

DANIEL BOONE AREA SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2010

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

Mr. Kevin F. McCullough, Board President
Daniel Boone Area School District
321 North Furnace Street
P.O. Box 490, Suite 200
Birdsboro, Pennsylvania 19508

Dear Governor Rendell and Mr. McCullough:

We conducted a performance audit of the Daniel Boone Area School District (DBASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 14, 2007 through October 16, 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 DBASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the DBASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

March 25, 2010

cc: **DANIEL BOONE AREA SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	5
Status of Prior Audit Findings and Observations	6
Distribution List	11



Executive Summary

Audit Work

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

Our audit scope covered the period March 14, 2007 through October 16, 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

DBASD encompasses approximately 42 square miles. According to August 2009 local census data, it serves a resident population of 20,654. According to District officials, in school year 2007-08 DBASD provided basic educational services to 3,897 pupils through the employment of 276 teachers, 213 full-time and part-time support personnel, and 10 administrators. Lastly, DBASD received more than \$12.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that DBASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to DBASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the DBASD had taken appropriate corrective action in implementing our recommendations pertaining to the transportation reimbursement overpayment of \$161,894 (see page 6), the inaccurate reporting of membership data (see page 7), and the unmonitored vendor system access and logical control access weaknesses (see page 7).



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 March 14, 2007 through October 16, 2009.

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

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 DBASD'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:

- ✓ 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.

DBASD 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.

Our audit examined the following:

- Records pertaining to pupil transportation, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and pupil membership records.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 2, 2007, we reviewed DBASD's response to DE dated February 11, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Daniel Boone Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Daniel Boone Area School District (DBASD) for the school years 2003-04 and 2002-03 resulted in two reported findings and one observation. The first finding pertained to a transportation reimbursement overpayment, the second finding pertained to inaccurate reporting of membership data, and the observation pertained to unmonitored vendor 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 analyzed DBASD 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 DBASD did implement recommendations related to our 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: Transportation Reimbursement Overpayment of \$161,894</i></u></p> <ol style="list-style-type: none"> 1. Establish reconciliation procedures to ensure all bus data is reported accurately to DE on the end-of-year transportation report and accurately processed by DE. 2. Review reports for years subsequent to our audit and, if errors are found, submit revisions to DE. 3. DE should adjust the District’s allocations to recover the reimbursement overpayment of \$161,894. 	<p>Background:</p> <p>Our prior audit of the District’s transportation reports for the 2003-04 and 2002-03 school years found that mileage data was incorrectly reported for two vehicles and DE processed one vehicle’s data incorrectly for the 2002-03 school year. These errors resulted in a transportation reimbursement overpayment of \$161,894.</p>	<p>Current Status:</p> <p>Our current audit found that the District implemented procedures to ensure that data is correctly reported to DE and that reports subsequent to our audit were reviewed and corrections were made where necessary.</p> <p>As of our fieldwork completion date, the overpayment has not been recovered by DE. Therefore, we again recommend that DE adjust the District’s allocations to recover the reimbursement overpayment of \$161,894.</p>

<p><u>II. Finding No. 2:</u> <u>Inaccurate Reporting of Membership Data Resulted in Subsidies and Reimbursement Underpayments of \$11,463</u></p> <ol style="list-style-type: none"> 1. Establish reconciliation procedures to ensure membership days reported to DE agree with the District's internal membership reports. 2. Review DE instructions for reporting nonpublic membership. 3. Review reports for years subsequent to the audit and, if errors are found, submit revisions to DE. 4. DE should correct the subsidy and reimbursement underpayments. 	<p>Background:</p> <p>Our prior audit of the District's pupil membership reports submitted to DE for the 2003-04 and 2002-03 school years found errors in resident and nonpublic membership data for the 2003-04 school year. The errors resulted in basic education funding and special education subsidy underpayments for the 2003-04 school year of \$11,357 and \$106, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that the District implemented reconciliation procedures and reviewed DE instructions for reporting nonpublic membership. However, we could not determine if the prior child accounting clerk reviewed reports subsequent to our prior audit.</p> <p>The District received a basic education funding adjustment of \$11,357 for the 2003-04 school year. Additionally, the District received adjustments of \$3,906, \$3,909, and \$3,909 for the school years of 2004-05, 2005-06, and 2006-07, respectively.</p> <p>This occurred because basic education funding payments are based, in part, on prior years' payments.</p> <p>The adjustments for the special education portion have been marked as closed by DE.</p>
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<p><u>III. Observation:</u> <u>Unmonitored Vendor System Access and Logical 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 data was not improperly 	<p>Background:</p> <p>Our prior audit found that the District used software purchased from the Berks County Intermediate Unit #14 (BCIU) for its student accounting applications. We determined that a risk existed 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 was adequately monitoring all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit found that the District has taken appropriate corrective action as follows:</p> <ol style="list-style-type: none"> 1. The District generates monitoring reports (including firewall logs) of the vendor and employee remote access and activity on the system. Logs are monitored daily. 2. The District has an Acceptable Use Policy which the vendor is required to sign. 3. The contract with the vendor contains a
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<p>altered. The District should also ensure it is maintaining evidence to support this monitoring and review.</p> <p>2. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's own Acceptable Use Policy.</p> <p>3. Include in the contract with the vendor a non-disclosure agreement for the District's proprietary information.</p> <p>4. For contracts with information technology vendors, the District's legal counsel should consider how to protect the District's interests in the event that errors or fraud occur as a result of vendor employees accessing the District's data.</p> <p>5. Include in the District's Acceptable Use Policy provisions for authentication (e.g., password security and syntax requirements), and all employees should be required to sign the policy.</p> <p>6. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e.,</p>		<p>non-disclosure agreement.</p> <p>4. The contract with the vendor is reviewed by legal counsel when necessary.</p> <p>5. Employees abide by the BCIU's security policy and are required to sign the District's Acceptable Use Policy.</p> <p>6. The District follows the security policy as set forth by the BCIU, which includes changing passwords on a regular basis, setting minimum length and complexity requirements for passwords and maintaining a password history.</p>
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<p>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).</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:

The Honorable Edward G. Rendell
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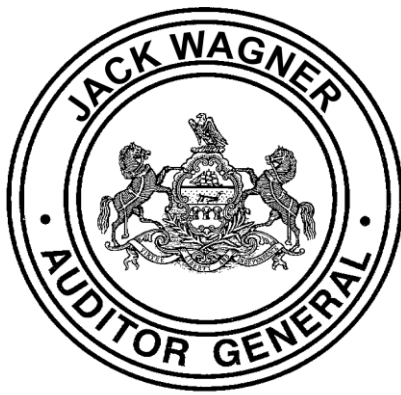
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