

PERFORMANCE AUDIT STATUS UPDATE

Harrisburg City School District

Independent Contractors' Contracts

July 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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TIMOTHY L. DEFOOR
AUDITOR GENERAL

June 23, 2021

Dr. Janet Samuels
Receiver
Harrisburg City School District
1601 State Street
Harrisburg, PA 17103

Mr. Eric Turman
Superintendent
Harrisburg City School District
1601 State Street
Harrisburg, PA 17103

Re: Status Update – Independent Contractors’ Contracts

Dear Dr. Samuels and Mr. Turman:

This letter is to update you on the status of the Department of the Auditor General’s performance audit of the Harrisburg City School District (District) pertaining to our review of the District’s implementation of the Pennsylvania Department of Education’s (PDE) recommendations related to the District’s monitoring of independent contractors’ contracts. **This is our fifth and final status update and concludes our audit.** The audit covered the period from June 28, 2019, the date the PDE formally released its audit report of the District’s finances and financial records, through the date of this letter. The audit was conducted under the authority of Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402 and 403. The audit was not conducted in accordance with applicable generally accepted government auditing standards.

Our performance audit had two objectives, including to: (1) determine the effectiveness of the District’s actions (by both the Board and Administration) in response to the results and recommendations of the PDE audit; and (2) determine whether the District complied with all of the provisions of the Sunshine Act, 65 Pa C.S. § 701 *et seq.* This status update was **limited to objective #1** of determining the effectiveness of the District’s actions in response to the results and recommendations of the PDE audit from the beginning of the audit period through April 30, 2021, with updates through the date of this letter.¹

¹ Please note that our department’s Sunshine Act Update was issued in November 2019, the Human Resources and IT Disaster Recovery Plan Update was issued in April 2020, the Cash Disbursements Update was issued in August 2020, and the Payroll Update was issued in January 2021.

Dr. Janet Samuels, Receiver, and Mr. Eric Turman, Superintendent

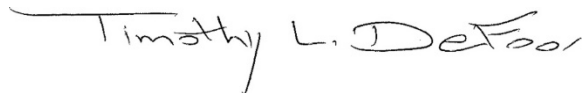
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We found that the District promptly implemented corrective actions in response to the PDE recommendations related to independent contractors' contracts. We provide our audit results, including nine recommendations that, if implemented, will further strengthen the District's controls and oversight of its contracts with independent contractors.

The District is in agreement with all of our conclusions and recommendations in this report and indicated that they have made notable improvements over the course of our audit. In closing, I want to thank the District for its cooperation and assistance throughout the entire audit process.

Sincerely,

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first name.

Timothy L. DeFoor
Auditor General

A Performance Audit Status Update

**Harrisburg City School District
Independent Contractors' Contracts**

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Background

This status update pertains to our audit objective to determine the effectiveness of the Harrisburg City School District's (District) actions in response to the results and the implementation of the recommendations of the Pennsylvania Department of Education's (PDE) audit of the District, issued June 28, 2019.² PDE contracted with a private auditing firm to conduct agreed-upon procedures and technical consulting services related to the District's effectiveness of its operational and financial management, which included the assessment of internal controls.³ The PDE audit covered the period July 1, 2015 through June 30, 2018.

Shortly before the release of the PDE audit report, the District went into Receivership under the direction of Dr. Janet Samuels on June 17, 2019. Under her receivership, the District partnered with the Montgomery County Intermediate Unit to fill administrative positions within the District. This included appointing an individual who would serve as the acting Chief Financial Officer (CFO) and Business Manager of the District.⁴

This status report focuses on four PDE audit report findings and three recommendations that address the District's poor contract monitoring controls in terms of costs and contractor performance, failure to perform and document its 'employee v. independent contractor' analysis for federal employment tax purposes, and lack of cost/benefit analyses conducted to substantiate the benefits or cost savings of the District's decisions to outsource services using independent contractors.

As part of its agreed-upon procedures, the PDE-contracted auditors selected a sample of 47 contracts approved by the District's School Board (board) between July 1, 2015 and June 30, 2018. According to the PDE report, the contracts selected were for goods or services provided by independent contractors. Of the 47 contracts tested, the PDE auditors found that the District collectively paid over \$210,000 more than the board-approved contract amounts for 16 service contracts. Due to the fact that the issues and control deficiencies included in the four PDE audit report findings resulted from the District's activities related to its independent contractors' service contracts (service contracts), we focused our audit procedures solely on the service contracts approved by the board during the calendar year 2020.

² As noted in our cover letter, this status update report focuses on audit Objective #1. To date, we have issued **three other status update reports** to the District for this objective, including: Human Resources (HR) and Information Technology (IT) Disaster Recovery Plan (issued April 2020); Business Office - Cash Disbursements (issued July 2020); and Payroll (issued January 2021). Our department's Sunshine Act update relating to audit Objective #2 was issued in November 2019.

³ PDE contracted with Wessel & Company to perform these services. For simplicity, we refer to these services as the "PDE audit" throughout this report.

⁴ 24 P.S. § 6-642-A; this section of the Public School Code allows the receiver to employ, contract with or assign persons or for-profit or nonprofit organizations to review the financial and educational programs of school buildings and make recommendations to the chief recovery officer regarding improvements to the financial or educational programs of school buildings. See 24 P.S. § 6-642-A(a)(17).

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The PDE report also identified other deficiencies related to the auditors' review of the District's service contract-related documents, including blank and/or incomplete documents, service contracts missing the independent contractors' signatures, and contracted services provided prior to board approval of the service contract. The PDE auditors concluded that the overpayments and other deficiencies reported were a result of the District's poor contract monitoring controls.

One PDE finding focused on the District's failure to monitor the costs and performance of independent contractors. The PDE auditors found that the District paid approximately \$378,000 over a three-year period for outsourced human resource services performed by a contracted worker for the District through its contract with a temporary staffing service. The PDE auditors concluded that the District paid *a significantly high amount* for the services after learning that no documentation existed to substantiate the \$378,000 paid. According to the PDE report, the contracted worker used the District's timekeeping system to clock in and out on the days he worked at the District; however, the District did not oversee the worker's daily tasks and the worker did not report to District management on a regular basis.

The District also failed to perform an analysis and retain documentation of its classification of workers as independent contractors for federal employment tax purposes, according to the PDE report. This exposed the District to potential unpaid federal taxes and penalties if contracted workers were not properly classified.

Lastly, this status update report addresses PDE's recommendation that the District conduct cost/benefit analysis prior to outsourcing services so the expected financial cost or savings is considered. The documentation of such analyses would support the District's cost-savings decisions to hire independent contractors for needed services.

This status report presents our evaluation of the District's corrective actions taken between June 28, 2019 through April 30, 2021, in response to the contracting issues described in PDE's findings and recommendations noted above. Our review found that the District has taken steps to address these findings and recommendations; however, additional improvements should be made to further strengthen internal controls over its contracting process.

Audit Procedures

We began our audit with a comprehensive review of the PDE audit report in order to identify the agreed-upon procedures performed by the PDE-contracted auditors and the results obtained. We then organized the findings and recommendations into several groups based on the subject matter presented in the findings. As noted in the *Background* section of this report, our audit procedures focused on whether the District addressed the issues and corrective actions presented in the PDE audit report that related to contracting for services with independent contractors. They were

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included within four findings and three recommendations written for the District's Business Office.

To achieve our objective of determining the effectiveness of the District's actions (by the board and administration) made through April 30, 2021, in response to the results and recommendations of the PDE audit, we performed the following procedures:

- Interviewed District senior management as well as staff in the Business Office to gain an understanding of the process used to procure services from independent contractors.
- Reviewed the procurement and contracting procedures included in the District's Business Procedures Manual.
- Compared the board-approved contract amounts for the District's service contracts approved between January 1, 2020 and December 31, 2020, with the payments to the independent contractors over their terms to identify whether any payments were made in excess of the board-approved amounts.
- Judgmentally selected 5 of 18 service contracts in which we reviewed additional documentation to ensure the propriety of the contracts and determine whether the District sufficiently improved controls to reduce the number of deficient contract documents as reported by the PDE auditors.⁵
- Researched U.S. Internal Revenue Service (IRS) regulations to gain a more comprehensive understanding of the requirements when classifying workers as independent contractors versus employees.
- Interviewed management to determine if the District adequately addressed the lack of performance monitoring of an independent contractor to ensure the District receives the services as described in the contract.

The results and recommendations from our review of the corrective actions taken by the District are presented in the next section.

⁵ Using auditor's judgment, we selected five service contracts to evaluate management controls of the District's review and approval process for independent contractors' agreements.

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Results and Recommendations

The District has taken certain steps to address the issues and concerns included in the four findings and three recommendations from the PDE report related to the District's monitoring and oversight of service contracts, including the following:

- The new management team assembled by the Receiver in June 2019, evaluated the Business Office staff and terminated the acting Business Manager and others whose duties included District procurement procedures.⁶ Management determined however, to retain the procurement supervisor, who had the required knowledge, training, and experience with District policies and state procurement regulations to remain in that position.⁷
- In August 2019, the District's Business Office issued a Business Procedures Manual, which included a contract approval process to ensure contract documentation is accurate and complete for all District contracts. For example, when educational services are needed to be performed by an independent contractor through a service contract, the Contract Approval Form requires approvals by the Chief Academic Officer, the CFO/Business Manager, and the Superintendent before the service contract request is presented to the board for approval to execute the contract. Additionally, a structured purchasing approval process was established within the District's electronic financial system that required purchases to be approved at multiple levels with final electronic approval by the Business Manager.⁸ Management's intent was to ensure proper contract authorization and improve contract-payment oversight.
- The District decided to limit the term of its service contracts to a maximum of one year to improve its independent contractor performance monitoring. This decision forced any District staff member who supervises an independent contractor to evaluate their

⁶ See the *Background* section for additional information regarding the District's Receivership and new administration.

⁷ Reference to the "state procurement regulations" includes the Public School Code (PSC), its associated regulations, and certain provisions of the Commonwealth Procurement Code related to cooperative purchasing. See 24 P.S. § 5-508 (relating to Majority vote required; recording); 24 P.S. § 7-751 (relating to Work to be done under contract let on bids; exception); and 62 Pa.C.S. § 1902 (relating to Cooperative purchasing authorized). See also PDE Guidelines - <https://www.education.pa.gov/Documents/Teachers-Administrators/Federal%20Programs/Fiscal/Uniform%20Guidance%20Implementation%20Guide.pdf>.

⁸ This control was reviewed as part of the procedures conducted when we examined the District's cash disbursements process. In July 2020, we released our **third status update** report for this audit and reported that the District took significant steps to strengthen its internal controls over cash disbursements as the PDE audit report recommended. The District uses this process to pay its independent contractors for the services they provide according to the service contracts. Consequently, our review of the District's oversight of service contracts with independent contractors did not include procedures related to the electronic approval of contract payments, which would be repetitive with our cash disbursements review. Our procedures focused on the service contract approval process and contract monitoring.

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performance within the 12-month contract term. Based on this evaluation, the District may process a contract extension, which must be approved by the board or the service contract will expire.

- In June 2020, according to the board meeting minutes, the District terminated the contract with a temporary staffing service that allowed a contracted worker to be paid for services that lacked documentation to substantiate the District's cost, which exceeded \$378,000 over a three-year period. Therefore, the District eliminated the issue presented in the PDE report.
- Management stated that it attempts to hire permanent employees whenever feasible rather than contract with independent contractors to provide needed services.

Based on our review of the District's actions, we found that while District management has addressed many of the issues identified in the PDE report related to its oversight of service contracts with independent contractors, as we address in detail below, we noted that the District could further strengthen controls in certain areas to correct other issues in the PDE report. The following sections describe the results of our procedures along with nine recommendations to improve those controls.

Monitoring of Contract Overpayments

To evaluate whether the District had overpaid independent contractors since the District implemented new management controls, we requested the contracts and payment history reports for all service contracts executed by the District in calendar year 2020. During that year, the District had executed 18 service contracts with 14 independent contractors.⁹ We obtained copies of the contracts and a payment history report for each one. Based on our review of the service contracts and payment history reports, we found the following:

- The District made no payments for eight service contracts through April 30, 2021, which was the date we completed our review. Management stated that these eight contracts were executed shortly before or during the coronavirus pandemic shutdown in March 2020, and therefore, even though the contracts were approved, the independent contractors never provided the services.
- Five of the service contracts did not have a maximum total contract dollar amount.¹⁰ Therefore, our procedures were limited to confirming that the District paid the correct

⁹ Four contractors had two separate service contracts approved during 2020. One contractor had two concurrent contracts to provide services for a specific number of days at two different schools, and three contractors each had two contracts to provide the same services over two different contract terms.

¹⁰ The five contracts involved school psychologist services. Payments for these services as stated in the contracts are calculated based on a set rate for each student evaluation conducted multiplied by the number of evaluations. A maximum number of evaluations or maximum dollar amount was not listed in the contracts.

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rates listed in the five contracts for the respective services by reviewing all 16 invoices for these contracts, with no exceptions noted.

- The District did not overpay three independent contractors whose service contracts had ended prior to April 30, 2021.
- The District did not overpay two service contracts as of April 30, 2021, but the contract periods did not end until June 30, 2021.

Management stated that the procurement supervisor's review of each independent contractor's invoice includes a verification that enough funds are available, based on the total amount in the contract less all previous payments, to pay the invoice without exceeding the contracted amount. In order to evaluate the supervisor's review procedures, we examined all 12 invoices for the three service contracts that had ended prior to April 2021. We found nearly identical hand-written marks by every dollar amount as evidence of this review on each invoice. However, three invoices did not have the reviewer's initials and date. While the District's procedures appear to prevent contract overpayments, the reviewer should sign and date each invoice as evidence of their review and approval for payment.

Proper Contract Approvals and Completeness of Contract Documents

In addition to our procedures to evaluate the District's monitoring of service contract payments, we judgmentally selected 5 of the 18 service contracts to determine if the District's corrective actions addressed the deficiencies noted in the PDE report related to contract procurement and approval documentation.¹¹ We found that each service contract was properly approved by the board and contained proper District approval signatures. The independent contractors also signed the contracts; however, after management initially provided an unsigned copy of one of the five service contracts, it provided a second copy with a contractor's electronic signature dated approximately six months after the service contract term had expired. This was approximately a month before we discovered and inquired about the unsigned copy.

According to management, after board approval, the secretary is responsible to obtain the contractors' signatures on the proper documents. We expanded our review to include the other 13 service contracts and did not find any other exceptions, and therefore, this one exception appeared isolated. Failure to have all parties timely sign the contracts could allow services to be performed and/or paid before proper authorization and approval has been made.

We also requested the associated Contract Approval Forms for these five selected service contracts but found the forms were only completed for two of the contracts. These approval

¹¹ Using auditor's judgment and our assessed level of risk, we selected 4 of 14 (29 percent) independent contractors, which equated to 5 of 18 (28 percent) service contracts because one contractor had two contracts approved in 2020, to evaluate internal controls of the District's review and approval process for service contracts.

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forms are a first step to procuring a service contract when the District recognizes the need to provide services using an external contractor or consultant. The form includes details about the services needed, the rationale, and justification for hiring an independent contractor, and multiple levels of District management approval. The forms are to be reviewed and completed by the Business Office prior to the service contract being approved by the District Receiver and placed on the board meeting agenda for consideration at the next meeting.

District management stated that the Contract Approval Forms were not completed for three of the five service contracts we selected due to the administrative-nature of the services needed.¹² Instead, the Superintendent and Receiver worked collaboratively to select the vendors used for these contracts. Management also explained that they were short-term contracts used to temporarily fill a vacant high school principal's position and for professional mentoring and leadership coaching of administrative staff at multiple schools. The Superintendent provided emails that verified discussions about the contractors in lieu of completing Contract Approval Forms. The Superintendent further stated that District's management team meets and reviews the board meeting agenda items on the Wednesday before each monthly board meeting, and therefore, these contracts would have been discussed prior to board approval. While this explanation appears reasonable on the surface and is supported by the email, we believe that controls in place should not be overlooked and the District should consistently document its justification of the need to execute a service contract.

Other District Corrective Actions

As previously noted, District management decided to limit the terms of its service contracts to a maximum of one year in order to require staff to evaluate the contractors' performance annually to ensure only contractors who satisfactorily provide services are offered contract extensions. Management stated that this practice, combined with the supervision responsibilities of District staff who would timely communicate any contractor performance issues to management, sufficiently addressed PDE's recommendation to evaluate independent contractors' performance every six months and annually. We confirmed that the contract terms for all 18 service contracts executed in 2020 did not exceed one year. Limiting the contract terms, however, only addressed part of PDE's recommendation as the District did not require evaluations every six months. The District could strengthen its control by evaluating contractor performance more frequently and addressing any performance issues during the remainder of the contract term, which could also potentially reduce the District's burden of recruiting new independent contractors.

Additionally, the District did not implement PDE's recommendations to conduct a formal cost-benefit analysis to support the benefit or cost savings of its decisions to outsource services to an independent contractor rather than providing the services using current District staff. District management explained that, although it does conduct such analyses for other types of District

¹² Two of the three service contracts involved the same service and contractor, but spanned two non-concurrent periods in 2020 (January-June and June-September).

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contracts that were not part of our review, the demand for many of the specialized services it needs to provide its students outweighs the supply of qualified applicants. As a result, it must obtain services by contracting with independent contractors rather than hiring full-time employees to fill positions. Consequently, management stated that conducting cost-benefit analyses was not prudent under the current labor market conditions. We researched various internet sites and corroborated the District's explanation related to the state of the labor market.

According to management, the District attempts to find new staff by participating in job fairs and posting job notices on the internet. We viewed job notices listed on the District's website for positions that related to the services provided by 11 of the 14 independent contractors in 2020. The other three were consultants hired to provide temporary specific services which were not posted on the website. Management stated that the job postings have been continuously listed since July 2019 and are periodically re-posted. At the time of our review, the website indicated that the job notices had been posted in October 2020, however, they were again re-posted in May 2021. We could not confirm whether jobs were posted prior to October 2020.

District management stated that it cannot find qualified applicants willing to become District employees, so it must contract with independent contractors to provide the services. For example, job postings for a principal generated more than 50 applicants; however, management stated that none possessed the skills and experience required for the position. Consequently, the District contracted with a qualified individual who agreed to be the acting principal for a short term in order to provide more time for the District to search for and hire a permanent replacement.

Management should continue its efforts to hire employees to fill positions and adjust its approach to recruit staff according to the labor market. Regardless of whether or not circumstances for hiring staff or using current staff to provide needed services become more favorable, the District should maintain adequate documentation to justify its decisions on how best to provide needed services. If hiring staff or utilizing current staff becomes feasible, management should conduct a cost-benefit analysis to ensure fiscal responsibility before executing a service contract in lieu of hiring an employee.

The District also did not fully address PDE's recommendation to provide training on procurement policies and procedures for Business Office staff. Management explained that the District's procurement supervisor is responsible for ensuring compliance with its procurement policies and the Public School Code, and emphasized that it considers this supervisor as the District's '*procurement guru*' due to a combination of training with 20 years of experience.¹³

¹³ Section 807.1 (relating to Purchase of supplies) of the PSC governs purchases of equipment and supplies by school districts. *See* 24 P.S. § 8-807.1. *See also* 24 P.S. Ch. 1, Art. VII, Subpart. (d), et al. Contracts. This Article of the PSC outlines school district requirements when executing contracts for construction, maintenance, or repairs to school facilities and for the purchase of services related to construction contracts. Please note that the PSC does not require bidding for the purchase of services other than construction, maintenance, or repairs, regardless of cost. *See*

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Consequently, the supervisor provides on-the-job training to other Business Office staff as needed and advises management on any procurement issues.

Although this informal on-the-job training that staff receive is not documented, we reviewed documents showing that the supervisor attended procurement-related trainings in January and October of 2018, prior to issuance of the PDE audit report. Management's confidence in the supervisor's abilities and the staffing changes in the Business Office made shortly after PDE issued its report permitted management to delay additional procurement training to work on other priorities. While on-the-job training may be efficient to train staff in a small office, we believe that providing a more formalized, documented training would better ensure that necessary procurement training is provided consistently for all staff, which in turn will reduce the risk of noncompliance

The PDE auditors further reported in a finding that the District must retain documentation of its analysis used to determine whether to classify each individual they pay as an independent contractor or employee to the IRS for federal payroll tax purposes. PDE auditors did not include any recommendations related to this matter. While reviewing the IRS website, we found the District is responsible to correctly classify its employees and contractors and should be prepared to support its classification if questioned by the IRS. We did not, however, review this issue further, as we focused on the District's corrective actions to address PDE recommendations, but we included a recommendation below to the District that addresses this concern.

Recommendations

The Department of the Auditor General recommends that the District:

1. Develop procedures to ensure that independent contractor invoices are properly reviewed and approved, demonstrated by the procurement supervisor's initials and date prior to payment.
2. Ensure all service contracts are signed by the appropriate District personnel and independent contractor after board approval and prior to services being provided.
3. Complete Contract Approval Forms for every service contract request submitted for board approval. Completion of this form should include sufficient detail to support management's determination of the need and feasibility for the proposed contract and include proper approval signatures.

<https://www.education.pa.gov/Documents/Teachers-Administrators/Federal%20Programs/Fiscal/Uniform%20Guidance%20Implementation%20Guide.pdf>

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4. Formalize District policy to limit contract terms to a maximum of one year for the types of independent contractor service contracts reviewed for this report to coincide with current District practice.
5. Require any District staff member responsible for supervising an independent contractor to document an evaluation of the contractor's performance midway through the service contract term to ensure the services are being satisfactorily provided in accordance with the contract.
6. Conduct a cost-benefit analysis for the types of independent contractor service contracts reviewed for this report to ensure outsourcing services is fiscally responsible compared to hiring new staff or providing the services using current District staff, or document justification as to why this cost-benefit is not needed for the services in question.
7. Continue efforts to hire permanent employees rather than executing potentially more costly service contracts when needed services cannot be provided utilizing current District staff.
8. Develop standardized District-provided training or outsource training for Business Office employees to ensure new employees receive complete and consistent training and the procurement policies and procedures are reinforced with current employees. The District should retain documentation as evidence of all training received.
9. Ensure the District can adequately support its decisions to classify individuals they pay as independent contractors or employees to the IRS for federal tax purposes in order to reduce the risk of unpaid taxes and penalties for incorrect classifications.

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Appendix A

Methodology¹⁴

To achieve our objective of reviewing the PDE recommendations implemented by the District through the end of our audit procedures on April 30, 2021, with updates through the date of this report, as they relate to the District's oversight of independent contractor service contracts (service contracts), we performed the following procedures:

- Conducted numerous interviews with senior management as well as staff in the District's Business Office to gain an understanding of the process used to procure services from independent contractors.
- Attended regular meetings of the Board of Directors/Receiver each month from September 2019 through February 2020. Watched the virtual meetings of the Board of Directors/Receiver for each month from March 2020 through April 30, 2021.
- Reviewed minutes of regular meetings of the Board of Directors/Receiver for all meetings held from the beginning of the 2019-2020 school year, from July 24, 2019, through April 30, 2021.
- Obtained and reviewed the Business Procedures Manual issued August 2019 and relevant district policies that were developed to ensure contract payments do not exceed the contracted amounts approved by the board.
- Compiled a listing of all contracts approved by the board between July 1, 2019 and February 18, 2021. We selected the 2020 calendar year as our review period and identified a total population of 18 service contracts executed with 14 independent contractors (four contractors had two service contracts during 2020).
- Obtained the 18 service contracts from District management to confirm that the board approved the contracts prior to the contracts' execution dates.
- Examined system-generated contract payment history reports to ensure none of the 18 service contracts exceeded the board-approved dollar value limit.
- Reviewed audit procedures that we previously conducted for our Status Update Report on Cash Disbursements released in July 2020 to avoid duplication as we developed procedures to achieve the audit objective for this report.

¹⁴ The audit objectives and scope are discussed in the cover letter preceding this report.

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- Judgmentally selected 4 of the 14 independent contractors from our list, which equated to 5 of 18 independent contractor service contracts and performed the following procedures:¹⁵
 - Verified that management documented and approved the justification and need for the service contract before board approval (e.g., Contract Approval Form, etc.).
 - Ensured the contract was signed by District management and the independent contractor prior to the start date of the contract and after board approval.
 - Verified that the contract term did not exceed one year to confirm the District management's explanation that contract terms are now limited in response to PDE's recommendation to evaluate independent contractor's performance prior to renewing a contract for an additional term.
 - Verified no contract payments occurred prior to board approval and contract execution.
 - Confirmed that the contract was for a position that the District was unable to fill with a permanent employee.
 - Reviewed evidence demonstrating the Business Office staff's review and monitoring of costs during the contract payment process.
- Evaluated whether the District maintained adequate documentation to demonstrate the need to fill vacant positions with independent contractors versus permanent district employees.
- Researched independent sources to validate management's assertions that the weak labor market inhibits the District's ability to hire individuals to provide needed services, and therefore, must execute service contracts with independent contractors.
- Inquired about procurement-related training provided for Business Office staff to increase their understanding and compliance with District policies and procedures as recommended in the PDE audit report.
- Researched U.S. Internal Revenue Service's regulations to gain a more comprehensive understanding of the documentation requirements in regard to classifying workers as independent contractors versus employees.
- Interviewed District management to determine the status of human resource services performed by a contracted worker for the District through its contract with a temporary staffing service in which PDE auditors identified that the cost to the District was

¹⁵ Using auditor's judgment, we selected four independent contractors from the District's list of contracts approved between January 1, 2020 and December 31, 2020. In making our selections, we considered the positions/service descriptions to ensure we selected a variety of services. We also considered the contract approval dates to ensure multiple contract payments would be available for our review during the period of our audit procedures.

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significantly high in relation to the amount of services provided over a three-year period. Based on this interview, reviewed board meeting minutes to confirm that the respective contract was terminated in June 2020.

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Appendix B

Criteria

In its June 28, 2019, audit report, PDE presented four findings and offered three recommendations related to the District's oversight of its contracts with independent contractors, who provided specialized educational services and other consultant services for the District. The findings and recommendations were directed to the District's Business Office, which is responsible for the District's procurement activities and contract payment processing.¹⁶ Our audit focused on the District's actions taken to address those issues and implement PDE's recommendations intended to improve the District's procurement decision making, contract-related documents processing, and contract cost and performance monitoring to safeguard the integrity of its vendor contracts.

In addition to the PDE findings and recommendations, which serve as the principal criteria for this audit, the following sections of the District's Business Procedures Manual and certain other District policies provided criteria for our audit.

Business Procedures Manual

Approval for Use of External Consultant/Contracts

The District board's approval must be obtained before the District can execute a contract with an external contractor. This section of the manual outlines policies and procedures to request board approval to execute a contract with an external contractor:

1. Prior to being presented to the board for approval, all contracts must be submitted by the respective employee to the Business Office with a Contract Approval Form, which lists the details about the products or services needed with an explanation as to why they must be obtained through a contract with an external entity.
2. All contract requests should be submitted by employees for board approval with enough advance notice to ensure the contract is approved prior to the intended contract start date.
3. All proposed contracts must include specific deliverables for the contractor, as well as how the deliverables will be measured for board approval.
4. The Consultant must send an invoice to the Business Office to process payment for the services rendered. Payment will not be made until after the consultant has completed his/her work, documentation of results has been obtained, and the appropriate

¹⁶ Wessel & Company, Certified Public Accountants, letter and "Agreed-Upon Procedures and Technical Consulting Report," addressed to Pedro A. Rivera, Secretary of Education, Pennsylvania Department of Education, June 28, 2019. Business Office findings are listed on pages 48 to 53 of the report. Recommendations for the Business Office are listed on page 54 of the report.

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Administrator (e.g., building principal, department head, etc.) has authorized the payment of the invoice.

Harrisburg City School District Board Policies

The following board policies were obtained via the District's website.

Policy 818 – Contracted Services

This policy states that in an effort to provide cost-effective programs, the board may utilize contracted services. The District must monitor and evaluate these services to assure their effectiveness.

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Appendix C

Distribution List

This report was distributed to the following officials:

The Honorable Tom Wolf

Governor

The Honorable Dr. Janet Samuels

Receiver
Harrisburg City School District

The Honorable Noe Ortega

Secretary
Pennsylvania Department of Education

The Honorable Eric Turman

Superintendent
Harrisburg City School District

The Honorable John DiSanto

Senator
Pennsylvania State Senate

The Honorable Brian Carter

President
Board of School Directors
Harrisburg City School District

The Honorable Patty Kim

Representative
Pennsylvania House of Representatives

The Honorable Jen Swails

Secretary of the Budget

Mr. William Canfield

Director
Bureau of Audits
Office of Comptroller Operations

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