

SMETHPORT AREA SCHOOL DISTRICT  
MCKEAN COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 2011



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

Mr. John Verolini, Board President  
Smethport Area School District  
414 South Mechanic Street  
Smethport, Pennsylvania 16749

Dear Governor Corbett and Mr. Verolini:

We conducted a performance audit of the Smethport Area School District (SASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 31, 2008 through September 21, 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 SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, 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 observations and recommendations have been discussed with SASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

March 4, 2011

cc: **SMETHPORT 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
Observation No. 1 – Amount Paid Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance .....	6
Observation No. 2 – Logical Access Control Weaknesses .....	10
Status of Prior Audit Findings and Observations .....	13
Distribution List .....	15



## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period October 31, 2008 through September 21, 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 SASD encompasses approximately 344 square miles. According to 2000 federal census data, it serves a resident population of 6,399. According to District officials, in school year 2007-08 the SASD provided basic educational services to 974 pupils through the employment of 75 teachers, 40 full-time and part-time support personnel, and 7 administrators. Lastly, the SASD received more than \$8.5 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

**Observation No. 1: Amount Paid Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance.** The SASD's contracted pupil transportation costs for the school years ending June 30, 2005 through June 30, 2008, increased substantially more than the rate of inflation (see page 6).

**Observation No. 2: Logical Access Control Weaknesses.** Our review of the District's information technology internal controls found weaknesses (see page 10).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the SASD, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to a pupil transportation reporting error (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 October 31, 2008 through September 21, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2008 through June 30, 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 SASD'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.

SASD 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, 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 SASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 14, 2009, we reviewed the SASD's response to DE dated August 10, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

### Observation No. 1

#### Amount Paid Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance

Our audit of the Smethport Area School District's (SASD) contracted pupil transportation costs for the school years ending June 30, 2005 through June 30, 2008, found that the contracted cost of the District's pupil transportation operation had increased substantially more than the rate of inflation over the four-year period, based on data submitted to the Department of Education (DE) by the District for reimbursement purposes. The amount paid to the District's transportation contractor increased more than DE's inflation adjusted final formula allowance used to determine reimbursement of pupil transportation services.

DE's final formula allowance provides for a per vehicle allowance based on the year of manufacturer of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index. The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District's aid ratio.

The following chart details the fluctuation in contracted cost compared to DE's final formula allowance:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2007-08	\$910,900	\$578,948	\$331,952	57.34
2006-07	874,156	584,764	289,392	49.49
2005-06	846,346	577,409	268,937	46.58
2004-05	821,676	565,188	256,488	45.38

Our review of services provided by the pupil transportation contractor found that over the last four years the number of vehicles used to transport pupils had decreased, the District's total number of pupils transported had increased, and the number of approved annual miles vehicles traveled had decreased more than 10 percent as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2007-08	24	923	269,841
2006-07	27	915	285,313
2005-06	26	881	294,192
2004-05	27	869	302,408

The following chart details the total amount paid all contractors each school year, the maximum cost allowable, the total reimbursement received by the District from DE, and the actual local tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2007-08	\$ 910,900	\$ 578,948	\$ 498,480	\$ 412,420
2006-07	874,156	584,764	496,773	377,383
2005-06	846,346	577,409	515,252	331,094
2004-05	821,676	565,188	500,291	321,385
Total	<u>\$3,453,078</u>	<u>\$2,306,309</u>	<u>\$2,010,796</u>	<u>\$1,442,282</u>

As noted in the chart on page 6, SASD pupil transportation costs as reported to DE were over 57 percent above the state final formula allowance for the 2007-08 school year and over 49 percent above the formula for the 2006-07 school year.

A comparison of the reported amount paid for contracted pupil transportation services to DE's final formula allowances for the twelve other districts in Seneca Highlands Intermediate Unit #9 (SHIU) found the average amount paid to their contractors over DE's final formula allowance for the 2007-08 school year was 19 percent; for the 2006-07 school year the average was 13 percent. Two SHIU districts paid their contractors an average of 9.5 percent less than DE's final formula allowance for the 2006-07 school year, and one district paid 6 percent less for the 2007-08 school year.

A query summary of DE's pupil transportation data found that 509 school districts, intermediate units and area vocational-technical schools in Pennsylvania contracted out their pupil transportation services for the 2007-08 school year. Approximately 15 percent of the local education agencies (LEA) paid their contractors the final formula or less; an additional 24 percent paid less than ten percent over their final formula allowance.

Of the 509 LEAs who reported contracted costs for the 2007-08 school year, approximately 79 percent paid their contractors closer to or less than the state formula than SASD.

During the audit we obtained a copy of the new contract the board approved on June 15, 2010, commencing with 2010-11 school year through the 2011-12 school year. The contract provides a base rate from the 2009-10 school year and an increase of three percent each year. District administrative personnel stated the District's Board of Directors did not seek competitive bids for the pupil transportation services for the contract period. It was agreed they would negotiate with the same local contractor that had been providing excellent service for prior school years.

## **Recommendations**

The *Smethport Area School District* should:

1. Prior to negotiating a new contract, the board and administrative personnel should be cognizant of the state's final formula allowance cost formula.

2. Routinely seek competitive bids for all the pupil transportation services to ensure the most efficient cost.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing that the base rate and increases are in line with DE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

### **Management Response**

Management stated the following:

Rural school districts have more problems in keeping transportation costs near the rate of subsidy offered by the state partially due to the large area that these school districts encompass and the sparse population trends found in rural districts. Smethport Area School District encompasses 344 square miles, yet only transports 900 students. Due to this it is often difficult to maximize state subsidy for the runs. The geographic terrain also prohibits the use of busses in some areas that have roadways that are too narrow, especially in the winter, or do not offer feasible spots in which a full-size bus can turn around. This causes the District to make some runs with few students on vans.

The District will continue to search for ways to maximize capacities on the busses and minimize the mileage traveled empty. The District will also research the possibility of naming additional areas as hazardous, so as to get reimbursement for students living within the 1.5 mile or 2.0 mile limit for elementary and secondary students, respectively that are currently being transported as non-reimbursable.

## 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.

## Logical Access Control Weaknesses

The SASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). When permission is granted by the District, the vendor has remote access into the District’s network servers.

We determined that logical access control weaknesses could lead to unauthorized changes to the District’s membership information.

Best practices in information technology (IT) security include: limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring the system to ensure integrity of key databases and applications; regulating changes to software; restricting physical access; implementing and maintain minimum environmental controls; and planning for contingencies.

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

1. The District does not have a formal contract with its vendor to provide student account applications and related IT services.
2. The District does not have current 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.
3. The District does not have a form giving the vendor written authorization to make program changes.
4. The District does not require written authorization before deleting a userID.
5. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.



## Recommendations

The *Smethport Area School District* should:

1. Develop a formal agreement with the vendor to provide accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Establish separate IT 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.
3. Develop a form that should require the appropriate signatures prior to allowing any remote access and program changes. The form should be detailed to include a date and time for remote access, description of work to be performed, and the vendor employee performing the work.
4. Develop policies and procedures to require written authorization when deleting a userID.
5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

## Management Response

Management stated the following:

No original contract on file with vendor.

Management agrees. Original proposal was followed up with a purchase order. No agreement was signed. Annual maintenance agreements are done by purchase order also.

No current IT policies regarding controlling the activities of vendors or written forms documenting changes that the vendor may make in addressing the support call.

Management agrees. However, only two employees in the District are able to contact the vendor for support. And only one of those employees can give the vendor access to our system. Once that support call has been addressed by the vendor the vendor's access to our system is removed. While the support is being done the support representative remains on the phone with the District.

The global size of the company does not allow for the District to have a select few support people that are used. A support call ticket is assigned by the vendor when placed. Therefore, it would be impossible to get the Acceptable Use Policy signed by all of the vendor's employees working on our support calls. It would be very rare that we would ever get the same support representative helping us with a problem.

Written documentation is not being maintained or approved when a user is added, deleted, changed, or terminates employment.

Management agrees. Accounts are not typically deleted as the District needs to maintain records for compliance purposes. Password changes and access restrictions prevent former employees from accessing any records.

The District is in the process of instituting a ticketing database system that tracks technology requests and can be used to document any account changes providing records of those changes.

## Status of Prior Audit Findings and Observations

Our prior audit of the Smethport Area School District (SASD) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to pupil transportation. 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 SASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the SASD did implement recommendations related to the pupil transportation reporting error.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<b>Implementation Status</b>	
<p><u><i>I. Finding: Error in Reported Pupil Transportation Data Resulted in an Overpayment of \$2,000</i></u></p> <p>1. Review transportation reports submitted to DE for years subsequent to the audit, and if similar errors are found, submit revised reports to DE.</p> <p>2. DE should recover the reimbursement overpayment of \$2,000.</p>	<p><b>Background:</b></p> <p>Our prior audit of the District's pupil transportation records found a discrepancy in the end-of-year report submitted to DE for the 2005-06 school year. The discrepancy resulted in a reimbursement overpayment of \$2,000.</p> <p>District personnel, due to an oversight, reported daily mileage for one vehicle for the entire school year, 180 days, when it only ran for a total of 146 days.</p>	<p><b>Current Status:</b></p> <p>Our current review of transportation data found no errors.</p> <p>Based on the results of our current audit, we concluded the SASD did take appropriate corrective action to address this finding.</p> <p>As of September 21, 2010, DE had not adjusted the District's allocation to correct the reimbursement overpayment.</p>



## **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 Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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