



**SOUDERTON AREA SCHOOL DISTRICT  
MONTGOMERY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**MAY 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. Bernard S. Currie, Board President  
Souderton Area School District  
760 Lower Road  
Souderton, Pennsylvania 18964

Dear Governor Corbett and Mr. Currie:

We conducted a performance audit of the Souderton Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 5, 2010 through June 22, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies 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 District 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 the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements. We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

May 28, 2013

cc: **SOUDERTON AREA SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period March 5, 2010 through June 22, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 49 square miles. According to 2010 federal census data, it serves a resident population of 43,109. According to District officials, the District provided basic educational services to 6,799 pupils through the employment of 509 teachers, 547 full-time and part-time support personnel, and 30 administrators during the 2009-10 school year. Lastly, the District received \$20.8 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found that the District 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.

**Observation: Transportation Contractors Paid Significantly More Than State Formula Allowance.** Our audit of the District's transportation records for the 2009-10 and 2008-09 school years found that the District paid five of its bus contractors significantly more than the state formula allowance calculated by the Pennsylvania Department of Education. This action may have resulted in an unnecessary expenditure of taxpayer funds (see page 5).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the District from an audit released on November 5, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to its Memorandums of Understanding (see page 8). However, the District did not take appropriate corrective action in implementing our recommendations pertaining to their student accounting applications (see page 9).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Pennsylvania 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 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 March 5, 2010 through June 22, 2012, except for the verification of retirement wages which was performed for the period July 1, 2008 through June 30, 2011.

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

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 District'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:

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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 did 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?
- ✓ Did the District take 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 of School Directors free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## **Methodology**

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

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies procedures and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 5, 2010, we reviewed the District's response to PDE dated February 23, 2011. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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### Transportation Contractors Paid Significantly More Than State Formula Allowance

*Criteria relevant to the observation:*

The Pennsylvania Department of Education's final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the district's aid ratio.

Our audit of the Souderton Area School District's (District) transportation records for the 2009-10 and 2008-09 school years found that the District paid five of its bus contractors significantly more than the state formula allowance calculated by the Pennsylvania Department of Education (PDE). This action may have resulted in an unnecessary expenditure of taxpayer funds.

PDE prepares a final formula allowance for each school district, which it uses to determine reimbursement for transportation services. This allowance is based on a number of factors, including the approved daily miles driven, the age of the vehicles, and the greatest number of pupils transported. Each district then receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by its aid ratio.

According to the state education budget transportation is third highest state funding subsidy for public schools. (Statewide in fiscal year 2010-11 Pennsylvania taxpayers paid \$556,770,304 to cover public school transportation costs.)



The District paid 5 of its 7 contractors significantly more than its calculated formula allowance in the 2009-10 school year and 5 of its 8 contractors in the 2008-09 school year. These amounts were as follows:

<u>2009-10 School Year</u>				
<u>Contractor</u>	<u>Final Formula Allowance</u>	<u>Contractor Cost</u>	<u>Amount Exceeds Formula Cost</u>	<u>Percentage Increase</u>
A	2,984,887.70	5,431,200.36	2,446,312.66	182
B	10,716.80	1,517.54	0.00	0
C	36,668.56	65,800.00	29,131.44	179
D	15,189.11	78,392.50	63,203.39	516
E	689,040.45	1,014,225.25	325,184.80	147
F	34,398.61	31,007.00	0.00	0
G	22,973.23	54,468.00	31,494.77	237

<u>2008-09 School Year</u>				
<u>Contractor</u>	<u>Final Formula Allowance</u>	<u>Contractor Cost</u>	<u>Amount Exceeds Formula Cost</u>	<u>Percentage Increase</u>
A	3,169,295.63	5,169,240.41	1,999,944.78	163
B	6,178.46	2,058.84	0.00	0
C	32,292.19	59,507.50	27,215.31	184
D	58,637.70	42,529.70	0.00	0
E	248,015.32	939,837.01	691,821.69	379
F	13,472.32	35,300.32	21,828.00	262
G	16,845.60	48,076.95	31,231.35	285
H	14,746.74	2,124.00	0.00	0

While bidding of pupil transportation service is not required under state law, competitive bidding can result in a lower cost to the District's taxpayers.

Since PDE provides a state allowance, it would be prudent for the District to consider a better alternative in spending taxpayer monies.

## Recommendations

The *Souderton Area School District* should:

1. Consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.

2. Be cognizant of the state’s final formula allowance prior to negotiating transportation contracts.

**Management Response**

Management stated the following:

“Management believes that no corrective action plan is necessary. The maximum allowable cost calculated on the PDE-2576 and PDE-2518 relates to the maximum amount of eligible reimbursement from the state. There is no statutory requirement that limits the District’s contracted transportation expenditures to the maximum allowable cost. Therefore, the District will continue to comply with state regulations and laws.”

**Auditor Conclusion**

While the District may be complying with state laws and regulations, it should consider the benefits to the taxpayers of bidding its transportation contracts.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Souderton Area School District (District) released on November 5, 2010, resulted in two observations. The first observation pertained to their Memorandums of Understanding not being updated timely, and the second 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 District to implement our prior recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior observations. As shown below, we found that the District did implement recommendations related to their Memorandums of Understanding not being updated timely. However, the District did not implement recommendations related to a logical access control weakness for the student accounting applications.

### **Auditor General Performance Audit Report Released on November 5, 2010**

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#### **Observation No. 1: Memorandums of Understanding Not Updated Timely**

Observation

Summary:

Our prior audit of the District's records showed that its current Memorandums of Understanding (MOUs) between the District and five police departments were signed and updated. However, we found that these MOUs had not been reviewed and re-executed every two years.

Recommendations:

Our audit observation recommended that the District:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOUs between the District and local law enforcement.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Current Status:

During our current audit procedures, we found that the District did implement our prior recommendations.

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

Observation

Summary:

Our prior audit found that the District used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor had remote access into the District's network servers.

Recommendations:

Our audit observation recommended that the District:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements). Further, all employees should be required to sign this policy.
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. 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).
4. Only allow access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
5. 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.

6. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and install fire extinguishers in the computer room.

Current Status:

During our current audit procedures, we found that the District did implement recommendations two through six. The District did not implement recommendation number one which pertained to the District's Acceptable Use Policy. We continue to recommend that the District follow our recommendation regarding its Acceptable Use Policy.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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

The Honorable Ronald J. Tomalis  
Secretary of Education  
1010 Harestown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
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Room 129 - Finance Building  
Harrisburg, PA 17120

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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).

