

OTTO-ELDRED SCHOOL DISTRICT
MCKEAN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Mr. A. Joe Bennett, Board President
Otto-Eldred School District
143 Sweitzer Drive
Duke Center, Pennsylvania 16729

Dear Governor Corbett and Mr. Bennett:

We conducted a performance audit of the Otto-Eldred School District (OESD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 4, 2009 through November 24, 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 OESD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

April 13, 2011

cc: **OTTO-ELDRED 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 Otto-Eldred School District (OESD). 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 OESD in response to our prior audit recommendations.

Our audit scope covered the period March 4, 2009 through November 24, 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 OESD encompasses approximately 86 square miles. According to 2000 federal census data, it serves a resident population of 4,493. According to District officials, in school year 2007-08 the OESD provided basic educational services to 741 pupils through the employment of 60 teachers, 35 full-time and part-time support personnel, and 4 administrators. Lastly, the OESD received more than \$7.3 million in state funding in school year.

Audit Conclusion and Results

Our audit found that the OESD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the OESD, we found the OESD had taken appropriate corrective action in implementing our recommendations regarding pupil membership (see page 7), and information technology weaknesses (see page 8).



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 March 4, 2009 through November 24, 2010.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the OESD'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.

OESD 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

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.

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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 23, 2009, we reviewed the OESD's response to DE dated January 12, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Otto-Eldred School District (OESD) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to pupil membership and observation pertained to information technology weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the OESD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the OESD did implement recommendations related to pupil membership and information technology weaknesses.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
Prior Recommendations	Implementation Status	
<p><u><i>I. Finding: Error in Reporting Pupil Membership Data Resulted in an Underpayment of \$7,162</i></u></p> <ol style="list-style-type: none"> 1. Implement procedures to verify the accuracy of membership reports prior to submission to DE to ensure all grade classifications are reported. 2. Review membership reports submitted to DE for years subsequent to the audit, and if errors are found, submit revised reports to DE. 3. DE should adjust the District's allocations to correct the underpayment of \$7,162. 	<p>Background:</p> <p>Our prior audit found that the OESD failed to report the total number of membership days for the four-year old kindergarten program to DE for the 2004-05 school year. The total number of resident membership days was understated by 3,811 days, which resulted in an underpayment of \$7,162 in basic education funding.</p> <p>There were no errors noted in the 2005-06 school year.</p>	<p>Current Status:</p> <p>Our current audit did not find any errors in reporting pupil membership data.</p> <p>Based on the results of our current audit we concluded the OESD did take appropriated corrective action to address this finding.</p> <p>As of November 29, 2010, DE had not adjusted the District's allocations to correct the underpayment. We again recommend that they do so.</p>

<p><u>II. Observation:</u> <u>Unmonitored System</u> <u>Access and Logical Access</u> <u>Control Weaknesses</u></p>	<p>Background:</p>	<p>Current Status:</p>
<ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of Central Susquehanna Intermediate Unit #16 (CSIU) and employee access and activity on the District's system. Monitoring reports should include the date, time, and reason for access, change(s) made, and who made the change(s). Review these reports to determine that the access was appropriate and that data was not improperly altered. Ensure the District is maintaining evidence to support this monitoring and review. 2. Allow access to the system only when CSIU needs to make pre-approved changes/update or requested assistance. This access should be removed when CSIU has completed its work. This procedure would also enable the monitoring of vendor changes. 3. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file. 4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. 5. Develop policies and procedures to require written authorization 	<p>The OESD uses software purchased from CSIU for its critical student accounting applications (membership and attendance). The OESD's student membership and attendance database is maintained on CSIU's servers, which are physically located at CSIU. The OESD has remote access into CSIU's network servers. CSIU also provides OESD with system maintenance and support for this application.</p> <p>Based on our current year procedures, we determined that a risk existed that unauthorized changes to the OESD's data could occur and not be detected because the OESD was unable to provide supporting evidence that it was adequately monitoring all CSIU activity in its student membership and attendance database.</p>	<p>Our current audit did not find any issues with information technology.</p> <p>Based on the results of our current audit, we conclude OESD did take corrective action to address this observation.</p>

<p>when adding, deleting, or changing a userID.</p> <p>6. Make upgrades/updates to the system only after receipt of written authorization from appropriated OESD officials.</p> <p>7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>8. Establish separate information technology policies and procedures for controlling the activities of the vendor/consultants and have CSIU sign this policy, or require CSIU to sign OESD's Acceptable Use Policy.</p> <p>9. Include provisions for authentication (e.g., password syntax requirements) in the Acceptable Use Policy.</p> <p>10. 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). Require passwords to be a minimum length of eight characters and include alpha, numeric, and special characters. Maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and log user off the system after a period of inactivity (i.e., 60 minutes maximum).</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 Tom Corbett
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