

PERFORMANCE AUDIT STATUS UPDATE

Harrisburg City School District

Business Office – Cash Disbursements

August 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

July 23, 2020

Dr. Janet Samuels
Receiver
Harrisburg City School District
1601 State Street
Harrisburg, PA 17103

Mr. Chris Celmer
Acting Superintendent
Harrisburg City School District
1601 State Street
Harrisburg, PA 17103

Re: Status Update – Cash Disbursements

Dear Dr. Samuels and Mr. Celmer:

This letter is to update you on the status of the Department of the Auditor General's performance audit of the Harrisburg City School District (District) pertaining to our review of the District's implementation of the Pennsylvania Department of Education's (PDE) recommendations related to its Business Office's oversight and management of cash disbursements. The audit covers the period from June 28, 2019, the date the PDE formally released its audit report of the District's finances and financial records, through the date of this letter and continuing until the end of our audit procedures. This audit is being conducted under the authority of Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402 and 403. The audit is not being conducted in accordance with applicable generally accepted government auditing standards.

Our performance audit has two objectives, including to: (1) determine the effectiveness of the District's actions (by both the Board and Administration) in response to the results and recommendations of the PDE audit; and (2) determine whether the District complied with all of the provisions of the Sunshine Act, 65 Pa.C.S. § 701 *et seq.* This status update is **limited to objective #1** of determining the effectiveness of the District's actions in response to the results and recommendations of the PDE audit from the beginning of the audit period through July 8, 2020.¹

¹ Please note that our department's Sunshine Act Update was issued in November 2019 and the Human Resources and IT Disaster Recovery Plan Update was issued in April 2020.

Dr. Janet Samuels, Receiver, and Mr. Chris Celmer, Acting Superintendent

July 23, 2020

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We found that the District promptly implemented corrective actions in response to the PDE recommendations related to cash disbursements and that it must continue to strengthen its procedures in the Business Office to ensure the effective implementation of internal controls over cash disbursements, including consistent oversight. We provide our audit results, including four recommendations that, if implemented, will further strengthen controls and oversight over cash disbursements.

The District is in agreement with all of our recommendations related to the Business Office's management of cash disbursements. See the District's management response on page 8 and our conclusion to the management response on page 9 of this report.

In closing, I want to thank the District for its ongoing cooperation and assistance during 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

A Performance Audit Status Update

**Harrisburg City School District
Business Office – Cash Disbursements**

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Harrisburg City School District Business Office – Cash Disbursements

Background

This status update pertains to our audit objective for determining the effectiveness of the District's actions in response to the results and recommendations of the Pennsylvania Department of Education's (PDE) audit of the Harrisburg School District (District), issued June 28, 2019.² The PDE audit report contained 11 findings and 6 recommendations for the Business Office.³ In its executive summary, PDE listed as one of its most significant findings "a lack of oversight and controls over cash disbursements."

As part of its agreed-upon procedures, PDE's audit selected a sample of 60 transactions from each of the three consecutive fiscal years ending June 30, 2018. In each year tested, PDE found exceptions including missing vendor files, missing invoices, incomplete purchase orders, and lack of agreement between purchase orders, invoices and/or checks. PDE also found a lack of review and approval of purchase orders and invoices *prior* to payment. PDE reported there were over \$2 million dollars in unsupported expenditures during the three-year period. Although the number of exceptions steadily decreased in each of the three fiscal years ending June 30, 2018, the high rate of exceptions coupled with the lack of effective oversight of General Fund expenditures *prior* to disbursement heightened the District's risk of fraud, waste, and abuse.

Other concerns raised by PDE addressed competence. Due to the high number of exceptions and unsupported expenditures, PDE stated:

Employees of the Business Office do not possess a clear understanding of the policies and procedures in place for the review, verification, authorization and approval of invoices and purchase orders and as a result the District's cash disbursement process is not functioning as designed.⁴

Strong internal controls over cash disbursements are key for an organization to prevent and timely detect fraud, waste and abuse of public funds.

In addition to the issues with cash disbursements, the PDE audit found a lack of organizational structure in the Business Office.⁵ It noted that employees in the Business Office expressed concerns regarding the proper lines of communication and were unsure to whom they should

² As noted in our cover letter, this update focuses on audit Objective #1, while our department's Sunshine Act Update relating to audit Objective #2 was issued in November 2019.

³ The term "PDE audit" referred to throughout this report pertains to a report issued by an accounting firm, Wessel & Company, contracted by PDE to perform agreed-upon audit procedures in several District departments, including the Business Office, Human Resources, Payroll, etc.

⁴ Wessel & Company, Certified Public Accountants, letter and "Agreed-Upon Procedures and Technical Consulting Report," addressed to Pedro A. Rivera, Secretary of Education, Pennsylvania Department of Education, June 28, 2019, page 48.

⁵ Ibid.

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report information. They further elaborated on the mismanagement of the Business Office by the former Acting Business Manager.⁶

As a result of its findings, PDE recommended that the “Harrisburg City School District needs to immediately hire qualified individuals to fill the vacant Business Office positions to better manage and oversee the District’s Financial Operations.”⁷

Prior to the release of the PDE audit report on June 28, 2019, the District went into Receivership under the direction of Dr. Janet Samuels on June 17, 2019. Under her receivership, the District partnered with the Montgomery County Intermediate Unit (MCIU) to fill administrative positions within the District. This included appointing an individual who would serve as the acting Chief Financial Officer (CFO) and Business Manager of the District.⁸

By August 2019, the acting CFO/Business Manager implemented a Business Procedures Handbook to outline key Business Office Procedures. In addition, the Handbook outlines the new workflow approval process over cash disbursements. Since this was a new process, the District provided training to its staff on the new process prior to implementation.

Audit Procedures

As stated in the previous section, the PDE audit report contained 11 findings and 6 recommendations for the District’s Business Office. In order to verify the corrective actions the District has taken to address findings in the Business Office, we conducted interviews with management, attended board meetings, and reviewed board meeting minutes and other documentation.

In addition, we reviewed documentation supporting a random selection of 60 cash disbursements made during the three-month period from November 2019 through January 2020 to determine the following:

- Was the disbursement supported by a properly completed requisition and purchase order?
- Did the approved purchase order support the invoice?

⁶ Wessel & Company, Certified Public Accountants, letter and “Agreed-Upon Procedures and Technical Consulting Report,” addressed to Pedro A. Rivera, Secretary of Education, Pennsylvania Department of Education, June 28, 2019, pages 48 – 49.

⁷ Ibid, page 54.

⁸ 24 P.S. § 6-642-A, This section of the Public School Code allows the receiver to hire persons or for-profit or nonprofit organizations to review the financial and educational programs of school buildings and make recommendations regarding improvements to financial or educational programs.

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- Was the invoice reviewed for agreement with the check and, if applicable, the shipping statement?
- Did the supporting documentation provide evidence of proper workflow approvals?
- Was the disbursement accounted for accurately?

In addition, to determine whether the District adequately reviewed its bank statements and reconciled them to the check registers timely, we obtained bank statements for the three months of November 2019 through January 2020 and the corresponding monthly bank reconciliations along with other supporting documents. We reviewed the bank reconciliations to determine whether they were completed and reviewed timely, an important internal control for the prompt identification and correction of errors and irregularities. We also verified the accuracy of the January 2020 bank reconciliation by checking the math and tying balances to source documents.

Appendix A of this report further explains the methodology applied to our audit procedures. The results and recommendations from our review of the corrective actions taken by the Business Office are discussed in the next section.

Results and Recommendations

The District has taken significant concrete steps to ensure consistent oversight of cash disbursements, and it has strengthened internal controls. Highlights of broad corrective actions taken by the District to improve operations in the Business Office, as well as to strengthen internal controls over disbursements include the following:

- The Business Office developed and implemented a Business Procedures Manual (August 2019).
- Management conducted training sessions for appropriate staff on requisition entry (August 2019).
- The Business Office hired a permanent Staff Accountant (November 2019).
- The District hired a permanent CFO/Business Manager in March 2020, who will remain at the District after the MCIU's contract expires.

In addition, from our review of 60 cash disbursements made during the three-month period from November 1, 2019, through January 31, 2020, we found other corrective actions taken by the District to improve oversight of disbursements and compliance with requisition and purchasing procedures.

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For instance, to provide an additional level of control, the acting CFO closely monitored disbursements by signing off on invoices prior to disbursement. This additional level of control was important at a time when the new administration was hiring new competent management and staff in several departments and when employees involved in the requisition and purchase order processes were being trained to comply with the newly issued Business Procedures Manual.

In addition, Business Office staff provided consistent, documented oversight of the purchase order process to ensure proper authorizations were obtained prior to the purchase of goods and services. Business Office staff also provided consistent oversight of invoice processing to ensure accuracy and timely payment.

While the District took corrective actions to effectively address PDE's findings and recommendations, we also noted five areas for improvement and issued recommendations to further strengthen internal controls and oversight. The areas for improvement are summarized as follows:

1. Three of the 60 disbursements we reviewed, or 5 percent, were related to wage garnishments. The Business Office receives documentation generated by the payroll system, indicating amounts deducted from employee wages for payment to payees referred to as vendors. This documentation however contains no evidence of review and approval by payroll department staff before the documentation is sent to the Business Office for disbursement. Payroll department staff should sign off on this documentation to provide evidence of review and authorization of payments related to garnishments.
2. The supporting documentation for one disbursement indicated the invoice was for 20 laptops and 16 monitors. The packing slip, however, showed only 20 laptops were shipped and not the 16 monitors. The District should have verified receipt of *all* goods purchased *prior* to payment. When asked, officials eventually located the shipping statement for the 16 monitors and provided a copy to us. The Business Office, however, should not have paid this invoice without first verifying all goods were received and documenting such verification.
3. For 6 of the 60 disbursements we reviewed, or 10 percent, the purchase order was improperly created and submitted to the Business Office by the respective District department *after* the date of the invoice. The disbursements were for non-emergency expenditures. The CFO acknowledged the errors and stated that she had already reminded the head of the athletic department of the proper procedures for requisitioning and authorizing expenditures related to two of the six disbursements. Regarding the other four disbursements (related to the facilities department, the food service department, and Legal), management stated that it would provide the respective vendors with an open

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purchase order.⁹ The District’s Business Procedures Manual requires the issuance of the purchase order for these transactions to precede the invoice date to ensure the District is not being obligated to pay for costs that have not been properly authorized.

4. According to its fiscal policies, the District is required to “establish sound accounting procedures” and “institute effective business practices,” as well as to ensure proper monitoring of disbursements.¹⁰ Common best practices recommend *timely* preparation and review of reconciliations between bank statements and the District’s check register. The District, however, did not have standard written procedures in place to ensure timely completion and review bank reconciliations. Completing monthly bank reconciliations is an important control for timely detection of errors and irregularities and for monitoring and writing off old outstanding checks. Further, it is important for the individual who performs the reconciliation to not be involved in the process of disbursing funds as well as there should be documented a review and approval signature and date by a supervisor (supervisory review).

We found, however, that the bank reconciliations for the months of November 2019 and December 2019 contained no signatures or dates indicating when they were completed and by whom. As a result, we were unable to conclude on their timely completion, determine if an appropriate individual, not involved in the disbursing of funds, performed the reconciliations, and verify if a supervisory review occurred. With regard to the January 2020 bank reconciliation, after multiple requests by the auditors, the District provided the bank reconciliation in late June 2020, but the reconciliation was also not signed or dated. District management acknowledged the lack of timely completion of bank reconciliations in January and subsequent months in the spring of 2020 and acknowledged there has not been consistent oversight.

Management attributed the lack of timely bank reconciliations and review to the retirement of an accountant in January 2020 and the challenges of the pandemic in the months that followed, which also delayed the hiring of a new accountant. Management said it plans to hire an accountant in the summer of 2020 and will prioritize the implementation of this internal control procedure. Management also stated that routine review of the bank reconciliations would occur after the hiring of an accountant.

5. We also found the District had 26 outstanding checks totaling \$24,169 that were more than a year old as of January 31, 2020, including 9 which dated back to April 2018. When we asked management about this during our latest inquiry on June 29, 2020, officials said

⁹ Open purchase orders, also known as blanket purchase orders, are purchase orders that are issued to a vendor for a specific time period, usually containing a cap of a budgeted dollar amount. By using an open purchase order, the District is able to anticipate and approve recurring, and sometimes varying, expenses. The District is able to make purchases within this budgeted amount without creating a new requisition and purchase order each time.

¹⁰ Harrisburg City School District, Board Policy No. 601 – Fiscal Objectives and No. 616 – Payment of Bills. See Appendix B.

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they were aware of the old checks and intend to review them to determine whether or not they should be re-issued or written off and added back to the General Fund balance.

Conclusion

Based on our review of cash disbursements, we have determined that the District has taken significant actions to strengthen its internal controls over cash disbursements as recommended by the PDE Audit. The District, however, should continue to strengthen controls and oversight as recommended below.

Recommendations

The Department of the Auditor General recommends that the Harrisburg School District do the following to further strengthen internal controls and oversight of cash disbursements:

1. Require the payroll department to provide sufficient written evidence of the review and approval of payments related to wage garnishments to the Business Office for payment requests to the related vendors.
2. Require Business Office staff to obtain shipping statements and packing slips as necessary from school building level staff and other departments and use these statements to verify the receipt of goods *prior* to invoice payment.
3. Continue to remind department heads and other staff who fail to follow the written procedures as specified in the Business Procedures Manual, including the requirement to complete requisitions and obtain purchase orders *prior* to incurring an obligation on behalf of the District. Consideration should be given to issuing written reminders to individuals who continually fail to follow these procedures stressing that the District is not obligated to reimburse the employee for an unauthorized purchase.
4. Establish written procedures, in support of its fiscal policies, imposing deadlines for the timely completion and review of monthly bank reconciliations. It should designate those positions in the Business Office responsible for preparing and reviewing them. The procedures should also address the monitoring and writing off of old outstanding checks.

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Management Response and Auditor's Conclusion

We provided copies of our draft status update to the Harrisburg City School District (District) for its review. On the pages that follow, we included the District's response in its entirety. Following the District's response is our auditor's conclusion.

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Business Office – Cash Disbursements**

Management Response from the Harrisburg City School District



HARRISBURG SCHOOL DISTRICT

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OFFICE OF THE ACTING SUPERINTENDENT

July 22, 2020


To: Commonwealth of Pennsylvania
Department of the Auditor General

Re: Performance Audit Status Update for the Harrisburg School District

On behalf of the Harrisburg School District, I appreciate the opportunity to respond to the July 2020 Performance Audit update.

The Harrisburg SD is supportive of the recommendations contained in the July 2020 audit report. The district appreciates the continued effort of the Auditor General as we all work to move the school district in a positive direction.

Thank you,



Mr. Chris Celmer
Acting Superintendent
Harrisburg School District

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Business Office – Cash Disbursements**

Auditor’s Conclusion to the Harrisburg City School District’s Response

The Department of the Auditor General appreciates the District’s agreement to implement our recommendations and its commitment to continuing to strengthen internal controls and oversight over cash disbursements.

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Appendix A

Methodology¹¹

To achieve our objective of reviewing the PDE recommendations implemented by the District through the end of our audit procedures in June 2020 as they relate to the Business Office's management of cash disbursements, we performed the following procedures:

- Conducted numerous interviews with senior management as well as staff in the Business Office.
- Attended regular meetings of the Board of Directors/Receiver each month from September 2019 through February 2020. Watched the virtual meetings of the Board of Directors/Receiver for each month from March 2020 through June 2020.
- Reviewed minutes of regular meetings of the Board of Directors/Receiver for all meetings held from the beginning of the 2019-2020 school year, from July 24, 2019, through May 18, 2020.
- Reviewed the Business Procedures Manual issued August 2019 and relevant district policies.
- Reviewed CFO's report to the Board in November 2019 stipulating training on the Business Procedures Manual had been provided to employees.
- Performed a detailed walkthrough of the District's cash disbursement process for a range of different types of disbursements to determine whether the District has adequate controls in place over cash disbursements and whether those controls appear to be functioning as designed.
- Obtained a check register for the three-month period from November 1, 2019, through January 31, 2020. We assessed the accuracy and completeness of the population of the cash disbursements in our selection by ensuring the check numbers were consecutive on the check register. We verified the first check on the check register was consecutive with the last check issued for the prior period and verified that the last check is consecutive with the first check issued for the subsequent period. We verified the check number and amount for each of these checks agrees with the respective bank statement showing when the check cleared the bank. We found the check register to be sufficiently reliable for our audit purposes.

¹¹ The audit objectives and scope are discussed in the cover letter preceding this report.

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- Reviewed a random selection of 60 cash disbursements for the period from November 1, 2019, through January 31, 2020, and obtained supporting documentation to ensure:
 - The disbursement was properly reviewed and authorized prior to payment.
 - The supporting documentation including the requisition, purchase order, invoice, check copy, check register, and shipping statement (if applicable) all agree.
 - Expense coding based on the type of disbursement per the invoice is consistent with the PDE chart of accounts manual.
 - The amount recorded in the check register agrees with the amounts disbursed per the bank statement.

- Reviewed monthly bank reconciliations for November 2019 through January 2020 to ensure they were completed timely and signed off and dated by both the preparer of the reconciliation and the reviewer. We also verified the accuracy of the January 2020 bank reconciliation by checking the math and tying balances to source documents.

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Appendix B

Criteria

In its June 28, 2019 audit report, the PDE had 11 findings and made 6 recommendations to Harrisburg School District as part of its audit of the District’s Business Office.¹² Our audit of the Business Office’s implementation of PDE’s recommendations focused primarily on the steps the Business Office has taken to address Business Office Finding 1, which states, “Internal controls over the District’s Cash Disbursements are not followed on a consistent basis” and Business Office Finding 2, which states, “Lack of Communication between the Business Office and other Departments, organization structure is not effectively implemented.”¹³ In addition, we addressed Business Office Recommendation 1, which states, “Harrisburg City School District needs to immediately hire qualified individuals to fill the vacant Business Office positions to better manage and oversee the District’s Financial Operations.”¹⁴

In addition to the findings and recommendations provided for in the PDE report, which serve as the principal criteria for this audit, the following sections of the Business Procedures Manual and certain District policies provided criteria for our audit of the District’s Business Office.

Business Procedures Manual

Purchasing and Procurement

This section of the Business Procedures Manual outlines the policies and procedures for making a routine purchase. Business Office personnel are required to abide by the following procedures set forth in the manual:

1. Requisitions are prepared and input into the financial accounting system by the building level support staff member(s). The financial accounting system has controls regarding workflow that dictate how once clerical staff have entered the requisition it then follows to his/her Administrator who must then review and approve the requisition electronically. Additional approval levels may be in place to ensure appropriate Director/Cabinet level approval of the requisitions, as well.
2. Once approved by the Program team, the Purchasing Supervisor will review the requisition for accuracy and if approved, will convert the requisition to a purchase order.

¹² Wessel & Company, Certified Public Accountants, letter and “Agreed-Upon Procedures and Technical Consulting Report,” addressed to Pedro A. Rivera, Secretary of Education, Pennsylvania Department of Education, June 28, 2019. Business Office findings are listed on pages 48 to 53 of the report. Recommendations for the Business Office are listed on page 54 of the report.

¹³ Ibid, page 48 – 49.

¹⁴ Ibid, page 54.

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3. The Chief Financial Officer has final approval of all purchase orders. A purchase order cannot be printed until the Chief Financial Officer approves it.
4. If a program/building does not have the necessary funds in a particular account code to make the requested purchase, the requisition will not be permitted to be entered. A budget transfer request may be submitted to the Office of Business Services for submission to the Board of Directors for approval consideration.
5. Purchase requisitions should have electronic copies of signed contracts, quotes, etc. included when entered into the financial accounting system. Failure to attach the appropriate documentation will lead to a delay in processing the requisition.
6. If the purchase requisition is for a new vendor doing business with the District, the program department must obtain a completed IRS W-9 form and provide it to the Purchasing department. The Purchasing Supervisor will review the Suspension & Debarment database prior to inputting a new vendor into the database.
7. Any requisition that does not comply with these requirements, or is in conflict with Federal or State regulations will not be processed.¹⁵

This section of the manual emphasizes that it is prohibited for any employee to purchase or to contract to purchase any good or service, or to make any commitment for the District to make payment other than through the Chief Financial Officer or his/her designee. It states, “No employee of the District should make a purchase for the District outside of the purchasing procedures outlined above. The District will not be obligated to reimburse an employee for an unauthorized purchase.”¹⁶

Board Policies of Harrisburg School District

The following board policies of the Harrisburg City School District were obtained via the District’s website.

Policy 601 – Fiscal Objectives

This policy states in part:

The Board recognizes its responsibility to district taxpayers to ensure that public monies expended by the school district are utilized for delivery of the educational program in a manner that mandates full value to the taxpayers, and that adequate procedures and records are established to ensure that end The Board directs the Business Administrator to establish sound accounting procedures based upon

¹⁵ Harrisburg School District, *Business Procedures Manual*, “Purchasing and Procurement,” page 26.

¹⁶ *Ibid*, page 27.

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recommendations of the district auditor and state and federal government, institute effective business practices, and recommend appropriate equipment and technology when necessary.

Policy 608 – Bank Accounts

This policy charges the Board to designate one or more banks for the safeguarding of school funds and states in part: “Each depository shall be required to report monthly to the Treasurer or Board on the status of funds, in the manner required by law.”

Policy 611 – Purchases Budgeted

This policy was last revised and adopted by the Board on June 16, 2014. This policy requires the District to make purchases that are budgeted and not subject to bid in a manner that ensures the best interests of the District. It states that all purchases within budgetary limits or purchased through a board-approved contract may be made upon authorization of the Business Administrator, Board Secretary, and/or Superintendent, unless the purchase is greater than the Commonwealth approved bid limit, in which case prior board approval is required. The policy states that all purchase order requests must be referred to the Business Administrator who will check if the proposed purchase is subject to bid, whether sufficient funds exist in the budget, and whether the material may be available elsewhere in the District.

Policy 612 – Purchases Not Budgeted

This policy was last revised and adopted by the Board on June 16, 2014. The policy states that when funds are not available for a proposed appropriation, a legal transfer may be made from another class of expenditure with board approval. These transfers may only be made in the last nine months of the fiscal year if it is evident surplus funds do exist in another appropriation, the procedures specified in the Public School Code are followed, and it can be demonstrated that the proposed expenditure would be educationally warranted in the current fiscal year. In the event of an emergency, a purchase order may be authorized by the Business Administrator.

Policy 616 – Payment of Bills

The policy states in part relating to the payment of bills: “In order to monitor these activities, the Business Administrator shall develop procedures to assure coordination and accumulation of information and proper reporting and remittance to the Department of Revenue.”

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The Pennsylvania Public School Code

Article XI, Section 642-A of the PA Public School Code states in part:

(16) Delegate to a person, including an employee of the school district or a for-profit or nonprofit organization, powers the chief recovery officer deems necessary to carry out the purposes of this article, subject to the supervision and direction of the chief recovery officer.

(17) Employ, contract with or assign persons or for-profit or nonprofit organizations to review the financial and educational programs of school buildings and make recommendations to the chief recovery officer regarding improvements to the financial or educational programs of school buildings. *See 24 P.S. § 6-642-A.*

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Appendix C

Distribution List

This report was distributed to the following officials:

The Honorable Tom Wolf
Governor

The Honorable Dr. Janet Samuels
Receiver
Harrisburg City School District

The Honorable Pedro A. Rivera
Secretary
Pennsylvania Department of Education

The Honorable Chris Celmer
Acting Superintendent
Harrisburg City School District

The Honorable John DiSanto
Senator
Pennsylvania State Senate

The Honorable Brian Carter
President
Board of School Directors
Harrisburg City School District

The Honorable Patty Kim
Representative
Pennsylvania House of Representatives

The Honorable Jen Swails
Secretary of the Budget

Mr. William Canfield
Director
Bureau of Audits
Office of Comptroller Operations

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