

PERFORMANCE AUDIT

Hanover Public School District York County, Pennsylvania

September 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Lindy Lingg, Board President
Hanover Public School District
403 Moul Avenue
Hanover, Pennsylvania 17331

Dear Governor Corbett and Ms. Lingg:

We conducted a performance audit of the Hanover Public School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period September 13, 2010 through March 14, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009, 2010, 2011, and 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their response is included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

September 4, 2014

cc: **HANOVER PUBLIC 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 Public School District (District) in York County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period September 13, 2010 through March 14, 2014, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately four (4) square miles. According to 2010 federal census data, it serves a resident population of 15,307. According to District officials, the District provided basic educational services to 1,624 pupils through the employment of 132 teachers, 140 full-time and part-time support personnel, and seventeen (17) administrators during the 2011-12 school year. The District received \$5.2 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding.

Finding: Internal Control Weaknesses Regarding the Reporting of Student

Membership Data. Our audit of the Hanover Public School District's (District) membership data for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found that District personnel were not able to reconcile student membership differences between the District's student membership detail reports and the student membership days reported to the Pennsylvania Department of Education for all four (4) years (see page 5).

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

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 September 13, 2010 through March 14, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

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

Objectives

What is the difference between a finding and an observation?

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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant 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:

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

- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

Methodology

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

The District's 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, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the

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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal 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.

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

Our audit examined the following:

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

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

Findings and Observations

Finding

Internal Control Weaknesses Regarding the Reporting of Student Membership Data

Criteria relevant to the finding:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's 2009-10 *PIMS User Manual*, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit of the Hanover Public School District's (District) pupil membership reports submitted to PDE for the 2008-09, 2009-10, 2010-11, and 2011-12 school years found that District personnel were not able to reconcile student membership day differences between the district-generated student membership reports and the membership data reported to PDE for all four (4) school years.

During our audit, District personnel were unable to provide student membership detail reports from their student information system (SIS) that reconciled to final PDE reports in the PIMS and Child Accounting Data systems. Our review of the reports found differences with the data reported to PDE that could not be reconciled or explained. Therefore, no adjustments could be made to the District's reported membership because of the questionable accuracy of the resident and non-resident data.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Resident Membership

Our review of resident student membership found errors in the 2009-10, 2010-11, and 2011-12 school years.

Non-resident Membership

Our review of non-resident membership found significant differences between non-resident student membership days on the Summary of Child Accounting Membership reports, Instructional Time and Membership Record reports and district-generated student detail membership printouts for the 2008-09, 2009-10, 2010-11, and 2011-12 school years. The District was unable to reconcile the differences during the audit to determine the correct number of non-resident student membership days.

In addition to being unable to reconcile resident and non-resident student membership day reporting, the following internal control weaknesses were found:

- The District did not have written procedures in place to explain the PIMS reporting process.
- The collection, recording, and reporting of child accounting data was de-centralized.
- The District's SIS detailed student membership printouts lacked the following specific information: identification of non-resident classification (ex. foster, parent-paid tuition, tuition waiver, etc), entry/withdrawal date of students, and student membership grade totals for each grade (a separate report had to be generated to provide totals for audit verification).
- District personnel did not obtain annual agency placement letters for all foster students, which indicated if a stipend was paid to the foster parents.
- The District was unable to explain a more than \$40,000 increase in state subsidy received in the 2009-10 fiscal year for tuition for wards of the state and foster students. The District received less than \$10,000 for this subsidy in 2008-09, 2010-11, and 2011-12 fiscal years.

It is the responsibility of District management to have in place the proper internal policies and procedures to ensure that student data is accurate and reported correctly to PDE. Without such internal controls, the District cannot be assured that its student data is accurate or that it is receiving the appropriate state subsidy reimbursement.

Recommendations

The *Hanover Public School District* should:

1. Develop and implement written procedures to address the collection, reporting, and reconciling of district-generated student membership detail reports to the final PDE reports for all resident and non-resident students.
2. Review the capabilities of the District's child accounting software to determine if there is a more efficient way to identify student residency, student entry and withdrawal dates, and grade totals on District detailed membership printouts.
3. Ensure that there is sufficient communication between child accounting personnel and technology personnel who are responsible for uploading child accounting data into PIMS.
4. Ensure that there is sufficient communication between child accounting staff at the administration office and the individual building secretaries who handle child accounting functions at the building level.
5. Obtain agency placing letters for all foster students on an annual basis and maintain them for audit to ensure accurate reporting to PDE. These letters must include whether or not a stipend was paid to the foster parents.
6. Perform an analysis of state subsidy for tuition for wards of the state and children placed in private homes to ensure large unexplained variances in this subsidy do not occur.
7. Review reports for years subsequent to audit and if errors are noted, submit revised reports to PDE.

The Pennsylvania Department of Education should:

8. Perform its own analysis of state subsidies and reimbursements for large unanticipated variances. If such variances are identified, PDE should notify the District in an attempt to resolve questionable data submitted to PDE for payment.

Management Response

Management stated the following:

“The District has identified that there were internal control weaknesses regarding the reporting of student membership data with the implementation of the Pennsylvania Information Management System (PIMS) and has utilized the data provided in the Bureau of School Audits [audit process] to adjust the District’s internal recordkeeping system while enhancing the internal control features involving staff who collect such reports. These include standardization of practices throughout the District, increased training opportunities for staff involved in informational gathering and reporting and adjustments to the internal recordkeeping systems to provide a snapshot of exact data submitted through the PIMS system as this information is of the fluid nature.”

Auditor Conclusion

We are encouraged that the District is taking action to address the deficiencies noted in our finding. We will follow up on the status of our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

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

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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The Honorable Carolyn Dumaesq
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1010 Harristown Building #2
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.