

MARS AREA SCHOOL DISTRICT
BUTLER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2011

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

Mr. Dale Feguson, Board President
Mars Area School District
545 Route 228
Mars, Pennsylvania 16046

Dear Governor Corbett and Mr. Feguson:

We conducted a performance audit of the Mars Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 19, 2009 through December 23, 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 MASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with MASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MASD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 22, 2011

cc: **MARS 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 Mars Area School District (MASD). 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 MASD in response to our prior audit recommendations.

Our audit scope covered the period June 19, 2009 through December 23, 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 MASD encompasses approximately 47 square miles. According to 2000 federal census data, it serves a resident population of 14,490. According to District officials, in school year 2007-08 the MASD provided basic educational services to 3,008 pupils through the employment of 195 teachers, 84 full-time and part-time support personnel, and 18 administrators. Lastly, the MASD received more than \$9.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the MASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: Pupil Transportation Reporting Errors and Internal Control Weaknesses. Our audit of the MASD's pupil transportation records and reports submitted to the Department of Education for the 2007-08 school year found reporting errors and internal control weaknesses (see page 6).

Finding No. 2: Failure to Develop a Memorandum of Understanding with Local Law Enforcement. Our audit of the MASD's records found that the MASD failed to develop a Memorandum of Understanding with a local law enforcement agency (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the MASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vender system access and logical access control weaknesses (see page 10).



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 June 19, 2009 through December 23, 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 the 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 MASD'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.

MASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2010, we reviewed the MASD's response to DE dated March 16, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Pupil Transportation Reporting Errors and Internal Control Weaknesses

Criteria relevant to the finding:

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

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

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

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

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

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

Our audit of the District's pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 school year found reporting errors and internal control weaknesses as follows:

Reporting Errors

- One bus was not reported to DE.
- Days of operation were incorrectly reported for three buses.
- Miles with and without pupils were incorrectly reported for eight buses.
- Two buses were incorrectly reported as making two trips per day; the mileage rosters indicated only one trip per day was made for each bus.

Internal Control Weaknesses

- Bus mileage rosters had reporting inconsistencies.
- One bus mileage odometer was not working, according to the contractor.
- The contractor changed buses on various routes during the school year and failed to notify District personnel.

The number of days of service, daily mileages, the number of trips, accurate pupil counts and correct bus identification are all integral parts of the pupil transportation reimbursement formula and must be maintained in accordance with the Commonwealth Board of Education regulations. These factors must be accurately reported in accordance with DE guidelines and instructions to ensure that the correct reimbursement is received.

The reporting errors were caused by the District's lack of internal oversight controls and clerical errors.

No monetary adjustment will be recommended to DE as the reporting errors noted did not result in a significant monetary effect. However, such errors and internal control weaknesses could lead to a significant effect on the District's future reimbursements.

Recommendations

The *Mars Area School District* should:

1. Establish and maintain written procedures for verifying days of operation, daily miles with and without pupils, the number of trips per day, pupil rosters, and other transportation data that is required by DE.
2. Require the contractor to report any and all changes in buses and service of bus to District personnel responsible for transportation in a form that is easy to retain and record.
3. Provide appropriate training for District personnel responsible for transportation reporting.

Management Response

Management waived the opportunity to respond to the finding at the time of our audit.

Finding No. 2

Failure to Develop a Memorandum of Understanding with Local Law Enforcement

Criteria relevant to the finding:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by DE entitled Safe Schools and Possession of Weapons, as well as the Complete All-Hazards School Safety Planning Toolkit disseminated by the Pennsylvania Emergency Management Association, contain a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Our audit of the District's records found that the District failed to develop a Memorandum of Understanding (MOU) with a local law enforcement agency.

The failure to obtain MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

District personnel indicated they were not aware the District needed to develop an MOU with the local law enforcement agency in addition to the state police.

Recommendations

The *Mars Area School District* should:

1. In consultation with the District's solicitor, execute an MOU between the District and the local law enforcement agency.

2. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the state police.
3. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Management Response

Management waived the opportunity to respond at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Mars Area School District (MASD) for the school years 2005-06 and 2004-05 resulted in one observation. The observation pertained to unmonitored vendor access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the MASD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the MASD was in the process of implementing the final recommendation related to unmonitored vendor system access and logical access and logical access control weaknesses.

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

Observation Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation
Summary:

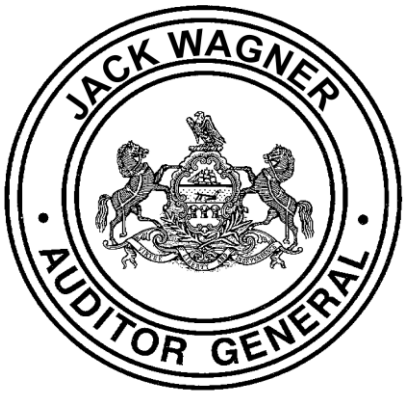
The MASD uses software purchased from an outside vendor for critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers.

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 supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the MASD:

1. Include provisions for authentication (syntax requirements) in the District's Acceptable Use Policy.
2. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days).
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords that include alpha, numeric and special characters.

Current Status: We followed up on the observation and found that the MASD did take appropriate corrective action for two of the three weaknesses noted. As of our fieldwork completion date of December 23, 2010, District personnel stated recommendation number one was pending final implementation. We will follow up on the District's implementation of this recommendation during our next audit of the District.



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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