

HOLLIDAYSBURG AREA SCHOOL DISTRICT
BLAIR COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Ronald Yoder, Board President
Hollidaysburg Area School District
201 Jackson Street
Hollidaysburg, Pennsylvania 16648

Dear Governor Corbett and Mr. Yoder:

We conducted a performance audit of the Hollidaysburg Area School District (HASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 10, 2008 through September 22, 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, 2010, 2009, 2008 and 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 HASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 23, 2012

cc: **HOLLIDAYSBURG 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 Hollidaysburg Area School District (HASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the HASD in response to our prior audit recommendations.

Our audit scope covered the period October 10, 2008 through September 22, 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 2009-10, 2008-09, 2007-08 and 2006-07.

District Background

The HASD encompasses approximately 120 square miles. According to 2010 local census data, it serves a resident population of 27,555. According to District officials, in school year 2009-10, the HASD provided basic educational services to 3,522 pupils through the employment of 281 teachers, 183 full-time and part-time support personnel, and 23 administrators. Lastly, the HASD received more than \$16.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the HASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. For the audited period, our audit of the HASD resulted in no findings or observations.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the HASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the HASD had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 7) and the failure to update Memoranda of Understanding (see page 8).

However, we found that the HASD had not yet implemented all of our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 8).



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 10, 2008 through September 22, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2010 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the HASD's compliance with applicable state laws, 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?
- ✓ 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, 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.

HASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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 bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

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

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

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Hollidaysburg Area School District (HASD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two reported observations. The finding pertained to professional employees' certification. The first observation pertained to Memoranda of Understanding that were not updated, and the second observation pertained to remote access into the District's network servers. 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 HASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the HASD did implement the recommendations related to certification and Memoranda of Understanding. We found that HASD did not implement all of our recommendations related to unmonitored vendor system access.

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

Finding: **Certification Deficiencies**

Finding Summary: Our prior audit of professional employees' certification for the period May 1, 2005 through June 11, 2008, found that one individual employed as a long-term substitute teacher did not hold the appropriate emergency certificate, and one individual was providing instruction on an expired Instructional I certificate. The District was accordingly subject to subsidy forfeitures for the 2007-08 and 2005-06 school years.

Recommendations: Our audit finding recommended that the HASD:

Require all professional employees to have valid Pennsylvania certification prior to teaching in the District's schools.

We also recommend that DE:

Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: During our current audit procedures we found that the HASD implemented the recommendations. DE adjusted the District's allocations to recover the subsidy forfeitures of \$3,315 in December 2010.

Observation No. 1: Memoranda of Understanding Not Updated Timely

Observation

Summary:

Our prior audit of the District's records found that the Memoranda of Understanding (MOU) on file between the District and two of its local law enforcement agencies were not updated. One MOU was signed October 7, 1998, and the other MOU was signed November 17, 1998. Neither MOU had been updated since.

Recommendations:

Our audit observation recommended that the HASD:

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

Current Status:

During our current audit procedures we found that the HASD implemented the recommendations.

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

Observation

Summary:

Our prior audit found the HASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance) and used the Greater Altoona Career and Technology Center (GACTC) to provide system maintenance and support. Both the vendor and the GACTC have remote access into the District's network servers. We found weaknesses in HASD's controls over vendor and logical access.

Recommendations:

Our audit observation recommended that the HASD:

1. Include in its contract with the vendor a non-disclosure agreement for the District's proprietary information.
2. 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.
3. Implement a security policy and system parameter settings to require the following: all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days); all users, including the vendor, to use passwords that are a minimum length of eight characters; and all

users, including the vendor, to use passwords that include alpha, numeric and special characters. The District should also implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

4. 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.

Current Status:

During our current audit procedures we found that the HASD had implemented recommendations one and three. The District did not concur with the recommendations two and four, and believe the current consortium agreement and vendor monitoring by the GACTC provides an appropriate level protection.

We again recommend the District consider implementing the recommendations to ensure that District membership information is properly safeguarded against unauthorized changes.



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:

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