

PERFORMANCE AUDIT

Hanover Area School District Luzerne County, Pennsylvania

June 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. Terry Schnee, Acting Superintendent
Hanover Area School District
1600 Sans Souci Pkwy
Hanover Township, Pennsylvania 18706

Mr. John Mahle, Board President
Hanover Area School District
1600 Sans Souci Pkwy
Hanover Township, Pennsylvania 18706

Dear Dr. Schnee and Mr. Mahle:

Our performance audit of the Hanover Area School District (District) evaluated the application of best practices in the area of financial stability. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). This audit covered the period July 1, 2013 through June 30, 2017, except as otherwise indicated in the audit scope, objective, and methodology section of the report. The audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code (72 P.S. §§ 402 and 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.

During our audit, we found significant instances in which the District (a) failed to be in compliance with the Public School Code and its associated regulations, (b) may have engaged in possible violations of the Public Official and Employee Ethics Act, and (c) failed to apply best practices as detailed in our five findings. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations for the District.

We also evaluated the application of best practices in the area of school safety. Due to the sensitive nature of this issue and the need for the results of this review to be confidential, we did not include the results in this report. However, we communicated the results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate officials as deemed necessary.

Dr. Terry Schnee

Mr. John Mahle

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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 other relevant 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 extending to the right.

Eugene A. DePasquale

Auditor General

May 28, 2019

cc: **HANOVER AREA 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 Hanover Area School District (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, and administrative procedures.

Our audit scope covered the period July 1, 2013 through June 30, 2017, except as otherwise indicated in the audit scope, objectives, and methodology section of the report (see Appendix). Compliance specific to state subsidies and reimbursements was determined for the 2013-14 through 2016-17 school years.

Audit Conclusion and Results

During our audit, we found significant instances of failing to apply best practices and noncompliance with relevant requirements, as detailed in our five findings.

Finding No. 1: Four Consecutive Operating Deficits Reduced the District's General Fund Balance to Negative \$5.7 Million as of June 30, 2017.

Our review of the District's financial position over a four-year period revealed that the District's General Fund balance decreased by more than \$6 million from July 1, 2013 through June 30, 2017. The District's **negative \$5,699,412** General Fund balance as of June 30, 2017, is significantly less than the minimum fund balance recommended by the Government Finance Officers Association (i.e., two months of

regular General Fund operating revenues or regular general operating expenditures and operating transfers out). We found a significant lack of Board of School Directors' (Board) oversight during the District's financial decline. The Board failed to perform its most critical governance role in overseeing the budgeting process. (See page 11).

Finding No. 2: The District Overpaid Three Secondary Transportation Vendors a Total of \$310,987, With the Overpayment to One Vendor Totaling At Least \$263,413.

The District overpaid all three of its special education transportation vendors a combined total of at least \$310,987 from July 1, 2017 through November 30, 2018. The owners and operators of one of the three vendors—who were closely related to a board member—was overpaid by more than \$263,000 during this 17-month period. These significant overpayments occurred at the same time as the District was experiencing an overall decline in its financial position. (See page 21).

Finding No. 3: A Board Member Failed to Abstain from Voting to Approve Payments to a Closely Related Vendor.

Our review of the board meeting minutes from July 2017 through November 2018 disclosed that a board member voted to approve monthly payments to a vendor who was an immediate family member of the board member. During this time period, this vendor was overpaid more than \$263,000, which was more than two-and-a-half times the payments made during the previous school year. Failure by the public official to abstain from the votes to approve payments to a family member may be a violation of

the Pennsylvania Public Official and Employee Ethics Act. (See page 35).

Finding No. 4: The District Failed to Retain Required Documentation to Support More than \$6 Million in Transportation Reimbursements.

The District did not comply with the record retention provisions of the Public School Code when it failed to retain adequate source documents to verify the accuracy of over \$6 million it received in transportation reimbursements from the Pennsylvania Department of Education (PDE) for the 2013-14 through 2016-17 school years. (See page 40).

Finding No. 5: The District Incorrectly Reported the Number of Nonpublic School and Charter School Students Transported Resulting in a Net Overpayment of \$16,940.

The District was overpaid a total of \$16,940 in net transportation reimbursements from the PDE. This overpayment was due to the District improperly reporting the number of nonpublic school and charter school students transported by the District during the 2013-14, 2014-15, 2015-16, and 2016-17 school years. (See page 45).

Status of Prior Audit Findings and Observations. There were no findings or observations in our prior audit report.

Background Information

School Characteristics 2017-18 School Year ^A	
County	Luzerne
Total Square Miles	30
Number of School Buildings	4
Total Teachers	132
Total Full or Part-Time Support Staff	72
Total Administrators	13
Total Enrollment for Most Recent School Year	2,080
Intermediate Unit Number	18
District Vo-Tech School	Wilkes-Barre Area Career and Technical Center

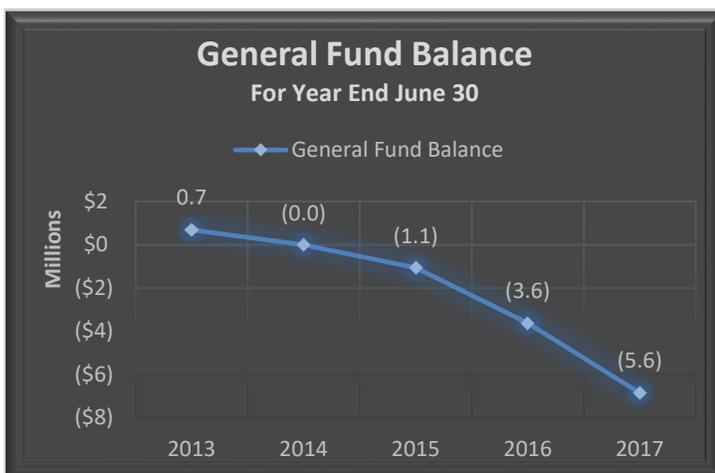
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

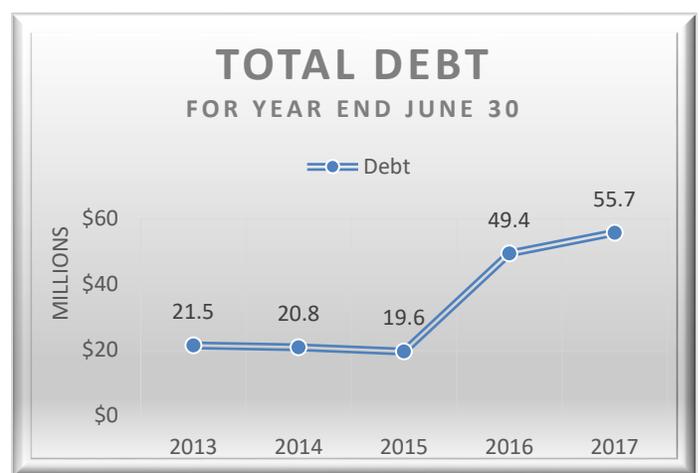
The Hanover Area School District believes that all students deserve opportunities to learn at different rates and in different ways in a safe, loving environment comprised of the best education resources. Students should be challenged and encouraged to achieve their highest potential in order to become productive members of society and assume personnel responsibility. Education is a lifelong process for students and educators and is the shared responsibility of the school, governing authorities, family, and community. The District shares common values and feels strongly about operating under the strong code of ethics necessary for sustaining our society, celebrating diversity, and fostering tolerance in a society/community of educated citizens.

Financial Information

The following pages contain financial information about the Hanover Area School District (District) obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on the PDE's public website. This information was not audited and is presented for **informational purposes only**.

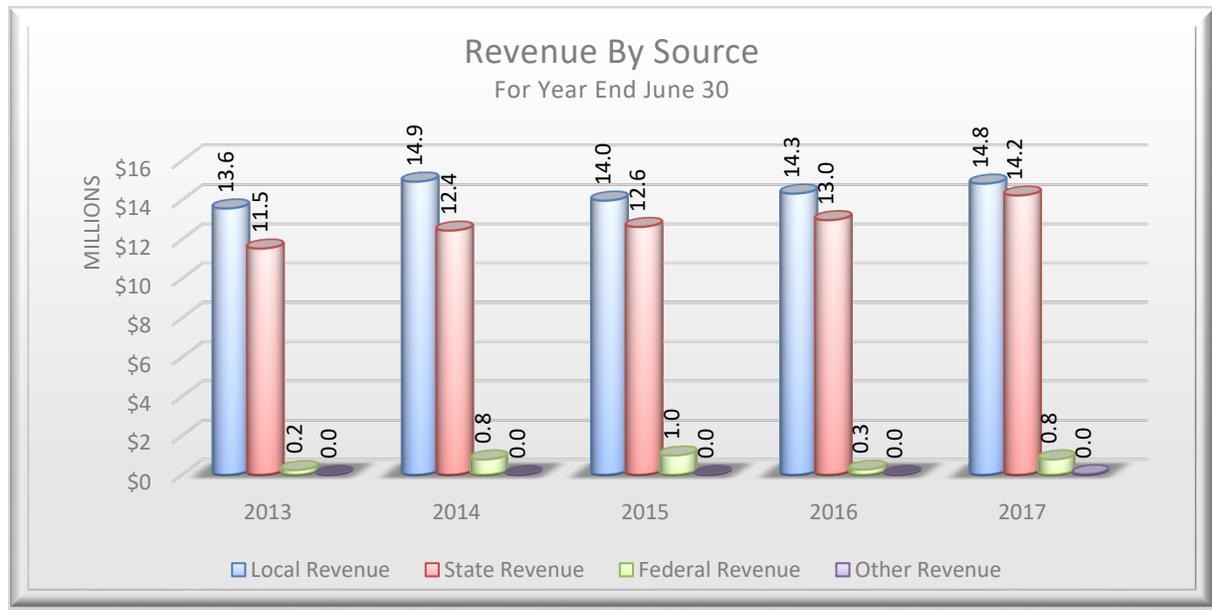
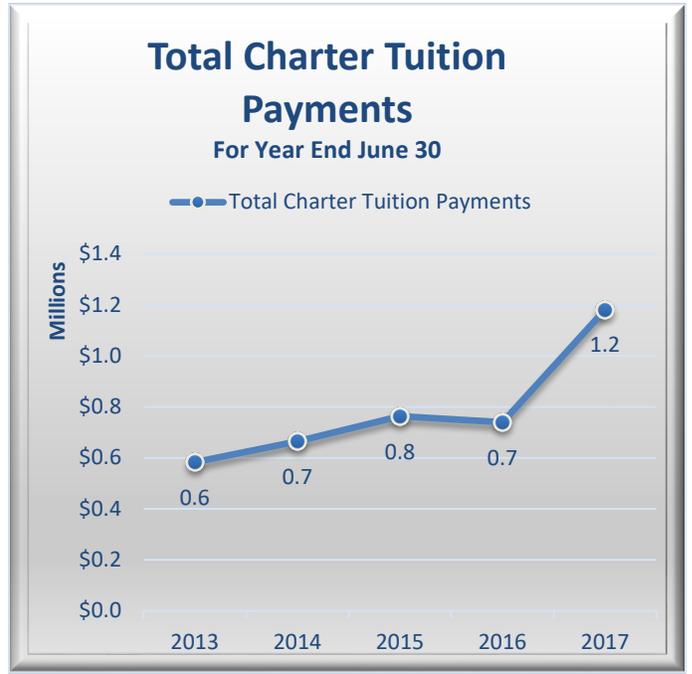
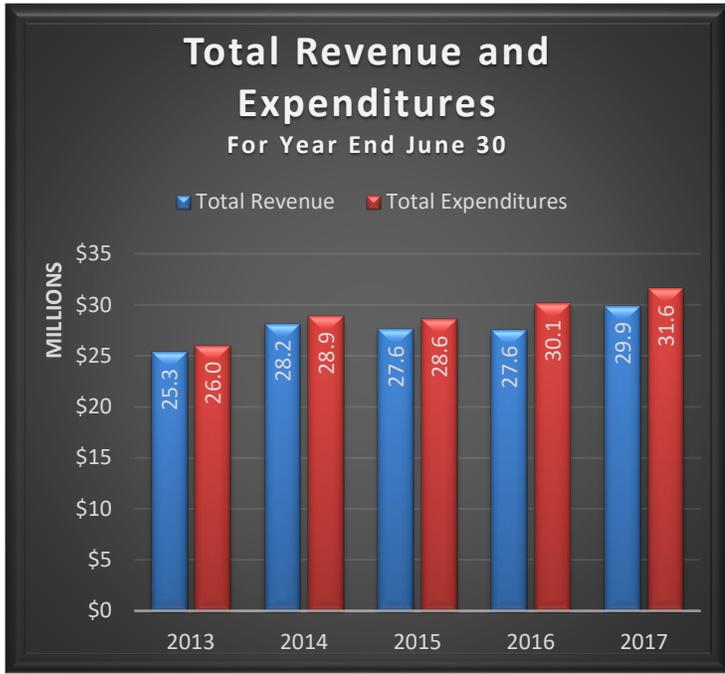


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



Note: Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits, Compensated Absences and Net Pension Liability.

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from the PDE's data files for the 2014-15, 2015-16 and 2016-17 school years.¹ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding graph.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. The PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e., PSSA and Keystone exam scores), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

The PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, the PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁴ The PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until the 2020-21 school year.⁵ In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

¹ The PDE is the sole source of academic data presented in this report. All academic data was obtained from the PDE's publically available website.

² The PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to the PDE's website for general information regarding the issuance of academic scores.

³ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁴ According to the PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of the PSSA exams to align with PA Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

⁵ Act 39 of 2018, effective July 1, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement for an additional year until the 2020-21 school year. *See* 24 P.S. § 1-121(b)(1).

What is the PSSA?

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁶ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

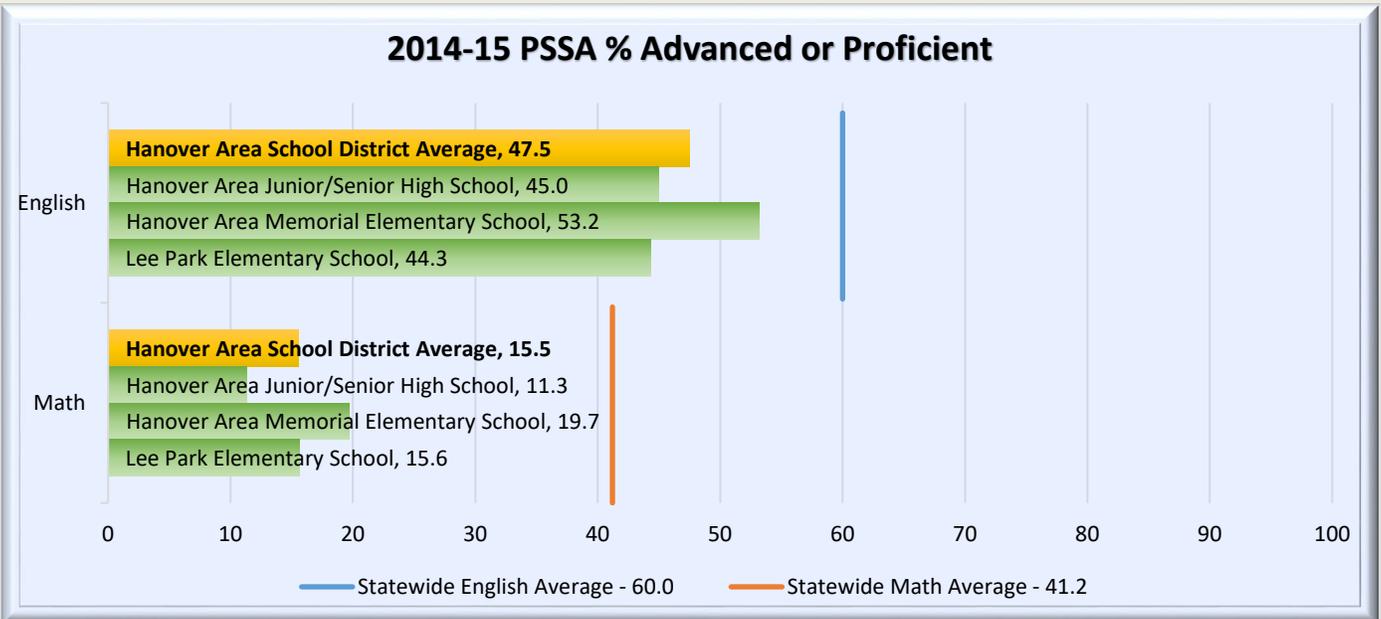
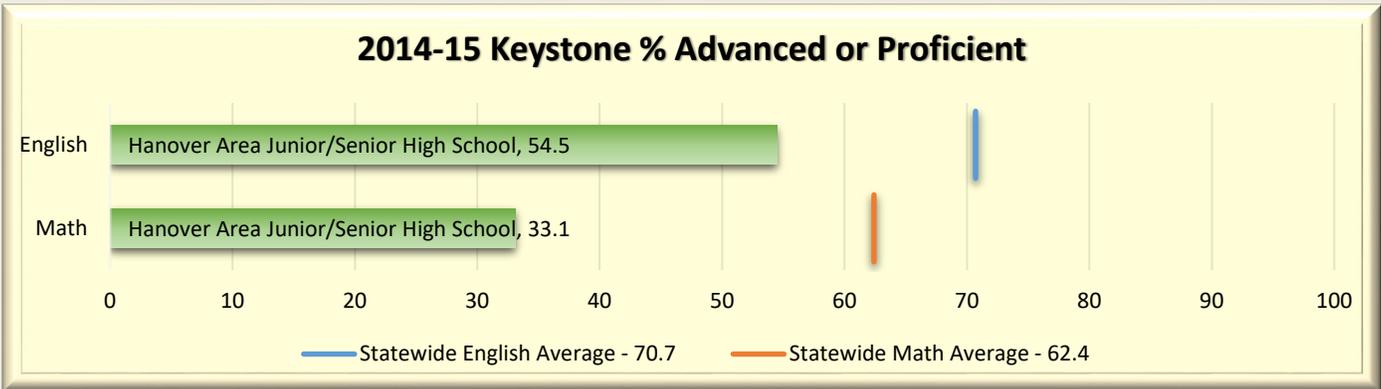
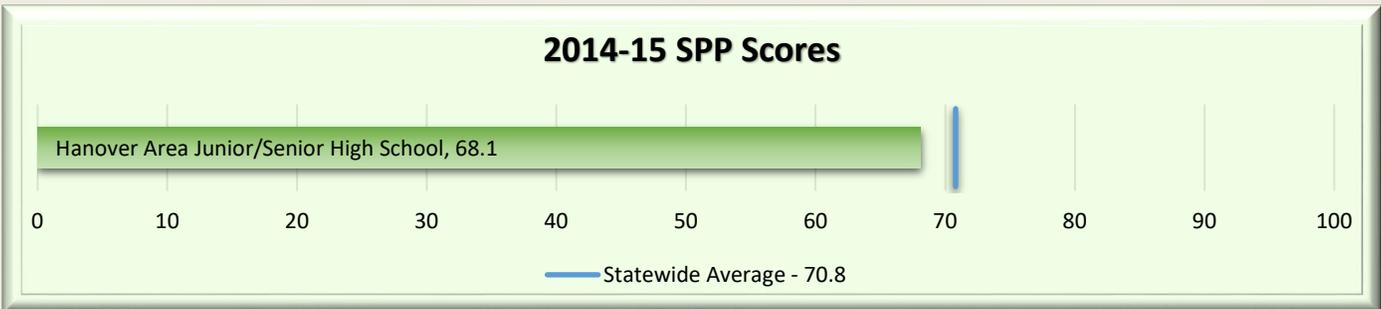
What is a 4-Year Cohort Graduation Rate?

The PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.⁷

⁶ The PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam.

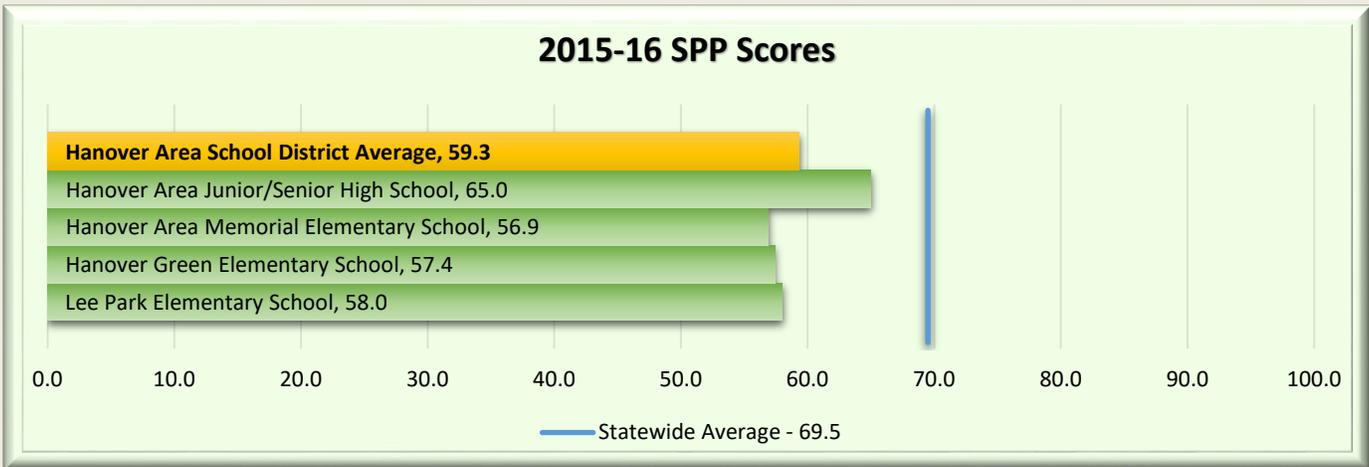
⁷ The PDE also calculates 5-year and 6-year cohort graduation rates. Please visit the PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

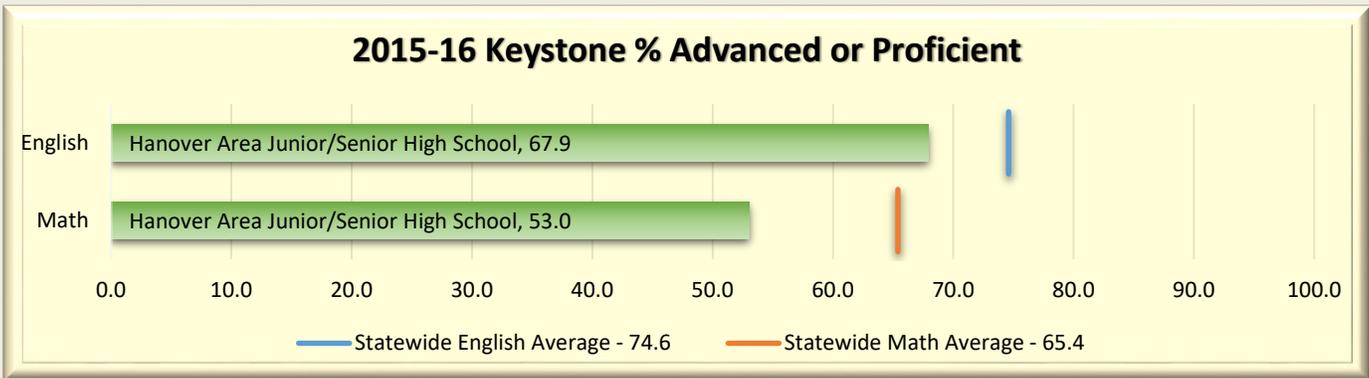


2015-16 Academic Data
School Scores Compared to Statewide Averages

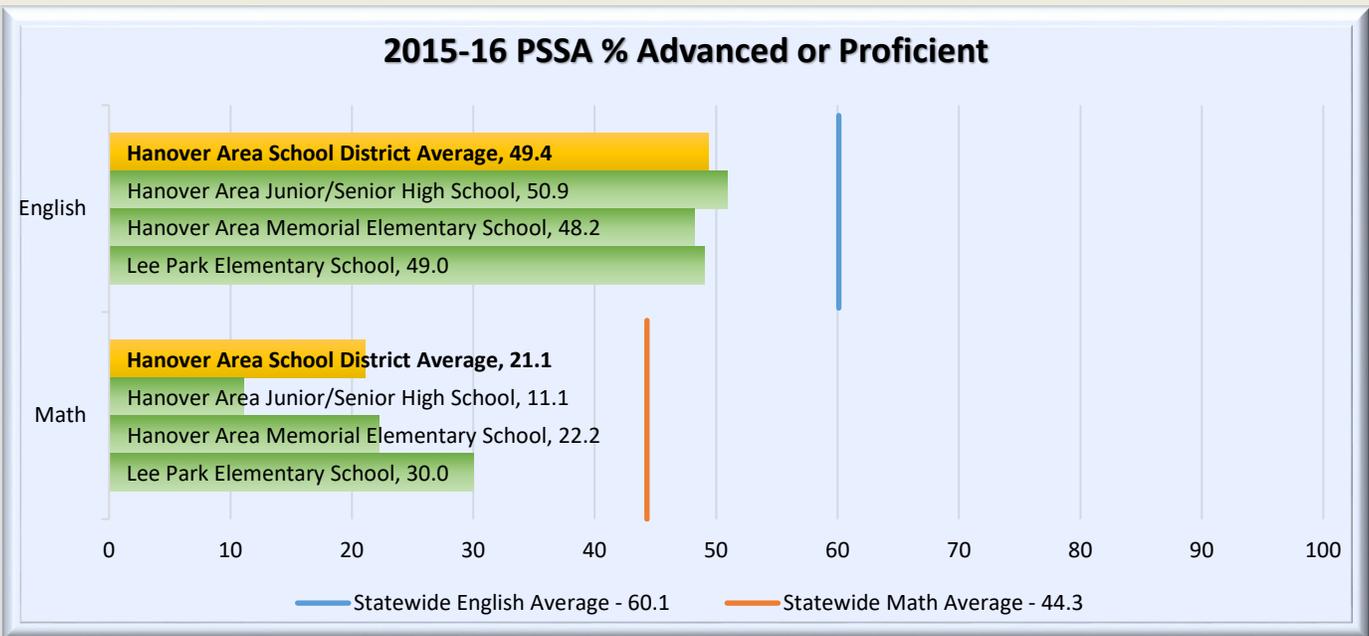
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

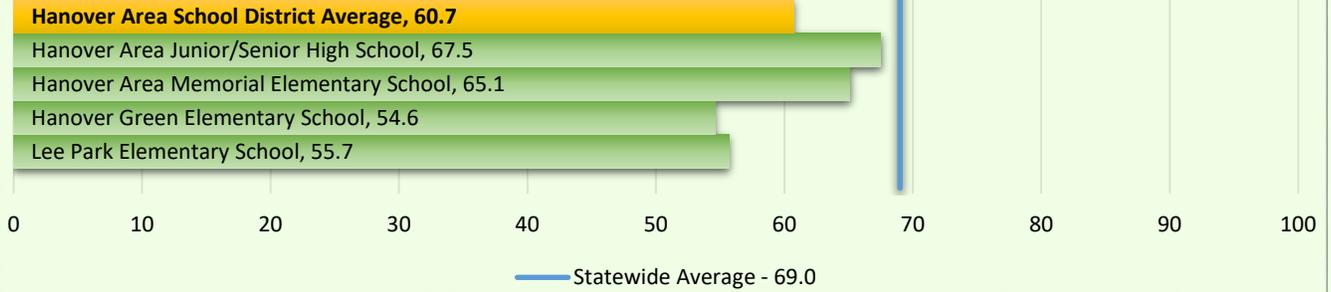


2015-16 PSSA % Advanced or Proficient

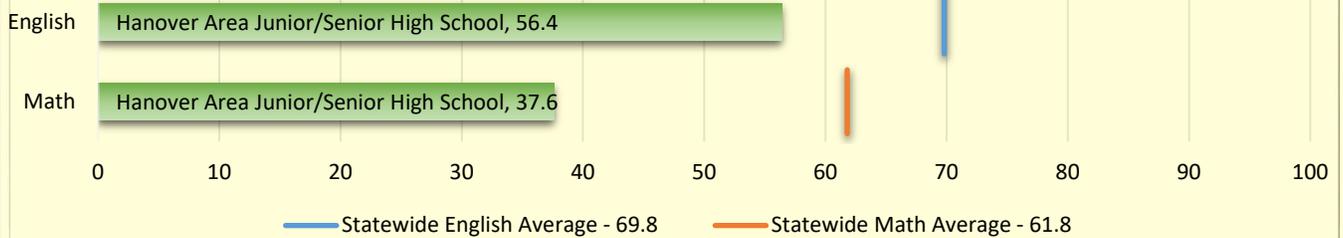


2016-17 Academic Data
School Scores Compared to Statewide Averages

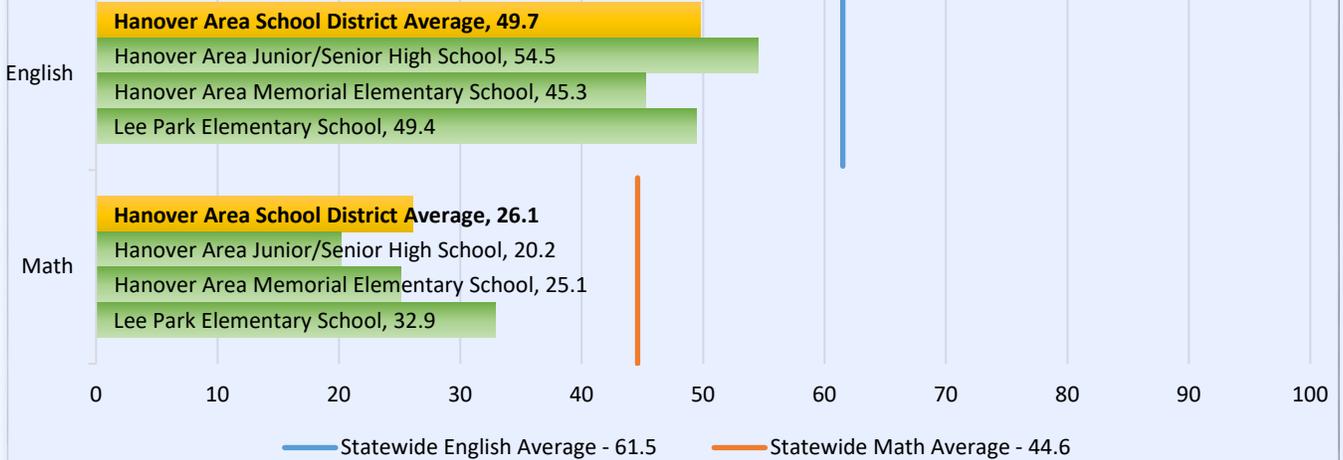
2016-17 SPP Scores



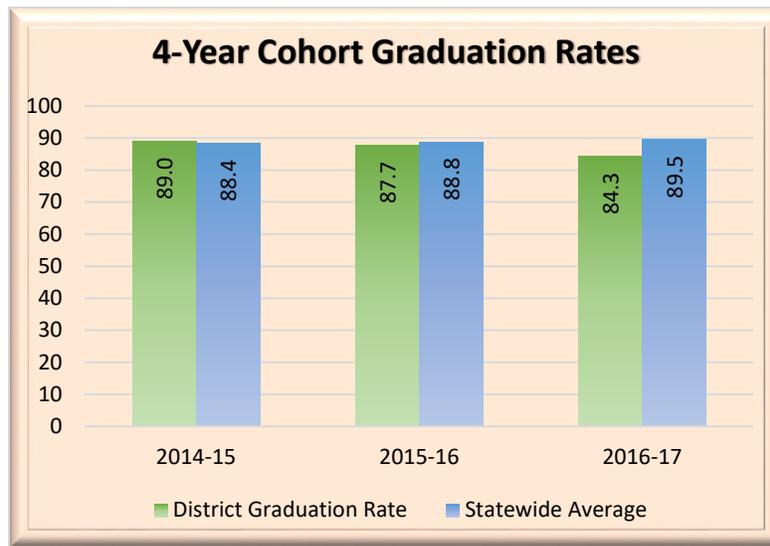
2016-17 Keystone % Advanced or Proficient



2016-17 PSSA % Advanced or Proficient



Graduation Data
District Graduation Rates Compared to Statewide Averages



Finding

Finding No. 1

Four Consecutive Operating Deficits Reduced the District's General Fund Balance to Negative \$5.7 Million as of June 30, 2017

Criteria relevant to the finding:

The Government Finance Officers Association (GFOA) has developed Budgeting Best Practices for School Districts. Among the best practices are:

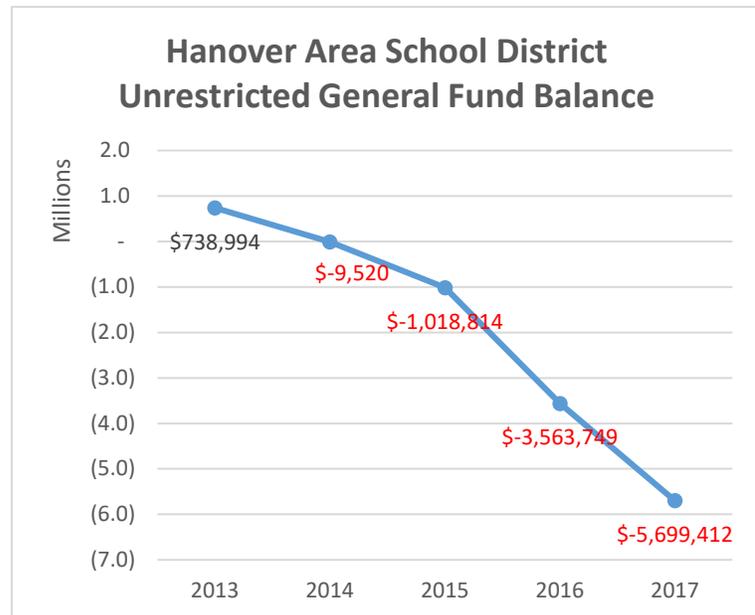
General Fund Reserve. School districts should establish a formal process on the level of the unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk.

The GFOA recommends, at a minimum, that school districts maintain an unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general operating expenditures and operating transfers out.

Budgeting and maintaining adequate fund balances allow school boards and superintendents to maintain their educational programs and services with level tax adjustments. They also provide financial stability in emergency situations so that it is certain that employees and vendors are paid on time. Fund balances reduce interest expense or interim borrowing. In addition, stable fund balance history appeals more to underwriters and other creditors when construction projects are undertaken and the school district must enter the bond market.

Our review of the Hanover Area School District's (District) financial position over a four-year period revealed that the District's unrestricted General Fund balance decreased by more than \$6 million from July 1, 2013 through June 30, 2017.⁸ As illustrated in Chart 1, the District's unrestricted General Fund balance decreased significantly during the audit period. The District's **negative \$5,699,412 unrestricted** General Fund balance as of June 30, 2017 is significantly less than the minimum fund balance recommended by the Government Finance Officers Association (i.e., two months of regular General Fund operating revenues or regular general operating expenditures and operating transfers out as further detailed in the criteria box).

Chart 1



⁸ The unrestricted General Fund balance is the total of the District's committed, assigned, and unassigned fund balances. The only restraint on spending, if any, in the unrestricted General Fund balance is imposed by the government itself.

*Criteria relevant to the finding
(continued):*

The Pennsylvania School Boards Association in its *Annual Overview of Fiscal Health* for the 2013-14 school year provided the following fiscal benchmarks.

- Financial industry guidelines recommend that fund balances be between five percent and ten percent of annual expenditures.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

Section 609 of the Public School Code provides, in part:

“No work shall be hired to be done, no materials purchased and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.” See 24 P.S. § 6-609.

Hanover ASD Board Policy No. 603 states:

“Purpose: The Board considers preparation of an annual budget to be one of its most important responsibilities because the budget is the financial reflection of the district’s educational plan. The budget shall be designed to support the educational plan in a comprehensive and efficient manner, to maintain district facilities, and to honor district obligations.”

In addition to the District not operating in accordance with well-established best practices, a negative unrestricted General Fund balance is also concerning for the following reasons. If the District’s fund balance continues to decrease, it is in danger of being placed on *financial watch status* by the Pennsylvania Department of Education (PDE).⁹ *Financial watch status* is a precursor to being placed in *financial recovery status* for districts that do not improve financially.¹⁰ A district placed in *financial recovery status* loses local control of district operations. In these instances, the district’s board of school directors no longer has the authority to provide oversight of district operations. School districts in *financial recovery status* have a PDE appointed chief recovery officer whose responsibilities include oversight of the district and the development of a district-wide financial recovery plan.¹¹

School districts, like individuals, should have a “rainy day fund” to deal with emergencies or unforeseen needs, unanticipated expenditures, and disruptions to revenue. The lack of available reserve funds forced the District to borrow funds to meet operational expenditures. In addition, the District’s overall debt service costs increased during the period we reviewed as a result of the borrowing that occurred due to the District’s lack of available reserve funds.

Borrowing to Meet Operational Expenses

The District suffered recurring losses from operations during our audit period. Operational losses were so significant that the District issued three Tax Anticipation Notes (TANs) since July 2015 to sustain operations. The District issued its first TAN in July 2015 for \$2.5 million. The District issued a second TAN in July 2016 for \$5 million. The District used some of the proceeds to pay off the first TAN. The remaining proceeds of the second TAN were used to fund daily operations. In July 2017, the District issued a third TAN for \$6.5 million. Once again, the District needed the proceeds from this borrowing to meet obligations from earlier TANs and fund ongoing operations. In May 2018, the District realized that

⁹ 24 P.S. § 6-611-A; see also Pennsylvania Code, Chapter 731. Early Warning System--Statement of Policy and 22 Pa. Code § 731.2 (“Early Warning System”).

¹⁰ 24 P.S. § 6-601-A *et seq.*

¹¹ 24 P.S. § 6-631-A (relating to Appointment [of a chief recovery officer]) and 24 P.S. § 6-641-A (relating to Contents [of Plan]).

*Criteria relevant to the finding
(continued):*

Hanover ASD Board Policy No. 604 states:

“Purpose: It is the philosophy of the Board that the annual budget represents the position of the Board, and all reasonable means shall be employed to present and explain the preliminary and final budgets to district residents. Board members and district administrators shall be knowledgeable about, and understand the need for, proposed expenditures.”

2005 PSBA School Board Secretary’s Handbook, Appendix D, Approving Bills

Excerpt: “Does your treasurer’s report which usually is two or three pages and is part of the agenda, list for approval such items as: deposits on hand, current fund balance, budget transfers, monthly deposits, monthly payments and budget transfers.

Provide each member of the board with a more detailed, multi-page financial report for information and/or approval of: computer printouts of each line item account showing budgeted amounts, monies expended, funds encumbered and unencumbered balances.”

it was unable to repay the \$6.5 million TAN. At this time, the District petitioned the Court of Common Pleas of Luzerne County and was granted approval to convert \$7.25 million in unfunded short-term debt to long-term debt. This relieved the short term pressure on the District to repay these borrowings, but will increase the District’s future debt obligations.

In this petition, the District’s Board of School Directors (Board) stated that the severity of the District’s financial position between 2012 and 2017 was not conveyed to the Board. As a result, the Board stated that they were unable to raise sufficient revenue to meet operating expenses. We will discuss the District’s former business administrator’s inability to accurately budget expenditures and the District’s General Fund balance later in this finding. However, the Board did not require the former business administrator to present a treasurer report at monthly meetings during our audit period. A treasurer report would have included the current General Fund balance, budget transfers, monthly deposits, and monthly payments. This information is integral to making informed financial decisions. The Board not only failed to meet its fiduciary duties, it also abdicated its responsibility to District taxpayers by failing to require the District’s former business administrator to adequately update and provide monthly reports summarizing the District’s financial position during the District’s financial decline.

Operating Position

A school district’s operating position, which is expressed as either an operating surplus or an operating deficit, is determined by subtracting operating expenditures and other financing uses from operating revenues and other financing sources. Other financing sources/(uses) are generally referred to as one time revenue/(expenditures) items and are more variable in nature than recurring revenues/(expenditures). The Hanover Area School District’s unrestricted General Fund balance decreased for all four years reviewed due to the significant amount of other financing uses. The following table shows the District’s total operating revenues, total operating expenditures, other financing uses, and the change in the District’s unrestricted General Fund balance for the four years reviewed.

Table 1

Hanover Area School District General Fund Operating Position				
Fiscal Year Ended June 30	Total Operating Revenues¹²	Total Operating Expenditures¹³	Other Financing Sources/ (Uses)¹⁴	Operating Surplus/ (Deficit)
2014	\$28,151,801	\$25,642,379	(\$3,257,936)	(\$748,514)
2015	\$27,576,603	\$25,463,603	(\$3,122,294)	(\$1,009,294)
2016	\$28,410,022	\$28,017,581	(\$2,937,376)	(\$2,544,935)
2017	\$29,838,658	\$28,742,821	(\$2,837,779)	(\$1,741,942)
Total:	\$113,977,084	\$107,866,384	(\$12,155,385)	(\$6,044,685)

Revenue and Expenditures

The District's total revenue increased by almost \$1.7 million or 6 percent during the audit period. During the 2016-17 fiscal year, 50 percent of the District's total revenue was comprised of local revenue. Real estate taxes are the primary source of the District's local revenue. The District increased the millage rate in three of the four fiscal years reviewed. While revenue increased 6 percent during the audit period, expenditures increased by 12 percent during the same time period. District officials attributed increasing expenditures during the audit period to rising personnel costs—primarily contracted salary increases—rising retirement obligations, and increasing employer benefit costs.

Other Financing Uses

Other financing uses are generally referred to as one-time expenditure items and are more variable in nature than recurring expenditures; however, the District experienced significant other financing uses for all four years we reviewed. The District's other financing uses had a significant effect on the District's operating position during our audit period.

¹² Information obtained from the District's Independent Auditor's Report, *Statement of Revenue, Expenditures and Changes in Fund Balance*, fiscal years ending 2013 through 2017.

¹³ Ibid.

¹⁴ Ibid.

The District annually transferred money from its General Fund to its Debt Service Fund. Transfers from the General Fund were required to meet obligations that resulted from capital projects undertaken by the District. These annual transfers/other financing uses totaled more than \$12 million during the audit period and were the primary cause of the District's depleted General Fund balance. Increasing annual debt service payments along with the payments required to fulfill the previously discussed TANs led to the District refinancing \$9.745 million of existing bonds in February 2018.

The benefits of the District's refinancing was the elimination of debt service payments during the 2017-18 fiscal year and lowered interest rates; however, principal payments were extended from the 2022-23 fiscal year to the 2027-28 fiscal year and will result in a higher amount of debt service payments in total.

Budgeting

The Public School Code (PSC) requires that all school districts develop a balanced General Fund budget each year. In addition, the PSC prohibits districts from spending more than the amount budgeted. While the District developed a balanced General Fund budget each year of our audit period, it over-expended the budget by a significant amount in each year.

The following table shows the District's actual General Fund expenditures compared to budgeted amounts for each year.

Table 2

Hanover Area School District Comparison of Budget vs. Actual General Fund Expenditures			
Fiscal Year Ended June 30	Budgeted Expenditures	Actual Expenditures	(Under)/Over Budget
2014	\$23,537,787	\$25,642,379	(\$2,104,592)
2015	\$23,420,965	\$25,463,603	(\$2,042,638)
2016	\$24,036,845	\$28,017,581	(\$3,980,736)
2017	\$25,454,231	\$28,742,821	(\$3,288,590)
Total:	\$96,449,828	\$107,866,384	(\$11,416,556)

We reviewed the budgeted expenditures for all line items and compared them to actual expenditures and found that the *regular instructional* expenditure was significantly over budget. Over the four year period, actual *regular instructional* expenditures exceeded budgeted amounts by more than \$4.6 million. Additionally, we found that the *special education instructional* expenditures were significantly over budget. Over the four year period, *special education instructional* expenditures exceeded budgeted amounts by more than \$4.4 million.

As discussed earlier in the finding, the District attributed the significant increase in instructional expenditures to the increase in staff salaries and benefits; however, salary and benefit expenditures are a relatively known cost to the District and should have been more accurately budgeted.¹⁵ Specifically, the District budgeted \$5.6 million for the *salary* component of instructional expenditures and \$2.8 million for the *benefits* component of *instructional expenditures* for the 2013-14 fiscal year. Actual expenditures in these two categories exceeded budgetary amounts by over \$750,000 combined during the 2013-14 fiscal year.

Four years later, during the 2016-17 fiscal year, the District only budgeted \$6.2 million for the *salary* component of *instructional expenditures* and \$3.3 million for the *benefits* component of *instructional expenditures*. The District did not make significant changes to its staff complement during this time and unsurprisingly actual expenditures in these two categories exceeded budgetary amounts by over \$1 million combined during the 2016-17 fiscal year.

Actual costs exceeding budgetary amounts so significantly for salary and benefits is concerning. While under-budgeting instructional expenditures aided the District in preparing a balanced budget, it did not reveal the true financial picture of the District, as evidenced by actual expenditures being considerably higher. Also concerning was the Board's lack of oversight during the District's financial decline.

¹⁵ The District's employment with instructional staff contained the following salary-related clauses during our years reviewed:

- 2013-14 – Step and columnar movement with \$500 off the scale at max step.
- 2014-15 – Step and columnar movement with \$600 off the scale at max step.
- 2015-16 – 2% salary increase which includes increment.
- 2016-17 – 2% salary increase which includes increment.

Lack of Board Oversight

As discussed earlier in the finding, the Board failed to meet its critical governance responsibilities when it neglected to require monthly treasurer reports to be presented at monthly board meetings. Treasurer reports are integral to the District's financial position. Given the Board's authority to require District staff to present the monthly treasurer reports, it failed to meet its fiduciary duties. If the Board would have received and reviewed these reports on a monthly basis, the Board would have been more likely to be able to identify concerning financial trends. Further, if the Board would have required treasurer reports to be presented at monthly meetings, we believe that they would have become aware of the District's deteriorating unrestricted General Fund balance more timely.

Numerous board policies stress the importance of planning, preparing, and adopting an annual budget that accurately reflects the District's educational plan. District Board Policy No. 603 states that the Board considers preparation of an annual budget to be one of its most important responsibilities. Additionally, District Policy No. 604 states that both board members and District administrators should be knowledgeable about, and understand the need for, proposed expenditures. During our audit period, we found that the Board did not discuss, on public record, the proposed annual budgets when presented by District administrators. Despite multiple years of expenditures exceeding budgetary amounts, it was not until February 2017 that a newly appointed board member questioned the lack of accurate budgetary expenditures.

Additionally, the District's independent financial auditors annually presented its report to the District's Board. For each year during our audit period, this report showed that the District's unrestricted General Fund balance was decreasing, and that the actual expenditures were significantly more than budgeted amounts. Each year during our audit period, the District's Board voted to accept the independent auditor's report, but the details and findings in this report were not publically discussed by the Board.

Conclusion

The District's unrestricted General Fund balance substantially deteriorated over the four year period we reviewed. During this time, the District issued multiple TANs to fund operations. Ultimately, the District had to convert this debt into long-term debt due to being unable to meet the obligations that resulted from consecutive borrowings. The District did not accurately budget expenditures during the audit period, and the Board did not adequately perform its oversight role in the budgeting process. As a result, the District's unrestricted General Fund was negative \$5.7 million as of June 30, 2017, and the District will need to make significant operational changes to reverse the financial downturn that occurred during our review.

Recommendations

The *Hanover Area School District* should:

1. Require that monthly treasurer's reports are prepared and presented at each monthly board meeting.
2. Prepare a multi-year budget that adequately reflects annual commitments to help ensure that the District is prepared to meet future financial obligations.
3. Prepare multi-year budgets for regular and special instructional salaries and benefits that accurately reflect contracted obligations.
4. Require that expenditures be presented to the Board by line item and with the budgeted and actual amounts from the prior fiscal year.

Management Response

District management provided the following response:

“In February 2017, newly appointed Board Member Dr. Vic Kopko promptly discovered expenditures exceeding revenues. He immediately discussed the matter with the entire Board. The Board promptly, in 2017, separated itself from then Superintendent, then Business Manager and then Solicitor. Prior to the then administration's separations, the “old” administration, in response to inquiries by Dr. Kopko

and the “new” Solicitor, responded upon inquiry that the District’s fund balance was zero (no mention of a negative multi-million dollar fund balance was made) and that the then current tax anticipation note (“TAN”) was paid in full (no mention was made of an approximate 2.5 million dollar balance remaining on the 2016-2017 TAN). As stated, this Board’s oversight resulted in the separation from the District of the administration in place during the fund balance down-turn.

It should also be noted that part of the fund balance depreciation as reflected in the audit is due to special educational instructional expenditures. However, such expenditures are out of the District’s control.”

District action steps

1. “In December of 2017 the district hired a new Business Administrator. Since that time a treasurer’s report is prepared and submitted at each monthly Board meeting. Every month the business manager has been improving the process in order present the Board of Education the tools that are needed to make better-informed decisions.
2. The District and especially the Business office will work towards improving the procedures that are performed by district employees so that payroll and employee benefit information entered into the financial software can be better utilized in preparing a multi-year budget as requested by the Pennsylvania Auditor General to better ensure that the District is prepared to meet its’ future financial obligations.
3. In working toward the preparation of multi-year salary budgets the District will work to improve the process and procedures in which salaries and employee benefits are budgeted for regular and special instructional departments so that budgeted amounts more accurately match what was agreed upon during the most recent salary negotiations.
4. The business administrator is working with his staff to improve the process of which expenditures are being reported in the financial software package so that a monthly expenditure report can be presented to Board that shows expenditures by line item along with the corresponding budgeted amounts.”

Auditor Conclusion

We are encouraged that the District is implementing our recommendations. We believe our recommendations will assist in providing enhanced governance and oversight of the finances of the District (including regular submissions of monthly board treasurer's reports) and will help all District stakeholders have a better understanding of the District's true financial picture. Further, we continue to stress the importance of developing a General Fund budget that includes all contractually required expenditures and developing a plan to generate revenues to meet these expenditures. Finally, we will determine the effectiveness of the District's corrective actions during our next audit of the District.

Finding No. 2

The District Overpaid Three Secondary Transportation Vendors a Total of \$310,987, With the Overpayment to One Vendor Totaling At Least \$263,413

Criteria relevant to the finding:

Transportation Contracts:

Section 23.4 (relating to Responsibilities of the district board of school directors) of Chapter 23 (Pupil Transportation) of the State Board of Education's bus transportation regulations provides that:

“The board of directors of a school district is responsible for all aspects of pupil transportation programs, including the following:***

- (6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.
- (7) The negotiation and execution of contracts or agreements with contractors, drivers of district's vehicles and common carriers and submission of pertinent documents to the Department for approval of operation....” See 22 Pa. Code § 23.4(6) and (7).

Student Transportation Subsidy:

The PSC provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 (relating to Payments on account of pupil transportation) of the PSC specifies the transportation formula and criteria. See 24 P.S. § 25-2541.

The District overpaid all three of its special education transportation vendors a combined total of at least \$310,987 from July 1, 2017 through November 30, 2018. The owners and operators of one of the three vendors—who were closely related to a board member—was overpaid by more than \$263,000 during this 17-month period.¹⁶ These significant overpayments occurred at the same time as the District was experiencing an overall decline in its financial position.

We found that the District official responsible for compiling the source data and generating the transportation invoices was not properly trained for this role and lacked the fundamental knowledge to complete this vital task. In addition, the District did not execute contracts with two of these vendors and only entered into a contract with the vendor who received the largest overpayment in the 2017-18 school year. Finally, the District did not implement appropriate internal controls over the transportation department operations and the vendor payment process.

District Transportation Vendors

The District paid four vendors to transport students during the 2017-18 and 2018-19 school years. The District's primary transportation vendor operated approximately 20 buses to transport students during the 2017-18 school year. Additionally, the District paid the following three **secondary** vendors to provide transportation services for District students enrolled in special education programs.

Vendor A – Began transporting District students using one van during the 2014-15 school year but by the 2017-18

¹⁶ The potential conflict of interest is discussed further in Finding No. 3.

*Criteria relevant to the finding
(continued):*

Subsection (a) of Section 2541 of the PSC provides for the following, in part:

“(a) 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 Department of Education, in the cases hereinafter enumerated, an amount to be determined by **multiplying the cost of approved reimbursable pupil transportation incurred by the district by the district's aid ratio**. In determining the formula for the cost of approved reimbursable transportation, the **Secretary of Education may prescribe the methods** of determining approved mileages and the utilized passenger capacity of vehicles for reimbursement purposes....”
[Emphases added.] Ibid.

PDE instructions for Local Education Agencies (LEA) on how to complete the PDE-1049. The PDE-1049 is the electronic form used by LEAs to submit transportation data annually to PDE.

<http://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE%201049.pdf> (accessed 3/22/19)

Total Annual Miles

Report the total number of miles the vehicle traveled for all purposes during this reporting year (July 1 to July 1). Annual odometer readings are the simplest way of determining Total Annual Miles. (For example, subtract the odometer reading from the end of the prior reporting year from the odometer reading at the end of this reporting year.)

school year, this vendor was operating a total of four vans to transport District students.

Vendor B – Long-time transportation vendor for the District, which as of the 2017-18 school year, was operating a total of ten vans to transport District students.

Vendor C – Began transporting District students in October 2017, and during the 2017-18 school year, operated a total of six vans to transport District students.

Failure to Execute Contracts with its *Secondary* Transportation Vendors

The District did not have signed, written agreements with the *secondary* transportation Vendors B and C, and it only executed a contract with Vendor A in the fourth year of utilizing the vendor’s services. As previously stated, Vendor A began providing transportation services to the District in the 2014-15 school year, yet the District did not execute a contract with Vendor A until the start of the 2017-18 school year. When we asked why the District waited more than three years to execute a contract with Vendor A, District officials were unable to provide us with an explanation. Officials also could not explain why the District had determined it necessary to have a written agreement with Vendor A; yet had not executed contracts for the other two vendors, one of which was operating a total of ten vans, more than any of the other secondary vendors.

As discussed in further detail below, the District paid all of its special education transportation vendors using an ever changing and complex “state rate” that should have been documented in a signed contract. A signed contract should document all of the agreed upon terms and conditions, including payment terms, a detailed description of all of the services provided and other deliverables, as well as the responsibilities of both the District and the vendor. Additionally, a signed contract should delineate termination provisions if either party fails to meet its contractual obligations.

Complex Payment Calculation Method

We reviewed the contract for the District’s primary transportation vendor and found that it contained clear

*Criteria relevant to the finding
(continued):*

Daily Miles With

Report the number of miles per day, to the nearest tenth, that the vehicle traveled with pupils. If this figure changed during the year, calculate a weighted average or sample average.

Daily Miles Without

Report the number of miles per day, to the nearest tenth, that the vehicle traveled without pupils. If this figure changed during the year, calculate a weighted average or sample average.

Approved Daily Miles

Will be (1) the sum of “Miles With” and “Miles Without” or (2) if the “Miles Without” exceeds the “Miles With”, an amount equal to two times the “Miles With.”

Sworn Statement and Annual Filing Requirement

Section 2543 of the PSC sets forth the requirement for school districts to annually file a sworn statement, in a format prescribed by the Secretary of Education, of student transportation data for the prior and current school year with the PDE in order to be eligible for the transportation subsidies. *See* 24 P.S. § 25-2543.

payment terms, with a fixed monthly rate. However, the District’s contract with Vendor A stated that the vendor would be paid in accordance with the “state rate.”¹⁷ While the District did not have signed agreements with Vendors B and C that contained payment terms, District officials stated that the “state rate” was the intended payment method for these vendors as well.

The “state rate” is a complicated formula that is based on several components that are reported by school districts to the PDE for use in calculating each district’s annual reimbursement amount.¹⁸ These components include, but are not limited to, the following:

- Total number of days each vehicle is used to transport students to and from school.
- Miles traveled *with* and *without* students for each vehicle.
- Total number of students assigned to each vehicle.

Since the above listed components are integral to the calculation of the District’s transportation reimbursement, it is essential for the District to properly record, calculate, and report this information to the PDE.¹⁹ Based on the statutorily required formula, school districts receive their annual transportation reimbursements in the school year following the school year the transportation expenses were incurred.

In our experience, school district’s that pay vendors by the “state rate” usually base current year payments on the prior year’s reimbursement and then perform a payment reconciliation at the end of the year. This reconciliation is necessary because the annual reimbursement amount cannot be calculated until transportation services are completed for the school year.

Contrary to the method other school districts use to pay vendors based on the state rate, the District tried to calculate the “state rate” for each vendor daily and then

¹⁷ Defined in Vendor A’s one and only contract as, “the rate compiled by the Commonwealth of Pennsylvania, Department of Education, for the purposes of determining the proper charge to be paid to a public school transportation contractor, which rates include various factors and a cost index.”

¹⁸ 24 P.S. § 25-2541(a) and PDE-1049.

¹⁹ The District submitted its preliminary vehicle data for the 2017-18 school year to the PDE in the fall 2018; however, based on the information in this finding, the District intends to submit revised data to the PDE.

*Criteria relevant to the finding
(continued):*

Section 2543 of the PSC, entitled, “Sworn statement of amount expended for reimbursable transportation; payment; withholding” states, in pertinent part:

“Annually, each school district entitled to reimbursement on account of student transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to student transportation for the prior and current school year. . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied with the law or regulations of the State Board of Education.” *Id.*

total the daily rates into one monthly payment. Due to the multiple changing components involved in calculating a daily “state rate” for transportation vendors, determining payments in this manner would be difficult for even the most experienced and skilled transportation coordinator.

The difficulty in calculating the payment amounts using this method was demonstrated when we found that the District was unable to accurately calculate the “state rate” for all three of its secondary vendors. The inability to accurately calculate the “state rate” resulted in the overpayments totaling at least \$310,987 to the three transportation vendors during the period of July 1, 2017 through November 2018.²⁰

Overpayments to Transportation Vendors

We reviewed the payment process for the three vendors to determine how the District’s transportation coordinator was calculating the “state rate.” The vendors submitted mileage sheets to the District detailing the number of days it transported students and the number of miles traveled. However, the District did not require its three vendors to submit the information in the same format. Both Vendors B and C reported the miles traveled *with* students and miles traveled *without* students separately. These vendors also highlighted route adjustments and reported actual miles traveled on the mileage sheets submitted to the District. On the other hand, Vendor A only provided total miles traveled and did not separate mileage into those traveled *with* and *without* students, which as previously mentioned, is a key component necessary to calculate the “state rate.” Our review of Vendor A’s mileage sheets also showed that it appeared that Vendor A reported only estimated miles students were transported, rather than actual miles.

After obtaining mileage data from the vendors, the District’s transportation coordinator was responsible for entering this information into the District’s transportation software system. Based on the information entered, the software calculated a daily rate that was used to generate the invoices to pay the vendors. We found multiple data-entry errors relating to all three special education

²⁰ We were unable to determine the accuracy of the amounts paid to these vendors for the 2013-14 through 2016-17 school years due to the District’s failure to retain the required supporting documentation, which is in noncompliance with the State Board of Education’s bus transportation regulations. *See* 22 Pa. Code § 23.4(6) in the criteria box. (See Finding No. 3.)

vendors which resulted in overpayments totaling more than \$310,000 as shown in Table 1.

Table 1

Hanover Area School District Special Education Transportation Vendor Overpayments		
Vendor	School Year	Overpayment Amount
A	2017-18 ²¹	\$244,621
	2018-19 ²²	\$18,792
		Subtotal: \$263,413
B	2017-18 ²³	\$8,073
C	2017-18	\$39,501
		Total: \$310,987

Errors That Resulted in Overpayments of At Least \$263,413 to Vendor A

Vendor A’s mileage sheets were handwritten on notebook paper and submitted to the District monthly. Vendor A often reported the exact same number of miles traveled for numerous days for each of its vans. The District’s transportation software had a feature that allowed daily miles to be reported for multiple days at one time, if daily miles did not change. For example, if a van traveled 30 miles for 5 consecutive school days, the software allowed the transportation coordinator to select the beginning and end dates of travel, enter “30” miles/day and then the software would automatically enter the 30 miles for each of the 5 days.

We found multiple instances where the transportation coordinator selected the multiple days feature but then entered the total for the 5 days (i.e., 150 miles), instead of the daily 30 miles traveled, which in this example would result in erroneously reporting a total of 750 miles for the week. These data-entry errors resulted in significantly over-reporting the miles traveled, which inflated the daily

²¹ The District was unable to produce supporting documentation for the majority of Vendor A’s vans for July and August 2017, so we were unable to calculate the full overpayment due to the lack of documentation.

²² The timeframe for this calculation was July 1, 2018 through November 30, 2019 (final month the vendor was paid).

²³ Since the District is still using Vendors B and C to provide transportation services during the 2018-19 school year, we did not recalculate the payments made to those two vendors during the 2018-19 school year.

rate calculation and ultimately caused the large overpayments.²⁴

We also found errors in the way the number of days traveled were entered into the software. Some of Vendor A's vans conducted multiple trips (or vehicle runs) in the same day. When this occurs, the total mileage should be reported, but only one day traveled should be reported. We found multiple instances where the District's transportation coordinator counted each individual vehicle run as a separate day, which also inflated the daily rate.

The importance of correctly entering vehicle data into the software and then having someone review that data cannot be emphasized enough. An effective oversight function of this process would have identified errors, particularly obvious errors. For example, the September 2017 invoice for Vendor A recorded that one van was in operation for 52 days in one month when it actually was in operation for only 20 days. Because the total days traveled data was entered incorrectly, the total payment for the month for that one van was more than \$11,000. This is just one example of how the errors impacted the invoice amounts. As previously stated, we found numerous data entry errors including significantly over-reported total miles and number of days traveled, which resulted in inflated daily rates and the significant vendor overpayments.

Efforts to Recover the Overpayment to Vendor A

While preparing the annual financial reports in December 2018, the District's business manager identified a significant increase in the total amount paid to Vendor A during the 2017-18 school year compared to the total amount paid in the previous year. Specifically, the District paid Vendor A approximately \$100,000 in the 2016-17 school year compared to more than \$369,000 in the 2017-18 school year. A preliminary review of the records determined that Vendor A was overpaid approximately \$250,000. The District convened an emergency board meeting in January 2019 to discuss the overpayment. The District immediately stopped making payments to Vendor A with November 2018 being the last month the vendor was paid.

²⁴ Due to the frequent changes in daily miles, the District's transportation coordinator could not use the multiple days feature when entering mileage data for Vendors B and C.

The District's solicitor then contacted Vendor A to request that the overpayment be refunded to the District. However, Vendor A refused to return the overpayment and the District terminated its contract with Vendor A, effective March 1, 2019.²⁵ The District subsequently filed an insurance claim under the errors and omissions policy to recover the overpayment. According to District officials, the insurance company will be responsible for seeking restitution from Vendor A.²⁶

While the District estimated that Vendor A was overpaid \$250,000, we conducted detailed testing and found that the overpayments continued into the 2018-19 school year. As shown in Table 1, Vendor A was overpaid at least \$263,413.

Errors That Caused Overpayments to Vendors B and C

As stated previously, our testing revealed that the District also incorrectly calculated the daily rates for Vendors B and C, which resulted in overpayments to these vendors. The errors made with these vendors was different than the errors made with Vendor A's data. Mileage for an individual vehicle should be reported to the District as two distinct numbers: miles traveled *with* students and miles traveled *without* students. The District must perform an individual vehicle calculation and the results of this calculation is reported as miles traveled. The PDE instructions require daily mileage to be reported as the sum of miles *with* students and miles *without* students, when miles *with* students exceeds miles *without* students. In instances when miles *without* students exceeds miles *with* students, miles *with* students is doubled and that number is reported as miles traveled.

We found that the District's transportation coordinator made multiple errors with this calculation for both Vendor B and C. For example, Vendor B reported one vehicle as 2.6 miles *with* students and 26.4 miles *without* students.

²⁵ We believe that this failure and refusal to repay the funds received in error may be a violation of Section 3927 (relating to Theft by failure to make required disposition of funds received) of the Crimes Code and may result in a referral to the appropriate authorities. Section 3927 of the Crimes Code defines this theft crime in part, as: "A person who obtains property upon agreement, or subject to a known legal obligation, to make specified payments or other disposition, whether from such property or its proceeds or from his own property to be reserved in equivalent amount, is guilty of theft if he intentionally deals with the property obtained as his own and fails to make the required payment or disposition..." See 18 Pa.C.S. § 3927.

²⁶ The District filed the claim under the Errors and Omissions section of its policy and received a \$243,621 payment from its insurance company on May 22, 2019. (The District had a \$1,000 deductible.)

Since the total miles *without* students is greater than miles *with* students, the correct miles that should have been entered into the software was 5.2 (double the 2.6 miles *with* students). However, the District's transportation coordinator incorrectly entered 28.4 miles for that vehicle. Incorrectly calculating mileage resulted in inflated daily rates for Vendors B and C and led to the overpayments we identified in the 2017-18 school year.²⁷

Failure to Provide Adequate Training

The District experienced significant turnover in its administrative positions at the beginning of the 2017-18 school year. In August 2017, the District's transportation coordinator was appointed to the Superintendent position.²⁸ The District appointed a part-time administrative assistant to fill the transportation coordinator vacancy. The part-time administrative assistant did not have any experience with the PDE transportation reporting requirements or experience generating invoices prior to becoming the District's transportation coordinator.

The District was unable to produce documented evidence that its transportation coordinator received adequate training on the PDE transportation reporting requirements or training on the District's transportation software. The District's "state rate" payment method for its special education vendors, coupled with its reliance on the transportation software to calculate this rate daily, highlights the importance of the training needed in these areas. In addition, the District lacked written procedures for its transportation operations, including the invoicing and payment processes. The lack of training and written procedures became apparent to us when we interviewed the transportation coordinator, who was unable to provide appropriate responses to our inquiries about the state rate calculation and the District's payment process.

²⁷ We also found that the transportation coordinator failed to account for entire vehicle runs made by Vendor B. The failure to account for all of Vendor B's vehicle runs would have resulted in some underpayments. Therefore, we calculated the net overpayment to Vendor B as shown in Table 1.

²⁸ Prior to becoming District Superintendent in August 2017, this official was the District's transportation coordinator since the beginning of our audit period, July 1, 2013.

Failure to Implement Internal Controls Over Transportation Payment Process

The overpayments we identified revealed that the District did not have adequate internal controls governing payment to its transportation vendors. In addition to its failure to develop written procedures and provide adequate training to the transportation coordinator, we identified several other internal control weaknesses that are detailed below.

- *The District failed to ensure that a supervisory review of transportation data was performed after the data was entered into the District's transportation software.*

As discussed earlier in the finding, the vehicle data reported by the District's special education vendors was the key component in determining the amount paid to each vendor. The District did not have any supervisory review procedures for the data that the transportation coordinator entered into its transportation software. Proper review procedures should have identified the data entry errors that resulted in the substantial overpayments to the vendors.

- *The District failed to ensure that District-generated transportation invoices were reviewed for accuracy prior to payment.*

The District's primary transportation vendor was paid in ten monthly installments based on a contracted annual amount. The District's secondary transportation vendors were paid variable monthly amounts based on vehicle data that was entered into the transportation software. In both instances, the District's transportation coordinator was responsible for generating the invoices to be paid.

Once the invoice was generated, the District's transportation coordinator would sign it and fax the invoice to the District's business office. The District's accounts payable clerk would verify that the transportation coordinator signed the invoice and then issue payment to the transportation vendor. The District-generated invoices were not sent to the transportation vendors for review and approval prior to payment nor were the invoices reviewed and approved by anyone else within the District. The lack of review procedures for the invoices resulted in the overpayments continuing undetected for at least a 17-month period.

- *The Board did not take an active role in ensuring that total vendor payments were appropriate.*

The Board received and approved monthly check registers, which included, among other expenses, the amount to be paid to each transportation vendor. However, the Board did not require the administration to provide other information, such as budget-to-actual reports, to give context for significant expenses like transportation. Without contextual information, the Board cannot be assured of the appropriateness of the payments before it authorizes approval. For example, the check register provided to the Board for November 2017 included \$80,775 in payments to Vendor A. Considering that total payments to Vendor A for the entire 2016-17 school year was \$99,655, one monthly payment that represents more than 80 percent of the total annual payment for the prior year should have raised a red flag. However, the Board was not provided with any other information related to that payment, such as total amount budgeted for the year or total amount paid in the prior year, which should have enabled them to at least question such a large one month payment to this vendor.

Conclusion

The District's transportation coordinator made multiple data-entry errors which resulted in the District overpaying Vendor A at least \$263,413 and an overpayment of \$47,574 for its other two special education transportation vendors, for a total of \$310,987. The District did not ensure that its newly promoted transportation coordinator had the required knowledge to perform the duties and responsibilities of the position. Furthermore, the District did not design and implement appropriate internal controls over the calculation and payment of transportation invoices. Basic internal controls and more direct oversight from the Board could have identified the errors prior to the District overpaying its vendors.

The significant overpayments to the transportation vendors occurred at a time when the District was experiencing a decline in its financial position (see Finding No. 1 on page 11). Overpaying its vendors by more than \$300,000 may have contributed to the District's financial decline. It is imperative for the District's Board and its administration to design and implement proper internal controls to ensure

all future District transportation expenditures are accurate and appropriate.

Recommendations

The *Hanover Area School District* should:

1. Immediately obtain signed written agreements with all transportation vendors and ensure that the terms and conditions include clear payment terms, vendor service requirements, and requirements that all vehicle data be submitted by the vendor in a standardized format containing actual miles traveled both *with* and *without* students.
2. Include contractual language ensuring that current year payments are based on previous year's transportation reimbursement and the final annual payment is a reconciliation payment if the payment terms of the contract are the "state rate."
3. Require that budget-to-actual reports or other contextual information for all transportation vendors is included with the monthly check register when presented to the Board for approval.
4. Develop and implement written procedures governing the invoicing and payment processes for the entire transportation operations. The procedures should include the following:
 - All vehicle data entered into the District transportation software is independently reviewed by someone other than the person who entered the data.
 - All transportation invoices are reviewed by someone other than the person who prepared the invoice.
 - All District-generated transportation invoices are sent to the vendor and the vendor must indicate agreement with the accuracy of the invoice before payment.

5. Ensure personnel responsible for submitting the PDE transportation data are provided with in-depth training on the PDE transportation reporting requirements.
6. Ensure personnel responsible for entering vehicle data into the District's transportation software are properly trained on the software's features and functions.
7. Review the preliminary vehicle data that was reported to the PDE and submit revised data for use in calculating the District's 2017-18 regular transportation reimbursement amount.
8. Recover the overpayments to Vendors B and C by requesting a direct payment from the vendors or by adjusting future payments to the vendors.
9. Complete a review of the payments made to Vendors B and C for the 2018-19 school year to ensure accuracy and appropriateness.

Management Response

District management provided the following response:

“The “new” Business Manager, in the late fall of 2018, discovered the issue and immediately self-reported the matter to the auditors. The District terminated its relationship with the vendor at issue. Through creative oversight by the Board and Administration, the District has worked with its insurance company and the state auditors resulting the District anticipating receiving full reimbursement for its overpayment with the insurance company pursuing the overpaid vendor. The District also removed the Superintendent, who was also the employee formerly responsible for reporting transportation reimbursement information to the state, from all of his duties.

District action steps

1. “The School District is currently working with our Attorneys’ to finalize written contracts that meet the terms and conditions recommended by the Auditor General.
2. The School District will make sure that the finalized contracts will be based upon the previous years

transportation amount if possible and the final payment for the year will act as a reconciliation payment if the terms of the newly contracted terms are at the “State Rate.”

3. The business office will implement procedures to be put in place so that soon all relevant information including budget to actual transportation information will be presented along with the check registers to be reviewed by the Board of Education.
4. The District is in the process of approving a job description for a newly created full-time position. Upon the approval and hiring the district will implement procedures to ensure that the transportation department will coordinate with the business office so that proper vehicle data and transportation mileage is accurate in order to generate a proper invoice and a payment process that is acceptable with the approval of all parties involved.
5. The District will ensure that all personnel in the transportation department will be properly and fully trained in the process of reporting all required PDE transportation reports.
6. As part of the training process that will be implemented by the District in the above response to recommendation #5 the district will ensure that all transportation personnel will also be properly and fully trained in any and all secondary software that the transportation department utilizes to complete all necessary PDE reporting requirements.
7. Until a new transportation employee is hired the District is unsure whether they will review the preliminary information and submit revised data that PDE can use in calculating the District’s 2017-18 regular transportation reimbursement amount.
8. The District will work closely with our solicitor to recover all overpayments owed to the District from any of the vendors involved in the overpayment of District Transportation funds.
9. Until a new transportation employee is hired the District is unsure whether an employee will also review the payments made to Vendors B and C for the 2018-19 school year to ensure accuracy and appropriateness and work with all parties involved to make any necessary adjustments.”

Auditor Conclusion

We are encouraged that the District has implemented or plans to implement all of our recommendations.

Transportation expenditures and reimbursements are an integral part of the District's financial position and it is imperative that this information is accurate and that appropriate internal controls are established. We will evaluate the effectiveness of any corrective actions implemented by the District during our next audit.

Finding No. 3

A Board Member Failed to Abstain from Voting to Approve Payments to a Closely Related Vendor

Criteria relevant to the finding:

The “Purpose” (preamble) of the Ethics Act provides as follows, in part:

(a) *Declarations.*—The Legislature hereby declares that public office is a **public trust** and that **any effort to realize personal financial gain** through public office other than compensation provided by law **is a violation** of that trust. . . . Because public confidence in government can best be sustained by assuring the people of the **impartiality and honesty of public officials**, this chapter shall be liberally construed to promote complete financial disclosure as specified in this chapter. (Emphases added.) *See* 65 Pa.C.S. § 1101.1(a).

The important definitions under of the Ethics Act include the following:

“Public official” under the act is as follows, in part: “Any person elected by the public or elected or appointed by a governmental body or an appointed official in the executive, legislative or judicial branch of this Commonwealth or any political subdivision thereof. . . .”

Our review of the board meeting minutes from July 2017 through November 2018 disclosed that a board member voted to approve monthly payments to a vendor who was an immediate family member of the board member.²⁹ During this time period, this vendor was overpaid more than \$263,000, which was more than two-and-a-half times the payments made during the previous school year. Failure by the public official to abstain from the votes to approve payments to a family member appears to be a possible violation of the *Pennsylvania Public Official and Employee Ethics Act* (Ethics Act).³⁰

Under the Ethics Act, no public official may engage in conduct that constitutes a conflict of interest.³¹ A “conflict of interest” under the act is defined as, in part: “Use by a public official. . . of the authority of his office. . . for the private pecuniary benefit of himself, **a member of his immediate family or a business with which** he or a member of his immediate family is associated [emphasis added].”³² Further, the Ethics Act provides that in any matter where a voting conflict may exist, any public official who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall:

- abstain from voting; and
- prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible

²⁹ This involved the board member being a son of the vendor. Under the Public Official and Employee Ethics Act, “Immediate family” is defined as limited to: “A parent, spouse, child, brother or sister.” *See* 65 Pa.C.S. § 1102. Please note that we also have a concern about another board member who had a close familial relationship (i.e., niece) to the vendor who also approved such monthly payments. While this did not rise to a possible violation of the act, this board member/niece should have been guided by best practices on board ethics and possible familial conflicts. In this matter, the Board would have benefited from a well-defined anti-nepotism policy as we recommend at the end of this finding.

³⁰ 65 Pa.C.S. § 1101 *et seq.*

³¹ 65 Pa.C.S. § 1103(a).

³² *See* 65 Pa.C.S. § 1102. [Emphasis added.]

*Criteria relevant to the finding
(continued):*

A “Conflict” or “conflict of interest” under the *Ethics Act* is defined as follows:

Use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated. The term does not include an action having a de minimis economic impact or which affects to the same degree a class consisting of the general public or a subclass consisting of an industry, occupation or other group which includes the public official or public employee, a member of his immediate family or a business with which he or a member of his immediate family is associated. See 65 Pa.C.S. § 1102.

Section 1103 (relating to *Restricted activities*) of the Ethics Act, states, in part:

(a) Conflict of interest.--No public official or public employee shall engage in conduct that constitutes a **conflict of interest**.

for recording the minutes of the meeting at which the vote is taken...³³

The District utilized the services of a transportation vendor who was an immediate family member of the public official serving as a member of the Board. The District began using the vendor’s services in the 2014-15 school year; however, the District did not execute a written contract with the vendor until the 2017-18 school year. The vendor provided vans to transport special needs students to and from school.

At a public board meeting on June 28, 2017, the Board approved the five-year contract with the vendor for the period July 1, 2017 through June 30, 2022. We reviewed the board meeting minutes and found that the board member appropriately abstained from voting to approve the contract, citing his close family relationship as the reason for the abstention. However, the board member did not abstain from voting to approve the subsequent monthly payments to the vendor. While the board member went on record with his conflict when the Board took action related to the contract, he subsequently failed to abstain from voting on approving payments to the family member as required by the Ethics Act.

Our review of the board meeting minutes showed that other board members abstained from voting to approve specific expenses on the check register which provided us with evidence that the Board is aware of the requirement to abstain from a vote when a potential conflict of interest exists.

As detailed in Finding No. 2, this vendor was grossly overpaid during the 2017-18 school year. As noted earlier, the monthly payments to the vendor during the 2017-18 year were more than two-and-a-half times the payments made during the previous school year. The appearance of the conflict of interest is more troubling given that the board member failed to abstain from voting to approve payments at a time when the payments to this vendor were grossly inflated. Furthermore, the vendor has refused to return the overpayments to the District, which could create discord on the Board due to the family relationships

³³ 65 Pa.C.S. § 1103(j). [Emphases added.] A copy of the Pennsylvania Ethics Commission’s Sample Conflicts Memo form is available at the end of the following link: https://planningpa.org/wp-content/uploads/F6_PA-Ethics-Act-and-Its-Relevance-to-Planners.pdf

*Criteria relevant to the finding
(continued):*

(j) Voting conflict.--Where voting conflicts are not otherwise addressed by the Constitution of Pennsylvania or by any law, rule, regulation, order or ordinance, the following procedure shall be employed. Any public official or public employee who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall abstain from voting and, prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible for recording the minutes of the meeting at which the vote is taken, provided that whenever a governing body would be unable to take any action on a matter before it because the number of members of the body required to abstain from voting under the provisions of this section makes the majority or other legally required vote of approval unattainable, then such members shall be permitted to vote if disclosures are made as otherwise provided herein. In the case of a three-member governing body of a political subdivision, where one member has abstained from voting as a result of a conflict of interest and the remaining two members of the governing body have cast opposing votes, the member who has abstained shall be permitted to vote to break the tie vote if disclosure is made as otherwise provided herein. See 65 Pa.C.S. § 1103(a) and (j).

between the vendor and two of the board members.³⁴

We also noted that prior to executing the contract in June 2017, the board member was approving payments to his family member for three years even though the District did not have a contract with this vendor. Because the board member did not publically disclose the conflict of interest until the District executed the contract, the public may have been unaware of the conflict of interest that existed when the board member was approving payments to his immediate family member.

Recommendations

The *Hanover Area School District* should:

1. Require all board members to publicly announce and disclose the nature of their possible conflicts of interest as a public record in a written memorandum filed with the board secretary prior to a vote being taken when **initially** being ask to vote on a possible conflicting matter.
2. Require all board members to abstain from voting to approve payments to immediate family members in all **subsequent** matters. In compliance with the Ethics Act, the abstention and the reason for the abstention should be documented in the public board meeting minutes.
3. Refrain from entering into agreements with vendors that are immediate family members as defined by the Ethics Act, whenever possible.
4. Consider adopting a well-defined anti-nepotism policy that would be applicable to both District board members and administrators.

³⁴ As discussed in Finding No. 1, the vendor's failure to repay the District could potentially result in imposition of a criminal charge under Section 3927 (i.e., Theft by failure to make required disposition of funds) of the Crimes Code.

Management Response

District management provided the following response:

District action steps

1. “The District will reinforce the policies as set forth by the “Pennsylvania Public Official and Employees Ethics Act” and make all board members aware of what the law says and how it relates to the District’s Board of Education and the decisions and disclosures that must be made on possible conflicting matters.
2. The District will reinforce the policies as set forth by the “Pennsylvania Public Official and Employees Ethics Act” and make all board members aware of what the law says and how it relates to the District’s Board of Education and the decisions of abstaining from voting to approve payments to all immediate family members and to state the reason for abstention so that it can be documented in the public board meeting minutes.
3. The District will work with its solicitors to attempt to resolve [sic] from entering into agreements with vendors that are immediate family members as defined by the Pennsylvania Public Official and Employees Ethics Act whenever possible.
4. The District will work with its solicitors to adopt a well-defined anti-nepotism policy that would pertain to both the District board members and the administrators of the District.
5. The District Board member at issue in this finding is also the District representative to the Luzerne County Intermediate Unit (“LIU”). The LIU also utilizes the vendor at issue in the finding. The District School Board member consulted with the LIU solicitor regarding the District Board member’s ability to vote on LIU payments to the vendor at issue. The LIU solicitor confirmed he provided advice that it is legal for the District Board member to vote on contracts with the vendor and related bills.”

Auditor Conclusion

We are encouraged that the District has taken steps to improve controls governing board members, including enhancing its policies related to the Ethics Act, and has strengthened its other governance requirements by adopting an anti-nepotism policy. We reiterate that all board

members should ensure that whenever a conflict (e.g., familial) arises, they should not only abstain from voting, but prior to the vote being taken, publicly announce and disclose the nature of their interest in a written memorandum to be filed with the board secretary.

Finally, we strongly disagree with the LIU's solicitor's opinion on this matter. In fact, the written confirmation from the LIU solicitor does not even mention the requirement for a board member to publically disclose the nature of their possible conflict of interest prior to a vote being taken. The Ethics Act is clear on the definition of a conflict of interest of a public official. We stand by our conclusions and recommendations. As a final note, a legal opinion issued by an attorney from an associated entity rather than by the appointed solicitor of the District's Board provides little confidence that the District's Board and solicitor actually stand behind the legal opinion.

We will determine the effectiveness of the District's corrective actions during the next audit of the District.

Finding No. 4

The District Failed to Retain Required Documentation to Support More than \$6 Million in Transportation Reimbursements

Criteria relevant to the finding:

Record Retention Requirement

Section 518 of the PSC requires that financial records of a district be retained by the district for a period of not less than six years. *See* 24 P.S. § 5-518.

Transportation Subsidy

The PSC provides that school districts receive a transportation subsidy for most students who are provided transportation. Section 2541 (relating to Payments of pupil transportation) of the PSC specifies the transportation formula and criteria. *See* 24 P.S. § 25-2541.

Total Students Transported

Section 2541(a) of the PSC states, 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 Department of Education, in the cases hereinafter enumerated, an amount to be determined by multiplying the cost of approved reimbursable students transportation incurred by the district by the district's aid ratio. In determining the formula for the cost of approved reimbursable transportation, the Secretary of Education may prescribe the methods of determining approved mileages and the utilized passenger capacity of vehicles for reimbursement purposes." *See* 24 P.S. § 25-2541(a).

The District did not comply with the record retention provisions of the PSC when it failed to retain adequate source documents to verify the accuracy of over \$6 million it received in transportation reimbursements from the PDE for the 2013-14 through 2016-17 school years.

Without proper documentation, we were unable to determine the appropriateness of the regular transportation reimbursement received by the District. It is absolutely essential that records related to the District's transportation expenses and reimbursements be retained in accordance with the PSC's record retention provision (for a period of not less than six years) and be readily available for audit.³⁵ As a state auditing agency, it is extremely concerning to us that the District did not have the necessary and legally required documents available for audit. Periodic auditing of such documents is extremely important for District accountability and verification of accurate reporting.

School districts receive two separate transportation reimbursement payments from the PDE. The regular transportation reimbursement is broadly based on the number of students transported, the number of days each vehicle was used to transport students, and the number of miles that vehicles are in service, both with and without students. The supplemental transportation reimbursement is based on the number of charter school and nonpublic school students transported at any time during the school year (see Finding No. 5 for the issues we found concerning the District's supplemental transportation reimbursement).

³⁵ *See* 24 P.S. § 5-518.

Criteria relevant to the finding
(continued):

Annual Filing Requirement

Section 2543 of the PSC sets forth the requirement for school districts to annually file a **sworn statement** of student transportation data for the prior and current school year with PDE in order to be eligible for the transportation subsidies. See 24 P.S. § 25-2543.

Section 2543 of the PSC, which is entitled, “**Sworn statement** of amount expended for reimbursable transportation; payment; withholding” states, in part: “[A]nnually, each school district entitled to reimbursement on account of pupil transportation shall provide in a format prescribed by the Secretary of Education, data pertaining to pupil transportation for the prior and current school year . . . The Department of Education may, for cause specified by it, withhold such reimbursement, in any given case, permanently, or until the school district has complied **with the law or regulations** of the State Board of Education.” (Emphasis added.) Ibid.

PDE instructions for Local Education Agencies (LEA) on how to complete the PDE-1049. The PDE-1049 is the electronic form used by LEAs to submit transportation data annually to PDE.

<http://www.education.pa.gov/Documents/Teachers-Administrators/Pupil%20Transportation/eTran%20Application%20Instructions/PupilTransp%20Instructions%20PDE%201049.pdf> (accessed on March 25, 2018)

Regular Transportation Reimbursement

The number of students transported, number of days transported, and miles driven are the basis for calculating the regular transportation reimbursement amount.

Therefore, it is essential for districts to document, verify, and retain odometer readings, student rosters, and any changes that may occur during the school year, for each vehicle transporting students.

In this case, the District did not maintain sufficient documentation of this information for the four years reviewed. The table below shows the student and vehicle data reported to the PDE and the regular reimbursement the District received for each school year during the audit period.

Table 1

Hanover Area School District Transportation Data Reported to the PDE			
School Year	Reported Number of Students Transported	Reported Number of Vehicles	Total Reimbursement Received
2013-14	2,320	35	\$2,105,000
2014-15	2,226	37	\$1,272,146
2015-16	2,151	37	\$1,588,500
2016-17	2,238	37	\$1,438,405
Totals	8,935	146	\$6,404,051

As illustrated in the table above, the reported number of students decreased from 2013-14 to 2014-15. However, the reported number of vehicles increased during the same time period. Additionally, the District’s total reimbursement received decreased by a significant amount from 2013-14 to 2014-15. Based on past accumulative experience, reporting information of this nature indicates potential reporting errors. Likewise, the substantial transportation overpayment to vendors we identified in Finding No. 2 warrant a detailed review of the reported information. In this case, we were unable to determine the accuracy of the reported information due to the District’s failure to retain appropriate supporting documentation.

*Criteria relevant to the finding
(continued):*

Daily Miles With

Report the number of miles per day, to the nearest tenth, that the vehicle traveled with pupils. If this figure changed during the year, calculate a weighted average or sample average

Daily Miles Without

Report the number of miles per day, to the nearest tenth, that the vehicle traveled without pupils. If this figure changed during the year, calculate a weighted average or sample average.

Chapter 23 (relating to Pupil Transportation) of the State Board of Education Regulations provides that a school district's board of directors is responsible for the negotiation and execution of contracts or agreements with contractors, drivers of District vehicles, and common carriers. *See* 22 Pa. Code Chapter 23.

Section 23.4 (relating to Responsibilities of the district board of school directors) of the regulations states as follows, in part: "The board of directors of a school district is responsible for **all aspects** of pupil transportation programs, including the following: . . . (1) The selection of means of transportation in conformance with the law and regulations. (2) The selection and approval of appropriate vehicles for use in district service and eligible operators who qualify under the law and regulations . . . (7) The negotiation and execution of contracts or agreements with contractors, drivers of district's vehicles and common carriers and submission of pertinent documents to the Department for approval of operation." *See* 22 Pa. Code § 23.4(3) and (7). (Emphasis added.)

Failure to Retain Source Documentation

Transportation data is submitted through an application on the PDE's secure website and is certified by the school district's Superintendent.³⁶ The Hanover Area School District reported its transportation data for each year of the audit period and the District's Superintendent signed the certification statement attesting to the accuracy of the data.³⁷

After we identified the transportation vendor overpayments during the 2017-18 school year, we requested the supporting documentation (i.e., vehicle odometer readings and student rosters) for the regular transportation reimbursement the District received during the remainder of the audit period. The District was unable to produce these documents. Consequently, we could not determine whether the District received too much, too little, or the appropriate amount of transportation reimbursement from the PDE.

Current District officials attributed the lack of supporting source documentation to the turnover that occurred in the business office during the audit period. Additionally, the District lacked sufficient internal controls over the reporting of the transportation data to the PDE. These factors led to the District's failure to retain the required supporting documentation.

Conclusion

The District failed in its fiduciary duties to taxpayers and was not in compliance with the PSC by not retaining this information. Without the documentation, we could not determine whether the amount of regular transportation reimbursement received was appropriate. Transportation expenses and the subsequent transportation reimbursements are significant factors that can impact the District's overall financial position. Therefore, it is vital to taxpayers and in the best interest of the District to ensure that it regularly and consistently meets its fiduciary duties and complies with the PSC's record retention requirements.

³⁶ As shown in the criteria box, PDE-1049 is the electronic form annually submitted to the PDE by each LEA.

³⁷ The PSC requires that all school districts annually file a sworn statement of student transportation data for the prior and current school year with the PDE including a certification that the District has complied with all applicable provisions of law or state regulations in order to be eligible for transportation subsidies. *See* 24 P.S. § 25-2543.

Recommendations

The *Hanover Area School District* should:

1. Immediately take the appropriate administrative measures to ensure that it retains all documentation supporting the transportation data reported to the PDE, including odometer readings and student bus rosters, in accordance with the PSC's record retention requirements.
2. Establish a safe and adequate location to store all source documents and calculations supporting the transportation data submitted to the PDE.
3. Ensure that record retention procedures are documented and staff are trained on the procedures.

Management Response

District management provided the following response:

District action steps

1. "The District will take immediate action to ensure that all documentation that supports transportation data and the calculation for reimbursement from PDE including odometer readings, bus rosters, and all original information provided from transportation vendors will be retained by the District in accordance with record retention requirements as set by the Pennsylvania School Code.
2. The District will establish a safe & adequate location to store all source documents and calculations that support all transportation data submitted to PDE.
3. The District will ensure that all record retention requirements pertaining to transportation will be documented and communicated to the transportation staff.

The person responsible for the failure to maintain the records has been relieved of all duties."

Auditor Conclusion

We are encouraged that the District has begun implementing internal controls to ensure all documentation regarding transportation data is regularly and routinely retained. We continue to strongly stress the importance of retaining all supporting documentation for transportation data necessary for the completion of reports submitted to the PDE and keeping this transportation data in accordance with the PSC's record retention requirements.

We will determine the effectiveness of the District's corrective actions during our next audit of the District.

Finding No. 5**The District Incorrectly Reported the Number of Nonpublic School and Charter School Students Transported Resulting in a Net Overpayment of \$16,940***Criteria relevant to the finding:***Supplemental Transportation Subsidy for Public Charter School and Nonpublic School Students**

The Charter School Law (CSL), through its reference to Section 2509.3 of the PSC, provides for an additional, per student subsidy for the transportation of charter school students. *See* 24 P.S. § 17-1726-A(a); 24 P.S. § 25-2509.3.

Section 1726-A(a) of the CSL (cited above) addresses the transportation of charter school students in that: “[s]tudents who attend a charter school located in their school district of residence, a regional charter school of which the school district is a part or a charter school located outside district boundaries at a distance not exceeding ten (10) miles by the nearest public highway shall be provided free transportation to the charter school by their school district of residence on such dates and periods that the charter school is in regular session whether or not transportation is provided on such dates and periods to students attending schools of the district. . . .”

The District was overpaid a total of \$16,940 in net transportation reimbursements from the PDE. This overpayment was due to the District improperly reporting the number of nonpublic school and charter school students transported by the District during the 2013-14, 2014-15, 2015-16, and 2016-17 school years.

According to the PSC, a nonpublic school is defined, in pertinent part, as a nonprofit school other than a public school within the Commonwealth of Pennsylvania, wherein a resident of the Commonwealth may legally fulfill the compulsory school attendance requirements.³⁸ The PSC requires school districts to provide transportation services to students who reside in its district and who attend a charter school or nonpublic school, and it provides for a reimbursement from the Commonwealth of \$385 for each nonpublic school student transported by the district. This reimbursement was made applicable to the transportation of charter school students pursuant to an equivalent provision in the Charter School Law, which refers to Section 2509.3 of the PSC.³⁹

It is also important to note that the PSC requires that all school districts must annually file a sworn statement of student transportation data for the prior and current school year with the PDE in order to be eligible for the transportation subsidies.

Districts receive two separate transportation reimbursement payments from the PDE. One reimbursement is broadly based on the number of students transported and the number of miles of vehicles in service, both with and without students (i.e., regular transportation

³⁸ *See* Section 922.1-A(b) (relating to “Definitions”) of the PSC, 24 P.S. § 9-922.1-A(b).

³⁹ *See* 24 P.S. § 17-1726-A(a) which refers to 24 P.S. § 25-2509.3. A charter school is an independent public school and educates public school students within the applicable school district. *See* 24 P.S. § 17-1703-A (relating to “Definitions”).

Criteria relevant to the finding (continued):

Section 1726-A(a) of the CSL further provides for districts to receive a state subsidy for transporting charter school students both within and outside district boundaries in that: “[d]istricts providing transportation to a charter school outside the district and, for the 2007-2008 school year and each school year thereafter, districts providing transportation to a charter school within the district shall be eligible for payments under section 2509.3 for each public school student transported.”

Section 2509.3 of the PSC provides that each school district shall receive a supplemental transportation payment of \$385 for each nonpublic school student transported. This payment provision is also applicable to charter school students through Section 1726-A (a) of the CSL. *See* 24 P.S. § 17-1726-A(a); 24 P.S. § 25-2509.3.

Sworn Statement and Annual Filing Requirements:

Section 2543 of the PSC sets forth the requirement for school districts to annually file a **sworn statement** of student transportation data for the prior and current school year with the PDE in order to be eligible for the transportation subsidies. *See* 24 P.S. § 25-2543.

reimbursement), and we discuss the District’s failure to retain required supporting documentation for this reimbursement in Finding No. 4 of this report. The other reimbursement received by districts is based on the number of nonpublic school and charter school students transported by the District (i.e., supplemental transportation reimbursement). The issue identified in this finding affects the District’s supplemental transportation reimbursements received.

The following table summarizes the District’s nonpublic school and charter school student reporting errors by school year and the resulting net cumulative overpayment:

Hanover Area School District Nonpublic and Charter School Errors			
School Year	Nonpublic Students Over/ (Under) Reported	Charter School Students Over/ (Under) Reported	Net Over/(Under) payment⁴⁰
2013-14	(5)	(10)	(\$5,775)
2014-15	10	(5)	\$1,925
2015-16	30	13	\$16,555
2016-17	19	(8)	\$4,235
Total:	54	(10)	\$16,940

The District underreported both nonpublic and charter school students transported during the 2013-14 school year and as a result received less supplemental transportation reimbursement than it was eligible to receive. For the 2014-15 and 2016-17 school years, the District underreported the number of charter school students transported, but the District overreported the number of nonpublic school students transported. In both years, the District incorrectly reported some District students transported to District buildings as nonpublic students. The most significant supplemental transportation reporting error occurred for the 2015-16 school year. In the 2015-16 school year, the District incorrectly double reported some students as both nonpublic and charter school students transported.

⁴⁰ The overpayment is computed by multiplying the net amount of Nonpublic and Charter School students not reported by \$385.

The District did not have a process in place to reconcile all requests for transportation received from nonpublic school and charter school students to the number of students reported to the PDE.

It is essential that the District accurately report transportation data to the PDE and retain the support for this transportation data. Further, the sworn statement of student transportation data should not be filed with the state Secretary of Education unless the data has been double checked for accuracy by personnel trained on the PDE's reporting requirements.

We provided the PDE with reports detailing the nonpublic school student reporting errors for 2013-14, 2014-15, 2015-16, and 2016-17 school years. The PDE requires these reports to verify the overpayment to the District. The District's future transportation subsidies should be adjusted by the amount of the overpayment.

Recommendations

The *Hanover Area School District* should:

1. Perform yearly reconciliations of bus rosters to student requests for transportation to ensure nonpublic and charter school students are reported separately and accurately to the PDE.
2. Develop written administrative procedures for transportation reporting. These procedures should include a review of transportation data by an individual other than the person who prepared the data to provide additional assurance of the accuracy of the information before it is submitted to the PDE.
3. Prepare a trend analysis of the number of nonpublic and charter school students annually reported to the PDE to help identify extreme variances in this data.
4. Ensure personnel in charge of calculating and reporting the number of nonpublic and charter school students transported by the District are trained with regard to the PDE's reporting requirements.
5. Ensure that the sworn statement of student transportation data is not filed with the state Secretary

of Education until the data has been properly double checked for accuracy by personnel trained on the PDE's reporting requirements and verified by the District's business manager.

The *Pennsylvania Department of Education* should:

6. Adjust the District's future transportation subsidy to resolve the \$16,940 overpayment to the District.

Management Response

District management provided the following response:

District action steps

1. "The District will ensure that personnel in the transportation department will prepare a yearly reconciliation to ensure that nonpublic and charter school students are correctly reported separately and accurately to PDE.
2. The transportation department will develop written procedures to administer accurate recording and reporting of nonpublic and charter school students and have those reports reviewed by a separate individual with knowledge of procedures in order to verify the accuracy of the report.
3. As part of the above written procedures the transportation department will incorporate a trend analysis of nonpublic and charter students. The purpose of this analysis will be to identify and substantiate any extreme variances that have been identified.
4. The District will ensure that all personnel in the transportation department will be properly trained in the process of calculating and reporting all nonpublic and charter school students as required by PDE.
5. The sworn statement of student transportation will be double checked by properly trained personnel and verified by the District's business manager before being filed with the state Secretary of Education.

The person responsible for the errors in reporting has been relieved of all duties."

Auditor Conclusion

We are encouraged that the District is implementing our recommendations and has provided procedures that will be put into place to report charter and nonpublic students transported by the District to the PDE. As noted in the finding, it is essential for the District to accurately report transportation data to the PDE, to retain the support for this transportation data, and to file the related required sworn statement with the state Secretary of Education **only** after the data has been double-checked for accuracy by trained personnel. During our next audit of the District, we will review this and any other corrective action implemented by the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Hanover Area School District resulted in no findings or observations.

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 local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education (PDE), and other concerned entities.

Our audit, conducted under authority of Sections 402 and 403 of The Fiscal Code,⁴¹ is not a substitute for the local annual financial 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. 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 July 1, 2013 through June 30, 2017. In addition, the scope of each individual audit objective is detailed on the following pages.

The Hanover Area School District's (District) management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements).⁴² In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, if applicable, that we considered 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.

⁴¹ 72 P.S. §§ 402 and 403.

⁴² 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, 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, annual financial reports, annual budgets, new or amended policies and procedures, and the independent audit report of the District's basic financial statements for the fiscal years July 1, 2013 through June 30, 2017. 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 efficiency and effectiveness in the following areas:

- ✓ Financial Stability
- ✓ Transportation Operations
- ✓ Administrator Separations
- ✓ Nonresident Student Data
- ✓ Bus Driver Requirements
- ✓ School Safety

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

- ✓ Based on an assessment of financial indicators, 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, budget, independent auditor's reports, and General Fund budgets for the 2013-14 through 2016-17 fiscal years. The financial and statistical data was used to calculate the District's General Fund balance, operating position, charter school costs, debt ratio, and current ratio. These financial indicators were deemed appropriate for assessing the District's financial stability. The financial indicators are based on best business practices established by several agencies, including Pennsylvania Association of School Business Officials, the Colorado Office of the State Auditor, and the National Forum on Education Statistics. Our review of this objective resulted in Finding No. 1 beginning on page 11 of this report.
- ✓ Did the District ensure compliance with applicable laws and regulations governing transportation operations, and did the District receive the correct transportation reimbursement from the Commonwealth?⁴³

⁴³ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

- To address this objective, we reviewed all three of the District’s secondary transportation vendors that transported special education students for the period July 1, 2017 through November 30, 2018. We obtained documentation to verify that mileage sheets submitted by the van contractors were accurate. This verification included the number of days the van traveled, the miles with and without students, and the number of students on the van. The mileage sheets were then compared to invoices generated by District personnel and payments made to the van contractors. Interviews were conducted to verify procedures, job responsibilities, and training provided to officials who worked in the transportation department. The results of our review of this portion of the objective can be found in Finding No. 2 beginning on page 21 of this report.
- To further address this objective, we requested documentation to verify the accuracy of the number of students reported, miles with and without students reported, and the transportation reimbursement received for all vehicles used to transport students. The District was unable to provide us with the supporting documentation for any of these vehicles reported for any of the four school years. The results of our review this portion of the objective can be found in Finding No. 4 beginning on page 40 of this report.
- Additionally, we reviewed all nonpublic school students and charter school students reported to the PDE as transported by the District during the 2013-14 through 2016-17 school years.⁴⁴ We reviewed bus rosters, requests for transportation, and other supporting documentation to determine if all nonpublic and charter school students transported by the District were accurately reported to the PDE and that the District was receiving the correct subsidy for these students. The results of our review of this portion of the objective can be found in Finding No. 5 on page 45 of this report.
- ✓ Were the District’s Board of School Directors free from conflicts of interest when approving transportation contracts and monthly payments to transportation vendors?⁴⁵
 - We reviewed the board meeting minutes from July 1, 2013 through November 2018 to determine if all board members who voted to approve contracts and payments to transportation vendors were free from a conflict of interest or, if applicable, appropriately disclosed the conflict. The results of our review of this objective can be found in Finding No. 4 beginning on page 40 of this report.

⁴⁴ The District reported 186 nonpublic students during the 2013-14 school year, 182 during the 2014-15 school year, 195 during the 2015-16 school year, and 173 during the 2016-17 school year. The District reported 13 charter school students during the 2013-14 school year, 22 during the 2014-15 school year, 35 during the 2015-16 school year, and 26 during the 2016-17 school year.

⁴⁵ 65 Pa.C.S. § 1101 *et seq.*

- ✓ 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 employment contracts comply with the Public School Code⁴⁶ and Public School Employees' Retirement System (PSERS) guidelines?
 - To address this objective, we reviewed the contracts, settlement agreement, board meeting minutes, board policies, and payroll records for the two administrators who separated employment with the District during the period July 1, 2013 through July 31, 2017. We verified the reasons for the separation and reviewed payroll records to ensure that payments were correctly reported to the PSERS. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District accurately report nonresident students to the PDE? Did the District receive the correct reimbursement for these nonresident students?⁴⁷
 - To address this objective, we reviewed all nine nonresident students reported by the District to the PDE during the 2014-15, 2015-16, and 2016-17 school years. We obtained documentation to verify that the custodial parent or guardian was not a resident of the District and the foster parent received a stipend for caring for the student. The student listings were compared to the total days reported on the Membership Summary and Instructional Time and Membership Report to ensure that the District received correct reimbursement for these students. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District ensure that bus drivers transporting District students had the required driver's license, physical exam, training, background checks, and clearances⁴⁸ as outlined in applicable laws?⁴⁹ Also, did the District have written policies and procedures governing the hiring of new bus drivers that would, when followed, provide reasonable assurance of compliance with applicable laws?
 - To address this objective, we randomly selected 10 of the 69 bus drivers transporting District students as of November 7, 2018.⁵⁰ We reviewed documentation to ensure the District complied with the requirements for bus drivers. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures, when followed,

⁴⁶ 24 P.S. § 10-1073(e)(2)(v).

⁴⁷ See 24 P.S. §§ 13-1301, 13-1302, 13-1305, 13-1306; 22 Pa. Code Chapter 11.

⁴⁸ Auditors reviewed the required state, federal and child abuse background clearances from the most reliable sources available, including the FBI, the Pennsylvania State Police and the Department of Human Services. However, due to the sensitive and confidential nature of this information, we were unable to assess the reliability or completeness of these third-party databases.

⁴⁹ 24 P.S. § 1-111, 23 Pa.C.S. § 6344(a.1), 24 P.S. § 2070.1a *et seq.*, 75 Pa.C.S. §§ 1508.1 and 1509, and 22 Pa. Code Chapter 8.

⁵⁰ While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

ensure compliance with bus driver hiring requirements. Our review of this objective did not disclose any reportable issues.

- ✓ Did the District take actions to ensure it provided a safe school environment?⁵¹
 - To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, fire drills, and after action reports. In addition, we conducted on-site reviews at three out of the District's four school buildings to assess whether the District had implemented basic safety practices.⁵² We conducted on-site reviews at the high school, and two of their elementary schools, that were all within a short proximity of one another.⁵³ Due to the sensitive nature of school safety, the results of our review of this objective area are not described in our audit report. The results of our review of school safety are shared with District officials, the PDE, and other appropriate agencies deemed necessary.

⁵¹ 24 P.S. § 13-1301-A *et seq.*

⁵² Basic safety practices evaluated were building security, bullying prevention, visitor procedures, risk and vulnerability assessments, and preparedness.

⁵³ Audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

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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