

BRADFORD AREA SCHOOL DISTRICT
MCKEAN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2011

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

Mr. Timothy Bean, Board President
Bradford Area School District
150 Lorana Avenue
P.O. Box 375
Bradford, Pennsylvania 16701

Dear Governor Corbett and Mr. Bean:

We conducted a performance audit of the Bradford Area School District (BASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 3, 2007 through July 9, 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 BASD 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. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with BASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

March 4, 2011

cc: **BRADFORD AREA 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 Bradford Area School District (BASD). 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 BASD in response to our prior audit recommendations.

Our audit scope covered the period December 3, 2007 through July 9, 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 BASD encompasses approximately 250 square miles. According to 2000 federal census data it serves a resident population of 21,772. According to District officials, in school year 2007-08 the BASD provided basic educational services to 2,932 pupils through the employment of 220 teachers, 144 full-time and part-time support personnel, and 20 administrators. Lastly, the BASD received more than \$18.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BASD 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.

Finding: Errors in Reporting Nonpublic Pupils Transported Resulted in Overpayments of \$72,765. Our audit of the pupil transportation data submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found errors (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the BASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the BASD had not taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation data reported to DE (see page 8).

We found that BASD did take corrective actions to address our recommendations regarding unmonitored vendor system access and logical access control weaknesses (see page 9).



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 December 3, 2007 through July 9, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2007 through April 23, 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 BASD'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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

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.

BASD 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 professional employee certification.
- Items such as Board meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2008, we reviewed the BASD's response to DE dated January 12, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Nonpublic Pupils Transported Resulted in Overpayments of \$72,765

Criteria relevant to the finding:

Section 2509.3 of the Public School Code provides for payments of account of transportation of nonpublic school pupils. It states, in part, that each school district, regardless of classification, shall be paid by the Commonwealth for the 2001-02 school year, and every school year thereafter, the sum of three hundred eighty-five dollars (\$385) for each nonpublic school pupil transported.

Our audit of the District's pupil transportation data found that the District incorrectly reported to the Department of Education (DE) the number of nonpublic pupils transported for both the 2007-08 and 2006-07 school years, resulting in overpayments in nonpublic transportation reimbursement of \$31,570 and \$41,195, respectively.

District personnel incorrectly reported pupils transported to a private licensed academic school as reimbursable nonpublic pupils. In addition, pupils at a nonpublic school who were given an assigned seat on a bus but who never rode the bus were incorrectly reported for reimbursement. DE instructions and guidelines and the Public School Code clearly state that the additional subsidy is only for nonpublic pupils who are actually transported.

The errors were caused by District personnel's misinterpretation of DE's guidelines and instructions.

We have provided DE with a report detailing the errors for use in recalculating the District's nonpublic transportation reimbursement.

Recommendations

The *Bradford Area School District* should:

Review transportation reports submitted to DE for years subsequent to the audit, and if similar errors are found, submit revised reports to DE.

The *Department of Education* should:

Recover the reimbursement overpayments of \$72,765.

Management Response

Management stated the following:

We feel the finding should be reduced to \$58,135. The Learning Center [private licensed academic school] has been in our District since 1984. The instructions for PDE-2089 [Summary of Pupils Transported] state non-public school pupils are children whose parents are paying tuition for them to attend a private school. Neither the PDE auditors, the Bradford Area School District nor the Learning Center were aware they were not classified as a non-public but a licensed private school. We believe since this practice has not been questioned by the Pennsylvania Auditor General's Office for the past 26 years we should not be cited now. We will not include these students for the 2008-09 school year and beyond.

Secondly, PDE directs the manner in which a District verifies that a student has ridden a school vehicle at least once during the school year should be based upon the District policy. Bradford Area School District has confirmed ridership with the non-public schools.

Any denial of subsidies for lack of documentation should apply to all school districts and should not be the decision of individual auditors.

Auditor Conclusion

Reporting nonpublic pupils incorrectly has been documented in our previous ten audit reports for the Bradford Area School District, covering a period of 20 years.

A copy of this audit report and details of the errors has been provided to DE, which will ultimately determine if the overpayments will be recovered as we recommend.

Regarding ridership for the pupils at the nonpublic school, we have based our audit counts on information supplied to us during our audit fieldwork by the nonpublic school.

Status of Prior Audit Findings and Observations

Our prior audit of the Bradford Area School District (BASD) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to the reporting of pupil transportation data and the observation pertained to unmonitored vendor system access and logical access control weaknesses. 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 BASD 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 BASD did not implement recommendations related to pupil transportation. We found BASD did take corrective action regarding vendor access and logical access control weaknesses.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Continued Errors in Reporting of Pupil Transportation Data</i></u></p> <ol style="list-style-type: none"> 1. Require the new firm that now operates the transportation department to obtain and retain adequate backup documentation. 2. DE should adjust the District’s future allocations to correct the reimbursement underpayment. 	<p>Background:</p> <p>Our prior audit of the District’s pupil transportation reimbursement applications for the 2005-06 and the 2004-05 school years found inaccuracies. Additionally, proper documentation was not retained to adequately verify the number of pupils transported that were classified as nonreimbursable. These errors resulted in underpayments of \$6,085 in public transportation reimbursement and \$17,325 in nonpublic transportation reimbursement for the 2005-06 school year.</p> <p>For the 2004-05 school year, the amount paid one contractor was overstated by \$9,655. Additionally, the District’s former transportation director did not retain adequate back-up documentation to properly verify the pupil transportation data reported to DE.</p>	<p>Current Status:</p> <p>Our current audit of the District transportation reports again found errors in the reported number of nonpublic pupils transported (see the finding beginning on page 6).</p> <p>Based on the results of our current audit, we concluded the BASD corrected all inaccuracies noted in the prior report, with the exception of the reporting of nonpublic pupils.</p> <p>As of July 11, 2010, DE had not yet corrected the net underpayment of \$13,755.</p>

<i>II. Observation:</i>	Background:	Current Status:
<p><u>Unmonitored Vendor System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of Central Susquehanna Intermediate Unit #16 (CSIU) and employee remote access and activity on the District's 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. 2. Require CSIU to assign unique userIDs and passwords to CSIU employees authorized to access the District's system. Further, the District should obtain a list of CSIU employees with remote access to its data and ensure that changes to the data are made only authorized CSIU representatives. 3. Store back-up tapes in a secure off-site location. 4. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have CSIU sign this 	<p>The BASD uses software purchased from the CSIU for its critical student accounting applications (membership and attendance). CSIU has remote access into the District's network servers.</p> <p>During our prior audit we determined that a risk existed 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 was adequately monitoring all CSIU activity in its system.</p>	<p>During our current audit we found that the District revised its information technology policies and procedures to have better controls over student accounting data.</p> <p>As a result of our current audit, we concluded the District did take appropriate corrective action to address this observation.</p>

<p>policy, or require CSIU to sign the District's Acceptable Use Policy (AUP).</p> <p>5. Include provisions for authentication (e.g., password and syntax requirements) in the AUP.</p> <p>6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>7. Implement a security policy and system parameter settings to require all users, including CSIU, to change 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 lock out users after three unsuccessful attempts.</p> <p>8. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.</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.auditorgen.state.pa.us, and the following:

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