

HARMONY AREA SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2012

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

Mr. Norman Fry, Board President
Harmony Area School District
5239 Ridge Road
Westover, Pennsylvania 16692

Dear Governor Corbett and Mr. Fry:

We conducted a performance audit of the Harmony Area School District (HASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 19, 2010 through October 15, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the HASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

April 25, 2012

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



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Executive Summary

Audit Work

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

Our audit scope covered the period February 19, 2010 through October 15, 2011, 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 2009-10 and 2008-09.

District Background

The HASD encompasses approximately 109 square miles. According to 2000 federal census data, it serves a resident population of 2,576. According to District officials, in school year 2009-10 the HASD provided basic educational services to 383 pupils through the employment of 40 teachers, 25 full-time and part-time support personnel, and 4 administrators. Lastly, the HASD received more than \$3.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the HASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: Certification Deficiency.

One professional employee was teaching with a lapsed certificate (see page 6).

Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments Totaling \$16,841.

Reporting errors resulted in underpayments of transportation reimbursement totaling \$13,454 in the 2009-10 school year and \$3,387 in the 2008-09 school year (see page 8).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the HASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the HASD had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 11).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period February 19, 2010 through October 15, 2011, except for the verification of professional employee certification, which was performed for the period July 1, 2010 through September 20, 2011.

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

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

Objectives

What is the difference between a finding and an observation?

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

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

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

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

Methodology

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, observations and conclusions based on our audit objectives.

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

What are internal controls?

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

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

controls and assessed whether those controls were properly designed and implemented.

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

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 27, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Criteria relevant to the finding:

Section 1202 of the Public School code provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the Public School code provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in the Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Certification Deficiency

Our audit of the District’s professional employees’ certification and assignments for the period July 1, 2010 through September 20, 2011, found one professional employee was teaching with a lapsed Instructional I provisional certificate during the 2010-11 school year, and the first month of the 2011-12 school year.

Information pertaining to the certificate in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education, for its review.

On November 17, 2011, BSLTQ provided a written response confirming that the professional employee’s teaching certificate had lapsed at the end of the 2009-10 school year. As a result, the District is subject to a subsidy forfeiture of \$1,300 for the 2010-11 school year. The subsidy forfeiture for the 2011-12 school year could not be determined because the market value personal income aid ratio was not available.

The lapsed certificate occurred because the District incorrectly believed the individual had applied for and received an Instructional II permanent teaching certificate. The individual did not receive the Instructional II certificate until October 2011.

Recommendations

The *Harmony Area School District* should:

Put procedures in place to ensure all professional employees with provisional certificates apply for and receive permanent certificates before the temporary certificates expire.

The *Department of Education* should:

Adjust the District’s allocations to recover the appropriate subsidy forfeitures.

Management Response

Management stated the following:

Cause of the problem: When the district fills out its part of the Application for Level II certification Form PDE 338P, the district will follow-up with the employee to make sure that all required documents and the application were sent to PDE for issue of the permanent certification.

Corrective Action: To correct this problem from happening in the future we have developed a file of all teachers that have their Level 1 certificates and we are sending out a letter to each when their Level II (Permanent Certificate) is due. This letter will be copied and put in their file and each year the superintendent will be monitoring this very closely.

Finding No. 2 →

Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments Totaling \$16,841

Criteria relevant to the finding:

Section 2541(a) of the Public School Code provides that “School districts shall be paid by the Commonwealth for every school year on account of pupil transportation. . . .”

Daily miles traveled, the greatest number of pupils transported, days of service, and contractor cost are integral parts of the transportation reimbursement calculation. These factors must be reported accurately to DE in order to receive the correct reimbursement.

Our audit of the District’s 2009-10 and 2008-09 pupil transportation records submitted to the Department of Education (DE) found reporting errors, which resulted in underpayments of transportation reimbursement totaling \$13,454 for the 2009-10 school year and \$3,387 for the 2008-09 school year.

The errors in the 2009-10 school year were caused by District personnel incorrectly reporting bus data as follows:

- The number of days pupils were transported was incorrectly reported for one vehicle.
- Miles with pupils were incorrectly reported for four vehicles, resulting in a net understatement of 69.7 daily miles.
- Miles without pupils were incorrectly reported for five vehicles, resulting in a net understatement of 37.5 daily miles.
- The greatest number of pupils transported was overstated by seven pupils for one bus.
- The number of nonreimbursable pupils was overstated by 12. Nonreimbursable pupils are pupils that are transported who live within 1.5 miles for elementary pupils and 2.0 miles for secondary pupils of the school.

The errors in the 2008-09 school year were as follows:

- The number of days pupils were transported was incorrectly reported for three vehicles.
- Miles with pupils were incorrectly reported for five vehicles, resulting in a net overstatement of 15.4 daily miles.
- Miles without pupils were incorrectly reported for three vehicles, resulting in a net understatement of 8.7 daily miles.

- The greatest number of pupils transported was incorrectly reported for three vehicles, resulting in a net overstatement of 12 pupils.
- Contractor costs were incorrectly reported for three contractors, resulting in a \$26,368 net overstatement of contractor costs.
- The number of nonreimbursable pupils was overstated by 12.

The errors were clerical in nature and were caused by a turnover in the pupil transportation position.

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

Recommendations

The *Harmony Area School District* should:

1. Accurately report all data elements used in the calculation of pupil transportation reimbursement.
2. Provide training for transportation personnel.
3. Perform an internal review of data for accuracy prior to submission to DE.
4. Review subsequent school years' transportation reports for accuracy, and resubmit if necessary.

The *Department of Education* should:

5. Adjust future District allocations to correct the underpayments of \$16,841.

Management Response

Management stated the following:

Transportation personnel will be sent to training as needed and that training will also teach the personnel to better report the pupils.

Transportation [reporting] will remain in the District Office so that no further change will effect the reporting of the transportation. Training for personnel will help to define what the school can be reimbursed for as far as transportation.

If any errors are found on the reporting of transportation to the state before a state audit, the error will be reported immediately.

Status of Prior Audit Findings and Observations

Our prior audit of the Harmony Area School District for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to internal control weaknesses regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior observation. As shown below, we found that the HASD did implement recommendations related to bus drivers' qualifications.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

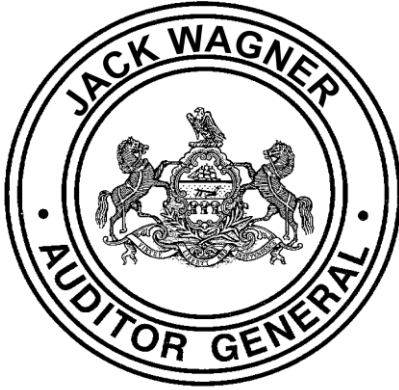
Observation
Summary:

Our prior audit found that neither the District nor the District's transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the HASD:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status: During our current audit procedures we found that the HASD did implement the recommendations. On May 3, 2010, Board Policy #810 was revised to include our recommendations.



Distribution List

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

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