

BUTLER AREA SCHOOL DISTRICT
BUTLER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Ms. Linda Patten, Board President
Butler Area School District
110 Campus Lane
Butler, Pennsylvania 16001

Dear Governor Rendell and Ms. Patten:

We conducted a performance audit of the Butler Area School District (BASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 5, 2007 through July 10, 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, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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, regulations, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that 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 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 and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 11, 2010

cc: **BUTLER 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 Butler Area School District (BASD). 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 BASD in response to our prior audit recommendations.

Our audit scope covered the period January 5, 2007 through July 10, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The BASD encompasses approximately 148 square miles. According to 2008 local census data, it serves a resident population of 55,870. According to District officials, in school year 2005-06 the BASD provided basic educational services to 8,280 pupils through the employment of 579 teachers, 333 full-time and part-time support personnel, and 39 administrators. Lastly, the BASD received more than \$34.8 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the BASD 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 BASD's data could occur and not be detected because the BASD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 7).

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 2004-03 and 2003-02 school years, we found the BASD had taken appropriate corrective action in implementing our recommendations pertaining to errors in health services and pupil transportation (see page 10). We found the BASD is in the process of working with the Department of Education to resolve instructional time issues (see page 9).



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 January 5, 2007 through July 10, 2009, except for:

- The verification of professional employee certification which was performed for the period July 1, 2006 to January 31, 2009.
- The review of outside vendor access to the District's student accounting applications which was completed on March 24, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 DE reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the BASD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ 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?
- ✓ 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.

BASD 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.
- 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, January 11, 2008, we reviewed the BASD's response to DE dated March 17, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Unmonitored Vendor System Access and Logical Access Control Weaknesses

What is logical access control?

“Logical Access” control 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.

The Butler Area School District uses software purchased from the Midwestern Intermediate Unit #4 (MIU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the MIU’s servers which are physically located at the MIU. The District has remote access into the MIU’s network servers, with the MIU providing system maintenance and support.

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. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. 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 have the ability to review the firewall logs of activity on the District’s files that are created at the MIU.

2. The MIU has unlimited access (24 hours a day/7 days a week) into the District's system.
3. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the MIU, to use passwords that are a minimum length of eight characters and to log off the system after a period of inactivity (i.e., 60 minutes maximum).

Recommendations

The *Butler Area School District* should:

1. Have the ability to access the firewall logs at the MIU to monitor the activity on the District's files.
2. Allow access to its system only when the MIU needs to make pre-approved changes/updates or requested assistance. This access should be removed when the MIU has completed its work. This procedure would also enable the monitoring of MIU changes.
3. Implement a security policy and system parameter settings to require all users, including the MIU, to use passwords that are a minimum length of eight characters and to log off the system after a period of inactivity (i.e., 60 minutes maximum).

Management Reply

Management stated the following:

We reserve the right to comment until we receive the final report.

Status of Prior Audit Findings and Recommendations

Our prior audit of the Butler Area School District (BASD) for the school years 2003-04 and 2002-03 resulted in three reported findings, 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 BASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the BASD did implement recommendations related to health services and transportation data. The District is working with DE to resolve instructional time issues.

<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 1: Failure to Meet Minimum Instructional Hour Standards Resulted in Overpayments of \$281,886</i></u></p> <ol style="list-style-type: none"> 1. Adjust the daily instructional time for the high school to meet the minimum of 990 hours per school year for grades 11 and 12. 2. Implement a system of review to insure the accuracy of membership reports prior to their submission to DE. 3. Submit revised membership reports to DE for the 2004-05 and 2005-06 years that reflect the actual instructional time provided to grades 11 and 12. 4. DE should adjust the District's allocations to recover the basic education funding (BEF) overpayments of \$281,886. 	<p>Background:</p> <p>Our prior audit of District records for the 2003-04 and 2002-03 school years found that the District failed to provide the required 990 hours of actual instruction for students in grades 11 and 12. As a result, the District was subject to BEF subsidy withholdings of \$138,517 and \$143,369 for the 2004-05 and 2003-04 school years, respectively.</p>	<p>Current Status:</p> <p>The District's solicitor, at the direction of the board, sent letters to the Secretary of Education and the Auditor General dated February 7, 2008, appealing this finding. These letters contained appeals to DE for appropriate administrative proceedings and the opportunity to be heard, prior to any adjustment, loss, or penalty with respect to the finding.</p> <p>DE replied to the District's request in April 2009, and stated that DE staff would work with BASD to gather data so that child accounting data is reported separately for groups of students with differing instructional times. Only those groups that did not meet the minimum required instructional days or hours would be penalized.</p> <p>DE had not contacted the District as of July 10, 2009, the last day of our current audit fieldwork, regarding the final amount of the penalty.</p>

<p><u>I. Finding 2: Errors in Health Services Reimbursement Data Resulted in Underpayment of \$3,600</u></p> <ol style="list-style-type: none"> 1. Review health services reimbursement applications prior to submission to the Department of Health (DH) to ensure the accurate average daily membership (ADM) is reported. 2. DE should adjust the District's allocations to correct the reimbursement underpayment of \$3,600. 	<p>Background:</p> <p>Our prior audit of health services reimbursement data for the 2003-04 school year found that District personnel incorrectly reported ADM to DH, resulting in an underpayment to the District of \$3,600.</p>	<p>Current Status:</p> <p>Our current audit found that the ADM reported on the health services reimbursement applications for the 2004-05 and the 2005-06 school years was correct, and the District received the proper reimbursement.</p> <p>Based on the results of our current audit, we conclude that the District <u>did</u> take appropriate corrective action to address this finding.</p> <p>The District received the underpayment of \$3,600 from DH in May of 2008.</p>
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<p><u>II. Status Finding: Errors in Pupil Transportation Data.</u></p> <ol style="list-style-type: none"> 1. Conduct an internal review to ensure vehicle data is accurately recorded and reported to DE. 2. Perform a review of subsequent years data to ensure the reported information is accurate. 3. DE should adjust the District's future allocations to resolve both the prior years' net underpayment of \$60,661 and the \$39,058 in current underpayments found in our audit. 	<p>Background:</p> <p>Our prior audit of transportation data for the 2003-04 and 2002-03 school years found inaccurate daily miles for 7 and 23 buses, respectively. The errors resulted in respective reimbursement underpayments of \$12,321 and \$26,737, for a total of \$39,058.</p>	<p>Current Status:</p> <p>The District did implement an internal review of vehicle data prior to submission of reports to DE, and no errors were found during our current audit.</p> <p>DE had not adjusted the District's allocations to resolve the underpayments as of the last day of the current audit fieldwork, July 10, 2009. We again recommend that DE do so.</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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