

PENNS VALLEY AREA SCHOOL DISTRICT
CENTRE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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

Mr. Salvatore Nicosia Jr., Board President
Penns Valley Area School District
4528 Penns Valley Road
Spring Mills, Pennsylvania 16875

Dear Governor Rendell and Mr. Nicosia:

We conducted a performance audit of the Penns Valley Area School District (PVASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 15, 2007 through February 5, 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 PVASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one 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 PVASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PVASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PVASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 4, 2011

cc: **PENNS VALLEY 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 Penns Valley Area School District (PVASD). 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 PVASD in response to our prior audit recommendations.

Our audit scope covered the period October 15, 2007 through February 5, 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 PVASD encompasses approximately 220 square miles. According to 2009 district tax collection data, it serves a resident population of 11,382. According to District officials, in school year 2007-08 the PVASD provided basic educational services to 1,633 pupils through the employment of 120 teachers, 72 full-time and part-time support personnel, and 10 administrators. Lastly, the PVASD received more than \$8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the PVASD 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: Errors in Reporting Pupil Transportation Data Resulted in a Net Reimbursement Overpayment of \$17,983.

Errors in transportation were due to the PVASD inaccurately reporting mileage, activity runs, the greatest number of pupils transported, and charter school pupils. This resulted in a net transportation reimbursement overpayment of \$17,983 (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

PVASD uses software from the Central Susquehanna Intermediate Unit #16 for its critical student accounting applications. Weaknesses were noted in controls needed to reduce the risk of unauthorized changes to PVASD data (see page 8).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the PVASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PVASD had not taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation (see page 11) and unmonitored vendor system access and logical access control weaknesses (see

page 12). We found that the PVASD had taken appropriate corrective action in implementing our recommendations pertaining to pupil membership (see page 10), Statements of Financial Interests (see page 12), and the Memorandum of Understanding with a local law enforcement agency (see page 15).

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 October 15, 2007 through February 5, 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 PVASD'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 the 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.

PVASD 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 PVASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 23, 2009, we reviewed the PVASD's response to DE dated October 21, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors in Reporting Pupil Transportation Data Resulted in a Net Reimbursement Overpayment of \$17,983

Criteria relevant to the finding:

Section 2541 of the Public School Code states that school districts shall be paid by the Commonwealth for every school year on account of pupil transportation.

Section 2509.3 provides for nonpublic pupil transportation payments.

Daily miles traveled, activity runs, greatest number of pupils transported, and charter school pupil counts are integral parts of the transportation reimbursement calculation. These factors must be reported accurately to DE in order to receive the correct reimbursement.

Our audit of the District's pupil transportation data found discrepancies in reports submitted to the Department of Education (DE) for the 2007-08 school year. The discrepancies resulted in a net reimbursement overpayment of \$17,983.

The discrepancies for the 2007-08 school year were:

- Inaccurately reporting two activity runs for one contractor as "daily runs";
- Failing to report an activity run for one contractor;
- Underreporting charter school pupils transported by seven pupils;
- Overreporting miles with pupils transported for two District-owned vans by .2 daily miles;
- Overreporting miles without pupils transported for two district-owned vans by .2 daily miles; and
- Underreporting the greatest number of pupils transported daily by .7 pupils.

These errors resulted in an overpayment of \$20,678 in public transportation reimbursement and an underpayment of \$2,695 in charter school transportation reimbursement.

These errors were clerical and also caused by a misinterpretation of DE instructions. According to DE instructions, a vehicle used only for an "activity" (late) run, and no other to-and-from school use, should be reported as an additional vehicle, using a .50 trip fraction entry.

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

Recommendations

The *Penns Valley Area School District* should:

1. Continue to provide training for transportation personnel.
2. Accurately report “activity runs” to DE when the vehicle is not used for a “daily run.”
3. Strengthen internal controls to ensure accurate reporting of charter school pupils.
4. Thoroughly reconcile all transportation data for accuracy prior to submission to DE.
5. Review reports submitted subsequent to the audit period and if similar errors are found submit revised reports to DE.

The *Department of Education* should:

6. Adjust future District allocations to correct the net overpayment of \$17,983.

Management Response

Management stated the following:

The errors were due to misinterpretation of DE instructions regarding activity run reporting. District personnel will review all future pupil transportation filings to more accurately account for activity run mileage and vehicle trip fraction.

Findings and Observations

Observation

Unmonitored Vendor System Access and Logical Access Control Weaknesses

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.

The Penns Valley Area School District uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance.) CSIU has remote access into the District’s network servers.

Based on our prior audit (see page 12) and our review of the board’s response to it, we determined that a risk still exists that unauthorized changes to the District’s data could occur and not be detected because 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 funds to which it was entitled from the state.

The District did not implement all of the recommendations from our prior audit, and we restate the recommendations that were not implemented below. The District should implement our prior audit recommendations to the best of its ability, to ensure that unauthorized changes are not made to membership and attendance data and that environmental controls are in place to protect equipment

Recommendations

The *Penns Valley School District* should:

1. 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.

2. Require CSIU to assign userIDs and passwords to vendor 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 vendor representatives.
3. Consider implementing additional environmental controls around the network sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.

Management Response

Management stated the following:

Student attendance data was not being monitored prior to and following software updates to the District's Attendance software. Procedures will be developed by the Network Administrator, Business Manager and Attendance Administrative Assistant by May 30, 2010 to monitor data integrity for future pre and post software updates.

Unique login identifications were not required from the District's software vendor, CSIU, when vendor employees accessed the District's software for on-line system help sessions or other system maintenance. The District's Superintendent will write to CSIU to require unique login identification for the vendor's employees.

Fire alarm and fire suppression equipment were not in place in the District's four (4) server rooms. Smoke alarms and fire extinguishers will be installed in each location by District employees by May 15, 2010.

Status of Prior Audit Findings and Observations

Our prior audit of the Penns Valley Area School District (PVASD) for the school years 2005-06 and 2004-05 resulted in four reported findings and one observation, 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 PVASD 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 PVASD did implement recommendations related to membership errors, violations of the Public Official and Employee Ethics Act (Ethics Act), and the Memorandum of Understanding (MOU), but did not implement recommendations related to transportation data and unmonitored vendor system access and access control weaknesses.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Errors in Reporting Nonresident Pupil Membership Resulted in a Children Placed in Private Homes by the Court Reimbursement Net Overpayment of \$44,174</i></u></p> <ol style="list-style-type: none"> 1. Provide training for new employees. 2. Strengthen internal review controls to ensure accurate reporting of pupil membership. 3. Review reports submitted subsequent to the audit period and if similar errors are found, submit revised reports to DE. 4. DE should adjust the District’s allocations to correct the net overpayment of \$44,174. 	<p>Background:</p> <p>Our prior audit found that pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate. Errors were noted in the reporting of nonresident membership. The inaccuracies resulted in a net overpayment of \$44,174.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years found no significant errors in the reporting of nonresident membership. Based on our current audit we concluded that District did take appropriate corrective action.</p> <p>As of February 19, 2010, DE had not yet adjusted the District’s allocations. We again recommend that DE correct the net overpayment of \$44,174.</p>

<p><u>II. Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Overpayments of \$45,046</u></p> <ol style="list-style-type: none"> 1. Provide training for new employees. 2. Strengthen internal controls to ensure accurate reporting of nonpublic and charter school pupils. 3. Accurately report “activity runs” to DE when the vehicle is not used for a “daily run”. 4. Thoroughly reconcile all transportation data for accuracy prior to submission to DE. 5. Review reports submitted subsequent to the audit period and if similar errors are found, submit revised reports to DE. 6. DE should adjust the District’s allocations to correct the overpayments of \$45,046. 	<p>Background:</p> <p>Our prior audit of the 2005-06 and 2004-05 school years’ transportation reports submitted to DE found that they were inaccurate. Errors were noted in the reporting of activity runs, nonpublic and charter school pupil counts, and mileage. The inaccuracies resulted in overpayments of \$45,046.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years again found errors in the reporting of transportation data (see the current finding, page 6). Based on our current audit we concluded the District did not take appropriate corrective action.</p> <p>As of February 19, 2010, DE had not yet adjusted the District’s allocations. We again recommend that DE correct the overpayments of \$45,046.</p>
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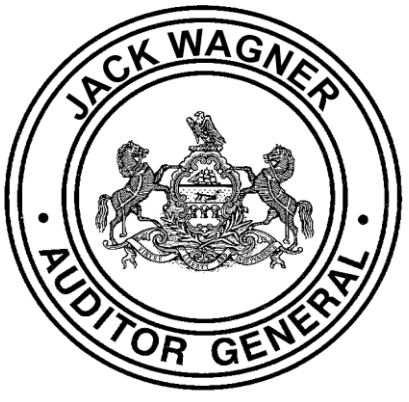
<p><u>III. Finding No. 3: Board Members Failed to File Statements of Financial Interests in Violation of the Ethics Act</u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District’s solicitor in regard to the board’s responsibility when a board member fails to file a Statement of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of District records found that three board members failed to file their Statements of Financial Interests for the year ended December 31, 2006, and two board members failed to file for the year ended December 31, 2005.</p>	<p>Current Status:</p> <p>Our current audit of the Statements of Financial Interests for the years ended December 31, 2008 and 2007 found that all board members had filed.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p>
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<p><u>IV. Finding No. 4: Unmonitored Vendor System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of Central Susquehanna Intermediate Unit #16 (CSIU) and employee remote access and activity on 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. 2. Perform reconciliations between system generated membership and attendance reports and 	<p>Background:</p> <p>Our prior audit found that the PVASD uses software purchased from the CSIU for its critical accounting applications (membership and attendance). CSIU has remote access into the District’s network servers.</p> <p>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.</p>	<p>Current Status:</p> <p>Our current audit found that the District had taken appropriate corrective action for recommendations 1, 4 through 10, and 12, and had not taken appropriate corrective action for recommendations 2, 3 and 11.</p> <p>We concluded that the PVASD did not take complete corrective action for this observation (see the current observation beginning on page 8).</p>
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<p>manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.</p> <p>3. Require CSIU to assign userIDs and passwords to vendor 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 vendor representatives.</p> <p>4. Allow remote access to the system only when CSIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when CSIU has completed its work. This procedure would also enable the monitoring of vendor changes.</p> <p>5. Require the District's Acceptable Use Policy (AUP) to be signed by all District employees.</p> <p>6. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have CSIU sign this policy, or require CSIU to sign the District's AUP.</p> <p>7. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>8. Develop policies and procedures to require</p>		
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<p>written authorization when adding, deleting, or changing a userID.</p> <p>9. Establish policies and procedures to analyze the impact of proposed changes in relation to other business-critical functions.</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). Passwords should be 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>11. Consider implementing additional environmental controls around the network sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.</p> <p>12. Store back-up tapes in a secure off-site location.</p>		
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<p><i>V. Observation: Memorandum of Understanding Not Updated Timely</i></p> <ol style="list-style-type: none">1. Review, update and re-execute the current MOU between the District and the local law enforcement agency.2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.	<p>Background:</p> <p>Our prior audit of the District found that the current MOU between the District and the local law enforcement agency was signed September 21, 1998 and had never been updated.</p>	<p>Current Status:</p> <p>Our current audit found that the MOU was updated on November 14, 2007.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective 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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