



NORTHEAST BRADFORD SCHOOL DISTRICT
BRADFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Joseph Mihalek III, Board President
Northeast Bradford School District
526 Panther Lane
Rome, Pennsylvania 18837

Dear Governor Corbett and Mr. Mihalek:

We conducted a performance audit of the Northeast Bradford School District (NBSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 2, 2010, through November 7, 2012, 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, and June 30, 2009. 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 NBSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

March 13, 2013

cc: **NORTHEAST BRADFORD 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 Northeast Bradford School District (NBSD). 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 NBSD in response to our prior audit recommendations.

Our audit scope covered the period April 2, 2010, through November 7, 2012, 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 and 2008-09.

District Background

The NBSD encompasses approximately 169 square miles. According to 2010 local census data, it serves a resident population of 5,644. According to District officials, in school year 2009-10 the NBSD provided basic educational services to 833 pupils through the employment of 67 teachers, 46 full-time and part-time support personnel, and 8 administrators. Lastly, the NBSD received more than \$7.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the NBSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one matter unrelated to compliance that is reported as an observation.

Observation: The Board Did Not Approve a Superintendent Contract in Accordance With the Public School Code.

On June 5, 2008, the Board approved the Acting Superintendent to become Superintendent for a term of five years at her completion of the requirements for a Letter of Eligibility with a salary prorated for the 2008-09 school year. However, a new employment agreement was not executed in accordance with Section 1073 of the Public School Code or the Agreement (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the NBSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the NBSD had taken appropriate corrective action in implementing our recommendations pertaining to a certification deficiency and 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 Pennsylvania Department of Education, and other concerned

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 April 2, 2010, through November 7, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2012, through August 13, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 Pennsylvania Department of Education (PDE) 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 NBSD'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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?
- ✓ 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

NBSD 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

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.

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. Additionally, we gained a high-level understanding of the district's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 5, 2010, we reviewed the NBSD's response to PDE dated August 21, 2012. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

The Board Did Not Approve a Superintendent Contract in Accordance With the Public School Code

Criteria relevant to the observation:

Section 1073 of the Public School Code, 24 P.S. § 10-1073 (a), requires school districts to enter into three-to-five-year employment contracts with their superintendents.

On June 5, 2008, the Northeast Bradford School District (District) Board of Directors entered into an Employment Agreement (Agreement) between the District and the Acting Superintendent. The term of the Agreement was for the period beginning July 1, 2008, to December 31, 2008, or until the Acting Superintendent received her letter of Eligibility, whichever was sooner.

On June 5, 2008, the Board also approved the Acting Superintendent to become Superintendent for a term of five years at her completion of the requirements for a Letter of Eligibility with a salary prorated for the 2008-09 school year. However, a new employment agreement was not executed in accordance with Section 1073 of the Public School Code (PSC) or the Agreement.

Section 1 under Term of this Agreement states, in part:

The terms incorporated in this plan were agreed to during a meeting between the [Acting Superintendent] and the board. Terms and conditions set forth in this document must be approved by a majority of the board. This is a twelve-month position.

Upon receipt of her Letter of Eligibility, [the Acting Superintendent] will become Superintendent of the Northeast Bradford School for a five-year term, and a new agreement will be executed.

Furthermore, as stated under Section 11, Termination of Employment Contract:

Upon receipt of her Letter of Eligibility, [the Acting Superintendent] will become Superintendent of Northeast Bradford School for a five-year term, this agreement will terminate and a new agreement will be executed.

On January 1, 2009, the Acting Superintendent received her Letter of Eligibility to serve as Superintendent. However, no new agreement was executed.

Due to the lack of a Superintendent's contract, the district followed the Administrative Compensation or Act 93 plan to determine benefits for the Superintendent. Each Administrator is given a separate Act 93 plan which is adopted yearly and notes the term as a twelve-month position.

Recommendations

The *Northeast Bradford School District* should:

Execute a three to five-year contract between the District and the Superintendent in accordance with Section 1073 of the PSC.

Management Response

Management stated the following:

On June 5, 2008, the Northeast Bradford School District entered into an employment agreement with [the Acting Superintendent]. The agreement stated that she would become the Superintendent upon receipt of her Letter of Eligibility, at which time a new agreement would be executed. The district did not execute a new agreement when the Letter of Eligibility was received. The district did provide the Superintendent with an Administrator's Compensation Plan, which was the same as all other administrators that documented all employee benefits-to include salary. This plan was voted on and approved by the board of education each year.

The district will execute a contract with the Superintendent in accordance with the Public School Code.

Status of Prior Audit Findings and Observations

Our prior audit of the Northeast Bradford School District (NBSD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one observation. The finding pertained to a certification deficiency, and the observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the NBSD to implement our prior recommendations. We analyzed the NBSD Superintendent's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned NBSD personnel regarding the prior finding and observation. As shown below, we found that the NBSD did implement recommendations related to a certification deficiency and unmonitored vendor system access and logical access control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding: **Certification Deficiency**

Finding Summary: Our prior audit found that one professional employee taught with a lapsed certificate from September 1, 2009 through January 1, 2010.

Recommendations: Our audit finding recommended that the NBSD:

Require the superintendent to implement a review process to ensure individuals with provisional certificates receive their permanent certificates in a timely manner.

The *Pennsylvania Department of Education* should:

Adjust the District's allocations to recover any subsidy forfeiture deemed necessary.

Current Status: During our current audit procedures we found that the NBSD did implement the recommendations and developed a review process.

PDE deducted \$805 from the June 1, 2011 basic education funding to recover the subsidy forfeiture.

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

Observation Summary: Our prior audit found that the NBSD 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.

Recommendations: Our audit observation recommended that the NBSD:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Establish separate information technology 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.
3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Implement a security policy and system parameter settings 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); lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
6. 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 access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. Generate monitoring reports (including firewall logs) of vendor and employee 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 also ensure it is maintaining evidence to support this monitoring and review.
8. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

Current Status: During our current audit procedures we found that the NBSD did implement the recommendations by updating policies and procedures.



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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