

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

CAPE HENLOPEN SCHOOL DISTRICT



LEAVE USE
AND
COST RECOVERY SERVICES

SPECIAL INVESTIGATION

FIELDWORK END DATE: JUNE 14, 2006

R. THOMAS WAGNER, JR., CFE, CGFM, CICA
AUDITOR OF ACCOUNTS

Townsend Building, Suite 1
401 Federal Street
Dover, DE 19901
TELEPHONE (302) 739-4241
FACSIMILE (302) 739-2723
www.state.de.us/auditor/index.htm

EXECUTIVE SUMMARY

ALLEGATIONS

The Office of Auditor of Accounts (AOA) received the following allegations regarding Cape Henlopen School District (the District):

1. A District employee abused sick and vacation leave.
2. The District is not providing required speech therapy services to a handicapped child. The speech therapist for the child is over-reporting time for speech therapy services, which may have resulted in Medicare fraud.

BACKGROUND

District officials indicated that a District employee was absent for numerous days yet the employee's sick and vacation leave balances were not reduced. The District conducted an internal investigation, which found that the employee was not appropriately charged for 18 vacation days and 6 sick days during the period of July 2005 through April 2006. Based on the results of the internal investigation, the District requested that AOA conduct an audit of the employee's attendance records for the period September 1, 2002 through April 30, 2006.

District officials notified AOA of a complaint from a parent alleging that the District is not providing required speech therapy services to a handicapped child. Since Medicare fraud may have been involved, the District referred this matter to AOA.

CONCLUSIONS AND OBSERVATIONS

- The allegation of employee abuse of sick and vacation leave was substantiated.
- The allegation that the District is not providing required speech therapy services to a handicapped child is unsubstantiated.
- The District's policies and procedures for leave are insufficient to safeguard the State's assets.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency and economy; and
5. Such data, information and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

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Allegations

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District Leave Policy

The District's policies for sick and vacation leave are as follows:

- Sick Leave and Absences for Other Reasons: Administrators and other school employees shall be allowed ten (10) days sick leave per year with full pay; those administrators and other school employees employed eleven (11) months a year shall be allowed 11 days of sick leave per year with full pay; and those administrators and other school employees employed twelve (12) months a year shall be allowed 12 days of sick leave per year with full pay. A retiring employee will receive payment, upon retirement, in an amount equal to state salary for one-half of the number of "unused" sick leave. The employee will receive payment for additional accumulated sick days as provided for in the district attendance policy.
- Vacation: Administrative employees shall be provided vacations in accordance with the following guidelines: Twelve month employees will earn 1 2/3 days of vacation per month of employment. Twelve month employees will receive one additional vacation day each year for each five years of employment in the district. In the case of resignations and retirements, vacation credit may be used before the effective date; or an employee may elect to receive a lump sum payment for unused vacation time at time of retirement. Delaware Law states the maximum number of earned vacation days that may be carried over from one fiscal year to the next fiscal year (June 30 to July 1) is forty-two (42) days. Earned carryover time will

ALLEGATION AND BACKGROUND

District Leave Policy (continued)

automatically be carried over for employees with earned vacation time from one fiscal year to the next—up to 42 days. Earned vacation time in excess of 42 days credited to individuals as of June 30 of any year will be deleted at that time.

The District established an attendance program, the primary purpose of which was to maximize staff attendance. To encourage exemplary attendance, the District presents a \$100 U.S. Savings Bond to all staff members who have been absent no more than one day during the school year and a \$50 U.S. Savings Bond to all staff members who have been absent no more than two days nor less than one and one-half days.

Cape Henlopen School District

The District serves more than 4,300 students who live in Lewes, Rehoboth Beach, and Milton. The District is comprised of four elementary schools, two middle schools, one ninth grade campus, a high school, and the Sussex Consortium:

<u>School</u>	<u>Grades</u>	<u>Location</u>
H.O. Brittingham Elementary School	KN-5	Milton
Milton Elementary School	KN-5	Milton
Rehoboth Elementary School	KN-5	Rehoboth Beach
Richard A. Shields Elementary School	KN-5	Lewes
Beacon Middle School	6-8	Lewes
Mariner Middle School	6-8	Milton
Ninth Grade Campus	9	Lewes
Sussex Consortium	Ungraded	Lewes

Sussex Consortium

The Sussex Consortium (the Consortium) is a special education program operated in the District. There were approximately 135 students enrolled for school year 2005-2006. The Consortium was created to meet the special needs of students with moderate to severe disabilities in Sussex County up to the age of 21. The Consortium has students who are classified as Autistic, Developmentally Delayed, Learning Disabled, Mentally Handicapped, Emotionally Disturbed, Hearing Impaired, and Profoundly Deaf. The Consortium operates four distinct programs: Sussex County Center for the Delaware Autistic Program, District Intensive Learning Center for students in grades K through 8, the Cape Henlopen Career Opportunities Program, and a program designed to meet the needs of Cape Henlopen students with impaired hearing. There are 36 classrooms of various educational placements and settings operating under the Consortium administration in nine of the district's schools.

ALLEGATION AND BACKGROUND

Internal Control

The District is responsible for establishing and maintaining an effective system of internal controls. A well-designed system of controls must include written policies and procedures to ensure that each control objective is met. The controls should:

- Ensure that assets are safeguarded.
- Ensure accuracy and reliability of the District's accounting data and records.
- Ensure compliance with all policies and procedures prescribed by management.
- Promote the operational efficiency of the District.

OBJECTIVES, SCOPE & METHODOLOGY

OBJECTIVES

The objectives of the investigation were:

1. Determine if the District has adequate policies and procedures governing leave use by employees and if employees complied with the policies and procedures.
2. Determine if the allegation of abuse of sick and vacation leave is substantiated.
3. Determine if the student received required speech therapy services in accordance with the individualized education program (IEP).
4. Determine if therapy services were properly reported and funded.

SCOPE

AOA reviewed District attendance records, substitute employee records, and supervisor records for the one employee in question for the period of September 1, 2002 through April 30, 2006.

AOA reviewed speech therapy, IEP, and attendance records as well as other documentation relevant to services provided to the student in question.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

METHODOLOGY

AOA developed procedures to address the aforementioned objectives. Procedures consisted of (a) interviews and inquiry of key personnel, (b) review of relevant policies and procedures, and (c) inspection of documentation pertaining to leave usage and speech therapy services.

CONCLUSIONS

Objective	Conclusion
<p>Determine if the District has adequate policies and procedures governing leave use by employees and if employees complied with the policies and procedures.</p>	<p>The District's policies and procedures for leave are insufficient to:</p> <ul style="list-style-type: none"> • Safeguard the State's assets, • Ensure accuracy and reliability of the District's accounting data and records, and • Promote the operational efficiency of the District <p>Insufficient policies and procedures resulted in confusion among District employee's and non-uniform practices.</p> <p><i>Refer to the "Findings and Recommendations" section of this report for the complete detail including recommendations.</i></p>
<p>Determine if the allegation of abuse of sick and vacation leave is substantiated.</p>	<p>The allegation is substantiated and the matter was referred to the State of Delaware Attorney General's Office.</p> <p><i>Refer to the "Findings and Recommendations" section of this report for the complete detail including recommendations.</i></p>
<p>Determine if the student received required speech therapy services in accordance with the individualized education program (IEP).</p>	<p>Per review of the monthly log of services and student attendance records, AOA found the following:</p> <ul style="list-style-type: none"> • For the period 9/05/05 through 5/31/06, the student received 44.25 hours of speech therapy. This was 4.75 hours less than that required by the student's IEP. • The student was absent from 16 scheduled therapy sessions from 9/05/05 through 5/31/06. • The student was absent from school a total of 41 days from 9/05/05 through 5/31/06. <p>The shortfall of 4.75 hours of service by the District can be attributed to the number of student absences.</p> <p><i>There is no finding or recommendation for this objective. The allegation was unsubstantiated.</i></p>
<p>Determine if therapy services were properly reported and funded.</p>	<p>The student did not qualify for Medicaid reimbursements in accordance with the Delaware Medical Assistance Program. The District did not submit or receive reimbursements for the student.</p> <p><i>There is no finding or recommendation for this objective. The allegation was unsubstantiated.</i></p>

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 1 – POLICIES AND PROCEDURES

Determine if the District has adequate policies and procedures governing leave use by employees and if employees complied with the policies and procedures.

Finding

The following table lists the District’s written policies and procedures related to leave, the dates the policies and procedures were established, and the weaknesses noted for each:

Policy Number and Name	Date Adopted	Weakness
133 – Monitoring and Reporting Employee Attendance	1/28/1999	This policy is vague and does not provide clear instructions for leave reporting. The policy does not (1) reference standard forms to be used and the distribution of the various copies of the forms, (2) indicate who should be notified of absences; or (3) indicate how the human resources/benefits department will monitor, track and reconcile leave records.
337 – Vacation/Holidays	The policy was not dated.	This policy refers to compensatory time; however, the policy is not clear as to an approval process for compensatory time (i.e. if time must be approved in advance by a supervisor; the form to be used for the approval and documentation of compensatory time).
334 – Sick Leave	Adopted 6/26/1986 Revised 2/26/2004	This policy states that the Board will maintain an accurate record of absences from duty; however, the Board does not perform this function. The policy does not accurately reflect the current process.
433 – Attendance Program	No adoption date. Revised 5/19/1988 Revised 10/25/2001	The policy states that the Board will maintain an accurate record of absences from duty; however, the Board does not perform this function. Interviews with District employees and review of documents indicated that criteria other than that contained in the policy were used to select employees to receive the bonds. The policy does not accurately reflect the current process.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 1 – POLICIES AND PROCEDURES *(continued)*

The State of Delaware *Budget and Accounting Manual* Chapter I states, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." Internal Control includes five main areas: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

The risk assessment process should include the District's identification and analysis of risks relevant to achievement of its objectives. One of the objectives for payroll is that attendance should be reported accurately, completely, timely, and in accordance with personnel regulations. Some of the potential risks for that objective are: (a) employees will not submit proper documentation, (b) lack of supervision will permit employees to take leave without proper reporting, and (c) District records will not be updated to reflect actual time taken. The risk assessment process requires the District to continuously monitor changes to the environment that may increase or reduce the risks. Once risks are identified, control activities should be developed.

Control Activities are the policies and procedures that help ensure that management's directives are carried out. Control activities include preventative and/or detective controls. Operating policies and procedures should be clearly written and communicated. Documentation of policies and procedures provides (1) an understanding of the District's objectives, (2) a basis for training new personnel, (3) a means of communicating information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

Information and communication, one of the categories of internal control, requires that employee's duties and control responsibilities be effectively communicated. Monitoring, another area of internal control, requires periodic evaluations to determine whether procedures are being followed as intended.

District management did not commit the necessary resources for the following control areas: risk assessment, control activities, information and communication, and monitoring. Lack of controls resulted in:

- Confusion among District employees
- Non-uniform practices
- Opportunity for fraud
- Fraud

Recommendation

The District:

1. Identify and analyze risks relevant to the District's objectives for payroll and personnel.
2. Develop and/or update policies and procedures to address the identified risks and to assist in preventing, deterring, and detecting fraud.
3. Communicate objectives, policies, and procedures to employees.
4. Continuously monitor controls.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 1 – POLICIES AND PROCEDURES *(continued)*

Auditee Response

The Cape Henlopen School District will first identify and analyze risks relevant to objectives for payroll and personnel. We shall investigate best accounting policies, procedures, and practices in place across the state and utilize them to develop and/or update policies and procedures in Cape. We will communicate the objectives and new policies and procedures and will establish a time line of continuous monitoring. We shall have the policies and procedures in place as quickly as possible, but not later than 90 days from the filing of this response.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 2 – ALLEGATION SUBSTANTIATED

Determine if the allegation of abuse of sick and vacation leave is substantiated.

Finding

District officials indicated that a District employee was absent for numerous days yet the employee's sick and vacation leave balances were not reduced. The District conducted an internal investigation, which found that the employee was not appropriately charged for 18 vacation days and 6 sick days during the period of July 2005 through April 2006. The employee was able to produce leave slips for 11 of the 24 days. The leave slips had been signed by the employee and supervisor but had not been posted to the employee's leave record. The employee prepared leave slips for the remaining 13 days. Interviews with several District employees resulted in varying and conflicting accounts as to reasons why the employee's leave record was not updated. Based on the results of the internal investigation, the District requested that AOA conduct an audit of the employee's attendance records for prior years.

Per review of the supervisor's records and substitute pay records, AOA determined that an additional 209 hours of leave was taken by the employee during the period September 1, 2002 through April 30, 2006, but not reported to the District. A breakdown of the cost to the District is as follows:

Time Period	Hours	Hourly Rate	Cost
09/01/02-06/30/03	35.00	15.475	\$ 541.63
07/01/03-06/30/04	67.50	16.087	1,085.87
07/01/04-06/30/05	99.00	17.294	1,712.11
07/01/05-04/30/06	7.50	18.172	136.29
Total	209.00		\$3,475.90

The hours identified per review of the supervisor's records totaled 15 hours. The hours identified per review of the substitute pay records totaled 194 hours.

The following contributed to the fraudulent leave reporting:

- Insufficient policies and procedures related to leave.
- Non-uniform practices for reporting leave.
- The employee's supervisor returned all copies of the leave forms, in tact, to the employee rather than forwarding to the benefits secretary.
- The employee did not submit leave requests to the supervisor and the supervisor did not adequately review records to ensure leave requests were submitted in a timely manner.
- The District prepares annual reports summarizing employees' leave records and provides those reports to the employees. Employees are not required to sign or return the form unless they dispute what is reported on the form. Supervisors are not provided a copy of the form.

The State of Delaware *Budget and Accounting Manual Chapter II* states, "Internal control provides management with reasonable assurance that its policies and procedures are implemented and consistently followed to ensure efficient and effective organizational operation. The traditional system of an internal control plan consists of all the methods used to safeguard assets, to promote accuracy and reliability of the

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 2 – ALLEGATION SUBSTANTIATED *(continued)*

organization’s accounting and data records, to encourage compliance with all policies and procedures prescribed by management, and to promote the operational effectiveness of the organization.” The District’s lack of internal control resulted in fraudulent under-reporting of leave.

Recommendation

The District:

1. Require the employee to submit leave forms for the additional 209 hours of leave.
2. Require the employee to repay any bond money received (District Policy 433) due to fraudulent reporting of leave.
3. Comply with the recommendations noted for Objective 1.

Auditee Response

The employee shall submit leave forms for the additional 209 hours of leave and shall be required to repay any bond money received due to fraudulent reporting of leave. Further, the district shall comply with all recommendations noted in the Findings and Recommendations.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Carl C. Danberg, Attorney General, Office of the Attorney General

Other

The Honorable Valerie Woodruff, Secretary, Department of Education

Dr. George E. Stone, Superintendent, Cape Henlopen School District

Dr. Edward B. Seibert, Director of Business Operations, Cape Henlopen School District