



HALIFAX AREA SCHOOL DISTRICT  
DAUPHIN COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

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

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

Dear Governor Corbett and Ms. Konyar:

We conducted a performance audit of the Halifax Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 3, 2010 through December 21, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding 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 conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

June 17, 2013

cc: **HALIFAX AREA SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Halifax Area School District (District). 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 District in response to our prior audit recommendations.

Our audit scope covered the period February 3, 2010 through December 21, 2012, 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 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 83 square miles. According to 2010 federal census data, it serves a resident population of 7,606. According to District officials, the District provided basic educational services to 1,246 pupils through the employment of 108 teachers, 86 full-time and part-time support personnel, and 12 administrators during the 2009-10 school year. Lastly, the District received \$8 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

#### **Finding: Errors in Reporting Pupil Transportation Data Resulted in an Overpayment of \$402,599.**

Our audit of the Halifax Area School District's (District) 2009-10 and 2008-09 pupil transportation records found errors that resulted in overpayments of transportation reimbursement from the Pennsylvania Department of Education. Specifically the District received an overpayment of \$204,300 in the 2009-10 school year and a overpayment of \$198,299 in the 2008-09 school year (see page 5).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the District from an audit we released on May 7, 2012, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to our observation regarding Pre-K Counts Program Fraud (see page 9).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania 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 February 3, 2010 through December 21, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2012 through October 15, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 Pennsylvania Department of Education (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.

### 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 District'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## **Methodology**

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

*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.

The District's 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 control 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.

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine in the status of our audit recommendations made in a prior audit report released on May 7, 2012, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Errors in Reporting Pupil Transportation Data Resulted in an Overpayment of \$402,599

*Criteria relevant to the finding:*

Section 2541 (a) of the Public School Code provides, in part:

School districts shall be paid by the Commonwealth for every school year on account of pupil transportation which, and the means and contracts providing for which, have been approved by the Pennsylvania Department of Education. . . .

Our audit of the Halifax Area School District's (District) 2009-10 and 2008-09 pupil transportation records found reporting errors that resulted in overpayments of transportation reimbursement from the Pennsylvania Department of Education (PDE). Specifically, the district received an overpayment of \$204,300 in the 2009-10 school year and an overpayment of \$198,299 in the 2008-09 school year.

The errors in the 2009-10 and 2008-09 school years were caused by the contractor providing District personnel incorrect mileage reports for eight vehicles. The contractor overstated the mileage by 851.1 miles per day for the 2009-10 school year, and by 810.6 miles per day for the 2008-09 school year. As a result, PDE overpaid the District by \$204,300 in the 2009-10 school year, and by \$198,299 in the 2008-09 school year. Furthermore, the District overpaid the contractor in the same amounts based on the contract.

District personnel did not discover the discrepancies until the 2010-11 school year, when they sent revised reports to PDE. These errors could have been caught much earlier if District personnel had implemented an effective process for reviewing information provided to them by the contractor. An effective accountability process is extremely important, particularly when using a contracted service.

The District terminated the relationship with the contractor at the end of the 2010-11 school year, which was at the expiration of the most recent contract. As of our December 21, 2012 fieldwork completion date, the District had not been reimbursed for the overpayments the contractor received during the years of audit. According to the District staff, the District had also not been reimbursed for discrepancies that occurred in the 2010-11 school year. In addition, District staff indicated that the contractor is no longer in business (see pages 6 and 7 for more information).



We have provided PDE with reports detailing the errors to be used in the recalculation of the District's pupil transportation reimbursement.

## **Recommendations**

The *Halifax Area School District* should:

1. Use all means possible to recover the monies due to them from the contractor.
2. Develop an effective process to verify all route mileage and other information provided by its transportation contractor, especially when that information is forwarded to PDE.
3. Verify that the most cost effective routes are being utilized.

The *Pennsylvania Department of Education* should:

4. Adjust the District's transportation subsidy to recover the overpayment for the years of audit.

## **Management Response**

Management stated the following:

### "Cause of Problem

On July 21, 2011, through a telephone conversation and again in a formal letter to PDE on July 26, 2011, the Halifax Area School District reported to PDE that during the 2010-2011 school year [the transportation contractor] had over-billed the District more than \$200,000 as a result of using inaccurate mileage totals to calculate the mileage allowance used as part of the Total PDE Vehicle Formula Allowance. With the District's discovery of this over-billing for the 2010-2011 school year, the District also informed PDE that it was likely that [the transportation contractor] had over-billed the District during previous years, and, as a result, the District may have unknowingly submitted inaccurate student transportation mileage to PDE based on information provided to the District by [the transportation contractor]. A copy of the July 26, 2011 formal letter to PDE [was provided to the auditors].

After conducting an in-house audit of transportation costs charged to the District by [the transportation contractor] during the summer of 2011, the District estimated that [the transportation contractor] had overcharged the District

approximately \$186,000 in 2009-10 and approximately \$210,000 in the 2008-09 school years.

On August 3, 2011, a special investigator from the Office of the Inspector General, Bureau of Special Investigations contacted our solicitor to begin an investigation, and on August 11, 2011, District administration provided documents to [the investigator]. A copy of correspondence to [the investigator was provided to the auditors].

After conversations with staff from the Inspector General's Office, and after they explained that their investigation would not preclude the District from pursuing any civil relief from [the transportation contractor], the District filed a Civil Complaint against [the transportation contractor] on September 21, 2011, and later filed an amended complaint on October 31, 2011. Unfortunately, after the District had no success in recouping any overpayments to [the transportation contractor], on March 26, 2012, administration contacted [the] owner of [the transportation company] to allow him the opportunity to follow through with his statement made to administration on July 20, 2011, when [the transportation contractor] said "We will make this right." During that conversation I stated that I wanted to give him an opportunity to make things right before I contacted the District Attorney. Unfortunately, [the owner of the transportation company] ended our conversation by stating, "I have nothing to talk to you about." After this conversation, District administration and the solicitor met with the Dauphin County Assistant District Attorney and detectives to report [the transportation contractor] overcharges to the District during the school years 2008-09, 2009-10, and 2010-11. The District Attorney's Office is presently investigating.

#### Corrective Action Plan

To correct the issue concerning [the transportation contractor] overcharges to the District and the corresponding overpayment by the District to [the transportation contractor], as well as the inaccurate reporting of transportation mileage to PDE, the District has taken the following steps:

1. Severed the contractual relationship with [the transportation contractor].

2. Purchased and is presently implementing use of a software package to develop efficient bus and van routes and to better monitor transportation vendor mileage.
3. Each month bus and van drivers must submit mileage audit reports to the school district.
4. Vehicle audit reports must contain actual vehicle odometer readings.
5. End-of-Year reconciliation is completed by the business manager or designee with information being entered into the state formula worksheets to verify billing amounts.”

## Status of Prior Audit Findings and Observations

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Our prior audit of the Halifax Area School District (District) released on May 7, 2012, resulted in one reported observation. The observation pertained to Pre-K Counts Program Fraud. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and interviewed District personnel regarding the prior observation. As shown below, we found that the District did implement recommendations related to the Pre-K Counts Fraud observation.

### Auditor General Performance Audit Report Released on May 7, 2012

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**Observation:**            **Pre-K Counts Program Fraud**

Observation  
Summary:

Our prior audit found that during the 2007-08 school year, which was the first year of the Pre-K Counts grant, the assistant superintendent/grant administrator created a falsified invoice from the participating provider and submitted it to the District 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. This practice continued in the 2009-10 and 2008-09 school years.

Furthermore, two other employees, a teacher and an aide, received payments in the amount of \$1,296 and \$689, respectively. One other employee submitted an invoice, but the District had discovered the fraud and refused to pay the invoice.

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

Recommendations:    Our audit observation recommended that the District:

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.

We also recommended that PDE:

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

Current Status:

During our current audit we found that the District did implement our recommendations. The District now requires invoices to have detailed explanation of the expenses incurred before making payment. Also, internal controls have been strengthened as the participating provider now solely prepares the invoice.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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

The Honorable William E. Harner  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Ms. Nichole Duffy  
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).

