

CORRY AREA SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2010

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

Ms. Peggy Gates, Board President
Corry Area School District
800 East South Street
Corry, Pennsylvania 16407

Dear Governor Rendell and Ms. Gates:

We conducted a performance audit of the Corry Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 21, 2007 through December 2, 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 and June 30, 2007. 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 CASD complied, in all significant respects, with applicable state laws, regulations, 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 CASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

July 1, 2010

cc: **CORRY 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 Corry Area School District (CASD). 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 CASD in response to our prior audit recommendations.

Our audit scope covered the period December 21, 2007 through December 2, 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 and 2006-07.

District Background

The CASD encompasses approximately 214 square miles. According to 2000 federal census data, it serves a resident population of 14,883. According to District officials, in school year 2007-08 the CASD provided basic educational services to 2,448 pupils through the employment of 195 teachers, 116 full-time and part-time support personnel, and 16 administrators. Lastly, the CASD received more than \$18.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding: Certification Deficiency.

Our audit of the professional employees' certification for the period July 1, 2007 through December 2, 2009, found that one professional employee was working on a lapsed certificate. The CASD is therefore subject to a subsidy forfeiture of \$1,472 for the 2008-09 school year (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the CASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CASD had not taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 8). We found that the CASD had taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation reporting (see page 9), board members failing to file Statements of Financial Interests (see page 9), as well as the two observations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 10) and internal control weaknesses regarding bus drivers' qualifications (see page 13).



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 December 21, 2007 through December 2, 2009, except for:

- The verification of professional employee certification which was performed for the period July 1, 2007 through December 2, 2009.
- The review of outside vendor access to the District's student accounting applications which was completed on November 10, 2009.

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

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 CASD'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?
- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ 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.

CASD 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 23, 2009, we reviewed the CASD's response to DE dated October 19, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Public School Code (PSC) Sections relevant to the finding:

Section 1202 of the PSC provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 1212 of the PSC provides, in part:

Every district superintendent shall keep an accurate record of all valid certificates held by the teachers of the schools within his jurisdiction.

Section 2518 of the PSC provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Certification Deficiency

Our audit of the professional employees' certification for the period July 1, 2007 through December 2, 2009, found that one professional employee was working on a lapsed certificate.

Records on file at the District showed one elementary school teacher completed six years on her Instructional One certificate at the end of the 2007-08 school year and did not receive her permanent certificate until August 2009. Although the District had implemented a new tracking of the professional employees, this situation was overlooked.

Information pertaining to the assignments was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education, for its review. On December 13, 2009, BSLTQ determined that the employee's certificate had lapsed, and the District will therefore be subject to a subsidy forfeiture of \$1,472.

Recommendations

The *Corry Area School District* should:

Continue to strengthen the procedures for the tracking of professional employees to ensure that the employees do not instruct under a lapsed certificate.

The *Department of Education* should:

Adjust the District's allocations to recover the subsidy forfeiture.

Management Response

Management stated the following:

Our personnel records indicate that [the employee] began work on 8/27/2002 through the end of the 2002/03 school year as a LTS [Long Term Substitute] at Wright Elementary as a Kindergarten teacher.

She began Full Time employment on 8/25/2003 through the end of the 2003/04 school year to 6/7/2004 as a Kindergarten teacher at Wright Elementary School.

She continued her employment with the district as a KinderStep teacher throughout the 04/05, 05/06, 06/07 and 07/08 school year after completion of six years of employment.

She continued to work the 2008/09 school year beginning 8/25/08 through 6/8/09 with the Level II certification.

Email records dated 2/12/2009 indicate she had not submitted her application to PDE [Pennsylvania Department of Education] as she may have been working on getting her records in order and misplaced it. Her application was actually mailed to PDE on February 27, 2009 and received by PDE on March 2, 2009. She received her Level II certificate from PDE with an effective date of 8/2009.

Status of Prior Audit Findings and Observations

Our prior audit of the Corry Area School District (CASD) for the school years 2005-06 and 2004-05 resulted in three findings and two observations, 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 CASD 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 the District had not taken appropriate corrective action pertaining to certification deficiencies. The District did take appropriate corrective action in implementing our recommendations pertaining to pupil transportation reporting and board members failing to file Statements of Financial Interests, as well as the two observations related to unmonitored vendor system access and logical access control weaknesses and internal control weaknesses regarding bus drivers’ qualifications.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Certification Deficiencies</i></u></p> <ol style="list-style-type: none"> 1. Put procedures in place to ensure that certificates do not lapse. 2. Put procedures in place to compare employees’ certification to the certification requirements of the assignments the District intends to give the employee. 3. Require the employees to obtain proper certification as required for the positions or reassign the individuals to areas in which proper certification are held. 4. DE should adjust the District’s allocations to recover the appropriate subsidy forfeitures. 	<p>Background:</p> <p>Our prior audit of the professional employees’ certification for the period July 1, 2004 through June 30, 2007, found that two professional employees were working on lapsed certificates and one professional employee was not certified for the position he held.</p>	<p>Current Status:</p> <p>Our current audit again found one certification deficiency as detailed in the finding in the current report (see page 6).</p> <p>Based on the results of our current audit, the District <u>did not</u> take appropriate corrective actions to address our recommendation regarding potential lapsed certificates.</p> <p>However, since the prior audit, the District has made overall improvements in the tracking of professional personnel.</p> <p>Furthermore, it should be noted that the professional employees cited in the prior audit have been correctly certified or are no longer in the position they were assigned.</p> <p>On August 19, 2009, subsidy forfeitures totaling \$8,951 were assessed by DE.</p>

<p><u>II. Finding 2: Errors in Pupil Transportation Reporting Resulted in a Net Underpayment of \$8,641</u></p> <ol style="list-style-type: none"> 1. Conduct an internal review of data to ensure daily mileage, pupil counts and the number of nonpublic pupils are accurately reported to DE. 2. Prepare and retain a record of pupils transported to and from school, including a determination of pupil's distances from home to pertinent school bus school loading zones. 3. Review subsequent years' transportation reports and submit any necessary revisions to DE. 4. DE should adjust the District's transportation reimbursement to return the net underpayment of \$8,641 to the District. 	<p>Background:</p> <p>Our prior audit of the District's source documentation supporting its transportation reimbursements for the 2005-06 and 2004-05 school years found errors in the components that make up the transportation formula: miles with and without pupils, the number of non-reimbursable pupils transported; the greatest number of pupils transported, and the number of nonpublic pupils transported.</p>	<p>Current Status:</p> <p>Our current audit of pupil transportation records for the 2007-08 school year found that the weaknesses noted in the prior audit have been corrected.</p> <p>The prior transportation errors were the result of clerical mistakes made by the former transportation coordinator just prior to retirement. The District has since undergone personnel changes and have made the necessary corrections to the reporting process.</p> <p>As of December 2, 2009, the net underpayment was still pending final adjustment by DE.</p> <p>Based on the results of our current audit, the District did take appropriate corrective actions to address this finding.</p>
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<p><u>III. Finding 3: Continued Errors with Board Members Failing to File Statement of Financial Interests Forms</u></p> <ol style="list-style-type: none"> 1. Verify that the policies, put in place in November of 2006 are being practiced to ensure the proper tracking of board members' Statement of Financial Interests filings. 	<p>Background:</p> <p>Our prior audit found that two board members did not file Statements of Financial Interests for the year ending December 31, 2005.</p>	<p>Current Status:</p> <p>Our current audit found that all board members appropriately filed Statements of Financial Interests for the calendar years ending December 31, 2007 and December 31, 2008.</p> <p>Policies placed into effect in November of 2006 were appropriately followed.</p> <p>Based on the results of our current audit, the District did take appropriate corrective action to address this finding.</p>
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<p><u>IV. Observation No. 1:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that the data was not improperly altered. The District should ensure it is maintaining evidence to support this monitoring and review. 2. Require the vendor to assign 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. 3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. 4. Develop policies and procedures to require written authorization when adding, deleting or changing a userID. 	<p>Background:</p> <p>We found that the CASD used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor had remote access into the District's network servers.</p> <p>We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide evidence that it was adequately monitoring vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit of vendor system access and logical access control found that the District did take the necessary corrective action to implement each of our recommendations.</p>
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<p>5. The upgrades/updates to the District's system should be made only after receipt of written authorization from appropriate District officials.</p> <p>6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>7. Establish separate information technology policies and procedures for controlling the activities of vendor/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.</p> <p>8. The District's Acceptable Use Policy should include provisions of privacy (e.g., monitoring of electronic mail, access to files), accountability (e.g., responsibilities of users, auditing, incident handling), authentication (e.g., password security and syntax requirements), and violations/incidents (e.g., what is to be reported and to whom). Further, all employees should be required to sign this policy.</p> <p>9. Implement a security and system parameter settings to require all users, including the vendor, to change their</p>		
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<p>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), lock out users after three unsuccessful attempts and log users off the system after a period on inactivity (i.e., 60 minutes maximum).</p> <p>10. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors in the computer room.</p>		
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<p><u>V. Observation No .2:</u> <u>Internal Control</u> <u>Weaknesses Continue in</u> <u>Administrative Policies</u> <u>Regarding Bus Drivers'</u> <u>Qualifications</u></p> <p>1. Develop and implement a policy that clearly spells out the action that the District will take if a current employee is charged with or convicted of a serious crime.</p>	<p>Background:</p> <p>Our prior audit found that although the District has updated all of its board policies, Transportation Policy No. 810, which was adopted March 19, 2007, still lacked appropriate language regarding what action would be taken if current employees were charged with or convicted of a serious crime that would affect their suitability to come in direct contact with children.</p>	<p>Current Status:</p> <p>Our current audit found that beginning with the July 1, 2008 through June 30, 2011 transportation contract, the District implemented the following language:</p> <p>“Each driver is required to notify the District of any criminal charges and or traffic violations brought against them during the term of this agreement. The District shall be provided a copy of any and all reports.”</p> <p>Based on the results of our audit we determined that the District did take appropriate corrective action to address this observation.</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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