

BENTON AREA SCHOOL DISTRICT
COLUMBIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Brandon Hartman, Board President
Benton Area School District
600 Green Acres Road
Benton, Pennsylvania 17814

Dear Governor Corbett and Mr. Hartman:

We conducted a performance audit of the Benton Area School District (BASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 1, 2009 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 one 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

January 31, 2012

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

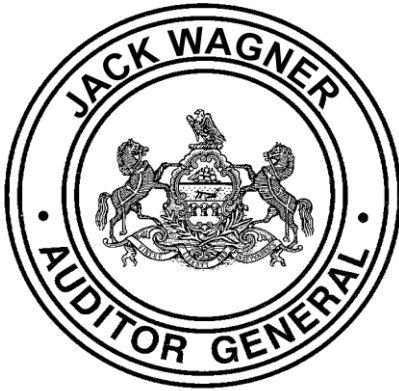


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Benton 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 July 1, 2009 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 97 square miles. According to 2000 federal census data, it serves a resident population of 5,260. According to District officials, in school year 2009-10 the BASD provided basic educational services to 705 pupils through the employment of 70 teachers, 40 full-time and part-time support personnel, and 7 administrators. Lastly, the BASD received more than \$4.6 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; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement. Our audit of the BASD's pupil membership reports submitted to the Department of Education for the 2009-10 school year found reporting errors as well as a lack of internal controls. BASD personnel inaccurately reported membership for children placed in private homes (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 our recommendations pertaining to unmonitored Central Susquehanna Intermediate Unit #16 system access and logical access control weaknesses (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period July 1, 2009 through November 30, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2011 through October 18, 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?
- ✓ 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 (PIMS) is complete, accurate, valid and reliable?
- ✓ Did the District, and any contracted vendors, ensure that its 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 buyout 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?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

BASD management is responsible for establishing and maintaining effective internal controls to provide

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.

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 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 BASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement

Criteria relevant to the finding:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs 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; LEP 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 (FISCAM), 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.

Beginning with the 2009-10 school year, the Department of Education (DE) now bases all local education agencies' 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. PIMS replaces DE's previous reporting system, the Child Accounting Database (CAD), which DE ran concurrently until it brought PIMS completely online. DE no longer accepts child accounting data through the CAD system.

Our audit of the Benton Area School District's (BASD) pupil membership reports submitted to DE for the 2009-10 school year found reporting errors as well as a lack of internal controls. BASD personnel inaccurately reported the membership for children placed in private homes. The lack of internal controls resulted in the BASD failing to reconcile preliminary data reports from DE which resulted in incorrect data being reported on the Final Summary of Child Accounting Membership Report.

Membership days for children placed in private homes were understated 282 days for full time kindergarten and 282 days for elementary. The errors resulted in the BASD being underpaid \$27,584.

The errors were due to BASD personnel failing to report membership for children placed in private homes.

DE has been provided a report detailing the errors for use in recalculating the District's reimbursement.

Criteria relevant to the finding:

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child.

The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Recommendations

The *Benton Area School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
2. Verify that the preliminary reports from DE are correct and if not correct, revise and resubmit child accounting data so that the final reports from DE are correct.

The *Department of Education* should:

3. Revise all reports that have been incorrectly completed and adjust the District reimbursement affected by the error.

Management Response

Management stated the following:

The BASD has developed a process to routinely reconcile between the child accounting membership reporting data and the PIMS data concerning any nonresident students during the course of the school year. If any information is found to be incorrect the PIMS report data will be corrected.

Status of Prior Audit Findings and Observations

Our prior audit of the Benton Area School District (BASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to unmonitored Central Susquehanna Intermediate Unit #16 (CSIU) 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 performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the BASD did implement recommendations related to unmonitored CSIU system access and logical access control weaknesses.

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

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

Observation

Summary: Our prior audit noted that unmonitored CSIU 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.

Recommendations: Our audit observation recommended that the BASD:

1. Require all local education agency employees sign that they agree to abide by the information technology (IT) Security Policy.
2. Establish separate IT policies and procedures for controlling the activities of CSIU and have the CSIU sign this policy, and the District should require the CSIU to sign the District's Acceptable Use Policy.
3. Require written authorization before adding, deleting, or changing a userID.
4. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters, include alpha, numeric and special characters and to maintain a password history (i.e., approximately ten passwords).
5. Require the CSIU to assign unique userIDs and passwords to CSIU employees authorized to access the District system. Further, the

District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized CSIU representatives.

Current Status: During our current audit procedures, we found that the BASD did implement the 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:

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

The Honorable Ronald J. Tomalis
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
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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

