

BIG BEAVER FALLS AREA SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Ms. Cindy Cook, Board President
Big Beaver Falls Area School District
1503 8th Avenue
Beaver Falls, Pennsylvania 15010

Dear Governor Rendell and Ms. Cook:

We conducted a performance audit of the Big Beaver Falls Area School District (BBFASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 13, 2005 through March 12, 2009, 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, 2007, 2006, and 2005. 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 BBFASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, one matter unrelated to compliance is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with BBFASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BBFASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the Big Beaver Falls Area School District's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 11, 2010

cc: **BIG BEAVER FALLS 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 Big Beaver Falls Area School District (BBFASD). 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 BBFASD in response to our prior audit recommendations.

Our audit scope covered the period October 13, 2005 through March 12, 2009, 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, 2006-07, 2005-06 and 2004-05.

District Background

The BBFASD encompasses approximately 22 square miles. According to 2000 federal census data, it serves a resident population of 15,260. According to District officials, in school year 2007-08 the BBFASD provided basic educational services to 2,048 pupils through the employment of 157 teachers, 100 full-time and part-time support personnel, and 11 administrators. Lastly, the BBFASD received more than \$14 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BBFASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Unmonitored Vendor System Access and Logical Access

Control Weaknesses. We determined that a risk exists that unauthorized changes to the BBFASD's data could occur and not be detected because the BBFASD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the BBFASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the BBFASD had taken appropriate corrective action in implementing our recommendations pertaining to errors in pupil transportation data (see page 9), errors in reporting nonresident pupil membership (see page 10), a certification deficiency (see page 10), and purchasing equipment from National School Fitness Foundation (see page 11).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period October 13, 2005 through March 12, 2009, except for:

- The verification of professional employee certification which was performed for the period August 2, 2005 through August 30, 2008.
- The review of outside vendor access to the District's student accounting applications which was completed on October 2, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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

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 BBFASD'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?

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.

- ✓ 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?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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 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, regulations, 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 and conclusions based on our audit objectives.

BBFASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 12, 2006, we reviewed the BBFASD's response to DE dated November 16, 2006. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Big Beaver Falls Area School 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.

Based on our current year procedures, we determined that a risk exists 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 is adequately monitoring all vendor activity in its system. The District does not have evidence to support that it performs formal, documented reconciliations between manual records and computerized records for membership and attendance.

Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

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

1. The District does not require written authorization before adding, deleting, or changing an userID.
2. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
3. The vendor has unlimited access (24 hours a day/7 days a week) into the District’s system.
4. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.

5. The District does not have any compensating controls that would mitigate the information technology (IT) weaknesses and would support that the District would be alerted to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.

Recommendations

The *Big Beaver Falls Area School District* should:

1. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Allow access to its system only when the vendor needs access to make pre-approved changes/updates or provide requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
4. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
5. To mitigate IT control weaknesses, the District should have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Management Response

Management stated the following:

The district has used e-mail in the past to track changes to the local user database. We will now use a form . . . handled by the technology integration specialist that will keep written authorization of any employee terminated or added to our systems. These changes will be initiated by the Superintendent's secretary as staff is added or deleted to the district and recorded in the board minutes.

All changes will be recorded and maintained . . . by our integration specialist as evidence that employees were removed from the system in a timely manner.

The district has created a form . . . that will provide written authorization for any vendor accessing our system and/or making changes to key applications or changing user data. As of these findings, vendors are now only given access upon completion of [the form] and approval from the director of technology. Our requested window of time (1 - 12 hours) will be allotted and will be audited using our [s]erver system.

Access will also be logged and monitored using standard technologies with the RDP [remote desktop protocol] client and using our . . . server that displays any changes made to our systems or databases. Logs from [the server] will be printed and maintained by the integration specialist.

Beginning the 2009-2010 school year the district will now audit and reconcile member databases to check for proper correlation to the current staff list. This will occur twice a year in July and December. Records will be cross checked using a correlation between staff members in the database to the real-time number of staff members each month.

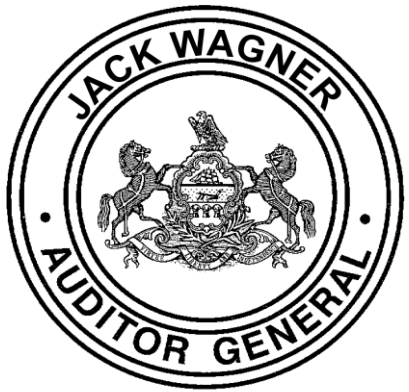
Status of Prior Audit Findings and Observations

Our prior audit of the Big Beaver Falls Area School District (BBFASD) for the school years 2003-04 and 2002-03 resulted in three reported findings and one observation, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the BBFASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the BBFASD did implement our recommendations related to the findings and observation.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Overpayment of \$140,562</i></u></p> <ol style="list-style-type: none"> 1. Require District personnel to conduct an internal review to ensure the accuracy of vehicle data, days of service, daily mileage, pupil counts, the number of nonreimbursable pupils, the number of nonpublic pupils, and the amount paid to contractor, reported to DE. 2. Ensure pupil transportation personnel attend workshops sponsored by DE on pupil transportation reimbursements and instructions for compiling and completing forms for submission to DE. 3. Require District personnel to review subsequent school years' pupil transportation submissions, revise reports if necessary, and resubmit to DE. 	<p>Background:</p> <p>Inaccurate pupil transportation data submitted to DE for the 2003-04 and 2002-03 school years resulted in overpayments of pupil transportation reimbursement.</p>	<p>Current Status:</p> <p>Our current audit found no significant errors in reporting pupil transportation data. We concluded that the District had taken corrective action to address this finding.</p> <p>In October, 2006, DE withheld \$142,439 from the District's allocations to recover the overpayments; DE's calculation included additional adjustments due to changes in data from other districts that affected BBFASD's payments.</p> <p>However, the District subsequently appealed a portion of our prior finding. DE personnel informed us that they support the District's position and will recalculate the adjustment and reimburse the District at a future date.</p>

<p>DE should adjust the District's allocations to recover the reimbursement overpayments of \$140,562.</p>		
<p><u>II. Finding No. 2: Errors in Reporting Nonresident Pupil Membership Data Resulted in Reimbursement Overpayments of \$16,172</u></p> <ol style="list-style-type: none"> 1. Implement procedures to ensure that all nonresident pupils are properly identified and reported to DE. 2. DE should adjust the District's allocations to recover the reimbursement overpayments of \$16,172 	<p>Background:</p> <p>Nonresident pupil membership reports submitted to DE for the 2003-04 and 2002-03 school years were inaccurate, resulting in reimbursement overpayments of \$8,155 and \$8,017, respectively.</p>	<p>Current Status:</p> <p>Our current audit found no errors in reporting nonresident pupil membership.</p> <p>Based on our current audit, we determined the District had taken corrective action to address this finding.</p> <p>DE had yet to recover the overpayments. We again recommend that DE make the adjustment.</p>
<p><u>III. Finding No. 3: Certification irregularity</u></p> <ol style="list-style-type: none"> 1. Ensure understanding and adherence to Bureau of Teacher Certification and Preparation guidelines. 2. DE should adjust the District's allocations to recover the subsidy forfeiture of \$1,639 	<p>Background:</p> <p>Our prior audit found one individual was assigned to an elementary principal position during the 2004-05 school year with a lapsed certificate</p>	<p>Current Status:</p> <p>Our current audit did not find any certification deficiencies.</p> <p>The previously cited individual received proper certification in August 2005.</p> <p>Based on our current audit, we determined the District had taken corrective action to address this finding.</p> <p>In December, 2006, DE adjusted the District's allocations to recover the \$1,639 subsidy forfeiture.</p>

<p><u>IV. Observation: The District Received Less Than Full Reimbursement from the National School Fitness Foundation</u></p> <ol style="list-style-type: none"> 1. Require District administrators to follow Public School Code bidding requirements and the board's bidding policies when making leases/purchases for the District. 2. Exercise caution and due diligence in the future when considering purchases of this nature, particularly when representations are made that the costs would be offset so that acquisition of the program and equipment would be "free." 3. Contact the District's solicitor to ascertain what legal steps may be taken to recover any restitution available to victims. 	<p>Background:</p> <p>On January 16, 2003, the District entered into an agreement with the National School Fitness Foundation (NSFF) for the purchase of exercise equipment. The program cost was to be offset by voluntary contributions from NSFF to the District.</p> <p>The District borrowed \$191,901 from a financial institution to purchase the equipment.</p> <p>As of our prior audit fieldwork completion date of October 13, 2005, the District had paid \$164,136 in principal and interest on the loan. The District had received \$78,367 in voluntary contributions from NSFF to date.</p> <p>On June 1, 2004, NSFF filed for Chapter 11 bankruptcy reorganization protection and fired its president because he was accused of misappropriating \$5 million in NSFF funds.</p>	<p>Current Status:</p> <p>Our current audit found that the District paid off the loan from the financial institution. The District received no further contributions from NSFF. However, the District participated in a class action suit against NSFF; payouts received as a result of the lawsuit totaled approximately \$10,000.</p> <p>No other purchases of this nature were noted during the current audit.</p>
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Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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