

COCALICO SCHOOL DISTRICT
LANCASTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Allen L. Dissinger, Board President
Cocalico School District
Fourth Street, P.O. Box 800
Denver, Pennsylvania 17517

Dear Governor Rendell and Mr. Dissinger:

We conducted a performance audit of the Cocalico School District (CSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 5, 2007 through June 11, 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, 2008, 2007, 2006 and 2005. 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 CSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 25, 2010

cc: **COCALICO 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 Cocalico School District (CSD). 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 CSD in response to our prior audit recommendations.

Our audit scope covered the period January 5, 2007 through June 11, 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 2007-08, 2006-07, 2005-06 and 2004-05.

District Background

The CSD encompasses approximately 50 square miles. According to 2008 local census data, it serves a resident population of 21,095. According to District officials, in school year 2007-08 the CSD provided basic educational services to 3,454 pupils through the employment of 253 teachers, 190 full-time and part-time support personnel, and 23 administrators. Lastly, the CSD received more than \$11.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. There are no findings or observations reported.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the CSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the CSD had taken appropriate corrective action in implementing our recommendations pertaining to failure to file Statements of Financial Interests (see page 6), unmonitored vendor system access and logical access control weaknesses (see page 7), and internal control weaknesses in administrative policies regarding bus drivers' qualifications (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 January 5, 2007 through June 11, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 CSD'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:

- ✓ 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 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.

CSD 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.

Our audit examined the following:

- Records pertaining to bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 27, 2007, we reviewed the CSD's response to DE dated December 17, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Cocalico School District (CSD) for the school years 2003-04 and 2002-03 resulted in two reported findings and one reported observation. The first finding pertained to the failure of certain board members to file their Statements of Financial Interests, the second finding pertained to unmonitored vendor system access and logical access control weaknesses related to the student accounting computer applications, and the observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. 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 CSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the CSD did implement recommendations related to board members' failure to file Statements of Financial Interests, unmonitored vendor system access and logical access control weaknesses, and internal control weaknesses regarding bus drivers' qualifications.

<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 No. 1: Board Members Failed to File Statements of Financial Interests</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District's solicitor in regard to the board's responsibility when a board member fails to file Statements of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act. 	<p>Background:</p> <p>Our prior audit of the CSD's records found two former board members failed to file their Statements of Financial Interests for the 2005 calendar year and one former board member failed to file a statement for the 2003 calendar year.</p>	<p>Current Status:</p> <p>Our current audit found that the CSD implemented our recommendations and all board members' Statements of Financial Interests were on file for the 2008, 2007 and 2006 calendar years.</p>

<p><u>II. Finding No. 2:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports of the vendor and employee 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 also ensure they are maintaining evidence to support this monitoring and review. 2. Include in the contract with the vendor a non-disclosure agreement for the District's proprietary information. 3. Establish separate information technology 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 Acceptable Use Policy. 4. Include in the District's Acceptable Use Policy provisions for authentication (i.e. password security and syntax requirements). Further, all employees should be required to sign this policy. 	<p>Background:</p> <p>Our prior audit found that the CSD used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the vendor's software, were maintained on another vendor's servers which were physically located at the second vendor's data center.</p> <p>We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not adequately monitoring vendor activity in its system. Further, the District did not perform formal, documented reconciliations between manual and computerized records for membership and attendance.</p>	<p>Current Status:</p> <p>Our current audit found that CSD purchased its own child accounting software and no longer uses the services of the outside vendor noted in our prior audit. Since outside vendors no longer have unmonitored access to the District's data, the recommendations contained in our prior audit are no longer applicable.</p>
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<p>5. For contracts with information technology vendors, the District's legal counsel should consider how to protect the District's interests in the event that errors or fraud occur as a result of vendor employees accessing the District's data.</p> <p>6. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>7. 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). Password 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), lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e. 60 minutes maximum).</p>		
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<p><u>III. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' 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 contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure the District is notified when current employees of the 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>Background:</p> <p>Our prior audit found that neither the District nor three of the District's transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were 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. We considered the lack of written policies and procedures to be an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.</p>	<p>Current Status:</p> <p>Our current audit found that CSD complied with our recommendations by including in its transportation contracts language requiring the contractor to notify the school board if any of its drivers have been charged with or convicted of crimes that, even though not disqualifying under state law, affect the driver's suitability to have direct contact with children.</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:

The Honorable Edward G. Rendell
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Harrisburg, PA 17126

The Honorable Robert M. McCord
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Senator Andrew Dinniman
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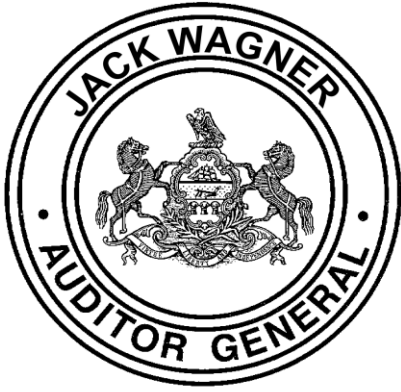
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