

GALETON AREA SCHOOL DISTRICT
POTTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Ms. Marlene Parsell, Board President
Galeton Area School District
25 Bridge Street
Galeton, Pennsylvania 16922

Dear Governor Corbett and Ms. Parsell:

We conducted a performance audit of the Galeton Area School District (GASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 29, 2007 through February 17, 2011, 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 GASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the 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 GASD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve GASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the GASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 12, 2011

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

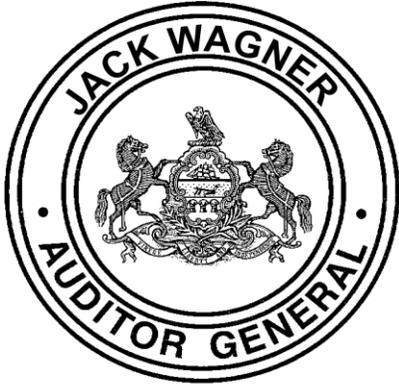
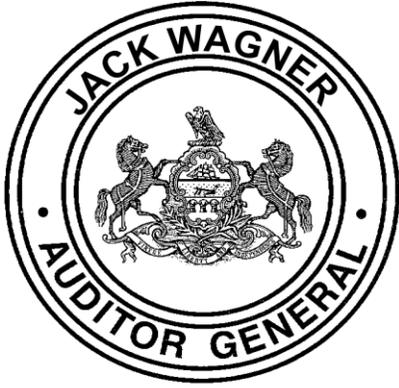


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Executive Summary

Audit Work

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

Our audit scope covered the period October 29, 2007 through February 17, 2011, 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

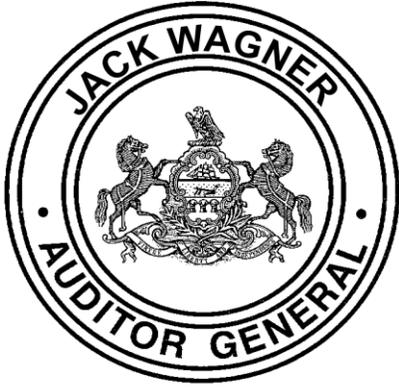
The GASD encompasses approximately 317 square miles. According to 2000 federal census data, it serves a resident population of 3,099. According to District officials, in school year 2007-08 the GASD provided basic educational services to 369 pupils through the employment of 44 teachers, 14 full-time and part-time support personnel, and 6 administrators. Lastly, the GASD received more than \$2.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the GASD 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: Errors in Reporting Pupil Membership for a Nonresident Student Resulted in a Net Underpayment of \$4,501. The GASD incorrectly reported pupil membership days for a nonresident pupil placed in a private home during the 2007-08 and 2006-07 school years (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the GASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the GASD had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding (see page 9) and unmonitored vendor system access and logical access control weaknesses (see page 10). However, GASD had not taken appropriate corrective action in implementing our recommendations pertaining to nonresident membership (see page 8) and pupil transportation (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 October 29, 2007 through February 17, 2011.

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 GASD'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:

- ✓ 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, observations and conclusions based on our audit objectives.

GASD 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 1, 2009, we reviewed the GASD's response to DE dated April 17, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding



Errors in Reporting Pupil Membership for a Nonresident Student Resulted in a Net Underpayment of \$4,501

Criteria relevant to the finding:

Sections 1305 and 2503 of the Public School Code provide for payment of tuition by the Commonwealth for nonresident students placed in private homes.

Our audit of the Galeton Area School District's (GASD) pupil membership reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found inaccuracies in the reporting of pupil membership data for a nonresident student. The errors resulted in a net underpayment of \$4,501 in tuition for nonresident children placed in private homes reimbursement.

During the 2007-08 school year the District reported one student for 179 days as a nonresident pupil placed in a private home; however, the student was adopted during the school year and should have been reported as a resident for the later portion of the year. The District overstated nonresident pupil membership by 104 days. This error resulted in an overpayment of \$6,447.

During the 2006-07 school year, the District reported the student for 180 days as a resident; however, he should have been reported as a nonresident pupil placed in a private home for the entire year. The error resulted in an underpayment of \$10,948.

The errors were caused by GASD personnel's failure to follow-up on information provided by the placing agency and by a clerical oversight in the reporting of the residency of the student in question.

We provided DE with a report detailing the errors for use in recalculating GASD's tuition for children placed in private homes.

Recommendations

The *Galeton Area School District* should:

1. Require District personnel to familiarize themselves with DE regulations regarding the reporting of nonresident students placed in private homes.
2. Review reports for subsequent school years and submit revised reports to DE, if necessary.

The *Department of Education* should:

3. Adjust the GASD's future allocations to resolve the net underpayment of \$4,501.

Management Response

Management stated the following:

The Galeton Area School District received [a] finding from the Bureau of School Audits . . . for an error in reporting pupil membership for nonresident student, resulting in a net underpayment of \$4,501. We believe the cause of this finding was due to a change in staff who handled child accounting in that school year. We believe we have corrected this problem by training the new staff member in child accounting and providing annual training for updates on child accounting and how to report each specialized field. We have also cross-trained an additional staff member in child accounting to reduce the risk of these errors, should there be any future changes in staff.

Status of Prior Audit Findings and Observations

Our prior audit of the Galeton Area School District (GASD) for the school years 2005-06 and 2004-05 resulted in two reported findings and two observations, as shown below. 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 GASD superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observations. As shown below, we found that the GASD did implement recommendations related to Memorandum of Understanding and unmonitored vendor system access and logical control access weaknesses. However, GASD did not implement recommendations related to nonresident membership and pupil transportation.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Errors in Reporting Membership for Nonresident Students Resulted in Underpayments of \$4,416

Finding Summary: Our audit of GASD's pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years found errors in the reporting of membership data for nonresident students. The errors resulted in reimbursement underpayments of \$1,568 and \$2,848 for 2005-06 and the 2004-05 school years, respectively, a total underpayment of \$4,416.

Recommendations: Our audit finding recommended that the GASD:

1. Require District personnel to familiarize themselves with DE regulations regarding the reporting of nonresident students placed in private homes.
2. Review reports for subsequent school years and submit revised reports to DE, if necessary.

Our audit finding also recommended that DE:

3. Adjust GASD's future allocations to resolve the underpayments of \$4,416.

Current Status: During our current audit procedures we found that the GASD did not implement the recommendations (see the current finding, page 6).

As of February 17, 2011 DE had not yet adjusted the underpayments.

Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in an Underpayment of \$4,210

Finding Summary: Our audit of the GASD's end-of-year pupil transportation reports submitted to DE for the 2005-06 school year found discrepancies which resulted in an underpayment of \$4,210.

Recommendations: Our audit finding recommended that the GASD:

1. Thoroughly review transportation data for accuracy before submission to DE.
2. Reconcile the preliminary reports received from DE to ensure layover hours and all other data are compiled accurately.
3. Review reports for subsequent years and submit revised reports to DE, if necessary.

Our audit finding recommended that DE:

4. Adjust GASD's future allocations to resolve the underpayment of \$4,210.

Current Status: During our current audit procedures we found that the GASD did not implement the recommendations. However, the amount underpaid as a result of the error we found was insignificant, and did not result in a finding.

As of February 17, 2011, DE had not yet adjusted the underpayment.

Observation No. 1: Memorandum of Understanding Not Updated Timely

Observation

Summary: Our audit of the GASD's records found that the District's Memorandum of Understanding (MOU) with its local law enforcement agency was signed May 19, 2003, and had not been updated since.

Recommendations: Our audit observation recommended that the GASD:

1. Review, update, and re-execute the current MOU between GASD and the two local enforcement agencies.
2. Adopt policy requiring the administration to review and re-execute the MOU every two years.

Current Status: During our current audit procedures we found that the GASD did implement the recommendations.

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

The GASD uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). Additionally, the GASD's entire computer system, including all its data and the above software are maintained on CSIU's servers, which are physically located at CSIU. The GASD has remote access into CSIU's network servers, with CSIU providing system maintenance and support.

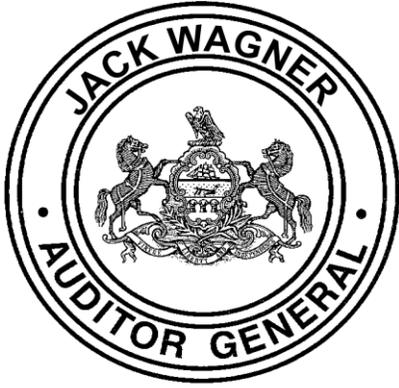
During our prior audit we determined that a risk existed that unauthorized changes to the GASD's data could occur and not be detected because the GASD was unable to provide supporting evidence that it was adequately monitoring all CSIU activity in its system.

Recommendations: Our audit observation recommended that the GASD:

1. Generate monitoring reports (including firewall logs) of CSIU and employee access and activity on the system. Monitoring reports should include the date, time, reason for access, change(s) made and who made the change(s). Review these reports to determine that the access was appropriate and that data was not improperly altered and ensure the District is maintaining evidence of this monitoring and review.
2. Keep a copy of the fully executed maintenance agreement signed by both parties on file.
3. Have legal counsel review the contract with CSIU.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have CSIU sign this policy, or require CSIU to sign the Acceptable Use Policy.
6. Update the Acceptable Use Policy to include provisions for authentication (password security and syntax requirements).

7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
8. Implement a security policy and system parameter settings to require all users, including CSIU, to change passwords on a regular basis (i.e., every 30 days); use passwords that are a minimum of eight characters and include alpha, numeric and special characters; 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 of inactivity (i.e., 60 minutes maximum).

Current Status: During our current audit procedures we found that the GASD did implement the recommendations.



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 Tom Corbett
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Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
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