

ATHENS AREA SCHOOL DISTRICT
BRADFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2012

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

Ms. Karen Brennan, Board President
Athens Area School District
204 Willow Street
Athens, Pennsylvania 18810

Dear Governor Corbett and Ms. Brennan:

We conducted a performance audit of the Athens Area School District (AASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 3, 2009 through October 20, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 AASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

We appreciate the AASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

April 25, 2012

cc: **ATHENS AREA SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Athens Area School District (AASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the AASD in response to our prior audit recommendations.

Our audit scope covered the period April 3, 2009 through October 20, 2011, 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 2009-10 and 2008-09.

District Background

The AASD encompasses approximately 191 square miles. According to 2000 federal census data, it serves a resident population of 15,533. According to District officials, in school year 2009-10 the AASD provided basic educational services to 2,259 pupils through the employment of 191 teachers, 101 full-time and part-time support personnel, and 12 administrators. Lastly, the AASD received more than \$16.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the AASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the AASD from an audit we conducted of the 2007-08, 2006-07, 2005-06, and 2004-05 school years, we found the AASD had taken appropriate corrective action in implementing most of our recommendations pertaining to their student activity funds (see page 7) and unmonitored vendor system access (see page 8).



Audit Scope, Objectives, and Methodology

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 April 3, 2009 through October 20, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 AASD's compliance with applicable state laws, 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:

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?

- ✓ 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 does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with Local Law Enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

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

AASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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:

- Bus driver qualifications and financial stability.
- Items such as Board meeting minutes and pupil membership records.

Additionally, we interviewed selected administrators and support personnel associated with AASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 22, 2010, we reviewed the AASD's response to DE dated March 15, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Athens Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Athens Area School District (AASD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one reported observation. The finding pertained to their student activity funds and the observation pertained to their unmonitored vendor system access. 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 AASD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the AASD did implement most of our recommendations related to their student activity funds and unmonitored vendor system access.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: **Inadequate Control of Student Activity Funds**

Finding Summary Our prior audit of the AASD student activity fund (SAF) records for the 2007-08 and 2006-07 school years found that District personnel failed to adhere to the SAF written policies and procedures established by the board.

Recommendations: Our audit finding recommended that the AASD:

1. Require the SAF organizations to adopt by-laws to maintain accountability and require students and advisors to maintain meeting minutes that document student participation in fundraiser and disbursement decisions.
2. Require adequate control be maintained to ensure inactive club accounts are purged yearly.
3. Ensure current balances of inactive accounts are transferred to an authorized SAF club to be designated by the board.
4. Require adequate reports be maintained to evidence ongoing club balances and submit these reports to the board at least quarterly.
5. Ensure no expense is paid in cash directly from other sales or cash receipts as required.
6. Ensure sales tax is collected and remitted to the Department of Revenue for the sales of taxable items at the school store.

7. Require that adequate control be maintained to ensure clubs do not have deficit balances.
8. Require that all purchases be initiated by purchase orders with required signatures including student signatures evidencing participation.
9. Ensure general fund transactions, such as the fees for lost books and fines; student locks and parking permits; tobacco fines collected by the District magistrate; the operation of vending machines; fees for wood shop and pottery projects used for instructional purposes; fees for pottery supplies for the adult education classes; and property improvements are operated through the general fund.
10. Ensure only student related accounts are included in the student activity fund. Non-student related accounts such as the community arts festival, community organizations and concession stands operated by coaches and parents should not be co-mingled with student activity funds.

Current Status:

During our current audit procedures, we found that the AASD did implement 2, 3, 4, 5, 7, 8 and 10 of our recommendations. The District failed to have adequate by laws; collect and remit sales tax from the school store; and operate general fund transactions through the general fund. The implementation of the remaining recommendations will be reviewed during our subsequent audit.

Observation:

Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Our prior audit found that the AASD uses software purchased from the vendor through Blast Intermediate Unit #17 for its critical student accounting applications (membership and attendance). The vendor has remote access into the District's network servers.

Recommendations

Our prior audit observation recommended that the AASD:

1. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
2. Require the employees to sign the District's Acceptable Use Policy.

3. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Also, the District should lock out users after three unsuccessful attempts.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Current Status:

During our current audit procedures, we found that the AASD did implement 2, 4, 5 and 6 of our recommendations. The District failed to implement a non-disclosure agreement and policies and procedures for vendors. The remaining recommendations will be reviewed during our subsequent audit.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

