

FRANKLIN AREA SCHOOL DISTRICT  
VENANGO COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2011



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

Mr. Brian Spaid, Board President  
Franklin Area School District  
417 Thirteenth Street  
Franklin, Pennsylvania 16323

Dear Governor Corbett and Mr. Spaid:

We conducted a performance audit of the Franklin Area School District (FASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 23, 2008 through October 15, 2010, 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 FASD 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. In addition, 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 finding, observation and recommendations have been discussed with FASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve FASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the FASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

January 24, 2011

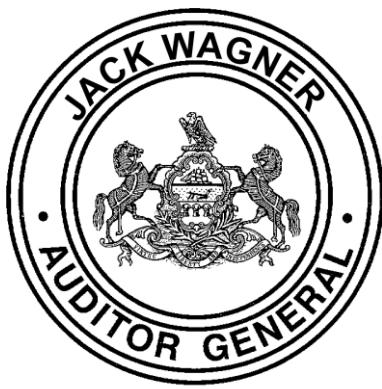
cc: **FRANKLIN AREA SCHOOL DISTRICT** Board Members

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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period July 23, 2008 through October 15, 2010, 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 FASD encompasses approximately 186 square miles. According to 2000 federal census data, it serves a resident population of 16,598. According to District officials, in school year 2007-08 the FASD provided basic educational services to 2,287 pupils through the employment of 187 teachers, 127 full-time and part-time support personnel, and 11 administrators. Lastly, the FASD received more than \$15.9 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the FASD 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. In addition, one matter unrelated to compliance is reported as an observation.

#### **Finding: Internal Control Weaknesses and Lack of Supporting Documentation.**

Our audit of the FASD's pupil transportation data submitted to the Department of Education for the 2007-08 school year found internal control weaknesses and lack of supporting documentation for reimbursement of \$1,175,936 (see page 6).

**Observation: Failure to Apply for Alternative Education Funding.** Our audit of the FASD's 2007-08 alternative education for disruptive youth program found the FASD failed to submit documentation necessary for the FASD to receive grant funds for which the FASD was eligible (see page 10).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the FASD, we found the FASD had taken appropriate corrective action in implementing our recommendations pertaining to pupil membership reporting errors (see page 12), a certification deficiency (see page 12), and failure to maintain bus drivers' qualifications (see page 13). We also found that the FASD had taken appropriate corrective actions in regard to the observation regarding

unmonitored vendor access and logical access control weaknesses (see page 13).



## Audit Scope, Objectives, and Methodology

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### 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 23, 2008 through October 15, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2008 through June 30, 2010.

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

*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 FADS'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?

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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.

FASD 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 FASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 17, 2010, we reviewed the FASD's response to DE dated July 26, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Internal Control Weaknesses and Lack of Supporting Documentation

Chapter 23 of the State Board of Education Regulations, Section 23.4 provides, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

(5)The furnishing of rosters of pupils to be transported on each school bus run and trip.

(6)The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

In addition, Section 518 of the Public School Code requires retention of records for a period of not less than six years.

Also, instructions for completing DE's End-of-Year Pupil Transportation reports provides that the local agency (LEA) must maintain records of miles with pupils, miles without pupils, and the greatest number of pupils assigned to each vehicle. Additionally, the instructions provide procedures, information, and data used by the LEA should be retained for audit purposes. The instructions note the miles with and without pupils are to be reported to the nearest tenth.

Our audit of the District's pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 school year found internal control weaknesses and lack of support documentation for reimbursement of \$1,175,936.

The internal control weaknesses and lack of documentation of pupil transportation data reported to DE for the 2007-08 school year were as follows:

- District personnel failed to maintain accurate pupil rosters to support the greatest number of pupils assigned to be transported as determined by the District's weighted average calculation worksheets generated for each bus and reported to DE for reimbursement.
- District personnel failed to retain backup documentation to support students who entered, withdrew, or relocated during the school year within the District. The only pupil rosters available were rosters prepared at the start of the year.
- Documentation was not retained to support miles traveled with and without pupils for one of the District's four reported transportation contractors (eight buses).
- Documentation was not available to support the number of pupils transported on approved hazardous routes. Hazardous pupils are any pupils living in an area where the highway, road or traffic conditions are such that walking constitutes a hazard to the safety of the child, as certified by the Pennsylvania Department of Transportation.
- Documentation was not available to support the number of nonreimbursable pupils reported. Nonreimbursable pupils are elementary pupils living within 1.5 miles of their school or secondary pupils living within two miles

of their school, who are transported by the District. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over certified hazardous walking routes.

- The amount paid one of the District's transportation contractors was overstated by \$5,236.
- The amounts paid two of the District's contractors, as reported to DE for reimbursement, included costs for athletic trips, field trips, activity trips, shuttle services, bus rentals and seat repairs, resulting in overstatements of \$42,685 and \$7,167, respectively. These costs are not reimbursable.

The internal control weaknesses and lack of supporting documentation were the result of a new director of pupil transportation being employed during the school year and failing to prepare and retain necessary documentation in support of the data reported to DE, as required by DE's guidelines and instructions.

Daily miles with and without pupils, the greatest number of pupils transported, the number of hazardous and nonreimbursable pupils, and the amount paid the contractors are all integral parts of the transportation reimbursement formula and must be maintained accurately in accordance with the State Board of Education regulations and DE guidelines.

The failure to prepare and retain detailed pupil transportation documentation to support data submitted to DE for reimbursement resulted in the auditor not being able to verify the District received the accurate pupil transportation reimbursement entitlement for the school year.

The reporting errors were caused by clerical mistakes and a lack of internal oversight controls to ensure accuracy of data reported.

No monetary adjustment will be recommended to DE as the audit was unable to verify all elements necessary to calculate the proper reimbursement for services provided.

## **Recommendations**

*The Franklin Area School District should:*

1. Prepare and retain updated pupil rosters to support the greatest number of pupils assigned to each bus as reported to DE.
2. Prepare and retain supporting documentation for all students that entered, withdrew or relocated within the District, to support the District's weighted average calculation and in accordance with DE guidelines and instructions.
3. Prepare and retain bus mileage documentation identifying miles with and without pupils for all buses.
4. Prepare and retain source documentation used to support the number of hazardous and nonreimbursable pupils transported.
5. Conduct an internal control review to ensure the amount paid contractors is accurately reported to DE.
6. Report only reimbursable (to and from school) contracted transportation costs.
7. Review transportation reports submitted to DE for subsequent years of audit, and ensure the reported information is accurate and the supporting documentation is on file to support all data reported to DE. Resubmit transportation reports to DE if necessary.
8. Permit and encourage the District's transportation director and the administrative support staff to attend conferences and training sessions relating to pupil transportation reporting and recordkeeping requirements.

## **Management Response**

Management stated the following:

The retirement of our longtime Transportation Director as of December 31, 2007, left the School District without a replacement with the same level of knowledge of transportation policies and procedures. The current Transportation Director has continued to receive training through Pennsylvania Association of School Business

Officials (PASBO) conferences since that date. We have also updated the . . . transportation software. We believe continued training of our Director will correct the finding.

**Observation** →

**Failure to Apply for Alternative Education Funding**

Our audit of the District's alternative education for disruptive youth funding for the 2007-08 and 2006-07 school years found the District's board of directors entered into a consortium agreement with Pathways Adolescent Center to provide alternative education to the District's students for the 2007-08 school year.

The District was entitled to receive \$21,540 in Alternative Education grant funding for the 2007-08 school year. However, as a result of the approved consortium agreement, District personnel believed the District was not entitled to apply for the grant funding, believing instead that the Pathway Adolescent Center was entitled to the funding. Therefore, they did not submit documentation to DE for the grant.

Personnel from Pathways Adolescent Center and DE informed the auditors during the audit that Pathways Adolescent Center, as a private provider, was not allowed to apply for the alternative education grant.

As a result, the District's taxpayers failed to receive revenue designed to offset the costs of the educational services received from the alternative education provider.

We found the District applied for and received the grant funding for the 2008-09 and 2006-07 school years.

**Recommendations**

The *Franklin Area School District* should:

1. Implement corrective action that would ensure that all approved grant funds are applied for.
2. Thoroughly review consortium agreements to ensure the District's taxpayers financially benefit and District personnel have a complete understanding of the language contained therein.
3. Contact DE to see if retroactive applications for the funding are permitted.



**Management Response**

Management stated the following:

The initial failure to apply for alternative education funding was caused by a misunderstanding of the regulations pertinent to funding for private alternative education schools located in another District. After this event occurred, we received clarification that the District of the residence of the students, not the location of the facility, was the one to apply for the funds. We have since contacted PDE to see if these funds are still available.

## Status of Prior Audit Findings and Observations

Our prior audit of the Franklin Area School District (FASD) resulted in three findings and one observation. The first finding pertained to FASD filing inaccurate pupil membership reports with the Department of Education (DE); the second finding pertained to a certification deficiency and the third finding pertained to the failure to maintain bus drivers' qualification documents. 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 the FASD Board's written response provided to DE, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the FASD did implement recommendations related to the findings, as well as eight of the nine recommendations related to the observation; the District partially addressed the one remaining.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<b>Implementation Status</b>	
<p><u><i>I. Finding No. 1: Pupil Membership Reporting Errors Resulted in a \$3,478 Underpayment</i></u></p> <ol style="list-style-type: none"> <li>Internally audit the pupil membership reports prior to their submission to DE to ensure all students are classified correctly.</li> <li>DE should amend the District's membership reports and adjust the District's allocations to correct the underpayment of \$3,478.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found the FASD filed inaccurate pupil membership reports with DE for the 2004-05 school year. The errors were caused by FASD incorrectly reporting two nonresident students as residents. Another student was counted as a nonresident for the entire year but was actually a resident part of the year.</p>	<p><b>Current Status:</b></p> <p>We followed up on the prior finding and found that the FASD did take appropriate corrective action.</p> <p>Our current audit found the District properly accounted for nonresident children placed in private homes.</p> <p>DE personnel stated at the time of the audit that the underpayment was still pending resolution.</p>
<p><u><i>II. Finding No. 2: Certification Deficiency</i></u></p> <ol style="list-style-type: none"> <li>Implement corrective action that would ensure that all teachers are teaching classes in their proper certification.</li> <li>DE should adjust the District's allocations to</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of professional employees' certificates and assignments for the period July 1, 2005 through May 13, 2008, found one individual was assigned a class to teach without possessing the proper certification.</p> <p>DE's Bureau of School Leadership and Teacher Quality reviewed the assignment and confirmed the deficiency in a letter dated June 19, 2008.</p>	<p><b>Current Status:</b></p> <p>We followed up on the certification deficiency and found that the FASD did take appropriate corrective action to address this finding. Our current audit found no certification deficiencies.</p> <p>In a letter dated July 29, 2010,</p>

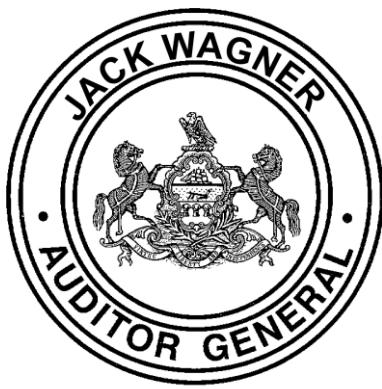
<p>recover the appropriate subsidy forfeiture.</p>		<p>DE's Bureau of Budget and Fiscal Management calculated a forfeiture of \$155 based on the certification deficiency.</p> <p>The subsidy forfeiture will be recovered by DE in the December 2010 unipay, according to DE personnel at the time of the audit.</p>
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<p><u>III. Finding No. 3: Failure to Maintain School Bus Drivers' Qualification Documents</u></p> <ol style="list-style-type: none"> <li>1. Ensure that the District's transportation coordinator reviews each bus driver's qualifications prior to that person transporting students.</li> <li>2. Maintain files at the District for all drivers and work with the transportation contractors to ensure that the District's files are up-to-date and complete.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's school bus drivers' qualifications files for the 2007-08 school year found that documents such as licenses, certificates, record checks and clearances were not on file.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the 2009-10 new bus drivers' qualifications files found all drivers' qualifications were current and on file at the District.</p> <p>Therefore, we conclude that FASD did take appropriate corrective action to address this finding.</p>
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<p><u>IV. Observation: Unmonitored Vendor System and Logical Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> <li>1. Require the vendor to assign unique user IDs 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.</li> </ol>	<p><b>Background:</b></p> <p>The FASD uses software purchased from the outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers.</p> <p>During our prior audit, 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><b>Current Status:</b></p> <p>Our current audit confirmed that eight of the nine recommendations were addressed fully. Recommendation number six was partially addressed and at the time of the audit was pending final implementation, as the District was working with the software provider to address the 30 day password change requirement.</p> <p>Based upon the results of our audit, we concluded that the District has made significant progress in resolving this observation.</p>
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<p>2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.</p> <p>4. Develop information technology policies and procedures for controlling the activities of vendors/ consultants, including the requirement that the vendor sign the District's Acceptable Use Policy.</p> <p>5. The District's Acceptable Use Policy should include provisions that all employees be required to sign this 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., 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> <p>7. Ensure if remote access software is used over the internet, and ensure that sessions are encrypted to</p>		
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<p>prevent unauthorized individuals from viewing confidential data.</p> <p>8. Prepare and ensure written reconciliation procedures exist for entering membership and attendance information into the system.</p> <p>9. Prepare written reconciliation procedures to support how the District's personnel reconcile the system generated pupil membership and attendance reports and the District's manual records. This should also include that the District's reconciliations and roll-forward procedures are documented.</p>		
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## **Distribution List**

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

The Honorable Tom Corbett  
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