

HARMONY AREA SCHOOL DISTRICT  
CLEARFIELD COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2010



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

Mr. Darren Dubyak, Board President  
Harmony Area School District  
5239 Ridge Road  
Westover, Pennsylvania 16692

Dear Governor Rendell and Mr. Dubyak:

We conducted a performance audit of the Harmony Area School District (HASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 14, 2008 through February 19, 2010, 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 and June 30, 2007. 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, regulations, contracts, grant requirements, and administrative procedures. However, 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 observation 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.

Sincerely,

/s/

JACK WAGNER  
Auditor General

August 27, 2010

cc: **HARMONY 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 Harmony Area School District (HASD). 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 HASD in response to our prior audit recommendations.

Our audit scope covered the period February 14, 2008 through February 19, 2010, 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 and 2006-07.

### **District Background**

The HASD encompasses approximately 86 square miles. According to 2000 federal census data, it serves a resident population of 2,576. According to District officials, in school year 2007-08, the HASD provided basic educational services to 403 pupils through the employment of 38 teachers, 28 full-time and part-time support personnel, and 3 administrators. Lastly, the HASD received more than \$3.8 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the HASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

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

Neither the HASD nor the HASD's transportation contractors have written policies or procedures in place to ensure that they are 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 (see page 6).

#### **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 board members' failure to file Statements of Financial Interests (see page 8). The HASD had not taken corrective actions in implementing our recommendations pertaining to errors in reporting pupil transportation data (see page 9) and internal control weaknesses 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 February 14, 2008 through February 19, 2010.

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 HASD'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:

- ✓ 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?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), 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 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**

*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.

*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.

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

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

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, 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 January 22, 2009, we reviewed the HASD's response to DE dated May 4, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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### Internal Control Weaknesses in Administrative Policies 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.

As reported in our previous audit report, the Harmony Area School District (HASD) had an observation pertaining to bus drivers' qualifications. Our current audit procedures found that HASD did not implement our previous recommendations (see page 9).

The ultimate purpose of requirements of the Public School Code and CPSL is to ensure the protection of the 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 the 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.

Our review of the personnel records of a random sample of 5 out of 19 bus drivers currently employed by the HASD's transportation contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and that the HASD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the HASD from hiring any of the drivers. Therefore, we concluded that the HASD has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. Additionally, there were no serious crimes identified or other information that called into question the applicant's suitability to have direct contact with children.

However, neither the District nor the transportation contractors have yet adopted, as recommended in our prior audit, written policies or procedures to ensure that they are 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 *Harmony Area School District* should:

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.

## **Management Response**

Management stated the following:

We are currently developing a board policy under section 800 operations. Under Operations Title 810 Transportation there will be a subsection entitled "Required Documents" listing qualifications and clearances for bus drivers and a statement that the district will review these documents annually with the contractors.

All drivers are required to contact the district office immediately upon being charged with or convicted of a crime.

This policy will also be placed in the Bus Transportation Handbook.

## Status of Prior Audit Findings and Observations

Our prior audit of the Harmony Area School District (HASD) for the school years 2005-06 and 2004-05 resulted in two reported findings and one observation. The first finding pertained to errors in reporting pupil transportation data. The second finding pertained to board members' failure to file Statements of Financial Interests. The observation pertained to internal control weakness 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 HASD 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 HASD did implement recommendations related to Finding No. 1, and did not implement recommendations related to Finding No. 2, and the observation.

| <i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>  |  |   |
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| <i>Prior Recommendations</i>  | <i>Implementation Status</i>   |   |
| <p><u><i>1. Finding No. 1: Board Members Failed to File Statement of Financial Interests in Violation of the Ethics Act</i></u></p> <p>1. Seek the advice of the State Ethics Commission in regard to the board's responsibility when a board member 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 forms do so in compliance with the Public Official and Employee Ethics Act.</p> | <p><b>Background:</b></p> <p>Our prior audit of District records found that one ex-board member failed to file Statements of Financial Interests for the years ended December 31, 2006 and 2005. Another board member also failed to file a Statement of Financial Interests for the year ended December 31, 2006.</p> | <p><b>Current Status:</b></p> <p>Our current audit found that all board members filed their Statements of Financial Interests for the years ended December 31, 2008 and 2007.</p> <p>Additionally, the State Ethics Commission contacted the individuals cited in the prior audit and had them file their Statements of Financial Interests for the years in question.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p> |

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| <p><u>III. Finding No. 2: Continued Errors in Reporting Pupil Transportation Data</u></p> <ol style="list-style-type: none"> <li>1. Establish an internal review prior to submission of pupil transportation reports to DE to ensure the accuracy of data reported.</li> <li>2. Review reports submitted subsequent to the audit years and revise and resubmit, if necessary.</li> <li>3. DE should adjust the District's allocations to correct the reimbursement overpayment of \$2,573.</li> </ol> | <p><b>Background:</b></p> <p>Our prior audit found that the amount paid to four contractors was incorrectly reported to DE. The reporting errors caused the District to be overpaid \$2,573 in pupil transportation reimbursement.</p> | <p><b>Current Status:</b></p> <p>Our current audit of the District's transportation data for the 2007-08 and 2006-07 school years found numerous errors. However, the monetary effect was not significant.</p> <p>Based on our current audit, we concluded the District did not take appropriate corrective action.</p> <p>We continue to advise the District to implement the recommendations previously made. Although the current audit errors did not result in a significant over/underpayment, they certainly could in the future.</p> <p>As of February 19, 2010, the overpayment of \$2,573 is still pending DE resolution.</p> |
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| <p><u>II. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <ol style="list-style-type: none"> <li>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.</li> </ol> | <p><b>Background:</b></p> <p>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.</p> | <p><b>Current Status:</b></p> <p>Our current audit again found that neither the District nor the District's transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses (see the observation on page 6).</p> <p>Although the board's response to DE stated that the District's transportation manual would be revised to address our recommendations, as of February 19, 2010, no action had been taken.</p> |
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| <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>Based on our current audit, we concluded the District did not take corrective action by implementing our recommendations.</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:

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