



**IROQUOIS SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. James F. Crotty, Board President
Iroquois School District
800 Tyndall Avenue
Erie, Pennsylvania 16511

Dear Governor Corbett and Mr. Crotty:

We conducted a performance audit of the Iroquois School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 26, 2010 through July 9, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 significant noncompliance with state laws and administrative procedures, as detailed in the three audit findings within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education.

Our audit findings and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

June 24, 2013

cc: **IROQUOIS SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	7
Finding No. 1 – Lack of Internal Controls Found in Pupil Membership Procedures	7
Finding No. 2 – Failure to Have All School Bus Drivers’ Qualifications on File	10
Finding No. 3 – Continuing Internal Control Weaknesses Noted in the Reporting of Transportation Data	13
Status of Prior Audit Findings and Observations	17
Distribution List	21

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Iroquois School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the district in response to our prior audit recommendations.

Our audit scope covered the period March 26, 2010 through July 9, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 2 square miles. According to 2010 federal census data, it serves a resident population of 7,323. According to District officials, the District provided basic educational services to 1,346 pupils through the employment of 95 teachers, 59 full-time and part-time support personnel, and 8 administrators during the 2009-10 school year. Lastly, the District received \$10.4 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings within this report.

Finding No. 1: Lack of Internal Controls Found in Pupil Membership Procedures.

Our audit of the District's pupil membership procedures found internal control weaknesses, and a lack of communication between the District's registration personnel and its child accounting specialist (see page 7).

Finding No. 2: Failure to Have All School Bus Drivers' Qualifications on File.

Our audit of the District's bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of the audit (see page 10).

Finding No. 3: Continuing Internal Control Weaknesses Noted in the Reporting of Transportation Data.

Our audit found that the District had not developed written procedures relating to the verification of transportation information provided by the District's transportation contractor. Our audit noted errors in the reported mileage and pupil counts. In addition, the District inaccurately reported the year of manufacture for seven of the buses used to provide transportation in the 2009-10 school year. The District also inaccurately accounted for fuel usage costs. (see page 13).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the District from an audit released on September 20, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 19). However, the District had not taken appropriate corrective action pertaining to errors in reporting pupil membership for nonresident children placed in private homes (see page 17) and internal control weaknesses and errors in reporting pupil transportation data (see page 18).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania 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 26, 2010 through July 9, 2012, except for the verification of professional employee certification, which was performed for the period January 29, 2010 through June 6, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 Pennsylvania Department of Education (PDE) 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the District's compliance with applicable state laws, 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with applicable laws, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 20, 2010, we reviewed the District's response to PDE regarding our prior findings dated October 19, 2010,

and its response to our prior observation dated April 25, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Lack of Internal Controls Found in Pupil Membership Procedures

Criteria relevant to the finding:

According to the Pennsylvania Department of Education's (PDE) *2009-10 PIMS User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our audit of the Iroquois School District's (District) student registration process found that the personnel initially entered all nonresident students placed in private homes (foster students) into the District's child accounting system as resident students. The residency status of these students was not changed until the District received the necessary court orders and/or placement agency letters. This process increases the likelihood that some foster students could remain improperly categorized in the system as resident students.

For example, our review of the district's registration process also found a lack of communication between the District's registration and child accounting personnel. Specifically, the District's registration staff did not send documentation supporting students' nonresident status to the child accounting specialist, so that he or she could verify that the students' residency status could be verified. As a result, the child accounting specialist could not be sure

State Board of Education
Regulations, 22 Pa. Code
11.11(a)1, provides, in part:

“A school age child is entitled to attend the public schools of the child’s district of residence. A child’s district of residence is that in which the parents or the guardian resides.”

Section 1305(a) of the Public School Code (PSC) provides, in part :

”When a non-resident child is placed in the home of a resident of any school district by order of court or by arrangement with an association, agency, or institution having the care of neglected and dependent children, such resident being compensated for keeping the child, any child of school age so placed shall be entitled to all free school privileges accorded to resident school children of the district”

Section 2503 of the PSC provides, in part:

“Each school district . . . which accepts any non-resident child in its school under the provisions of section one thousand three hundred five . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per high school pupil”

that he or she had correctly reported the end-of-the-year tuition information to PDE. District staff should not enter foster students into the child accounting system until they obtain the necessary supporting documentation to verify the students’ residency status. Likewise, the District’s registration and child accounting personnel need to put internal control procedures in place to ensure that they are properly communicating, and that all child accounting data is verified before it is reported to PDE. These internal controls should include the child accounting specialist’s thorough review of the preliminary child accounting summary reports sent to the District by PDE. That way, the staff can identify errors before PDE makes final subsidy payments.

After our audit, the District’s child accounting specialist contacted the placement agencies to obtain supporting documentation, inclusive of placement time frames, for computation of membership days and tuition reimbursement due to the District for the 2009-10 school year. However, as of July 9, 2012, all of the requested placement information had not been received. Therefore, we were unable to determine the amount of nonresident tuition for foster children due to the District.

Recommendations

The *Iroquois School District* should:

1. Continue to follow-up with the placement agencies to obtain all required documentation to support residency classification of the District’s students.
2. Submit the necessary corrections to PDE for the proper identification of the District’s nonresident foster children for the 2009-10 school year.

3. Develop written procedures to ensure that personnel responsible for pupil registration understand all requirements necessary for proper student registration.
4. Do not enter students into the child accounting system until their residency status has been properly verified.
5. Require child accounting personnel to review the PIMS instruction manual for the proper coding of nonresident students.
6. Ensure that registration personnel immediately forward all nonresident supporting documentation to the child accounting specialists.
7. Require the child accounting specialist to review subsequent years' data to ensure the proper reporting of foster and other nonresident students.
8. Develop an internal control process to ensure that the child accounting specialist effectively reviews PDE's the preliminary child accounting reports.

The *Pennsylvania Department of Education* should:

9. Assist the District in correcting its nonresident foster child reporting errors for the 2009-10 school year.

Management Response

Management stated the following:

“There was confusion with the new PIMS reporting system codes for foster students and the students were incorrectly coded as resident foster students when the system was changed from CAD to PIMS. In order to avoid this in the future, the District will require that all Court documents are presented at the time of student registration and each school office will forward documentation to the Child Accounting Supervisor to ensure that it is complete and that the proper PIMS code has been used for reporting to the Pennsylvania Department of Education.

The District has requested additional documentation from the Office of Children & Youth and will pursue subsidy and/or tuition payments where possible.”

Finding No. 2

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Section 111 of the Public School Code, 24 P.S. § 1-111, 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 for certain criminal offenses that depending on when the offenses occurred, would prohibit the individual from being hired.

Section 111 also requires an Federal Bureau of Investigations fingerprint record check for all employees hired on or after April 1, 2007.

Section 111 further provides that these records be no more than one year old.

In addition, Section 111(b) provides, in part:

“Administrators shall maintain a copy of the required information. Administrators shall require contractors to produce a report of criminal history record information and regulations for each prospective employee of such contractor prior to employment.”

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit 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 a committed child abuse.

Our audit of the Iroquois School District (District) bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of the audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six requirements:

1. Possession of a valid driver's license.
2. Completion of school bus driver skills and safety training.
3. Passing a physical examination.
4. Lack of convictions for certain criminal offenses.
5. Federal criminal history record.
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained further in the box to the left, the fourth and fifth requirements were set by the Public School Code (PSC) of 1949, as amended, and the sixth requirement was set by the Child Protective Services Law.

Our review of the District's school bus driver's personnel records found one bus driver with a Pennsylvania criminal record and child abuse clearance that were older than one year. Furthermore, the Federal Bureau of Investigations fingerprint record check was not on file. Additionally, three drivers did not have federal criminal history reports, as required.

According to District personnel, the District's current transportation contractor reassigns drivers among all of the districts that use its services. As a result, the drivers' dates

of hire at the contractor remains static, but the date that the drivers are approved by the districts can change from time to time if a driver is moved. The contractor uses the date that it hired the driver for the purpose of determining when new clearances were needed.

However, State Board of Education Regulations, 22 Pa Code § 23.4(1), states that district boards of directors are responsible for the selection and approval of bus drivers. The board needs to be assured that they have all pertinent information from the contractor prior to rendering a decision on the employment of each driver, as the safety of the District's students is of paramount importance. Accordingly, they should ensure that drivers' criminal history records and child abuse clearances are no more than one year old at the time they are approved to begin driving for the District.

On May 24, 2012, we informed District management of the missing documentation and instructed them to obtain the necessary documents, so that they can prove that the drivers were still properly qualified to have direct contact with children. As of the end of our audit fieldwork, July 19, 2012, management had not provided us with the information, and we therefore could not verify that the drivers were properly qualified.

Moreover, our review of the board-approved Transportation Policy No. 810 found that the board had delegated responsibility for evaluation of driver clearances to the contractor, in contradiction to the Public School Code, which specifically places this responsibility with the District.

Recommendations

The *Iroquois School District* should:

1. Require the contractor to obtain new clearances for the driver cited in our finding whose clearances were more than year old, based on the date he or she began working for the District.
2. Review its current bus driver listing and work with its contractor to obtain all required clearances based on when the District's board approved the driver, not when the contractor hired the driver.

3. Review its transportation policy, in conjunction with its solicitor, to determine whether changes are required relating to bus driver clearances, responsibility for review, and age of clearances submitted to the District.

Management Response:

Management stated the following:

“The District reviewed all clearances and maintained copies for all drivers who were approved by the Board to work in the District. The District hires an independent contractor to provide student transportation services and this contractor serves three area school districts. This company provides proof of clearances for all drivers assigned to drive for the District. The clearances correspond with the hire date with the contractor and not the assignment date with the District.

The state auditor is maintaining that new clearances must be obtained each time a driver is assigned to drive in the District; the Board approval date is to be treated as the hire date. The District will meet with the contractor to review the new drivers from this audit period forward and request new clearances. The District will also draw the FBI clearance in its Personnel office.”

Finding No. 3

Continuing Internal Control Weaknesses Noted in the Reporting of Transportation Data

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.32(b), provides:

“Claims for reimbursement shall cover allowable district expenditures for approved pupil transportation, during the preceding year.”

Section 518 of the Public School Code requires retention of records for a period of not less than six years.

Instructions for completing the Pennsylvania Department of Education’s End-of Year Pupil Transportation reports state that the local education agency (LEA) must maintain records of miles with pupils (to the nearest tenth), miles without pupils (to the nearest tenth), the greatest number of pupils assigned to each vehicle, and the number of days transported. Additionally, the instructions state that the procedures, information and data used by the LEA should be retained for audit purposes.

Our audit found that Iroquois School District (District) personnel still did not have written procedures for verifying the information provided to them by the District’s transportation contractor. As we recommended in our last audit, this review and verification should have been completed before the District’s staff submitted the data to the Pennsylvania Department of Education (PDE). Without this review, the District’s personnel increase the likelihood that they will submit incomplete or inaccurate data. For example, our audit again found errors in the District’s reported mileage, pupil counts, and charter school pupils transported. All of these inaccuracies could have been caught if the District’s staff established data review procedures.

In addition, we noted that District staff did not obtain the registration cards for the vehicles used to provide pupil transportation during the 2009-10 school year. As a result, District personnel incorrectly reported the year of manufacture for seven buses. Finally, our audit of the District’s fuel purchases found that District personnel had failed to separate the fuel usage costs for to and from school from those for other transportation activities. This distinction is important because PDE only reimburses districts for fuel used to transport students to and from school.

The auditors identified the following errors in the District’s 2009-10 transportation data:

Mileage

Our audit of the 2009-10 subsidy years found that the contractor used twelve buses to provide pupil transportation to the District. Our testing of the data for 3 of the 12 buses again found reporting errors. Discussion with District personnel confirmed that the District’s mileage reports were still prepared by the contractor, and that District staff took no steps to verify them. Because the District’s personnel used the same reporting transportation procedures in the 2008-09 year, the auditors determined that similar errors were likely to have occurred and did not

perform a detailed review of the transportation data for that year.

Pupil Counts

Our audit of the District's monthly reported pupil counts for the 2009-10 school year found that the contractor double-counted the students on one bus and underreported ten students on another bus.

Charter School Pupil Count

Our audit of the District's nonpublic school pupils found that the contractor miscounted the District's charter school pupils because it included four students who were attending another district's high school. These students had formerly attended a charter school, and in fact, had been identified as being improperly classified in our prior audit. However, the District failed to update its student listing so the four students were not removed.

Vehicles with Questionable Year of Manufacture

Year of manufacture is one of the factors included in PDE's formula for calculating a district's transportation subsidy. At the time of our audit, District personnel did not have copies of the vehicle registration cards for the buses that transported the District's students on file and again relied on contractor-provided information for PDE reporting. Our audit identified ten vehicles with questionable manufacture years. Based on our findings, the District requested and received copies of seven of the ten questionable vehicles' registration cards. According to the contractor, the other three buses currently were assigned to other districts in the state. Therefore, the registration cards for those vehicles were not available.

Our audit of these seven registration cards revealed that the District had incorrectly reported the year of manufacture for all seven buses. Although these errors did not impact the District's subsidy reimbursement for the 2009-10 or 2008-09 school years, continued mistakes could impact the District's future subsidies.

Contractor Costs/Fuel Usage Control

Our audit of reported contractors' costs found that the District purchased fuel for the contractor. However, District personnel did not separate the fuel usage costs for to and from school from those for other transportation activities. Districts must track the use of fuel in these two categories because PDE limits fuel cost reimbursement for student transportation to and from school. PDE does not reimburse schools for other transportation activities. District personnel were unaware of this provision and stated that they would review the situation and implement corrective action in the 2011-12 school year.

Summation

Based on our testing, we determined that District personnel had submitted inaccurate transportation information to PDE. As a result, we could not determine whether the District had received the correct state transportation reimbursement. Chapter 23 of the State Board of Education regulations clearly indicates that the reporting of accurate transportation data to PDE is the responsibility of District personnel, not the contractor. As a result, District personnel must establish an internal control process for verifying the transportation information provided by the District's contractor.

Recommendations

The *Iroquois School District* should:

1. Require contractors to provide complete fleet information for board approval, including daily mileages and copies of vehicle registration cards.
2. Develop internal control procedures to ensure that District personnel independently verify contractor mileage and pupil counts.
3. Develop internal control procedures to require District personnel to review contractor-provided monthly route verification reports, including mileage and pupil counts, prior to the submission of this data to PDE.
4. Develop a fuel allocation system by which only fuel costs associated with to-and-from school transportation is reported for PDE reimbursement.

5. Develop a system of internal controls to ensure that all District-prepared transportation reports are reviewed by a second person to ensure that they are accurate prior to submission to PDE.

Management Response

Management stated the following:

“The District currently presents the bus routes and student rosters to the Board annually for approval before the school year begins. For state reporting, the contractor provides the Vehicle Identification Numbers, make and model for each bus to be used each year. The contractor also provides monthly mileage (showing miles with and without students on board) and pupil counts for each bus to be used in year-end reporting. The District reviews this data for reasonableness and follows up with the contractor to resolve discrepancies.

The District will request copies of the vehicle registration cards in the future as verification of the make of each bus for reporting accuracy. The District will also document the internal verification process for a sample of the monthly mileage sheets submitted by the contractor.

The District contracts for diesel fuel and requires odometer readings to be entered when fueling each bus. These are reviewed on monthly invoices. An allocation of fuel costs will be done for the Transportation report to PDE to approximate the cost of fuel for Home-to-School runs only.

Students attending NW PA Collegiate Academy under the Regional Choice Initiative (RCI) were incorrectly reported as Non-Public [charter school] students. The status of this school had changed from Charter School to RCI. This created confusion because these were not traditional public school students, tuition was being paid by the district under RCI. These students were reported correctly for the 2010/2011 school year.”

Status of Prior Audit Findings and Observations

Our prior audit of the Iroquois School District (District) released on September 20, 2010, resulted in two findings and one observation. The first finding pertained to errors in reporting pupil membership for nonresident children placed in private homes (foster children). The second finding pertained to internal controls weaknesses over transportation data, resulting in reporting errors. The observation pertained to unmonitored vendor system access and logical access control 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 District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District did implement recommendations related to unmonitored vendor system access, but did not implement our recommendations related to nonresident children placed in foster homes and transportation.

Auditor General Performance Audit Report Released on September 20, 2010

Finding No. 1: Errors in Reporting Pupil Membership for Nonresident Children Placed in Private Homes Resulted in a Reimbursement Overpayment of \$15,670

Finding Summary: Our prior audit found the District reported two resident students placed in a private home within the District as nonresident foster students. The errors resulted in a reimbursement overpayment of \$15,670.

Recommendations: Our audit finding recommended that the District:

1. Carefully perform an internal audit prior to submission of pupil membership reports to PDE to ensure all students are classified correctly.
2. Review reports for school years subsequent to our audit years for pupil classification accuracy, and revise them, if necessary.

We also recommended that PDE:

3. Amend the District's membership reports and adjust the District's allocations to recover the overpayment of \$15,670.

Current Status: During our current audit, we found that the District did not implement the recommendations. Pupil membership is the topic of another finding in the current report (see Finding No. 1, page 7). As of July 9, 2012, PDE had not yet adjusted the District's subsidy as recommended.

Finding No. 2: Internal Control Weaknesses and Errors in Reporting Pupil Transportation Data

Finding Summary: Our prior audit of the District's pupil transportation data submitted to PDE for the 2007-08 and 2006-07 school years found errors in the District's reporting of miles with and miles without pupils, the greatest number of pupils transported, the number of days transported, the number of nonpublic pupils transported, and the number of charter school pupils transported, resulting in a net overpayment of \$7,242 in transportation subsidy. Our audit identified internal control weaknesses as the cause of these errors.

Recommendations: Our audit finding recommended that the District:

1. Require District personnel to verify that the monthly mileage reports submitted by the contractor are accurate.
2. Update District routes with the Pennsylvania Department of Transportation to ensure that all hazardous routes are properly identified for reimbursement purposes.
3. Conduct an internal review of data to ensure miles with and without pupils, the greatest number of pupils transported, the number of days transported, and the number of nonpublic/charter school pupils are accurately reported to PDE.
4. Review subsequent years' transportation reports and submit any necessary revisions to PDE.

We also recommended that PDE:

5. Adjust the District's transportation subsidy to recover the overpayment of \$7,242.

Current Status: During our current audit, we found that the District implemented one (recommendation No. 2) of the four recommendations made in the prior audit report. Transportation is the topic of another finding in the current audit report (see Finding No. 3, page 13). As of July 9, 2012, PDE had not yet adjusted the District's subsidy as recommended.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor 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 because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our observation recommended that the District:

1. Allow remote access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed work. This procedure would also enable the monitoring of vendor changes.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Ensure that upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
4. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
5. Ensure that the District's Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements) and privacy (monitoring of electronic mail, access to files).
6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
7. Implement a security policy and system parameter settings to require all users, including the vendor, to change 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), and lock out users after three unsuccessful attempts.

Current Status:

During our current audit, we found that the District, utilizing our recommendations as a guideline, did implement procedures to increase security, monitor system access and usage, and detect attempted infiltration of sensitive District electronic data files and reports.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

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

The Honorable William E. Harner
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

