- To address this objective, we reviewed the District’s procurement and contract monitoring policies and procedures. We obtained a list of contracts for goods and services that were in effect for the 2012-13 school year. We selected 5 out of 127 significant contracts for detailed testing. Testing included a review of the procurement documents to determine if the contracts were procured in accordance with the PSC and District policies. We also reviewed documents to determine if the District properly monitored the selected contracts. Finally, we reviewed board meeting minutes and the Board’s Statements of Financial Interest to determine if any board member had a conflict of interest in approving the selected contracts.
- Ü Did the LEA ensure that the membership data it reported in the PIMS system was accurate, valid, and reliable?
- To address this objective, we reviewed the District’s internal controls, along with determining the reliability of the District maintained documentation compared to final PDE reports out of the PIMS for the 2008-09 through 2011-12 school years.
- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
- 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 at 3 out of the District’s 11 school

buildings (one from each education level) to assess whether the District had implemented basic safety practices.

Ü Were professional employees certified for the positions they held?

- To address this objective, auditors reviewed and evaluated certification documentation for all 86 teachers that were newly hired, or changed assignment for the 2013-14 school year, as well as 20 administrators. In addition, we reviewed certification documentation for all eight health room aides for the 2010-11 through 2013-14 school years and for the School Nurse for the 2013-14 school year.

Ü Did the District take appropriate action to ensure security of technology controls?

- To address this objective, auditors reviewed and evaluated technology controls identified in prior audits to determine whether the District has taken action to strengthen those controls and provide a secure system to protect its critical data.

Ü Did the District take appropriate corrective action to address findings and implement recommendations made in our prior audit?

- To address this objective, we interviewed District administrators to determine what corrective action, if any, was taken to address prior audit recommendations. Where appropriate, we obtained documentary evidence and/or performed audit procedures to verify that corrective action was actually taken and those actions were sufficient to address the prior finding.

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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