

FREEPORT AREA SCHOOL DISTRICT  
ARMSTRONG COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2010



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

Mr. Mark Shoaf, Board President  
Freeport Area School District  
P.O. Box C  
Freeport, Pennsylvania 16229

Dear Governor Rendell and Mr. Shoaf:

We conducted a performance audit of the Freeport Area School District (FASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 10, 2008 through March 26, 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. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of this result is presented in the Executive Summary section of the audit report.

Our audit 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

November 4, 2010

cc: **FREEPORT 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 Freeport 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 March 10, 2008 through March 26, 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 54 square miles. According to 2000 federal census data, it serves a resident population of 12,000. According to District officials, in school year 2007-08 the FASD provided basic educational services to 1,983 pupils through the employment of 138 teachers, 100 full-time and part-time support personnel, and 8 administrators. Lastly, the FASD received more than \$9.2 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; 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.** Based on our current year procedures, we determined that a risk exists that unauthorized changes to the FASD's data could occur and not be detected because the FASD is not adequately monitoring 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 FASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the FASD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting Social Security and Medicare wages (see page 8), errors in reporting transportation data (see page 9), an ex-board member filing a Statement of Financial Interests late (see page 9), and the Memorandum of Understanding not being updated timely (see page 10).





## 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 March 10, 2008 through March 26, 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 FASD'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 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.

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 and pupil transportation.

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 and reimbursement applications.

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 January 22, 2009, we reviewed the FASD's response to DE dated May 13, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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*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 Freeport Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance) and system maintenance and support. The 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 is not adequately monitoring vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

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 to have the following weaknesses over remote vendor access:

1. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants or require the vendor to sign the District’s Acceptable Use Policy.
2. The vendor uses a group userID rather than requiring that each employee have a unique userID and password.
3. The District does not have evidence that it is generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the

vendor may have altered or which vendor employees accessed the system.

**Recommendations**

The Freeport Area School District should:

1. Require the vendor to assign unique 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.
2. Either establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's own Acceptable Use Policy.
3. Generate monitoring reports of all the vendor activity on the 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.

**Management Response**

Management stated the following:

1. District will require vendor to sign the Acceptable use Policy.
2. District will require vendor to assign unique userIDs and passwords to their vendor employees and make that information available to the District.
3. A log of vendor activity will be maintained to monitor vendor changes.

## Status of Prior Audit Findings and Observations

Our prior audit of the Freeport Area School District (FASD) for the school years 2005-06 and 2004-05 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 FASD 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 FASD did implement our recommendations.

<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>1. Finding No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments of \$11,791</i></u></p> <ol style="list-style-type: none"> <li>1. Comply with DE instructions for reimbursement forms PDE-339 and PDE-2105 when reporting wages paid with federal funds.</li> <li>2. Review reports submitted for subsequent years for inclusion of federal wages and resubmit reports to DE if necessary.</li> <li>3. DE should adjust the District’s allocations to correct the reimbursement overpayments of \$11,791.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that wages were incorrectly reported to DE, resulting in reimbursement overpayments totaling \$11,791.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the 2007-08 and 2006-07 school years found no significant errors in reporting Social Security and Medicare wages.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p> <p>As of March 26, 2010, resolution of the overpayments was still pending DE action.</p>

<p><u>II. Finding No. 2: Error in Reporting Pupil Transportation Data Resulted in an Underpayment of \$2,474</u></p> <ol style="list-style-type: none"> <li>1. Require personnel responsible for compiling pupil transportation data to strengthen their system of internal review to ensure accuracy of transportation data reported to DE.</li> <li>2. Review pupil transportation reports submitted subsequent to the years of audit and revise and resubmit, if necessary.</li> <li>3. DE should adjust the District's allocations to correct the underpayment of \$2,474.</li> </ol>	<p><b>Background:</b></p> <p>Our prior pupil audit of pupil transportation data submitted to DE for the 2004-05 school year found a reporting error resulting in an underpayment of \$2,474.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the 2007-08 and 2006-07 school years found that the District corrected the error in reporting mileage. We found no significant errors in reporting other data.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p> <p>As of March 26, 2010, resolution of the \$2,474 overpayment was still pending DE action.</p>
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<p><u>III. Finding No. 3: Ex-Board Member Filed Statement of Financial Interests Late in Violation of the Ethics Act</u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of the State Ethics Commission in regard to the board's responsibility when an elected board member fails to file a Statement of Financial Interests.</li> <li>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of District records found one ex-board member's Statement of Financial Interests was filed late for the year ended December 31, 2005.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the years ended December 31, 2008 and 2007, found the District had on file the Statements of Financial Interests for all board members.</p> <p>Based on our current audit, we concluded the District did take appropriate corrective action.</p>
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<p><i><u>IV. Observation:</u></i> <i><u>Memorandum of</u></i> <i><u>Understanding Not</u></i> <i><u>Updated Timely</u></i></p> <ol style="list-style-type: none"><li>1. In consultation with the District's solicitor, continue to review, update and re-execute the current Memorandum of Understanding (MOU) between the District and its four local law enforcement agencies.</li><li>2. Additionally, the District should adopt a policy requiring the administration to review and re-execute the MOU every two years.</li></ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's records found that the current MOUs between the District and its four local law enforcement agencies were signed in September 1999 and October 1997 and had not been updated.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the MOU with the local law enforcement agencies found that the District updated their MOU's on July 1, 2009. Based on our current audit, we concluded the District did take appropriate corrective action pertaining to the observation.</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:

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The Honorable Robert M. McCord  
State Treasurer  
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