

BELLEFONTE AREA SCHOOL DISTRICT
CENTRE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2012

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

Ms. Becky Rock, Board President
Bellefonte Area School District
318 North Allegheny Street
Bellefonte, Pennsylvania 16823

Dear Governor Corbett and Ms. Rock:

We conducted a performance audit of the Bellefonte Area School District (BASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 13, 2010 through November 30, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 that the BASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

April 25, 2012

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



Table of Contents

| | Page |
|---|------|
| Executive Summary | 1 |
| Audit Scope, Objectives, and Methodology | 3 |
| Findings and Observations | 6 |
| Finding – Errors Noted in the Reporting of Nonresident Pupil Membership | 6 |
| Status of Prior Audit Findings and Observations | 8 |
| Distribution List | 11 |



Executive Summary

Audit Work

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

Our audit scope covered the period May 13, 2010 through November 30, 2011, 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 2009-10 and 2008-09.

District Background

The BASD encompasses approximately 115 square miles. According to 2000 federal census data, it serves a resident population of 21,840. According to District officials, in school year 2009-10 the BASD provided basic educational services to 2,910 pupils through the employment of 239 teachers, 180 full-time and part-time support personnel, and 27 administrators. Lastly, the BASD received more than \$13 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the BASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Errors Noted in the Reporting of Nonresident Pupil Membership. Our audit of nonresident pupil membership for the 2009-10 and 2008-09 school years found discrepancies in reports submitted to the Department of Education. These errors resulted in a subsidy overpayment of \$10,064 to the BASD for the 2008-09 school year. In addition, the errors caused a subsidy underpayment of \$6,466 to the Penns Valley Area School District (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the BASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the BASD had taken appropriate corrective action in implementing five of our recommendations but failed to take appropriate corrective action on four other recommendations pertaining to information technology (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period May 13, 2010 through November 30, 2011, except for the verification of professional employee certification, which was performed for the period July 1, 2011 through November 30, 2011.

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

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 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 BASD'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 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?

- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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?
- ✓ In areas where the District receives transportation subsidies, are 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 are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ 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 does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with Local Law Enforcement?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

BASD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 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.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 1, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors Noted in the Reporting of Nonresident Pupil Membership

Criteria relevant to the finding:

Section 1305 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

Section 2503(c) of the Public School Code provides, in part:

“Each school district, regardless of classification, which accepts any nonresident child in its school under the provisions of section one thousand three hundred and five . . . shall be paid by the Commonwealth and amount equal to the tuition charge per elementary pupil or the tuition charge per high school pupil as the case may be. . . .”

Our audit of nonresident pupil membership for the 2009-10 and 2008-09 school years found discrepancies in reports submitted to the Department of Education (DE). These errors resulted in an overpayment to the Bellefonte Area School District (BASD) of \$10,064 in tuition for children placed in private homes for the 2008-09 school year.

In addition, nonresident reporting errors caused a reimbursement underpayment of \$6,466 to the Penns Valley Area School District (PVASD) for the 2009-10 school year.

For the 2008-09 school year, District personnel inaccurately reported membership days for two nonresident students (34 days elementary and 160 days secondary) as children placed in private homes. Our audit found that the elementary student should have been coded as a district-paid tuition student, and the secondary student should have been coded as a tuition-waiver student.

For the 2009-10 school year, our audit found one nonresident elementary child who was placed in a private home in the PVASD had attended a Life Skills class in the District for 144 days. District personnel incorrectly coded this student as a district-paid tuition student. As a result, the PVSD was not credited for the nonresident membership days and lost \$6,466 in tuition for children placed in private homes.

We have provided DE with a report detailing the errors for use in recalculating the District’s and PVASD’s tuition for children placed in private homes.

Recommendations

The *Bellefonte Area School District* should:

1. Require child accounting personnel to review the registrars’ classification of all nonresident students, as the students enter the District.

2. Review subsequent years' membership reports to ensure appropriate coding of nonresident students.

The *Department of Education* should:

3. Adjust the BASD's and PVASD's allocations to correct the respective overpayment and underpayment.

Management Response

Management provided a response indicating agreement with the finding but making no further comment.

Status of Prior Audit Findings and Observations

Our prior audit of the Bellefonte Area School District (BASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to information technology 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 performed audit procedures and questioned District personnel regarding the prior observation. As shown below, we found that the BASD did implement five recommendations. However, the District failed to implement four of the recommendations pertaining to information technology weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

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

Observation
Summary:

The BASD 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.

Based on our current year procedures, we determined that a risk existed that unauthorized changes to the BASD's data could occur and not be detected because the District was not adequately monitoring vendor activity in its system.

Recommendations: Our audit observation recommended that the BASD:

1. Include in the District's Acceptable Use Policy provisions for authentication (password security and syntax requirements).
2. 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.
3. Develop policies and procedures to require that terminated employees are properly removed from the system in a timely manner.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

5. Implement a security policy and 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 repetitive password (i.e., last ten passwords).
6. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. Assign a person to review the vendor activity log.
8. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
9. Store back-ups in a secure, off-site location.

Current Status:

During our current audit procedures we found that the BASD did implement recommendations 3, 4, 7, 8 and 9. However, the District failed to implement recommendations 1, 2, 5 and 6. We again recommend that BASD implement the remaining recommendations.



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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