

PANTHER VALLEY SCHOOL DISTRICT
CARBON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2010

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

Mr. Jeff Markovich, Board President
Panther Valley School District
1 Panther Way
Lansford, Pennsylvania 18232

Dear Governor Rendell and Mr. Markovich:

We conducted a performance audit of the Panther Valley School District (PVSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 16, 2007 through November 23, 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 PVSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, 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 findings, observation and recommendations have been discussed with PVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PVSD'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: **PANTHER VALLEY SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in Reimbursement Overpayments of \$20,550.....	6
Finding No. 2 – Inadequate Transportation Procedures Regarding Bus Drivers’ Qualifications	8
Observation – Unmonitored IU System Access and Logical Access Control Weaknesses	10
Status of Prior Audit Findings and Observations	13
Distribution List	15



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Panther Valley School District (PVSD). 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 PVSD in response to our prior audit recommendations.

Our audit scope covered the period August 16, 2007 through November 23, 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 PVSD encompasses approximately 40 square miles. According to 2000 local census data, it serves a resident population of 13,000. According to District officials, in school year 2007-08 the PVSD provided basic educational services to 1,749 pupils through the employment of 120 teachers, 42 full-time and part-time support personnel, and 10 administrators. Lastly, the PVSD received more than \$21.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding 1: Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in Reimbursement

Overpayments of \$20,550. During the 2007-08 and 2006-07 school years, PVSD personnel inaccurately reported, to the Department of Education, membership for children placed in private homes. Furthermore, PVSD personnel did not maintain adequate documentation for children placed in private homes. These errors resulted in reimbursement overpayments of \$14,042 for the 2007-08 school year and \$6,508 for the 2006-07 school year (see page 6).

Finding 2: Inadequate Transportation Procedures Regarding Bus Drivers' Qualifications.

We reviewed the personnel records of 9 of the 25 drivers currently employed by the PVSD's transportation contractor. We found that PVSD had inadequate procedures over bus drivers' qualifications which resulted in missing or untimely filings of criminal history, child abuse and Federal Bureau of Investigation clearances for certain drivers (see page 8).

Observation: Unmonitored IU System Access and Logical Access Control Weaknesses.

We noted that PVSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit access to the 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 PVSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PVSD had taken appropriate corrective action in implementing our recommendations pertaining to resident membership, (see page 13) general fund balance (see page 14) and Memorandums of Understanding (see page 14).

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 August 16, 2007 through November 23, 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 PVSD'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:

- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ 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 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 findings, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observation and conclusions based on our audit objectives.

PVSD 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, 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 PVSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2008, we reviewed the PVSD's response to DE dated December 10, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Inadequate Documentation and Errors in Membership Reported for Children Placed in Private Homes Resulted in Reimbursement Overpayments of \$20,550

Criteria relevant to the finding:

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Section 2503(c) of the Public School Code (PSC) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

During the 2007-08 and 2006-07 school years, the Panther Valley School District personnel inaccurately reported membership for the District's children placed in private homes to the Department of Education (DE). Furthermore, District personnel did not maintain adequate documentation for children placed in private homes. These errors resulted in reimbursement overpayments of \$14,042 for the 2007-08 school year and \$6,508 for the 2006-07 school year.

Membership days for children placed in private homes were overstated by 179 for elementary students and 180 for secondary students during the 2007-08 school year. Membership days for children placed in private homes were overstated by 179 for secondary during the 2006-07 school year.

The errors occurred because District personnel misclassified resident students as children placed in private homes and failed to maintain adequate documentation for these students.

The misclassification of these students as residents had an insignificant effect on basic education funding.

DE has been provided a report detailing the errors for use in recalculating the District's reimbursement.

Recommendations

The *Panther Valley School District* should:

1. Review DE instructions and compile the nonresident listing accordingly.
2. Review membership data thoroughly for residency classifications prior to submitting reports to DE.

3. Review reports submitted subsequent to the years audited and, submit revised reports to DE, if errors are found.
4. Maintain placement letters for all children placed in private homes for audit.

The *Department of Education* should:

5. Adjust the District's membership reports and recover the overpayments of \$20,550.

Management Response

Management stated the following:

Cause: There was no verification of the initial 1305 code.

Corrective Action: The student accounting clerk has created a form to record and verify all 1305 code students.

Finding No. 2

Inadequate Transportation Procedures Regarding Bus Drivers' Qualifications

Criteria relevant to the finding:

Section 111 of the Public School Code 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 submit an official 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.

Additionally, as of April 1, 2007, under act 114 of 2006, public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by PDE. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who will have contact

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection, safety and welfare of the students transported in school buses. We reviewed the following five requirements:

1. possession of a valid driver's license;
2. completion of school bus driver skills and safety training;
3. passing a physical examination;
4. lack of convictions for certain criminal offenses; and
5. official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation (PennDOT). As explained further under criteria, the fourth and fifth requirements were set by the Public School Code of 1949, as amended (Public School Code), and the CPSL, respectively. In addition, when bus drivers change employers, they must obtain new clearances.

We reviewed the personnel records of 9 of the 25 drivers currently employed by the District's transportation contractor.

Our review of Act 34 – Criminal History Clearances found two drivers did not file for the clearance, one driver filed in an untimely manner and one driver filed approximately ten years prior to employment with the contractor.

Our review of Act 151 – Child Abuse Clearances found two drivers did not file for the clearance, and three drivers filed one-ten years prior to employment with the contractor.

Our review of Act 114 – Federal Bureau of Investigation Clearances found one driver did not file for the clearance, three drivers filed untimely, and one driver filed two years prior to employment with the contractor.

This lapse in ensuring bus drivers were properly certified occurred because the District's transportation coordination had inadequate procedures in place which allowed the discrepancies to go undetected.

Recommendations

The *Panther Valley School District* should:

1. Immediately obtain, from the contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete.

Management Response

Management stated the following:

1. The District contracts with [a transportation company].
2. We provided [to the auditor] the contract sections [with the transportation company]: 2 of I, Drivers; section 2 of M, Forfeiture; and N, Licenses.
3. All necessary procedures are outlined in the contract.
4. The district personnel will review the transportation personnel files 30 days prior to each year and monthly in anticipation of new hires.
5. A better line of communication needs to exist between the district and the [transportation contractor's] human resource office.

Observation →

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.

Unmonitored IU System Access and Logical Access Control Weaknesses

The Panther Valley School District uses software purchased from the Carbon Lehigh Intermediate Unit #21 (IU) for its critical student accounting applications (membership and attendance). Additionally, the district’s entire computer system, including all its data and the above software are maintained on the IU’s servers which are physically located at the IU. The District has remote access into the IU’s network servers, with the IU providing system maintenance and support.

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 they are adequately monitoring all IU activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored IU 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 IU access to the District’s system:

1. Does not include provisions for authentication (password security and syntax requirements) in their Acceptable Use Policy.

2. Does not require written authorization before adding, deleting, or changing a userID.
3. Does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
4. Have certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the IU, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; and to maintain a password history (i.e., approximately ten passwords).
5. The IU has unlimited access (24 hours a day/7 days a week) into the District's system.

Recommendations

The *Panther Valley School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Implement a security policy and system parameter settings to require all users, including the IU, 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).

5. Only allow access to their system when the IU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of IU changes.

Management Response

Management stated the following:

1. Updates will be made.
2. Policies to correct this are being developed.
3. Documentation is being developed for better tracking.
4. Agree with the naming convention and creating a policy and password history. Will confer with vendor on possibility of automating the ability to change passwords every 30 days.
5. The IU is our vendor. The hardware resides there. We rely on them for 24/7 coverage. They have signed a non-disclosure agreement and in the future will sign our AUP.

Auditor Conclusion

Management has responded to the observation with their corrective action that addresses four of our five recommendations. However, we continue to recommend that the District limit IU access into the District's system.

Status of Prior Audit Findings and Observations

Our prior audit of the Panther Valley School District (PVSD) for the school years 2005-06 and 2004-05 resulted in two reported findings and one observation. The first finding pertained to membership, and the second finding pertained to a general fund deficit. The observation pertained to Memorandum of Understanding. 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 superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the PVSD did implement recommendations related to membership, general fund balance, and Memorandum of Understanding.

<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: Membership Errors Resulted in Subsidy Overpayments.</i></u></p> <ol style="list-style-type: none"> 1. Perform an internal review of membership reports and summaries prior to submission of final reports to DE. 2. Review subsequent year reports and if errors are found, submit revised reports to DE. 3. DE should adjust the District's allocations to resolve the reimbursement net overpayments of \$13,372. 4. DE should revise the District's pupil membership and adjust the District's subsidies and reimbursements based on the resulting aid ratio changes. 	<p>Background:</p> <p>Our prior audit found that the District's pupil membership reports, submitted to DE for the 2005-06 school year were inaccurate. Errors in reporting resident membership days resulted in net overpayments of \$13,372 in subsidies and reimbursements.</p>	<p>Current Status:</p> <p>Our current audit of the PVSD's records found that the PVSD did take appropriate corrective action to ensure resident membership days were correctly reported. However, we did find errors in the District's reporting of its membership for children placed in private homes as detailed in Finding No. 1 (see page 6).</p> <p>As of our fieldwork completion date of November 23, 2009, DE had not adjusted the District's allocations to resolve the reimbursement net overpayments of \$13,372.</p> <p>DE had not revised the District's pupil membership or adjusted the District's subsidies and reimbursements based on the resulting aid ratio changes.</p>

<p><u>II. Finding 2: General Fund Deficit of \$132,679 as of June 30, 2006.</u></p> <ol style="list-style-type: none"> 1. Use actual historical data and projections when budgeting for expenditures. 2. Establish a process to monitor all future district expenditures to ensure that actual expenditures are kept within budgetary limits. 3. Implement a plan to provide sufficient revenues for the operation of the District. 4. Develop and approve a plan that provides for the systematic reduction of the current general fund deficit. 	<p>Background:</p> <p>Our prior audit of the District’s annual financial reports, local auditor’s report and general fund budgets for fiscal years ended June 30, 2006 and 2005, found that the District’s general fund balance of \$911,426 decreased to a deficit fund balance of \$132,679 as of June 30, 2006.</p>	<p>Current Status:</p> <p>Our current audit of the PVSD’s records found that the PVSD did take appropriate corrective action to obtain a positive fund balance of \$122,189 as of June 30, 2008.</p>
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<p><u>III. Observation: Memorandum of Understanding Not Updated Timely.</u></p> <ol style="list-style-type: none"> 1. The District administration, in consultation with the District’s solicitor, should review, update and re-execute the current Memorandum of Understandings (MOU) between the District and local law enforcement agencies. 2. The board should adopt a policy requiring the administration to review and re-execute the MOUs every two years. 	<p>Background:</p> <p>Our prior audit of the District’s records found that the MOU between the District and Nesquehoning Police Department was signed on August 23, 2001, and MOUs between the District and Coaldale, Lansford, and Summit Hill police departments were signed August 24, 2001, and had not been updated.</p>	<p>Current Status:</p> <p>Our current audit of the PVSD’s records found that the PVSD did take appropriate corrective action to ensure the MOUs between the District and Nesquehoning, Coaldale, Lansford, and Summit Hill police departments were updated and re-executed in July of 2009.</p>
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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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