

HALIFAX AREA SCHOOL DISTRICT
DAUPHIN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MAY 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mrs. Melissa J. Konyar, Board President
Halifax Area School District
3940 Peters Mountain Road
Halifax, Pennsylvania 17032

Dear Governor Corbett and Mrs. Konyar:

We conducted a performance audit of the Halifax Area School District (HASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 15, 2008 through February 3, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the HASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with HASD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve HASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the HASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

May 7, 2012

cc: **HALIFAX AREA SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Halifax Area School District (HASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the HASD in response to our prior audit recommendations.

Our audit scope covered the period August 15, 2008 through February 3, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The HASD encompasses approximately 83 square miles. According to 2000 federal census data, it serves a resident population of 7,366. According to District officials, in school year 2007-08 the HASD provided basic educational services to 1,247 pupils through the employment of 106 teachers, 90 full-time and part-time support personnel, and 13 administrators. Lastly, the HASD received more than \$8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the HASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Pre-K Counts Program Fraud. The HASD and the Pennsylvania Department of Education entered into a grant agreement on July 30, 2007, for the Pre-K Counts Program.

The agreement states that the HASD would be the administrator of the grant and pay the bills submitted by the participating provider which runs a Pre-K Counts Program.

The assistant superintendent/grant administrator created falsified invoices that included the participating provider as the customer and submitted it to the HASD business office for payment. The invoices totaled \$6,894 (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations of the HASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the HASD had taken appropriate corrective action in implementing our recommendations pertaining to tuition billing. The HASD had taken appropriate corrective action in implementing three of the six weaknesses pertaining to their student accounting applications (see page 9).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period August 15, 2008 through February 3, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 the Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the HASD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?

- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

HASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.
- Tuition receipts and deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with HASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 24, 2009, we reviewed the HASD's response to DE dated June 25, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Pre-K Counts Program Fraud

Criteria relevant for the observation:

Pre-K Counts Program Grant Agreement

Attachment "A" 3a)(5)(f) states:

Except with the consent of the Commonwealth, neither the Grantee nor anyone in privity with him shall accept or agree to accept from, or give or agree to give to, any person, any gratuity from any person in connection with the performance of work under this agreement except as provided therein.

Our audit found that the Halifax Area School District (HASD) and the Pennsylvania Department of Education (DE) entered into a grant agreement on July 30, 2007, for the Pre-K Counts Program.

The agreement states that the HASD would be the administrator of the grant and pay the bills submitted by the participating provider which runs the Pre-K Counts Program.

During the 2007-08 school year, which was the first year of the grant, the assistant superintendent/grant administrator created a falsified invoice from the participating provider and submitted it to the HASD business office for payment. The false invoice indicated that the \$500 was for record keeping and maintenance relating to the Pre-K Counts Program. The assistant superintendent/grant administrator then sent another false invoice to the participating provider for payment.

During the 2008-09 school year, the assistant superintendent/grant administrator continued to invoice the HASD for the participating provider for a total of \$5,000 for the year. The assistant superintendent/grant administrator's secretary received \$900. There was an additional \$1,600 billed that was questionable. We could not determine who received this money.

During the 2009-10 school year, the assistant superintendent/grant administrator received \$1,394 before she resigned from her job at HASD. The assistant superintendent/grant administrator's secretary received \$750 and invoiced for another \$750. The HASD discovered the fraud and did not pay the final \$750. The secretary was terminated from her job after the fraud was discovered.

Furthermore, two other employees, a teacher and an aide received payments in the amount of \$1,296 and \$688.50, respectively. One other employee submitted an invoice, but the HASD had already discovered the fraud and refused to pay the invoice.

The persons involved with this fraud were getting paid by the HASD and were not to receive any additional payments from the participating provider.

The checks were forwarded from the participating provider to the recipients' home addresses.

In addition to the fraud amounts, the HASD paid attorney fees in the amount of \$10,966 to terminate one of the employees that was involved in the fraud.

The HASD contacted DE and DE stated that this was a local issue. HASD contacted the District Attorney's office on June 16, 2010. The defendant was charged with Theft by Unlawful Taking and Unsworn Falsification and posted bail.

The assistant superintendent/grant administrator pleaded guilty. She was sentenced to Accelerated Rehabilitative Disposition and made restitution on September 2, 2010, in the amount of \$6,894. All other employees involved made restitution and were not prosecuted.

The cause of this fraud was a lack of internal controls for the personnel in charge of reviewing invoices and the payment of invoices. HASD personnel failed to question why the invoices were not itemized properly and lacked supporting documentation. Also, the invoices were from a third party which should have raised a red flag since the invoices lacked proper documentation such as detailed explanation of services provided and the name of the person who provided the service.

HASD is still eligible for a continuation grant, provided there are no additional findings related to weak internal controls or episodes of fraud.

Recommendations

The *Halifax Area School District* should:

1. Require all invoices submitted for the Pre-K Counts Program to have detailed explanation of the expenses incurred.
2. Make payment of invoices when a full and complete explanation has been provided by the vendor in question.
3. Strengthen the internal control structure related to the Pre-K Counts Program.

The *Department of Education* should:

4. Continue on-site monitoring.
5. Ensure that HASD follows our recommendations.
6. Sample third party vendor payments.
7. Adjust the HASD's grant accordingly.

Management Response

Management stated the following:

Cause of Problem:

A staff member was submitting invoices on behalf of the [participating provider], our community partner in our Pre-K Counts Grant program, with those invoices paying for services supposedly rendered to the [participating provider] by district employees. However, those district employees were already receiving salaries from the district for those services rendered. The [participating provider] was instructed to forward monies to district employee's home addresses.

Corrective Action Plan:

The district will no longer accept invoices generated internally for payment to third party vendors. All future third party vendors must now supply detailed invoices directly from their offices for services rendered.

Status of Prior Audit Findings and Observations

Our prior audit of the Halifax Area School District (HASD) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to tuition billing errors, and the observation pertained to their student accounting applications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the HASD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the HASD did implement recommendations related to tuition billing errors. Also, the District implemented three of the six recommendations related to the observation pertaining to their student accounting applications.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: **Continued Tuition Billing Errors**

Finding Summary: Our prior audit of nonresident data and tuition records for the 2005-06 and 2004-05 school years found District personnel failed to bill Millersburg Area School District for the time one of its students attended classes at the HASD. This resulted in a tuition underbilling of \$10,614 during the 2005-06 school year.

Recommendations: Our audit finding recommended that the HASD:

1. Implement control procedures which would provide assurances that tuition is correctly billed.
2. Require the business manager to communicate with the child accounting coordinator, and the special education supervisor for the days attended and for the residence of the students being educated.
3. Notify the District not originally billed for this student and send a bill for this student.

Current Status: We followed up on the HASD tuition billings and found that the District did take corrective action to address our prior audit recommendations.

Tuition billing was reported correctly for the current audit cycle and the HASD received the \$10,614 it was due from the Millersburg Area School District.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

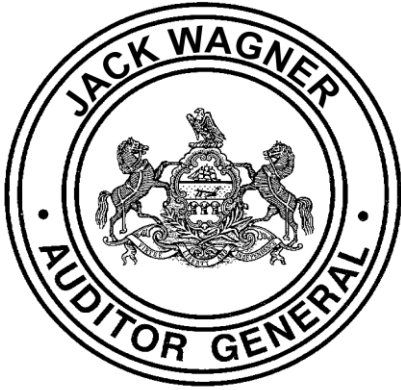
Observation Summary:

Our prior audit found that the HASD uses software purchased from the Capital Area Intermediate Unit #15 (CAIU) for its critical student accounting applications (membership and attendance). The District has remote access into the CAIU's network servers.

Recommendations: Our audit observation recommended that the HASD:

1. Ensure the contract with the CAIU contains a non-disclosure agreement for the District's proprietary information.
2. Establish separate information technology policies and procedures for controlling the activities of the CAIU and have the CAIU sign this policy, or the HASD should require the CAIU to sign the HASD's Acceptable Use Policy.
3. Develop policies and procedures to require written authorization when adding, deleting or changing a userID.
4. Implement a security policy and system parameter settings to require all users, including the CAIU, to change their passwords on a regular basis (i.e., every 30 days). Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Generate monitoring reports (including firewalls logs) of CAIU and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
6. Ensure the upgrades/updates to the District's system be made only after receipt of written authorization from appropriate District officials.

Current Status: We followed up on the HASD student accounting applications and found that the HASD did not take corrective action to address all of our prior audit recommendations. The HASD corrected three out of six weaknesses listed in the prior audit report. We urge the District to implement the remaining recommendations. We will review additional corrective action during our next audit.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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