

LITTLESTOWN AREA SCHOOL DISTRICT  
ADAMS COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2010



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

Mr. John L. Warehime, Jr., Board President  
Littlestown Area School District  
162 Newark Street  
Littlestown, Pennsylvania 17340

Dear Governor Rendell and Mr. Warehime:

We conducted a performance audit of the Littlestown Area School District (LASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 22, 2005 through November 6, 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, 2008, 2007, 2006 and 2005. 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 LASD 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. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

On July 1, 2008, the current Superintendent was contacted regarding possible fraud by a District employee. A Criminal Complaint of Probable Cause was filed against the employee with the Adams County District Attorney on August 18, 2008. The alleged fraud involved a series of monetary kickbacks to the District employee by a company in Margate, Florida. It is estimated by the owner of the company in question estimates that the District employee received approximately \$25,000 to \$30,000 in payments for purchases that the District determined occurred between November 18, 2002 and May 13, 2008.

Purchases made from the company ranged from \$311 to \$15,616 for each item. Initially, the accused District employee made purchases through the normal purchasing process, which included completing purchase orders, and getting those orders approved. However, by December 2003, the accused District employee was circumventing the purchasing process by not preparing purchase orders, which required approvals from other District personnel. In addition the accused District employee, who was initiating the purchases, was also approving the invoices for payment. Purchases were made on a piecemeal basis, usually one product at a time, thus circumventing bidding requirements. Nevertheless, during the 2007-08 and 2006-07 school years, the accused employee did make purchases in excess of \$10,000 for a single item or for two items within the same classification without bidding.

The District reviewed invoices paid to this company and determined that the District paid it \$321,270, excluding shipping costs. District personnel estimated that the District would have paid \$104,547 had the same or similar products been purchased from other vendors, resulting in an estimated loss of \$216,723. The District's insurance company acknowledged receipt of a claim on August 28, 2008, and subsequently paid the District \$100,000, the total of the District's employee dishonesty policy.

On September 24, 2008, the case was filed with the Court of Common Pleas of Adams County. Subsequent to our field work completion date, on January 17, 2010, the District employee was sentenced to 48 months probation and ordered to pay restitution of \$129,450, \$100,000 of which was to the insurance company.

Sincerely,

/s/

JACK WAGNER  
Auditor General

August 27, 2010

cc: **LITTLESTOWN AREA 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 Littlestown Area School District (LASD). 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 LASD in response to our prior audit recommendations.

Our audit scope covered the period December 22, 2005 through November 6, 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 2007-08, 2006-07, 2005-06 and 2004-05.

### **District Background**

The LASD encompasses approximately 50 square miles. According to 2000 federal census data, it serves a resident population of 18,235. According to District officials, in school year 2007-08 the LASD provided basic educational services to 2,281 pupils through the employment of 181 teachers, 149 full-time and part-time support personnel, and 16 administrators. Lastly, the LASD received more than \$9.5 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the LASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

**Finding: Memorandum of Understanding Not Updated Timely.** Our audit of the LASD's records found that the LASD's Memorandum of Understanding (MOU) with the local law enforcement agency was signed May 13, 2002, and was not updated until September 24, 2009, when we requested the MOU for audit (see page 5).

**Observation: Internal Control Weaknesses in Administrative Policies and Procedures Regarding Bus Drivers' Qualifications.** The LASD does not have policies and procedures to ensure it is notified if existing employees are charged with or convicted of serious criminal offenses (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the LASD from an audit we conducted of the 2003-04, 2002-03, 2001-02, and 2000-01 school years, we found the LASD had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies and board members failing to file Statements of Financial Interests (see page 8). However, we found the LASD had not taken

appropriate corrective action in  
implementing our recommendations  
pertaining to weaknesses in administrative  
policies regarding bus drivers' qualifications  
(see page 9).



## 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 December 22, 2005 through November 6, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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

### Objectives

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

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a 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.

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 LASD'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:

- ✓ 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 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

*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.

LASD 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.

Our audit examined the following:

- Records pertaining to pupil transportation, professional employee certification, 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 LASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 8, 2006, we reviewed the LASD's response to DE dated September 14, 2006. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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*Criteria relevant to the finding:*

The MOU with the Littlestown Borough Police Department at section VI, B states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within the two years of the date of its original execution and every two years thereafter (emphasis added).

### Memorandum of Understanding Not Updated Timely

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and its local law enforcement agency was dated May 13, 2002. After we requested the MOU during the audit, the District obtained an updated MOU dated September 24, 2009.

The failure to update the MOU with the local law enforcement agency could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

### Recommendations

The *Littlestown Area School District* should:

1. Follow the general provisions of the District's MOU requiring that the MOU be reviewed and re-executed every two years.
2. Adopt an official Board policy requiring the administration to review and re-execute the MOU every two years.

### Management Response

Management stated the following:

Management has already approved an updated memorandum and will tickle the file for the future.

**Observation** →

**Internal Control Weaknesses in Administrative Policies and Procedures Regarding Bus Drivers' Qualifications**

*Criteria relevant to the observation:*

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

The ultimate purpose of Section 111 of the Public School Code and Section 6355 of the CPSL is to ensure the protection, safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond a five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

As noted in our prior audit report (see page 9), and continuing to current, the District has not developed and put written policies or procedures in place to ensure that it is notified if current employees have been 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. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

**Recommendations**

The *Littlestown Area School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District 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.

**Management Response**

Management waived the opportunity to respond to the observation at the time of our audit.

## Status of Prior Audit Findings and Observations

Our prior audit of the Littlestown Area School District (LASD) for the school years 2003-04, 2002-03, 2001-02 and 2000-01 resulted in two reported findings and one observation. The first finding pertained to certification deficiencies, the second finding pertained to board members failing to file Statements of Financial Interests, and the observation pertained to internal control weaknesses in administrative policies 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 analyzed the LASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the LASD did implement our recommendations related to the findings, but did not implement our recommendations related to the observation.

<i>School Years 2003-04, 2002-03, 2001-02 and 2000-01 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Certification Deficiencies</i></u></p> <ol style="list-style-type: none"> <li>1. Take necessary action required to ensure compliance with certification regulations.</li> <li>2. DE should adjust the District's allocations to recover the appropriate subsidy forfeitures.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of professional employees' certification and assignments for the period June 11, 2002 through December 12, 2005, found that five individuals did not hold the appropriate certification for their positions.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District complied with our prior audit recommendations. All previously cited individuals obtained the necessary certification as of January 2006, and no additional certification deficiencies were found.</p> <p>DE deducted a subsidy forfeiture of \$8,126 from the District's December 28, 2006, basic education funding payment to resolve this finding.</p>
<p><u><i>II. Finding No. 2: Board Members Failed to File Statements of Financial Interests in Violation of the State Ethics Commission Act</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of the District's solicitor in regard to the board's responsibility when an elected board member</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that one former board member failed to file his Statement of Financial Interests for the year ended December 31, 2000, one board member failed to file for the years ended December 31, 2002 and 2000, and one board member failed to file for the year ended December 31, 2000.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that District personnel complied with our recommendations and all board members' Statements of Financial Interests were on file for the 2008 calendar year.</p>

<p>fails to file a Statement of Financial Interests.</p> <p>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act.</p>		
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<p><u>III. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <p>1. Develop a process to determine on a case-by-case basis whether prospective and current employees of the District 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.</p> <p>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.</p>	<p><b>Background:</b></p> <p>Our prior audit found that the District did not have 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 of children.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the LASD did not comply with our prior recommendations, resulting in a continued observation in our current audit report (see page 6).</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  
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The Honorable Thomas E. Gluck  
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The Honorable Robert M. McCord  
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Senator Andrew Dinniman  
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