

NORTHWEST AREA SCHOOL DISTRICT  
LUZERNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JULY 2010



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Charles E. Brace, Jr., Board President  
Northwest Area School District  
243 Thorne Hill Road  
Shickshinny, Pennsylvania 18655

Dear Governor Rendell and Mr. Brace:

We conducted a performance audit of the Northwest Area School District (NASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 30, 2007 through December 17, 2009, 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 NASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one 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 NASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

July 1, 2010

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

## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding - Continued Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in Reimbursement Overpayments .....	6
Observation No. 1 – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications .....	8
Observation No. 2 – Unmonitored Vendor System Access and Logical Control Access Weaknesses .....	10
Status of Prior Audit Findings and Observations .....	13
Distribution List .....	15



## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period November 30, 2007 through December 17, 2009, 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 NASD encompasses approximately 117 square miles. According to 2000 federal census data, it serves a resident population of 9,172. According to District officials, in school year 2007-08 the NASD provided basic educational services to 1,348 pupils through the employment of 104 teachers, 67 full-time and part-time support personnel, and 10 administrators. Lastly, the NASD received more than \$10.3 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the NASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding and two matters unrelated to compliance that are reported as observations.

**Finding: Continued Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in Reimbursement Overpayments.** Our prior audit found that the NASD's transportation reports submitted for the 2005-06 and 2004-05 school years were incorrect resulting in an overpayment of \$2,968 in state subsidy.

Our current audit of the NASD's transportation reports, submitted to Department of Education for the 2007-08 and 2006-07 school years, found NASD personnel again incorrectly reported nonpublic students resulting in an overpayment of \$35,805 in state subsidy (see page 6).

**Observation 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

Our audit of the personnel records of bus drivers employed by the NASD and/or the NASD's transportation contractor found procedures were not in place to identify when current employees are charged with crimes or child abuse that may have occurred after the commencement of employment (see page 8).

**Observation 2: Unmonitored Vendor System Access and Logical Control Access Weaknesses.** We noted that NASD personnel have limited controls over remote access to their membership data. In particular, the NASD has limited control over outside vendor access to student accounting applications (see page 10).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the NASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the NASD had taken appropriate corrective action in implementing our recommendations pertaining to verifying qualifications of current school bus drivers (see page 13) and board members filing their Statements of Financial Interests forms. However, the NASD did not take appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil transportation data which is a finding in our current audit (see page 14).



## 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 November 30, 2007 through December 17, 2009.

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 NASD'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?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?

- ✓ 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 take appropriate corrective action to address recommendations made in our prior audits?

## Methodology

*What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observations and conclusions based on our audit objectives.

NASD 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 and pupil transportation.

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 NASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 28, 2008, we reviewed the NASD's response DE dated June 23, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Continued Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in Reimbursement Overpayments

*Public School Code sections relevant to the finding:*

Section 2541 provides for payment of pupil transportation.

Section 2509.3 states, in part:

For the school year 2001-02 and each school year thereafter, each school district shall be paid the sum of \$385 for each nonpublic school pupil transported.

Public and nonpublic pupil tabulation is an integral part of the transportation reimbursement formula. Pupil counts should be reported accurately, in accordance with DE guidelines and instructions, to ensure the district receives proper reimbursement.

Our prior audit found the District's transportation reports submitted to the Department of Education (DE) for the 2005-06 and 2004-05 school years were inaccurate. Errors in reporting nonpublic students and contractor costs resulted in a net overpayment of \$2,968 in subsidies and reimbursements.

Our current audit of the District's membership reports submitted to DE for the 2007-08 and 2006-07 school years found District personnel continued to incorrectly report nonpublic students resulting in a net overpayment of \$35,805.

The number of nonpublic students was overstated by 46 in the 2007-08 school year which resulted in a \$17,710 overpayment and by 47 in the 2006-07 school year which resulted in a \$18,095 overpayment. The Northwest Area School District (NASD) personnel incorrectly included vocational students on the nonpublic listings.

District personnel's failure to correctly input nonpublic student's information into the transportation program was the cause of these errors.

### Recommendations

The *Northwest Area School District* should:

1. Maintain separate nonpublic and public nonhazardous pupil lists.
2. Implement standardized reporting procedures for rosters and pupil listings.
3. Institute a system of review that would help ensure that reports sent to DE are accurate.
4. Review subsequent years reports and if errors are found, submit revised reports to DE.

The *Department of Education* should:

5. Adjust the District's allocations to recover the overpayments of \$2,968 for the prior audit and \$35,805 for our current audit.

**Management Response**

Management stated the following:

This issue will be addressed with the employee responsible to file PDE Child Accounting Reports. The District will address the issue immediately in order to correct the matter. State reports in the future will not reflect vocational students attending the West Side CTC on the nonpublic list.

**Observation No. 1**

**Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

*Criteria relevant to the observation:*

Section 111 of the Public School Code, as amended, requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our review of the personnel records of bus drivers currently employed by the NASD and/or the District's transportation contractor found that these individuals possessed the minimum requirements to be employed as bus drivers and that the NASD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the NASD from hiring any of the drivers. Therefore, we concluded that the NASD has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. Additionally, there were no serious crimes identified or other information that called into question the applicant's suitability to have direct contact with children.

However, neither the District (nor the contractor) have written policies or procedures in place to ensure that they are notified if current employees have been 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. This lack of written policies and procedures is 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.

The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111, but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of the incidents that may have occurred after the commencement of employment.

**Recommendations**

The *Northwest Area School District* in consultation with the District's solicitor should:

1. Develop a process to determine, on a case-by-case basis, 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 barred by state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

**Management Response**

Management stated the following:

No current procedure is in place once a bus driver submits clearances, to update the file. Management will work along with the transportation coordinator to develop a correspondence to be issued yearly to all returning bus drivers indicating with their signature that they are still free from violations.

**Observation No. 2** →

**Unmonitored Vendor System Access and Logical Control Access 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 to access the computer systems.

The NASD employs the West Side Area Career and Technology Center (WSACTC) as an outside vendor for its critical student accounting applications (membership and attendance). Our audit of the WSACTC in December 2009, found that software purchased from an outside vendor is used in processing data for the NASD and the vendor does have remote access through the WSACTC to this data. All software and hardware utilized by NASD is housed at the WSACTC.

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 is unable to monitor vendor activity and does not have documented procedures to perform formal 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 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. Does not have a formal contract with the vendor to provide student accounting applications and related information technology services.
2. Does not have a fully executed maintenance agreement on file.
3. Due to the lack of a contract with the vendor the District does not have a non-disclosure agreement for the District’s proprietary information.



4. Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements) and does not require administration or staff to sign it.
5. 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.
6. Have certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days, require all users, including the vendor to use passwords that include alpha, numeric and special characters, lock out users after three unsuccessful access attempts and maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
7. Does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
8. Does not have any compensating controls documented in writing that would mitigate the IT weaknesses and would support that the District would be alerted to unauthorized changes to the membership database, i.e., data entry procedures and review documentation.

## **Recommendations**

The *Northwest Area School District* should:

1. Develop an agreement with the vendor to provide student accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Keep a copy of the fully executed maintenance agreement on file, signed by both parties.

3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
4. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements) and all employees should be required to sign this policy.
5. 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.
6. 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), to use passwords that include alpha, numeric and special characters, lock out users after three unsuccessful access attempts and maintain a password history to prevent use of a repetitive password (i.e., approximately last ten passwords).
7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
8. To mitigate IT control weaknesses, the district should have written documentation for compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

**Management Response**

Management stated the following:

Management will work with West Side CTC and NASD technology coordinator to implement recommendations made during the audit. Particular attention will be directed at working on a vendor agreement in order to specifically define parameters and safety nets for the IT system.

## Status of Prior Audit Findings and Observations

Our prior audit of the Northwest Area School District for the school years 2005-06 and 2004-05 resulted in three reported findings. The first finding pertained to lack of documentation for current bus drivers, the second pertained to errors in reporting pupil transportation data and the third pertained to board members failed to file Statements of Financial Interests forms. 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 NASD 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 NASD did not implement recommendations related to pupil transportation, but did implement recommendations related to lack of bus driver documentation and board members filing timely Statements of Financial Interests forms.

<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 1: Lack of Documentation to Verify Qualifications of Current School Bus Drivers</i></u></p> <ol style="list-style-type: none"> <li>1. Immediately obtain, from the transportation contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.</li> <li>2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.</li> <li>3. Maintain files, separate from the transportation contractors, for all drivers and work with the contractors to ensure that the District's files are up-to-date and complete.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the NASD for the 2005-06 school year found that out of a random sample of 25 of the 68 drivers employed by the District, one required document was missing from 10 of the 25 sampled drivers.</p>	<p><b>Current Status:</b></p> <p>We followed up on bus drivers' qualifications from the prior audit and found that the District did take appropriate action to address our prior audit recommendations.</p>

<p><u>II. Finding 2: Errors in Reporting Pupil Transportation Data Resulted in a Reimbursement Net Overpayment</u></p> <ol style="list-style-type: none"> <li>1. Maintain separate nonpublic and public nonhazardous pupil lists.</li> <li>2. Implement a standardized reporting procedure for rosters, mileage records and pupil listings.</li> <li>3. Institute a system of review that would help ensure that reports sent to DE are more accurate.</li> <li>4. DE should adjust the District's allocations to recover the net overpayment of \$2,968.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found inaccurate pupil transportation data submitted to DE for the 2005-06 and 2004-05 school years resulted in a net overpayment in pupil transportation reimbursement.</p> <p>District received an overpayment of \$26,180 in nonpublic subsidy and an underpayment of \$23,212 in public subsidy due to the incorrect reporting of contractor costs resulting in a net overpayment of \$2,968.</p>	<p><b>Current Status:</b></p> <p>We followed up on the pupil transportation reports for the 2007-08 and 2006-07 school years and found the District did take corrective action to address our recommendations relating to contractor cost reporting, but did not address our recommendations relating to nonpublic student reporting, resulting in a finding in this audit. As of our completion date of December 17, 2009, DE had not made the adjustment to recover the net overpayment of \$2,968.</p>
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<p><u>III. Finding 3: Board Members Again Failed to File Statement of Financial Interests Forms in Violation of the Public Official and Employee Ethics Act.</u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests form.</li> <li>2. Develop procedures to ensure all individuals required to file Statements of Financial Interests forms do so in compliance with the Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that Statements of Financial Interests forms were not filed by two board members in 2004, three board members in 2003 and one board member in 2002.</p>	<p><b>Current Status:</b></p> <p>We followed up on the filing of Statements of Financial Interests forms in the 2007 and 2008 school years and found the District did take corrective action to address our prior recommendations.</p>
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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Edward G. Rendell  
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Harrisburg, PA 17120

The Honorable Thomas E. Gluck  
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The Honorable Robert M. McCord  
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).

