

HANOVER PUBLIC SCHOOL DISTRICT  
YORK COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2009



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Arthur Smith, Board President  
Hanover Public School District  
403 Moul Avenue  
Hanover, Pennsylvania 17331

Dear Governor Rendell and Mr. Smith:

We conducted a performance audit of the Hanover Public School District (HPSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 24, 2007 through January 15, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the HPSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

April 24, 2009

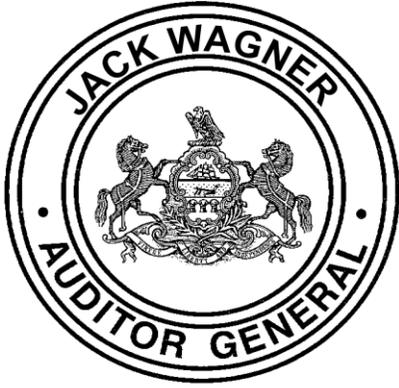
cc: **HANOVER PUBLIC SCHOOL DISTRICT** Board Members

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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period April 24, 2007 through January 15, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

### **District Background**

The HPSD encompasses approximately 3 square miles. According to 2000 federal census data, it serves a resident population of 14,535. According to District officials, in school year 2005-06, the HPSD provided basic educational services to 1,678 pupils through the employment of 142 teachers, 104 full-time and part-time support personnel, and 17 administrators. Lastly, the HPSD received more than \$4 million in state funding in school year 2005-06.

### **Audit Conclusion and Results**

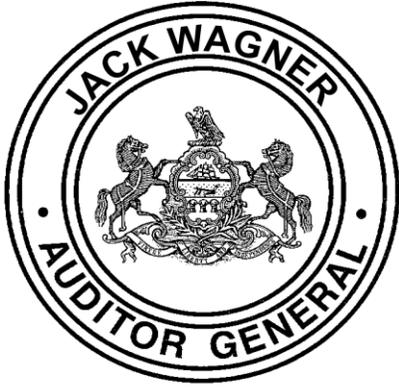
Our audit found that the HPSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

#### **Finding: Licensed Practical Nursing Reimbursement Overpayment of \$5,116.**

We noted that HPSD personnel incorrectly reported out-of-state student hours for the January-March, 2006 reporting period and over-reported other student hours by 696 for the same period, resulting in a reimbursement overpayment of \$5,116. HPSD's management agreed with the finding (see page 6).

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

With regard to the status of our prior audit recommendations to the HPSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the HPSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor access and logical access control weaknesses (see page 8) and Memorandum of Understanding not updated timely (see page 11).



## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period April 24, 2007 through January 15, 2009, except for the verification of professional employee certification which was performed for the period March 21, 2007 through December 2, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with DE reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

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

- ✓ Were professional employees certified for the positions they held?

*What is the difference between a finding and an observation?*

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

- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## Methodology

*What are internal controls?*

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

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

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations 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.

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

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

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

Our audit examined the following:

- Records pertaining to professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 19, 2007, we reviewed the HPSD's response to DE to our report. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Licensed Practical Nursing Reimbursement Overpayment of \$5,116

*Criteria relevant to this finding:*

DE instructions for completion of the Practical Nursing Student Instructional Hours form (PDE-4104) state:

Do not include out-of-state students.

Our audit of the licensed practical nursing reimbursement for the years ended June 30, 2006 and 2005 found that District personnel incorrectly included 2,714 out-of-state student hours for the January-March 2006 reporting period.

According to the Department of Education (DE) reporting instructions, District personnel should not include out-of-state student hours for reimbursement. This issue was discussed with District personnel during our prior audit, but was not corrected.

Additionally, during the same period the District over reported 696 hours for other students. Documentation to support the hours was not available and no one could explain the differences between reported and documented hours.

As a result of these two reporting errors the District received a reimbursement overpayment of \$5,116

### Recommendations

The *Hanover Public School District* should:

1. Implement a review system to ensure the accuracy of the schedule of student hours used to report quarterly totals for reimbursement.
2. Ensure that out-of-state student hours are not reported for reimbursement on the PDE-4104.
3. Review the reports submitted for years subsequent to the current audit period; if errors are noted, submit revised reports to DE.

The *Department of Education* should:

4. Adjust the District's allocations to recover the \$5,116 overpayment.

**Management Response**

Management agreed with the finding and stated:

The result of this finding was for one quarter (January through March of 2006) in the audit period and resulted from Maryland students' hours being included in the total hours for reimbursement. This was an oversight for that quarter and current staff is aware of the need to back out the Maryland students' hours when seeking reimbursement. Also in this finding were an inaccurate total number of hours in the tool utilized to track the total hours. Management has corrected the gathering tool and is aware of the need to verify the total number of hours prior to submission for reimbursement.

## Status of Prior Audit Findings and Observations

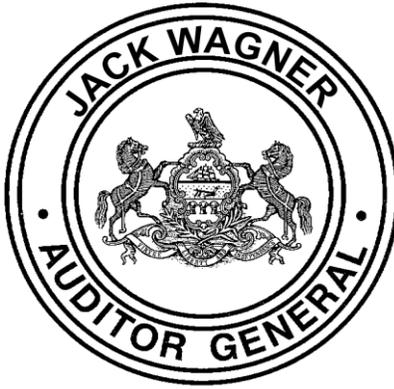
Our prior audit of the Hanover Public School District (HPSD) for the school years 2003-04 and 2002-03 resulted in one reported finding and one reported observation. The finding pertained to unmonitored vendor system access and logical access control weaknesses, and the observation pertained to a Memorandum of Understanding that was not updated timely. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the HPSD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the HPSD implemented our recommendations related to unmonitored vendor system access and logical access control and updating of the Memorandum of Understanding.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding – Unmonitored Vendor System Access and Logical Access Control Weaknesses</i></u></p> <p>1. Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.</p>	<p><b>Background:</b></p> <p>We determined that a risk existed that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District discontinued their relationship with its outside vendor after the 2006-07 school year, and the District’s employees no longer utilize a Virtual Private Network. This resolved the unmonitored vendor and/or remote access issues discussed in the finding. The District has also put logical access controls in place that have resolved this finding to our satisfaction.</p>

<p>2. Maintain evidence that it performs reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.</p> <p>3. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the district should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.</p> <p>4. Include in the contract with the vendor a non-disclosure agreement for the District's proprietary information.</p> <p>5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>6. Store back-up tapes in a secure, off-site location.</p>		
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<p>7. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>8. Include in the District's Acceptable Use Policy provisions for authentication (e.g., password security; and syntax requirements). Further, all employees should be required to sign the policy.</p> <p>9. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p>		
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<p><u>II. Observation – Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"><li>1. In consultation with the District’s solicitor, review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the Hanover Borough Police Department.</li><li>2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.</li></ol>	<p><b>Background:</b></p> <p>Our prior audit of District records found that the MOU between the District and the Hanover Borough Police Department was signed October 16, 1998, and had never been updated.</p>	<p><b>Current Status:</b></p> <p>District personnel complied with our recommendations and obtained an MOU from the Hanover Borough Police Department dated May 16, 2007. Although the board did not adopt a policy requiring the administration to update the MOU every two years, the administration has established a procedure to ensure that this is done. These actions have resolved this issue.</p>
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## **Distribution List**

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

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

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

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

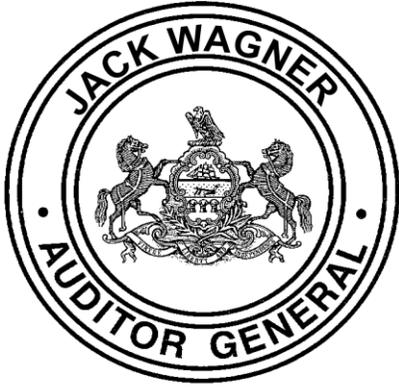
Representative James Roebuck  
Chair  
House Education Committee  
208 Irvis Office Building  
Harrisburg, PA 17120

Representative Paul Clymer  
Republican Chair  
House Education Committee  
216 Ryan Office Building  
Harrisburg, PA 17120

Ms. Barbara Nelson  
Acting Director, Bureau of Budget and  
Fiscal Management  
Department of Education  
4<sup>th</sup> Floor, 333 Market Street  
Harrisburg, PA 17126

Dr. David Wazeter  
Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

Dr. David Davare  
Director of Research Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055



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