

HARBOR CREEK SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2011



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

Mrs. Carol Bucklin, Board President  
Harbor Creek School District  
6375 Buffalo Road  
Harborcreek, Pennsylvania 16421

Dear Governor Corbett and Mrs. Bucklin:

We conducted a performance audit of the Harbor Creek School District (HCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 11, 2008 through June 2, 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 HCSD 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. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding, observations and recommendations have been discussed with HCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve HCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the HCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

April 13, 2011

cc: **HARBOR CREEK 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 Harbor Creek School District (HCS D). 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 HCS D in response to our prior audit recommendations.

Our audit scope covered the period July 11, 2008 through June 2, 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 HCS D encompasses approximately 34 square miles. According to 2000 federal census data, it serves a resident population of 15,178. According to District officials, in school year 2007-08 the HCS D provided basic educational services to 2,051 pupils through the employment of 166 teachers, 94 full-time and part-time support personnel, and 13 administrators. Lastly, the HCS D received more than \$12.7 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the HCS D 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, two matters unrelated to compliance are reported as observations.

**Finding: Pupil Transportation Reporting Errors and Lack of Documentation.** Our audit of the HCS D's pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found reporting errors that resulted in a net reimbursement overpayment of \$35,388. In addition, we noted a lack of documentation supporting reimbursement of \$897,860 for the 2007-08 school year (see page 6).

**Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses.** Our audit found that the HCS D should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 10).

**Observation No. 2: Amount Paid Pupil Transportation Contractors Greatly Exceeds Department of Education Final Formula Allowance.** Our audit of the HCS D's contracted pupil transportation costs for the school years ending June 30, 2004 and June 30, 2008, found that the contracted cost of the HCS D's pupil transportation operations cost had increased substantially more than the rate of inflation

over the five-year period. The amount paid the HCSD's transportation contractors increased greater than DE's inflation adjusted final formula allowance, used to determine reimbursement of pupil transportation services (see page 13).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the HCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the HCSD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting Social Security and Medicare wages (see page 17), errors in reporting charter school data (see page 17) and administrative policy regarding bus drivers' qualifications (see page 22). However, we found the HCSD had not taken appropriate corrective action in implementing our recommendations pertaining to transportation (see page 18) and unmonitored vendor system access (see page 19).



## 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 11, 2008 through June 2, 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 HCSD'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?

- ✓ 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**

*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.

*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.

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, and financial stability.
- Items such as Board meeting minutes, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2010, we reviewed the HCSD's response to DE dated March 18, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Pupil Transportation Reporting Errors and Lack of Documentation

*Criteria relevant to the finding:*

Instructions for completing DE's End-of-Year Pupil Transportation reports provides that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils, and the largest 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.

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

Our audit of the District's pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found reporting errors that resulted in a net reimbursement overpayment of \$35,388. In addition, we noted some weaknesses in documentation supporting the total reimbursement of \$897,860 for the 2007-08 school year.

#### Reporting Errors

#### 2007-08 School Year – Reporting Errors

Our audit found the following reporting errors for school year 2007-08:

- the number of nonpublic pupils transported was overstated by 36;
- the number of charter school pupils transported was understated by one;
- the number of days transportation was provided was incorrectly reported for 15 vehicles;
- the greatest number of pupils assigned to ride each vehicle at one time was incorrectly reported for 29 vehicles, resulting in a net understatement of 8.3 pupils;
- miles with pupils was incorrectly reported for 32 vehicles, resulting in a net overstatement of 16.6 daily miles;
- miles without pupils was incorrectly reported for 34 vehicles, resulting in a net understatement of 31.8 daily miles;
- the number of trips (per day) was incorrectly reported for one vehicle; and

- the District incorrectly included costs for a driver the District employed to drive a District-owned van in the reported contracted costs.

District personnel erroneously reported pupils transported to an approved private school as nonpublic pupils. Approved private schools receive public funding and are not nonpublic schools. In addition, the District erroneously reported pupils transported to a neighboring District as nonpublic pupils. Other reporting errors were clerical in nature.

The overstatement of the number of nonpublic pupils transported and the understatement of the number of charter school pupils transported resulted in a \$13,475 nonpublic/charter school transportation reimbursement overpayment. The other reporting errors resulted in a \$1,957 public transportation reimbursement underpayment; resulting in a net overpayment of \$11,518 for the 2007-08 school year.

#### 2006-07 School Year – Reporting Errors

Our audit found the following reporting errors for school year 2006-07:

- the number of nonpublic pupils transported was overstated by 63; and
- the number of charter school pupils transported was understated by one.

District personnel erroneously reported pupils transported to a neighboring District as nonpublic pupils. There were also several clerical errors in reporting the number of nonpublic pupils transported.

The overstatement of the number of nonpublic pupils transported and the understatement of the number of charter school pupils transported resulted in a \$23,870 nonpublic/charter school transportation reimbursement overpayment.

### Lack of Documentation

Documentation required to support pupil transportation reimbursement of \$897,860 for the 2007-08 school year was lacking as follows:

- when a bus route was changed (i.e. added additional runs) no documentation was on file to support the change or the date when the change occurred; and
- District personnel did not retain all support documentation for students entering and/or withdrawing from the District.

It should be noted that deficiencies in pupil transportation operations were the subject of findings in the prior three audit reports.

### **Recommendations**

The *Harbor Creek School District* should:

1. Conduct an annual internal review to ensure the number of days transportation was provided, daily mileage, pupil counts, the number of trips per day, the number of nonpublic and charter school pupils, and the amount paid to each contractor are accurately recorded and reported to DE.
2. Ensure nonpublic and charter school pupil summaries are prepared by knowledgeable personnel to ensure eligible pupils actually transported are reported for reimbursement.
3. Prepare and retain on file the source data used to report pupil transportation data to DE.
4. Provide training for District pupil transportation personnel.
5. Perform a review of subsequent years' data for accuracy and resubmit data to DE, if necessary.

The *Department of Education* should:

6. Recover the net reimbursement overpayment of \$35,388.

**Management Response**

Management provided a response agreeing with the finding and making no further comment.

**Observation No. 1** →

**Unmonitored Vendor System Access and Logical Access Control Weaknesses**

*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.

The Harbor Creek School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software 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 was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes is increased.

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 had the following weaknesses over vendor access to the District’s system:

1. The District does not have evidence that it performs reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.
2. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
3. The vendor has unlimited remote access (24 hours a day/7 days a week) into the District’s system.



4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. The District does not require written authorization prior to updating/upgrading of key applications or changing user data.
6. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District's Acceptable Use Policy.
7. The District's Acceptable Use Policy does not include provisions for authentication (e.g., password security and syntax requirements).
8. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
9. The District has certain weaknesses in logical access controls. We noted that the District does not require all users, including the vendor, to change their passwords every 30 days; to use passwords that are a minimum of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords; and to lock out users after three unsuccessful attempts.

## **Recommendations**

The *Harbor Creek School District* should:

1. Maintain evidence that it performs reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District 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. Allow remote access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Make the upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
6. Establish separate IT 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 Acceptable Use Policy.
7. Ensure Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements).
8. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
9. Implement a security policy and system parameter setting 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), and lock out users after three unsuccessful attempts.

**Management Response**

Management stated the following:

The District will review the recommendations and implement as resources allow.

**Observation No. 2** →

**Amount Paid Pupil Transportation Contractors Greatly Exceeds Department of Education Final Formula Allowance**

Our audit of the District’s contracted pupil transportation costs for the school years ending June 30, 2004 through June 30, 2008, found that the contracted cost of the District’s pupil transportation operations cost had increased substantially more than the rate of inflation over the five-year period, based on data submitted to DE by the District for reimbursement purposes. The amount paid the District transportation contractors increased more than DE’s inflation adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

DE’s final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District’s aid ratio.

The following chart details the fluctuation in contracted cost compared to DE’s final formula allowance:

<u>School Year</u>	<u>Contractor Cost</u>	<u>Final Formula Allowance</u>	<u>Contractor Costs Over Final Formula Allowance</u>	<u>Percentage Increase</u>
2007-08	\$1,629,096	\$1,106,336	\$522,760	47.25
2006-07	1,513,644	1,101,235	412,409	37.45
2005-06	1,396,768	1,026,140	370,628	36.12
2004-05	1,282,826	978,694	304,132	31.08
2003-04	1,173,103	939,926	233,177	24.81

Our audit of the services provided by the pupil transportation contractors found that over the last five years the number of vehicles used to transport pupils has increased, the District's total number of pupil transported had decreased and, the number of approved annual miles vehicles traveled had increased more than ten percent, detailed as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2007-08	38	2,340	510,351
2006-07	38	2,350	519,629
2005-06	37	2,402	485,608
2004-05	37	2,449	478,427
2003-04	35	2,501	456,328

The following chart details the total amount paid all contactors each school year, the maximum cost allowable, the total reimbursement received by the District from DE and the actual local tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2007-08	\$1,629,096	\$1,106,336	\$ 897,859	\$ 731,237
2006-07	1,513,644	1,101,235	900,922	612,722
2005-06	1,396,768	1,026,140	859,299	537,469
2004-05	1,282,826	978,694	831,896	450,930
2003-04	<u>1,173,103</u>	<u>939,926</u>	<u>829,644</u>	<u>343,459</u>
Total	<u>\$6,995,437</u>	<u>\$5,152,331</u>	<u>\$4,319,620</u>	<u>\$2,675,817</u>

A query of DE's pupil transportation data found that 509 school districts, intermediate units and area vocational-technical schools contracted their pupil transportation service during the 2007-08 school year. Approximately 15 percent of the LEAs paid their contractors the final formula or less. An additional 24 percent paid less than 10 percent over their final formula allowance. For the 2007-08 school year Harbor Creek School District paid its contractor 47.25 percent over the state formula, compared to 37.45 percent over during the 2006-07 school year. Of the 509 LEAs, approximately 74.26 percent of them paid their contractors closer to or

less than the state formula than Harbor Creek School District for the 2007-08 school year.

Our audit also noted the District's school board of directors, after soliciting public bidding, approved a four year contract for the period July 1, 2002 through June 30, 2006. On October 21, 2004, without the solicitation of public bidding for the pupil transportation services, a new contract was approved by the board, for the period of July 1, 2004 through June 30, 2010. District personnel stated the pupil transportation contractor initiated the idea to extend the contract.

During the audit the auditors obtained a copy of a new contract the Board approved on January 21, 2010, commencing with the 2010-11 school year and continuing through the 2014-15 school year. The contract provides a base daily rate and an increase in the previous year's rate by the percent change in the Consumer Price Index established by the Bureau of Labor Statistics of the United State Department of Labor and reported by DE to the District. District administrative personnel stated the District's board of directors did not seek competitive bids for the pupil transportation services for either of the contract periods. At the time, it was agreed the District would instead negotiate with the same local contractor that had been providing excellent service for the prior school years.

While the bidding of pupil transportation services is not required under state law, competitive bidding can result in a lower cost to District taxpayers.

## **Recommendations**

The *Harbor Creek School District* should:

1. Prior to negotiating a new contract, be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing the base rate and increases in line with DE's final formula allowance for all pupil transportation costs.

4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

**Management Response**

Management provided a response agreeing with the observation and making no further comment.

## Status of Prior Audit Findings and Observations

Our prior audit of the Harbor Creek School District (HCSD) for the school years 2005-06 and 2004-05 resulted in four 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 HCSD 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 HCSD did not implement recommendations related to pupil transportation and information technology but did implement recommendations related to Social Security and Medicare wages, charter school reimbursement, and administrative policy 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 No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments Totaling \$16,863</i></u></p> <ol style="list-style-type: none"> <li>1. Comply with DE's instructions when reporting wages paid by federal funds.</li> <li>2. Review reports submitted after the audit period for inclusion of federal wages and resubmit to DE.</li> <li>3. DE should recover the overpayments of \$16,863.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the 2005-06 and 2004-05 school years found that Social Security and Medicare wages were incorrectly reported to DE, resulting in reimbursement overpayments totaling \$16,863.</p>	<p><b>Current Status:</b></p> <p>Our current audit of HCSD's reported Social Security and Medicare wages for the 2007-08 and 2006-07 school years did not find any discrepancies. We concluded that the District did take appropriate corrective action to address this finding.</p> <p>Our current audit also found that as of June 2, 2010, DE had not recovered the overpayment. We again recommend that DE make the adjustments.</p>
<p><u><i>II. Finding No. 2: Deficiencies Found in Payments and Reporting of Charter School Tuition</i></u></p> <ol style="list-style-type: none"> <li>1. Require District personnel to establish internal review procedures to ensure the accuracy of charter school expenditures reported to DE for charter school reimbursement.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of District records pertaining to payment of tuition to charter schools found clerical mistakes that resulted in overpayment of tuition to two charter schools for the 2005-06 and 2004-05 school years, totaling \$21,628. Additionally, we found that District personnel incorrectly reported to DE the tuition paid to charter schools for the years of audit, resulting in excess reimbursements received by the District totaling \$5,660.</p>	<p><b>Current Status:</b></p> <p>Our current audit of HCSD's charter school tuition for the 2007-08 and 2006-07 school years did not find any discrepancies in the reporting of expenditures to DE for charter school reimbursement. The District collected the amount overpaid the PA Cyber Charter School, but was not able to collect the amount overpaid the</p>

<p>2. Collect the tuition that was overpaid to PA Cyber Charter School and Northwest PA Collegiate Academy Charter School.</p> <p>3. DE should recover the reimbursement overpayments of \$5,660.</p>		<p>Northwest PA Collegiate Academy Charter School because it no longer exists. We concluded that the District did take appropriate corrective action to address this finding.</p> <p>Our current audit also found that as of June 2, 2010, DE had not recovered the overpayments. We again recommend that DE do so.</p>
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<p><u>III. Finding No. 3: Pupil Transportation Reporting Errors, Internal Control Weaknesses, and Lack of Documentation</u></p> <p>1. Present all routes and rosters annually for board review, with periodic updates as needed.</p> <p>2. Ensure that the provisions of the bus contract are being properly adhered to and exceptions, changes or variances are approved by the board.</p> <p>3. Conduct an annual internal review to ensure the number of service days, daily mileage, pupil counts, hazardous pupils, and the number of trips per day, the number of nonpublic and charter school pupils, and the amount paid to each contractor are accurately recorded and reported to DE.</p> <p>4. Ensure nonpublic and charter school pupil summaries are prepared by knowledgeable personnel to ensure</p>	<p><b>Background:</b></p> <p>Our prior audit of the pupil transportation records and reports submitted to DE for the 2005-06 and 2004-05 school years found reporting errors resulting in reimbursement overpayments of \$51,975, as well as internal control weaknesses and a lack of documentation.</p>	<p><b>Current Status:</b></p> <p>We followed up on the HCSD transportation department's internal control deficiencies and found that the HCSD did not take appropriate corrective action to improve internal controls. The deficiencies are detailed in the finding in this current report (see page 6).</p> <p>Our current audit also found that as of June 2, 2010, DE had not recovered the overpayments. We again recommend that DE do so.</p>
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<p>eligible pupils actually transported are reported for reimbursement.</p> <p>5. Prepare and retain on file the source data used to report pupil transportation data to DE.</p> <p>6. Report for reimbursement only fuel used to transport pupils.</p> <p>7. Provide training for District pupil transportation personnel.</p> <p>8. Perform a review of subsequent years' data for accuracy and resubmit data to DE, if necessary.</p> <p>9. DE should recover the reimbursement overpayments of \$51,975.</p>		
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<p><b><u>IV. Finding No. 4:</u></b> <b><u>Unmonitored Vendor</u></b> <b><u>System Access and Logical Access Control Weaknesses</u></b></p> <p>1. Generate monitoring reports (including firewall logs) of the vendor 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 altered. The District should</p>	<p><b>Background:</b></p> <p>HCS D uses software purchased from an 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 unable to provide evidence that it was adequately monitoring all vendor activity in its system.</p>	<p><b>Current Status:</b></p> <p>We followed up on the weaknesses during our current audit and found HCS D took appropriate corrective action to correct only 2 of 11 recommendations (recommendations 1 and 11).</p> <p>Based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address 9 of our 11 recommendations. The deficiencies are detailed in Observation No. 1 of this current report (see page 10).</p>
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<p>also ensure it is maintaining evidence to support this monitoring and review.</p> <p>2. Maintain evidence that the District performs reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.</p> <p>3. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District 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.</p> <p>4. Allow remote access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.</p> <p>5. Maintain documentation to evidence that terminated employees</p>		
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<p>are properly removed from the system in a timely manner.</p> <p>6. Make the upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.</p> <p>7. Establish separate information technology 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 Acceptable Use Policy.</p> <p>8. Ensure the District's Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements), and violations/incidents (what is to be reported and to whom).</p> <p>9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>10. Implement a security policy and system parameter setting 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</p>		
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<p>special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), and lock out users after three unsuccessful attempts.</p> <p>11. 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 extinguishers in the computer room.</p>		
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<p><u>V. Observation: Continued</u>  <u>Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <p>1. Develop a process to determine whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.</p> <p>2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or</p>	<p><b>Background:</b></p> <p>Our prior audit found that neither the District nor the contractor had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. We considered this lack of written policies and procedures to be an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District has written policies and procedures in place to ensure that they are notified if current employees are charged with or convicted of serious criminal offenses. We concluded that the District did take appropriate corrective action to address this observation.</p>
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convicted of crimes that call into question their suitability to continue to have direct contact with children.		
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