

BERLIN BROTHERSVALLEY SCHOOL DISTRICT
SOMERSET COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Mr. Frank Rohrs, III, Board President
Berlin Brothersvalley School District
1025 East Main Street
Berlin, Pennsylvania 15530

Dear Governor Rendell and Mr. Rohrs:

We conducted a performance audit of the Berlin Brothersvalley School District (BBSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 29, 2008 through July 20, 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 BBSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, 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 finding, observation and recommendations have been discussed with BBSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BBSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BBSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

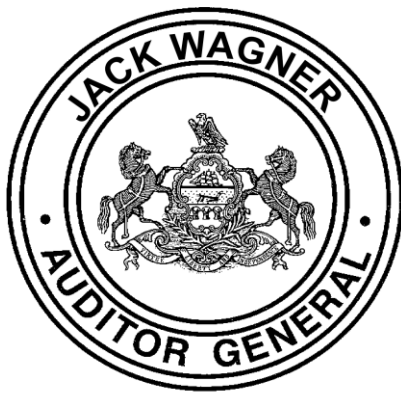
JACK WAGNER
Auditor General

December 27, 2010

cc: **BERLIN BROTHERSVALLEY SCHOOL DISTRICT** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Berlin Brothersvalley School District (BBSD). 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 BBSD in response to our prior audit recommendations.

Our audit scope covered the period February 29, 2008 through July 20, 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 BBSD encompasses approximately 166 square miles. According to 2009 local census data, it serves a resident population of 5,193. According to District officials, in school year 2007-08 the BBSD provided basic educational services to 908 pupils through the employment of 76 teachers, 49 full-time and part-time support personnel, and 6 administrators. Lastly, the BBSD received more than \$7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BBSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

Finding: Pupil Transportation Reporting Errors Resulted in Subsidy Overpayments to the District of \$34,525.

Our review of the BBSD's pupil transportation reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found a significant number of errors, resulting in transportation subsidy overpayments of \$18,271 and \$16,254, respectively (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

An outside vendor has remote access into the BBSD's network servers, which presents a risk that unauthorized changes to the BBSD's critical student accounting applications (membership and attendance) could occur and not be detected (see page 9).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the BBSD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the BBSD did not take appropriate corrective action in implementing our recommendations pertaining to pupil transportation reporting errors (see page 13) and instructional time

and pupil membership reporting errors (see page 14).

However, the BBSD did take appropriate corrective action regarding nonresident membership reporting errors (see page 15) and student activity fund accounts (see page 15).

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 February 29, 2008 through July 20, 2010, except for the review of outside vendor access to the District's student accounting applications which was completed on April 5, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 BBSD'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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ 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

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.

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.

BBSD 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, 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 BBSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2009, we reviewed the BBSD's response to DE dated December 2, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Pupil Transportation Reporting Errors Resulted in Subsidy Overpayments to the District of \$34,525

Criteria relevant to the finding:

Pupil transportation data and contractor cost data are integral parts of the transportation subsidy formula and must be accurately reported to DE, since they are major factors in determining the district's transportation reimbursement.

Instructions for completing DE's end-of-year transportation reports provide district personnel with guidance for reporting the number of days vehicles provided transportation to and from school, the number of miles vehicles traveled per day with pupils and without pupils, and the greatest number of pupils assigned to ride a vehicle at any one time during the day.

Our audit of the District's pupil transportation reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found a significant number of errors, resulting in transportation subsidy overpayments of \$18,271 and \$16,254, respectively.

District personnel incorrectly reported the number of days pupils were transported, the daily miles vehicles traveled with and without pupils, the number of pupils assigned to ride vehicles, and other miscellaneous data.

Number of Days Pupils Were Transported

The number of days pupils were transported was inaccurately reported for two vehicles in the 2007-08 school year and for one vehicle in the 2006-07 school year.

For the 2007-08 school year, District personnel reported that two buses transported pupils for 176 days. However, our review of the District's transportation records found both buses only transported pupils for 175 days, which was the number of days school was in session.

For the 2006-07 school year, District personnel reported that one bus provided service for 187 days, which included 11 days the bus transported students to an extended school year program. This program was not eligible for reimbursement. Therefore, the vehicle provided only 176 days of reportable service.

Daily Miles Vehicles Traveled With and Without Pupils

In the 2007-08 school year, daily mileage for one vehicle was incorrectly reported, resulting in an overstatement of 2.6 approved daily miles.

In the 2006-07 school year, daily mileage for one vehicle was incorrectly reported, resulting in an overstatement of 2.9 approved daily miles.

The errors were the result of District personnel failing to properly average the miles with and miles without students for these two buses, which transported both public and nonpublic pupils.

Number of Pupils Assigned to Ride Vehicles

The number of pupils assigned to ride vehicles was incorrectly reported for both the 2007-08 and 2006-07 school years, resulting in overstatements of 113 pupils and 95.1 pupils, respectively.

The errors were the result of District personnel failing to update the bus rosters when students withdrew from the District before or during the school year or transferred to another bus during the school year.

Other Miscellaneous Data

During the 2006-07 school year, two buses made only one trip per day to transport pupils home in the afternoon. District personnel incorrectly reported that the vehicles transported the pupils both to school in the morning and home in the afternoon.

The inaccuracies were the result of District personnel not having sufficient training for compiling and reporting data in accordance with DE's instructions, clerical errors, and a lack of internal review of transportation reports before they were submitted to DE.

Pupil transportation data must be maintained and reported in accordance with DE guidelines and instructions to ensure the District receives the correct subsidy.

DE has been provided reports detailing the errors for use in recalculating the District's transportation subsidy.

Recommendations

The *Berlin Brothersvalley School District* should:

1. Conduct an internal review to ensure days of service, daily mileage, pupil counts, and other data elements which make up the transportation formula are reported accurately.

2. Calculate the number of miles vehicles traveled in accordance with either the weighted average or sample average methods approved by DE.
3. Ensure that sufficient documentation is available to determine the number of days all pupils are assigned to ride vehicles, including the names of pupils.
4. Review reports submitted to DE subsequent to the years audited and submit revised reports if errors are found.

The Department of Education should:

5. Adjust the District's future allocations to correct the overpayments of \$34,525.

Management Response

Management stated the following:

Management agrees with the findings and has taken action prior to the audit to correct inadequacies in the pupil transportation process.

- a. Effective with the 2009-10 school year, students are no longer permitted to ride more than one bus except in the instance of custody issues or emergencies.
- b. The district has also implemented procedures to notify the bus contractor relative to students who graduate or leave the District and their subsequent removal from the bus rosters.
- c. The district will also follow DE's approved methods for averaging miles for buses that operate two runs, public and non-public.
- d. The district will review and compare data relative to days of service, daily mileage, pupil counts and other elements that make up the transportation formula for accuracy.
- e. The district will examine reports submitted to DE subsequent to the years audited and if needed, submit revised reports.

Observation

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer system.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Berlin Brothersvalley School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls.

Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the following weaknesses over vendor access to the District’s system:

1. The contract with the vendor did not contain a non-disclosure agreement for the District’s proprietary information.
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy (AUP).
3. The District does not require written authorization before adding, deleting, or changing a userID.

4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., last ten passwords); and to lock out users after three unsuccessful access attempts.
6. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
7. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
8. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed their system.
9. The District does not require written authorization prior to the updating/upgrading of key applications.
10. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.

Recommendations

The *Berlin Brothersvalley School District* should:

1. Develop a contract with the vendor that contains a non-disclosure agreement for the District's proprietary information.
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's AUP.

3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
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). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), and implement a security policy and system parameter settings to lock out users after three unsuccessful access attempts.
6. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes are made only by authorized vendor representatives.
7. Allow access to the system only when the vendor needs to make pre-approved changes/updates or provide requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
8. Generate monitoring reports 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.

9. Require upgrades/updates to the District's system to be performed only after receipt of written authorization from appropriate District officials.
10. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

Management Response

Management stated the following:

1. The district will require vendors to agree to and sign a non-disclosure agreement for the district's proprietary information.
2. Any persons or vendors with access to the district's network will be required to read and sign our acceptable use policy. Signed policies will be kept in the Administration Office.
3. A "Need for Access" form will be required to be completed and submitted by any and all entities or persons that are requesting access to the district's network remotely. This form will include names, times, and dates of anyone involved in this access. This form will be posted online so it may be downloaded, filled out, and submitted to the Network Administrator for approval.
4. Adding, changing, or terminating employee network access will require a written or electronic (i.e., email) authorization from either the District Superintendent, Building Principal or Human Resources with the process being reviewed individually with employees during the hiring process in the future.
5. The District will review and update all current IT policies and procedures and eliminate, when practical, deficiencies including but not limited to:
 - a. User password settings and protocol.
 - b. Individual User ID requirements.
 - c. Access limits.
 - d. Access and activity monitoring and record-keeping.
 - e. Program change procedures and policies.

Status of Prior Audit Findings and Observations

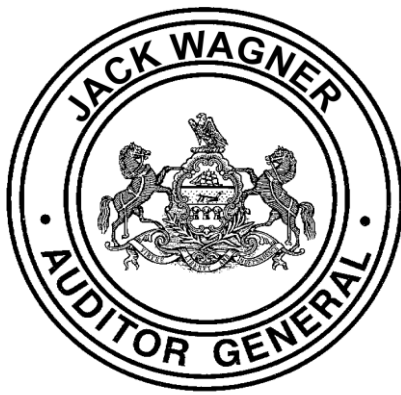
Our prior audit of the Berlin Brothersvalley School District (BBSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in four reported findings, as shown in the following tables. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the BBSD 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, BBSD did not take corrective action related to the findings regarding transportation and instructional time/membership reporting errors, but did take corrective action related to the findings regarding nonresident membership errors and student activity fund weaknesses.

<i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
Prior Recommendations	Implementation Status	
<p><u><i>I. Finding No. 1: Pupil Transportation Reporting Errors Resulted in Subsidy Overpayments of \$17,321</i></u></p> <ol style="list-style-type: none"> 1. Familiarize employees with DE instructions and implement procedures to ensure data is reported accurately. 2. Review reports submitted to DE subsequent to the years audited and submit revised reports if errors are found. 3. DE should adjust the District’s future allocations to recover the subsidy overpayments. 	<p>Background:</p> <p>Our prior audit of the District’s pupil transportation records and reports submitted to DE for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found errors, resulting in subsidy overpayments of \$17,321.</p>	<p>Current Status:</p> <p>Additional pupil transportation reporting errors were found during our current audit (see the finding, page 6). It should be noted that the fieldwork completion date for our prior audit was February 29, 2008. Therefore, corrective actions initiated by the District could not have been implemented until the 2008-09 school year. We will review their corrective action during our next audit.</p> <p>DE withheld \$17,260 from the District’s February and April 2010 basic education funding allocations to correct the overpayments. The \$61 difference between the amount of the finding and the amount DE withheld was due to rounding of the utilized passenger capacity miles and additional revisions in approved intermediate unit costs made by DE.</p>

<p><u>II. Finding No. 2:</u> <u>Instructional Time and Pupil Membership Reporting Errors Resulted in a Net Overpayment of \$1,836 to the District</u></p> <ol style="list-style-type: none"> 1. Familiarize employees with DE instructions and implement procedures to ensure data is reported accurately. 2. Review reports submitted to DE subsequent to the years audited and submit revised reports if errors are found. 3. DE should adjust the District's future allocations to recover the net overpayment. 	<p>Background:</p> <p>Our prior audit of instructional time summaries and of resident and district-operated vocational education membership reports submitted to DE for the 2005-06, 2003-04 and 2002-03 school years found errors, resulting in a net overpayment of \$1,836. No errors were found in data reported for the 2004-05 school year.</p>	<p>Current Status:</p> <p>Additional pupil membership errors were found during the current audit. However, the errors did not result in a significant over or under payment of subsidies; therefore, we have not included a finding in our current report. It should be noted that the fieldwork completion date was February 29, 2008. Therefore, any corrective action initiated by the District could not have been implemented until the 2008-09 school year. We will review their corrective action during our next audit.</p> <p>The \$1,836 net overpayment is the difference between the \$2,656 instructional time overpayment and the \$820 vocational education subsidy (VES) underpayment.</p> <p>In June of 2009, DE withheld \$2,610 from the District's basic education funding to correct the overpayment. The \$46 difference between the amount of the instructional time finding and the amount DE withheld was due to a rounding of the adjustment factor and an adjustment to the average daily membership for the 2003-04 school year.</p> <p>As of July 20, 2010 DE had not adjusted the District's allocation to correct the \$820 VES underpayment. We again recommend DE make the necessary adjustment.</p>
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<p><u>III. Finding No. 3: Student Activity Fund Accounts Lacked Formal Student Organization</u></p> <ol style="list-style-type: none"> 1. Require the administration to ensure that a formal student organization controls each account operating within the student activity fund. 	<p>Background:</p> <p>Our prior audit of the high school student activity fund records for the 2006-07 school year found that 37 of 41 accounts operated without the benefit of by-laws, and 20 operated without the benefit of student officers.</p>	<p>Current Status:</p> <p>Our current audit found that all accounts operating within the high school student activity fund during the 2009-10 school year are controlled by a formal student organization. Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this finding.</p>
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<p><u>IV. Finding No. 4: Nonresident Membership Reporting Error Resulted in an Underpayment of Tuition for Children Placed in Private Homes</u></p> <ol style="list-style-type: none"> 1. Implement procedures to ensure students placed in private homes are properly classified. 2. Review reports submitted to DE subsequent to the years audited and submit revised reports if errors are found. 3. DE should adjust the District's future allocations to resolve the \$2,536 underpayment resulting from the 2005-06 nonresident membership reporting error. 	<p>Background:</p> <p>Our prior audit of pupil membership reports submitted to DE for the 2002-03 through 2005-06 school years found that District personnel understated elementary nonresident membership in the 2005-06 school year, resulting in an underpayment of \$2,536 in tuition for children placed in private homes.</p>	<p>Current Status:</p> <p>Our current audit of pupil membership for the school years 2007-08 and 2006-07 found all students placed in private homes were properly classified. Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address this finding.</p> <p>In June of 2009, DE paid the District \$2,536 to resolve the underpayment resulting from the 2005-06 reporting error.</p>
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Distribution List

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

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

The Honorable Thomas E. Gluck
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