

COUDERSPORT AREA SCHOOL DISTRICT  
POTTER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010



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

Mr. Joseph Lagrue, Board President  
Coudersport Area School District  
698 Dwight Street  
Coudersport, Pennsylvania 16915

Dear Governor Rendell and Mr. Lagrue:

We conducted a performance audit of the Coudersport Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 18, 2007 through February 12, 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 CASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

September 20, 2010

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

## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding – Certification Deficiency .....	6
Observation – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications .....	7
Status of Prior Audit Findings and Observations .....	9
Distribution List .....	15



## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Coudersport Area School District (CASD). 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 CASD in response to our prior audit recommendations.

Our audit scope covered the period December 18, 2007 through February 12, 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 CASD encompasses approximately 214 square miles. According to 2000 federal census data, it serves a resident population of 5,892. According to District officials, in school year 2007-08 the CASD provided basic educational services to 892 pupils through the employment of 69 teachers, 35 full-time and part-time support personnel, and 11 administrators. Lastly, the CASD received more than \$5.6 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

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

**Finding: Certification Deficiency.** One professional employee was employed with a lapsed certificate (see page 6).

### **Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

Neither the CASD nor the transportation contractor have yet implemented written policies or procedures, as recommended in our prior audit, to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses (see page 7).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the CASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CASD had taken appropriate corrective action in implementing our recommendations pertaining to tuition billing (see page 9), failure to properly execute or update its Memorandum of Understanding with its local law enforcement agency (see page 10), and unmonitored vendor system access and logical access control weaknesses (see page 10). We found the CASD had not taken appropriate corrective action in

implementing our recommendations pertaining to certification (see page 9), and internal control weaknesses regarding bus drivers' qualifications (see page 13).



## Audit Scope, Objectives, and Methodology

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### 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 18, 2007 through February 12, 2010, except for the verification of professional employee certification which was performed for the period November 1, 2007 through January 11, 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 the Department of Education 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 CASD'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**

*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.

*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.

CASD 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 and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 23, 2009, we performed audit procedures targeting the previously reported matters.

## Finding and Observation

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### Finding

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*Criteria relevant to the finding:*

Section 1202 of the Public School Code (PSC) provides, in part:

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

Section 2518 of the PSC provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated 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 Deficiency

Our audit of Coudersport Area School District's (CASD) professional employees' certificates and assignments for the period November 1, 2007 through January 11, 2010, found that one professional employee was employed with a lapsed certificate for the 2008-09 school year and for three months of the 2009-10 school year. Information pertaining to the assignment in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education (DE), for its review. In a letter dated March 19, 2010, BSLTQ confirmed the deficiency.

CASD is therefore subject to a subsidy forfeiture of \$2,441 for the 2008-09 school year. The subsidy forfeiture for the 2009-10 school year could not be calculated since the aid ratio necessary to determine the subsidy forfeiture was unavailable at the time of audit.

The deficiency occurred because District personnel failed to track years of service for nonpermanent certified professional employees.

### Recommendations

The *Coudersport Area School District* should:

Assign an individual to track years of service to ensure all certificates are made permanent before the provisional certificates expire.

The *Department of Education* should:

Adjust the CASD's allocations to recover the appropriate subsidy forfeiture.

### Management Response

Management stated it agreed with our finding and made no further comment at the time of our audit.

**Observation** →

**Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

*Criteria relevant to the observation:*

PSC Section 111 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 of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our current audit found that the CASD failed to implement recommendations made during our prior audits regarding bus drivers' qualifications. We made our recommendations in the interest of the protection of students, and here reiterate our recommendations.

The ultimate purpose of the requirements of the PSC and CPSL cited in the box to the left is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 of the PSC but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider reviewing the criminal history and child abuse reports for current drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Our audit of the personnel records of all bus drivers currently employed by the CASD and its independent contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and the CASD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the CASD from hiring any of the drivers. Therefore, we concluded that the CASD has satisfied the minimum legal requirements set forth in both the PSC and the CPSL. Additionally, there were no serious crimes identified or other information that called into question the applicant's suitability to have direct contact with children.

However, neither the District nor the transportation contractor have yet implemented written policies or procedures, as we recommended in prior audits, 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. This lack of written policies and procedures is 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.

Prior management disagreed with this observation in the past, and therefore did not implement our recommendations.

**Recommendations**

The *Coudersport Area School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District and the District's independent 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 that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to have direct contact with children.

**Management Response**

Management stated it agreed with the observation and made no further comment at the time of our audit.

## Status of Prior Audit Findings and Observations

Our prior audit of the Coudersport Area School District (CASD) for the school years 2005-06 and 2004-05 resulted in three reported findings and two observations, 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 performed audit procedures and questioned District personnel regarding the prior findings. As shown below, we found that the CASD did implement recommendations related to tuition billing, updating the Memorandum of Understanding (MOU), and unmonitored system access and logical access control weaknesses. The CASD did not implement our recommendations related to certification and bus drivers' qualifications.

<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 No. 1: Certification Deficiency</i></u></p> <ol style="list-style-type: none"> <li>Assign individuals to professional positions only after required certification is received.</li> <li>The Department of Education (DE) should adjust the District's allocations to recover the subsidy forfeitures of \$2,055.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that one professional employee was employed without possessing proper certification for four months in the 2005-06 school year and three months in the 2006-07 school year.</p>	<p><b>Current Status:</b></p> <p>Our current audit found one professional employee was employed with a lapsed certificate, as noted in the finding in the current report (see page 6).</p> <p>Based on the results of our current audit, we concluded the CASD did not take appropriate corrective action to address this finding.</p> <p>DE adjusted the District's December 2009 basic education funding payment to assess the subsidy forfeitures of \$2,055.</p>
<p><u><i>II. Finding No. 2: Failure to Recover Tuition Totaling \$2,219</i></u></p> <ol style="list-style-type: none"> <li>Strengthen controls to ensure tuition is billed in accordance with the requirements of the Public School Code.</li> <li>Bill the Austin Area School District (AASD) to recover the tuition due.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the District failed to bill AASD for 53 days of membership for a nonresident pupil attending CASD. As a result of the error, the CASD failed to recover tuition totaling \$2,219.</p>	<p><b>Current Status:</b></p> <p>Our current audit did not find any errors in the billing of nonresident tuition.</p> <p>CASD had failed to bill AASD but did so during our current audit, and AASD subsequently paid the tuition.</p> <p>Based on the results of our current audit, we concluded</p>

		the CASD did take appropriate corrective action to address this finding.
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<p><u>III. Finding No. 3:</u> <u>Memorandum of Understanding Not Properly Executed or Updated</u></p> <ol style="list-style-type: none"> <li>1. In consultation with the District’s solicitor, update and re-execute the current MOU between the District and the local law enforcement agency.</li> <li>2. Adopt a policy requiring the administration to review and re-execute the MOU every two years and retain a signed and dated copy in the District files.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District’s records found that the current MOU between the District and the local law enforcement agency on file at the District was not signed and dated.</p>	<p><b>Current Status:</b></p> <p>During our current audit we found that the District obtained a signed and dated MOU with the local law enforcement agency. We concluded the District did take appropriate corrective action to address this finding.</p>
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<p><u>IV. Observation No. 1:</u> <u>Unmonitored Vendor System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> <li>1. Generate monitoring reports (including firewall logs) of Central Susquehanna Intermediate Unit #16 (CSIU) and employee remote access and activity on its 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</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the District uses software purchased from CSIU for its critical student accounting applications (membership and attendance). CSIU has remote access into the District’s network servers. We determined that a risk existed that unauthorized changes to the District’s data could occur and not be detected due to unmonitored vendor access and logical access control weaknesses.</p>	<p><b>Current Status:</b></p> <p>During our current audit, we found that the District revised its information technology (IT) policies and procedures to have better controls over their 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>
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<p>should also ensure it is maintaining evidence to support this monitoring and review.</p> <ol style="list-style-type: none"><li>2. Adopt compensating controls to mitigate IT control weaknesses that would allow the District to detect unauthorized changes to the membership database in a timely manner.</li><li>3. Require CSIU to assign unique userIDs and passwords to CSIU employees authorized to access the District 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 by authorized CSIU representatives.</li><li>4. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.</li><li>5. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</li><li>6. Establish separate IT policies and procedures for controlling the activities of vendor/consultants and have CSIU sign this policy, or require CSIU to sign the District's Acceptable Use Policy (AUP).</li></ol>		
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<p>7. Include in the AUP provisions for authentication (e.g., password security and syntax requirements).</p> <p>8. Implement a security policy and system parameter settings to require all users, including CSIU, 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); lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p> <p>9. 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 extinguishers and fire detection equipment in the computer room.</p>		
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<p><u>V. Observation No. 2:</u> <u>Internal Control</u> <u>Weaknesses in</u> <u>Administrative Policies</u> <u>Regarding Bus Drivers'</u> <u>Qualifications</u></p> <p>1. In consultation with the District's solicitor, develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District and the District's independent 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.</p> <p>2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to have direct contact with children.</p>	<p><b>Background:</b></p> <p>During our prior audit of the 2005-06 and 2004-05 school years, we found that neither the District nor the transportation contractor had yet implemented written policies and procedures to ensure that they are notified if current employees have been charged with or convicted of serious crimes, as previously recommended in our audit for the 2003-04 and 2002-03 school years.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the CASD still has not implemented our recommendations, as noted in the observation of the current report (see page 7).</p> <p>Based on the results of our current audit, we concluded the CASD did not take appropriate corrective action to address this observation.</p>
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## **Distribution List**

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

The Honorable Edward G. Rendell  
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The Honorable Robert M. McCord  
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).

