

BROWNSVILLE AREA SCHOOL DISTRICT
FAYETTE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2010

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

Mr. R. W. Brashear, Board President
Brownsville Area School District
1025 Lewis Street
Brownsville, Pennsylvania 15417

Dear Governor Rendell and Mr. Brashear:

We conducted a performance audit of the Brownsville Area School District (BASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 28, 2006 through June 19, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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 seven findings noted in this report. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings, observations 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 and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 4, 2010

cc: **BROWNSVILLE 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 Brownsville 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 February 28, 2006 through June 19, 2009, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The BASD encompasses approximately 57 square miles. According to 2000 federal census data, it serves a resident population of 15,097. According to District officials, in school year 2005-06 the BASD provided basic educational services to 1,977 pupils through the employment of 141 teachers, 88 full-time and part-time support personnel, and nine administrators. Lastly, the BASD received more than \$15 million in state funding in school year 2005-06.

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; however, as noted below, we identified seven compliance-related matters reported as findings and two matters unrelated to compliance that are reported as an observation.

Finding 1: District Reports Deficit Fund Balances for Fiscal Years Ended June 30, 2006, 2007 and 2008.

Our audit of the BASD's budgets, annual financial reports and financial records from the 2001-02 school year to the 2007-08 school year found a deterioration of the BASD's financial position (see page 6).

Finding 2: Certification Deficiencies. Our audit of the BASD's professional employees certification found that two individuals have been assigned to positions for which they are not properly certified (see page 11).

Finding 3: Possible Improper Retirement Contributions Reporting.

Our audit of the BASD's administrative personnel payroll records and quarterly retirement contributions for the 2005-06 and 2004-05 school years found the reporting of questionable wages for the former superintendent (see page 11).

Finding 4: Continued Lack of Documentation Necessary to Verify Bus Drivers' Qualifications. Our audit of current bus driver qualifications found a lack of the documentation necessary to determine whether its bus drivers possessed the minimum qualifications required for employment (see page 13).

Finding 5: Internal Control Weaknesses and a Lack of Documentation Supporting Pupil Membership. Our audit of pupil membership records and reports submitted to the Department of Education (DE) for the 2005-06 school year found internal control weaknesses and a lack of documentation supporting pupil membership reporting (see page 15).

Finding 6: Lack of Documentation Supporting Pupil Transportation Reimbursement of \$1,317,591. Our audit of pupil transportation records and reports submitted to DE for the 2005-06 school year found a lack of transportation documentation supporting reimbursements of \$1,317,591 (see page 17).

Finding 7: Continued Lack of Internal Controls Over Student Activity Fund Practices. Our audit of the current student activity fund practices found weaknesses in processing activity fund disbursements and receipts (see page 20).

Observation 1: Memorandum of Understanding Not Updated Timely. Our audit of the Memorandum of Understanding between the Brownsville Area School and the Pennsylvania State Police was last updated on July 26, 2001. It should be updated every two years (see page 22).

Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. The BASD uses software purchased from an outside vendor for its critical student accounting applications. The vendor has remote access into the BASD's network servers. Weaknesses were noted in the controls needed to reduce unauthorized changes to the BASD's data (see page 23).

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 2003-04 and 2002-03 school years, we found the BASD did take appropriate corrective action in implementing our recommendations pertaining to the finding regarding board members failing to file Statements of Financial Interests (see page 27). However, the BASD did not take appropriate corrective action in implementing our recommendations pertaining to the lack of documentation needed to verify bus driver qualifications (see page 28) and internal control weaknesses in administrative policies regarding bus driver qualifications (see page 29). Additionally, for the past two audit reports the BASD had not taken appropriate action regarding certification deficiencies (see page 28) and student activity funds controls (see page 29).

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 28, 2006 through June 19, 2009, except for the verification of professional employee certification which was performed for the period October 1, 2005 through February 28, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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

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?

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.

- ✓ 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, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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 January 2, 2007, we reviewed the BASD's response to the DE dated August 17, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

District Reports Deficit Fund Balances for Fiscal Years Ended June 30, 2006, 2007 and 2008

Our audit of the District's annual financial reports, local auditor's reports (LAR) and general fund budgets for fiscal years ended June 30, 2005, 2006, 2007 and 2008 found a deteriorating financial condition which resulted in general fund deficits for the last three years, as shown in the following schedule:

Criteria relevant to the finding:

Section 24 PS 6-631, provides, in part:

The board of school directors in any school district may, in any year, create and incur an indebtedness against such school district and issue bonds to secure same, payable as provided by the Act of July 12, 1972 (Act 185), known as the "Local Government Unit Debt Act," or any amendment or re-enactment thereof, for any or all of the following purposes:

- (1) To purchase or acquire proper sites, buildings or grounds for school use, or any lands additional to any existing school sites or grounds;
- (2) To erect, enlarge, equip or furnish any building for school use;
- (3) To repair, remodel, or rebuild any building of the school district;
- (3.1) To lease for an extended period building facilities or portions of existing building facilities altered for school use.
- (4) To purchase school buses;
- (5) To pay any indebtedness incurred by any municipality for or on account of the school district or for school purposes, and required by this act to be assumed by the school district;

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Beginning Fund Balance</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Ending Fund Balance</u>
2004	-	-	-	1,273,584
2005	1,273,584	21,674,636	21,894,033	1,054,187
2006	1,054,187	21,882,270	23,236,774	(300,317)
2007	(300,317)	22,654,460	22,604,475	(250,332)
2008	(250,332)	22,494,164	23,651,984	(1,408,152)

Factors that led to the District's financial deterioration include:

- Deficits in cafeteria operations;
- Improper use of capital projects fund for general operating expenditures;
- Deficit spending; and
- Overestimation of local tax revenue.

The combination of these factors contributed to a drastic depletion of the District's fund balance. A tax anticipation note was required to keep the District financially solvent at the end of the 2007-08 school year.

- (6) To pay any refund of taxes decreed by an order of the court;
- (7) To refund certain bonds, as hereinafter provided;
- (8) To fund floating indebtedness incurred for current expenses and debt services;
- (9) To fund temporary indebtedness incurred for permanent improvements, or in anticipation of proceeds from a bond issue;
- (10) To purchase or acquire buildings for school use.

Public School Code Section 24 PS 6-609, provides:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Section 148-2(e)(1)(2) of the Internal Revenue Code, provides, in part:

During temporary periods set forth in this paragraph (e), the proceeds and replacement proceeds of an issue may be invested in higher yielding investments without causing bonds in the issue to be arbitrage bonds.

The net sale proceeds and investment proceeds of an issue reasonably expected to be allocated to expenditures for capital projects qualify for a temporary period of 3 years beginning on the issue date.

Deficits in Cafeteria Operations

2004-05

In school year 2004-05, the District changed from an in-house cafeteria program to a contracted cafeteria program. The food service fund has experienced an operating loss for each of the years since the contracted program was implemented. For the four year period covering 2004-05 through 2007-08 the District experienced a total loss in the cafeteria operations of \$558,074.

As of June 19, 2009, the District's general fund had loaned \$550,630 to the food service program.

It should be noted that on June 29, 2009, the board of school directors voted to return to an in-house food service program.

Improper use of Capital Projects Fund for General Operating Expenditures

On October 20, 2005, the Board approved a construction bond, Series of 2005, for the purpose of building a new elementary school. Due to cash flow problems in the 2005-06 school year, the District's General Fund received "temporary loans" from the Capital Projects fund. Monies in Capital Projects Funds are to be used for capital improvements only. Using the Capital Projects Fund monies for general fund expenditures violates the Public School Code (PSC).

Additionally, failure to use the construction bond for its intended purpose within three years could expose the District to a federal arbitrage violation.

Deficit Spending

The District had a positive general fund balance for the year ending June 30, 2005, of \$1,054,187; however, by the end of the 2007-08 school year, the general fund balance had deteriorated to a deficit balance of \$1,408,152.

Criteria relevant to the finding:

Pennsylvania PSC Section 24 PS 6-691 (6) states in pertinent part:

(a) A school district shall be deemed to be distressed when . . .

(6) The school district has accumulated and has operated with a deficit equal to two per centum (2%) or more of the assessed valuation of the taxable, real estate within the district for two successive years.

The District has permitted expenditures to exceed revenues for four of the last six years which violates the requirements of the PSC. Deficit spending has contributed to its deteriorating financial condition.

Overestimation of Local Tax Revenue

2007-08, 2006-07 and 2005-06

The District failed to take into consideration historical collection rates when determining tax revenue budget estimates.

The District overestimated local tax revenue by estimating collection rates of 90 percent and 86 percent for the 2005-06 and 2006-07 school years when actual collection rates were only 83 percent for both years. A more realistic estimated rate of 81 percent was used for 2007-08 school year when the actual collection rate was 84 percent.

The District's taxable assessed value as shown on the three annual financial reports differed from the taxable assessed value shown on the three budgets. As a result, the actual taxes levied on the budget differed from the taxes levied. District personnel overestimated the rate of collection instead of considering historical collection rates when determining tax revenue budget estimates.

Additionally, the District estimated earned income tax revenue at over \$700,000 for each of the last three years; actual earned income tax collections averaged \$600,000.

2006-07

Lastly, the LAR for the 2006-07 school year noted that although the budget for the school year reflected an available fund balance of \$636,798, the actual beginning fund balance was a deficit \$300,316.

Future considerations

The District's deficit for the year ending June 30, 2008, reflects .47 percent of the District's fund balance as compared to the taxable assessed value. This percentage is out of compliance with the amount required by the PSC. If the District's deficit continues to be equal to 2 percent or more of the assessed valuation of the taxable real estate within the district for another successive year, then the district could be deemed a distressed district by the Department of Education (DE).

Summary

Cafeteria cost overruns, improper borrowing from the Capital Projects Fund and failure to prepare a balanced budget based upon realistic revenue projections has resulted in the District's deficit financial situation.

Recommendations

The *Brownsville Area School District* should:

1. Develop cafeteria food pricing and cost reduction to ensure that the cafeteria program can be self-sustaining.
2. Examine proposed budgets carefully for unrealistic increases/decreases in budgeted revenue and expenditures.
3. Adopt budgets which more accurately estimate the beginning general fund balances in order to project the true financial condition of the District.
4. Provide for a systematic reduction of the general fund deficit.
5. Prepare realistic budgets based on historical data and verifiable revenue projections.
6. Reimburse the Capital Projects Fund and cease using the fund for general operating expenditures.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 2

Criteria relevant to the finding:

Section 1202 of the PSC provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certified to teach.

Section 1212 of the PSC provides, in part:

Every district superintendent shall keep an accurate record of valid certificates held by teachers of the school within his jurisdiction.

Section 2518 mandates:

. . . has in its employ any person in a position that is subject to the certification requirements of the Department Education but who has not been certified for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio . . .

Certification Deficiencies

Our audit of professional employees' certification for the period October 1, 2005 through February 28, 2009, found two deficiencies.

One counselor held a position for the 2005-06 school year and the first eight months of the 2006-07 school year with a lapsed Education Specialist I certificate. The appropriate Education Specialist II certification was obtained on May 1, 2007.

One teacher held a position for the second semester of the 2006-07 school year with a lapsed Instructional I certificate. The appropriate certificate was obtained on July 1, 2007.

The Department of the Auditor General does not determine certification deficiencies. Information pertaining to the deficiencies was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), DE, for its review. On June 12, 2009, BSLTQ determined that the individuals were not properly certified, and the District will be subject to a subsidy forfeiture of \$1,386 for the 2005-06 school year and \$1,916 for the 2006-07 school year.

It should be noted that professional employee certification has been the topic of findings for the past two audit reports. A lack of internal control over the tracking of teacher certification requirements caused the deficiencies.

Recommendations

The *Brownsville Area School District* should:

Implement internal controls to ensure appropriate tracking of all employees who are employed on a provisional, non-permanent certificate.

The *Department of Education* should:

Recover any subsidy forfeiture that may be levied.

Management Response

Management stated the following:

The district is researching and will purchase a software program to maintain proper tracking.

Finding No. 3 →

Possible Improper Retirement Contributions Reporting

Criteria relevant to the finding:

Public School Employers' Retirement Board's Regulations, 22 PA Code, Section 211.2,

defines compensation, stating that compensation excludes:
... any bonus, severance payment or other remuneration or similar emoluments received by a school employee during his school service not based on the standard salary schedule for which he is rendering service. . . .

Additionally, regulations list as **Unqualified Payment**, any payment made by the employer to a non-salary reduction Internal Revenue Code (403b) tax sheltered annuity.

Our audit of the District's administrative personnel payroll records and quarterly contributions for the 2005-06 and 2004-05 school years found annual annuity payments to the former superintendent, which we believe was improperly reported to the Public School Employees' Retirement System (PSERS) for retirement purposes.

The contract for the former superintendent states that (during his employment) the District will annually pay \$12,000 into a tax sheltered annuity (403b). It also stipulated that the annuity payment is separate from the base salary used to calculate the approved 5 percent annual pay increase. In addition, the contract states that both the annuity and the base salary will be reported to PSERS.

We provided PSERS with a report detailing the annuity payment. PSERS will make the final determination of the appropriateness of the reimbursement contributions.

Recommendations

The Public School Employees' Retirement System should:

1. Review the total compensation reported for the former superintendent and render an opinion on the appropriateness of the amount of compensation reported for retirement.
2. If payments are determined to be ineligible for retirement, PSERS should make the necessary corrections to pension benefits and contributions.

If PSERS determines that the amount of compensation reported was improper, the *Brownsville Area School District* should:

3. Implement written procedures that will assist in ensuring that only employee compensation eligible for retirement is reported to PSERS.
4. Review subsequent years' contributions to ensure correct contributions were submitted to PSERS.

If PSERS determines that the amount of compensation reported was improper the *Department of Education* should:

5. For the 2005-06 and 2004-05 school years, for which the District received reimbursement for the Commonwealth's share of the employer's retirement contributions, assess whether the District received an overpayment and make any necessary adjustments.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 4

Continued Lack of Documentation Necessary to Verify Bus Drivers' Qualifications

Criteria relevant to the finding:

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 for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires:

Prospective school employees to submit an official child abuse clearance statement obtained from the Pennsylvania Department of Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Chapter 23, Pupil Transportation regulations provide in part:

23.4 The board of directors of a school district is responsible for all aspects of pupil transportation programs, including the following:

(2) The selection and approval of appropriate vehicles for use in district service and eligible operators who qualify under the law and regulations.

Our audit of current bus driver qualifications for the 2008-09 school year found a lack of documentation needed to verify that all of the District's drivers possessed the minimum required qualifications for employment. District personnel were notified about the lack of documentation on May 6, 2009.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following five requirements:

1. possession of a valid driver's license;
2. completion of school bus driver skills and safety training;
3. passing a physical examination;
4. lack of convictions for certain criminal offenses; and
5. official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation (PennDOT). The fourth and fifth requirements were set by the Public School Code of 1949, as amended (PSC), and CPSL, respectively.

We requested personnel records for random sample of 25 of 52 drivers currently employed by the Brownsville Area School District and the District's transportation contractor.

The District relies solely upon the contractor to obtain information pertaining to the drivers.

When our auditors received the requested documentation we found that the following items were not on file:

- a report of criminal record information for six drivers; and
- valid child abuse clearance statements for four drivers.

Recommendations

The *Brownsville Area School District* should:

1. Immediately disallow the drivers in question from operating District buses until their clearances and criminal record information is on file with the District.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractor to ensure that the District's files are up-to-date and complete.

Management Response

Management stated the following:

The District will establish a policy and procedure of approving the bus drivers list prior to the beginning of each school year and will establish a file for said list.

Auditor Conclusion

While a District procedure approving the bus driver list is a step in the right direction, we again emphasize that the District should take responsibility for ensuring all of its bus drivers are properly credentialed before they are permitted to operate its buses.

Finding No. 5

Criteria relevant to the finding:

24 PS 5-518 states: Every board of school directors shall retain as a permanent record of the district, the minute book, each annual auditor's report, and each annual financial report. All other financial records of the district, including financial account books, orders, bills, contracts, invoices, receipts, and purchase orders shall be retained by the district for a period of not less than six years.

Internal Control Weaknesses and a Lack of Documentation Supporting Pupil Membership

Our audit of pupil membership records and reports submitted to DE for the 2005-06 school year found internal control weaknesses that resulted in a lack of documentation to support pupil membership reports.

Lack of Documentation

Pupil Membership Listings

During the 2005-06 school year, the District began using new pupil membership software. Auditors first attempted to reconcile membership days reported to DE to the membership summary totals generated from the computer program. This comparison noted differences. When the auditors requested the data that supported the totals reported to DE the auditors were informed that the printouts for the individual grade levels were not available and that the system could not generate grade level printouts after the end of the school year. Therefore, if the printouts are not generated and retained at year end then the data could not be re-generated. Therefore, the auditors had no documentation to audit to.

Pupil Membership Records for Children Placed in Private Homes

The auditors made an attempt to audit the 2005-06 school year pupil membership records for children placed in private homes. However, District personnel failed to retain the necessary documentation to support the membership days reported to DE for reimbursement.

Internal Control Weaknesses

The lack of documentation was the result of the District's lack of internal control procedures to ensure that all reports and supporting documentation could be recovered and/or retained for audit purposes.

Recommendations

The *Brownsville Area School District* should:

1. Implement internal control procedures that ensure supporting documentation is retained and available for audit.
2. Require back-up computer document procedures to ensure that necessary supporting documentation is available when necessary.
3. Perform annual comparisons of computer generated membership summaries to the totals generated for the individual grade levels.
4. Obtain and retain all supporting documentation needed to verify the membership days reported for children placed in private homes.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 6

Lack of Documentation Supporting Pupil Transportation Reimbursement of \$1,317,591

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.4 states, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following:

(3) The establishment of routes, schedules and loading zones which comply with laws and regulations . . .

(5) The furnishing of rosters of pupils to be transported on each bus run and trip.

(6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

In addition, Section 518 of the Public School Code, requires retention of these records for a period of not less than six years.

Our audit of pupil transportation records and reports submitted to DE for the 2005-06 school year found a lack of documentation supporting reimbursements of \$1,317,591 for the 2005-06 school year.

Pupil Rosters

For reimbursement purposes, the District is to report the greatest number of pupils assigned to ride each bus at any one time. For the 2005-06 school year, neither the contractor nor District personnel were able to supply any rosters supporting the greatest number of pupils assigned to ride the bus. As a result, it was not possible to accurately verify the number of assigned pupils reported to DE for reimbursement.

Due to a lack of pupil roster supporting documentation, our audit could also not verify if the number of nonreimbursable pupils, the number of pupils transported on approved hazardous walking routes, or the number of nonpublic pupils was accurately reported.

Nonreimbursable pupils are elementary pupils living within one and one half miles of their school or secondary pupils living within two miles of their school who are transported by the District. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over certified hazardous walking routes.

The District receives an additional transportation reimbursement of \$385 for each pupil that is transported to a nonpublic educational entity.

Miles Reported and Bus Route Descriptions/Maps

The bus drivers' mileage report work sheets failed to identify odometer readings between all bus stops, and schools as required by Chapter 23, State Board of Education Regulations.

The District failed to provide board approved detailed bus route descriptions of each bus route, including each trip from start to finish of the run.

The mileage reported was not based on the DE approved methods using either the weighted average method or the sample average method. The bus drivers' mileage work sheets were completed at the beginning of the year and were used to report the miles with and without at the end of the school year.

Any route or mileage changes made during the school year were not reported.

The lack of detailed bus route descriptions, including odometer readings from start to finish of a run, resulted in the auditors not being able to confirm that all routes were reported or that the mileage reported was accurate.

Questionable Year of Manufacture

For the 2005-06 school year, there were 12 vehicles with inaccurate years of manufacture. District personnel were asked several times for the registration cards for these vehicles, but were unable to provide the necessary documentation to the auditors.

Summary

The daily mileage, number of pupils transported, number of nonpublic pupils transported, the number of nonreimbursable pupils transported, the number of hazardous pupils transported, and year of manufacture for each bus are all integral parts of the pupil transportation reimbursement formula. Consequently, this information must be maintained in accordance with the State Board of Education regulations and be accurately reported in accordance with DE guidelines and instructions to ensure that the correct reimbursement is received.

The lack of documentation noted in the audit was the result of District personnel failing to verify or review/retain any of the information supplied by the contractor for the 2005-06 school year.

As a result of District personnel failing to prepare and/or retain support documentation, the auditor was unable to verify that the District received accurate reimbursement for pupil transportation services.

Recommendations

The *Brownsville Area School District* should:

1. Obtain all necessary support documentation from the contractor and perform an internal review to ensure accuracy of vehicle data, daily mileage, pupil counts, the number of nonpublic pupils, the number of non-reimbursable pupils, and the number of hazardous pupils.
2. Prepare and retain complete daily mileage rosters identifying miles with and without pupils for each bus run.
3. Prepare detailed route descriptions and perform yearly verification of all bus drivers, bus routes and mileage to ensure all buses follow board approved bus routes.
4. Ensure summaries are prepared and reviewed to identify all nonpublic pupils that are reported for reimbursement.
5. Ensure summaries are prepared to identify all pupils transported on approved hazardous walking routes.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 7 →

Continued Lack of Internal Controls Over Student Activity Fund Practices

Criteria relevant to the finding:

Section 511 of the Public School Code states in relevant part:

The board of school directors in every school district shall prescribe, adopt and enforce such reasonable rules and regulations as it may deem proper, regarding (1) the management, supervision, control or prohibition of . . . activities related to the school program, including raising and disbursing of funds for any or all such purposes and for scholarships and (2) the organization, management, supervision, control, financing or prohibition of organizations, clubs, societies and groups of the members of any class or school . . .

Our audit of the 2007-08 school year student activity fund records found continuing internal control weaknesses. It should be noted that student activities have been the topic of findings in our past two audit reports.

Weak Implementation of Board Policy

On March 16, 2006, the board of school directors approved Board Policy #618 governing student activity funds. The policy states that “All receipts and disbursements shall be conducted in accordance with the administrative procedures.” The District failed to follow up with any administrative procedures. The custodian stated that he has never been provided with any activity fund guidelines or instructions.

Lack of Receipts

The auditor tested 25 percent of the 19 active clubs which resulted in a review of the following five clubs: National Honor Society, Senior Class, Spanish Honor Society, Student Council, and Youth Education Association. 30 of the 42 disbursements tested had missing receipts.

Club Deposits

Testwork also noted that the “deposit” form is completed and signed by only one individual, the advisor. No evidence of student involvement is noted. One deposit for the Senior Class had a \$1,000 revision without evidence of dual control. Additionally, one deposit slip showed a \$126.50 difference between the bank’s deposit receipt and the deposit receipt completed by the club’s advisor.

Without proper dual controls over the processing of club receipts the validity of the deposits being made could be questioned. Dual control is the process where two personnel verify accuracy of the cash and checks noted on a deposit slip to ensure that the deposit slip is completed correctly.

Negative Balances

Three of the 19 activity fund clubs had negative balances.

Student activity operations should be a learning process for the students. Good business practice prohibits accounts operating with negative balances. The operation of student activity clubs with negative balances teaches poor business practice.

Recommendations

The *Brownsville Area School District* should:

1. Comply with board policy by developing administrative procedures that govern the disbursements and receipts of student activity funds.
2. Ensure that all disbursements require receipts.
3. Ensure that evidence of student involvement in deposits is required for dual control.
4. Close all accounts with negative balances.

Management Response

Management stated that the high school principal has developed an internal control procedure to maintain the student activity funds.

Observation No. 1 →

Memorandum of Understanding Not Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code:

All school entities shall develop a memorandum of understanding with local enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

The Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons. Section VI, General Provisions item (B) states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be viewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added)

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police was signed July 26, 2001, and has not been updated.

The failure to update MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

On March 9, 2009, the new administration re-executed the MOU with the Pennsylvania State Police.

Recommendations

The Brownsville Area School District should:

Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

The MOU for the articulation agreement with the State Police was signed and approved on March 9, 2009.

Observation No. 2

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 systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Brownsville Area 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 they are adequately monitoring all vendor activity in their system. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes is increased.

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 audit, we found the District had the following weaknesses over vendor access to the District’s system:

1. Does not have on file a legally executed contract, the copy provided was not signed by the vendor. It should be noted that the company has since been sold, which, lacking a signed contract, calls to question the responsibilities of the new company toward the District and the enforcement of such.
2. Does not have evidence they are 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 in order to determine

which data the vendor may have altered or which vendor employees accessed their system.

3. Does not perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.
4. The vendor has unlimited remote access (24 hours a day/7 days a week) into the District's system. The District does not have a list of vendor employees with "change" access to membership and attendance data.
5. The contract with the vendor did not contain a non-disclosure agreement for the District's proprietary information.
6. Does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
7. Does not require written authorization prior to the updating/upgrading of key applications.
8. 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.
9. Acceptable Use Policy does not include provisions for authentication (e.g., password security and syntax requirements) and privacy (monitoring of electronic mail, access to files).
10. Does not have any current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
11. 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., approximately ten passwords); and to lock out users after three unsuccessful attempts.

Recommendations

The *Brownsville Area School District* should:

1. Obtain a signed and legally executed contract with the vendor who purchased the software company.
2. Generate monitoring reports (including firewall logs) of the vendor and employee remote 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.
3. Perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.
4. Only allow remote access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives
5. Ensure that the contract with the vendor should contain a non-disclosure agreement for the District's proprietary information.
6. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
7. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.

8. Establish separate IT 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.
9. Ensure that the Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements) and privacy (monitoring of electronic mail, access to files).
10. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
11. 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 lock out users after three unsuccessful attempts.

Management Response

Management stated the following:

The District is developing an on-line E-mail request for remote access for updates, repairs etc.

Auditor Conclusion

While developing such a request system is a step in the right direction, it will not address all of our recommendations made in the observation. We encourage the District to look carefully at each individual recommendation and develop a corrective action step to address it.

Status of Prior Audit Findings and Observations

Our prior audit of the Brownsville Area School District (BASD) for the school years 2003-04 and 2002-03 resulted in four findings and one observation reported as shown in the following table. 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 implement recommendations related to Statements of Financial Interests and the observation regarding bus driver qualifications, but did not implement recommendations for the remaining findings.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Board Members Failed to File Statements of Financial Interests According to Provisions of the Public Official and Employee Ethics Act</i></u></p> <p>1. Seek the advice of its solicitor in regard to the board’s responsibility when an elected board member fails to file Statements of Financial Interests.</p> <p>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</p>	<p>Background:</p> <p>Our prior audit of the calendar years ending December 31, 2003 and December 31, 2004 found Statements of Financial Interests were missing for one board member in 2003 and four board members in 2004.</p>	<p>Current Status:</p> <p>Our current audit of the calendar years 2006 and 2007 found all board members filed the Statements of Financial Interests.</p> <p>Based on the results of our audit, we determined that the District did take the necessary corrective actions to adhere to our recommendations.</p> <p>In a letter dated January 9, 2007, the State Ethics Commission conducted a compliance audit of the calendar years 2002, 2003, 2004 and 2005. This audit resulted in the State Ethics Commission obtaining Statements of Financial Interests from 13 deficient filers.</p>

<p><u>II. Finding 2: Lack of Documentation Necessary to Verify Bus Driver Qualifications</u></p> <ol style="list-style-type: none"> 1. Immediately obtain from the transportation contractor the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications. 2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students. 3. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractor to ensure that the District's files are up-to-date and complete. 	<p>Background:</p> <p>Our prior audit of driver qualifications for the 2005-06 school year tested a sample of 25 of the 49 drivers who provided transportation to the BASD. Of the 25 tested, seven did not possess the minimum qualifications for employment.</p> <p>Additionally, the District did not have the driver files in the District offices rather they relied solely on the contractor to obtain the information pertaining to the drivers.</p>	<p>Current Status:</p> <p>Our current audit found that bus driver qualifications are the topic of a finding in the current report. (See Finding No. 4, page 13).</p> <p>Based on the audit of the 2008-09 school year operations we determined that the District did not take the necessary corrective actions to adhere to our recommendations.</p>
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<p><u>III. Finding No. 3: Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Ensure procedures are in place to ensure the professional employees are properly certified for their assignments. 2. DE should adjust the District's allocations to recover the subsidy forfeitures of \$1,244 for the 2004-05 and 2003-04 school years. 	<p>Background:</p> <p>Our prior audit of the certification period January 23, 2004 through October 31, 2005, found that a home and school visitor was not properly certified for the position.</p> <p>On June 22, 2006, the Bureau formerly known as Bureau of Teacher Certification and Preparation notified the BASD that the employee assigned as the home school visitor was not properly certified.</p> <p>The subsidy forfeiture of \$1,244 was deducted from the District's allocations on June 30, 2007.</p>	<p>Current Status:</p> <p>Certification is a topic of a finding in the current audit report (see Finding No. 2, page 10).</p> <p>Based on the audit of the professional employees certification and assignment we determined that the District did not take the necessary corrective actions to adhere to our recommendations.</p>
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<p><u>IV. Finding 4: Lack of Internal Controls Over Student Activity Funds</u></p> <p>We again recommended the board:</p> <ol style="list-style-type: none"> 1. Develop and adopt a board policy on student activity funds that addresses the day-to-day operations. 2. Implement procedures to ensure student groups are formally organized and are operating in accordance with the board's intent. 3. Develop written procedures to ensure that negative balances are not permitted to occur in student activity fund accounts. 	<p>Background:</p> <p>Weak internal controls over student activity funds have been the topic of findings in the past two audit reports.</p> <p>Our prior audit tested controls over the 2004-05 school year and determined that the deficiencies noted in the audit of the 2002-03 school year still remained. Those deficiencies included: lack of board policy, lack of student officers' signatures on warrants, and negative balances.</p>	<p>Current Status:</p> <p>Our current audit found that for the third audit cycle, student activity fund internal control weaknesses are the topic of a finding (see Finding No. 7, page 20).</p> <p>Based on the audit of the 2007-08 school year student activity fund operations, we determined that the District did not take the necessary corrective actions to adhere to all of our recommendations.</p>
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<p><u>V. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Driver Qualifications</u></p> <ol style="list-style-type: none"> 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 contractor have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure that the District is notified when current employees of the 	<p>Background</p> <p>Our prior audit of bus driver qualifications found that neither the District nor the transportation contractors had 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.</p>	<p>Current Status</p> <p>Our current audit found that on August 16, 2007, the board of school directors approved Policy #810.2 with appropriate language regarding current bus drivers who may be 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>Based on the audit of the driver qualifications, we determined that the District did take the necessary corrective actions to adhere to our recommendations.</p>
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<p>District's transportation contractors are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.</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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