

UNION AREA SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2011

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

Mr. John Bertolino, Board President
Union Area School District
500 South Scotland Lane
New Castle, Pennsylvania 16101

Dear Governor Corbett and Mr. Bertolino:

We conducted a performance audit of the Union Area School District (UASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 18, 2008 through October 8, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007, as they were the most recent reimbursements subject to audit. 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 UASD 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 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 finding, observation and recommendations have been discussed with UASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve UASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the UASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

March 4, 2011

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

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Executive Summary

Audit Work

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

Our audit scope covered the period November 18, 2008 through October 8, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The UASD encompasses approximately 10 square miles. According to 2000 federal census data, it serves a resident population of 5,103. According to District officials, in school year 2007-08 the UASD provided basic educational services to 937 pupils through the employment of 64 teachers, 53 full-time and part-time support personnel, and 3 administrators. Lastly, the UASD received more than \$5.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the UASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

Finding: Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Pupil Transportation Reimbursement. Our audit of the UASD pupil transportation records and reports submitted to the Department of Education for the 2007-08 school year found reporting errors, internal control weaknesses and a lack of supporting documentation supporting reimbursement of \$147,849 (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that UASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the UASD, we found the UASD had not taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare wages (see page 14), pupil transportation (see page 15), or charter school tuition payments (see page 16), but did take appropriate corrective action in implementing our recommendations pertaining to the Memorandum of Understanding (see page 16).

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 November 18, 2008 through October 8, 2010, except for:

- The verification of professional employee certification which was performed for the period July 1, 2008 through June 30, 2010.
- Board meeting minutes which were reviewed from July 23, 2008 through May 17, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with 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 UASD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 25, 2010, we reviewed the UASD's response to DE dated September 15, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding



Reporting Errors, Internal Control Weaknesses, and Lack of Documentation Supporting Pupil Transportation Reimbursement

Criteria relevant to the finding:

Chapter 23 of the State Board of Education regulations, Section 23.4, states, in part:

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

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

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

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

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

Our audit of the Union Area School District's (UASD) pupil transportation records and reports submitted to Department of Education (DE) for the 2007-08 school year found reporting errors, internal control weaknesses, and a lack of supporting documentation for reimbursements of \$147,849, detailed as follows:

Reporting Errors

- The greatest number of pupils assigned to ride each vehicle at any one time was incorrectly reported for two vehicles resulting in a net overstatement of 2.9 pupils.
- The number of nonpublic pupils transported was overstated by two.

Internal Control Weaknesses and Lack of Documentation

- Board-approved bus routes did not include pupil rosters, stop-by-stop mileage or total mileage with and without students.
- The mileage reports provided for our audit identified odometer readings at the beginning of a run, first pickup, last drop-off and the end of the run only, and failed to identify the pupils' distances from home to school.
- Documentation was not retained to support bus mileage changes made throughout the year.
- Documentation was not available to support the greatest number of pupil assigned to each bus at any one time.
- Nine of ten buses monthly mileage readings were not recorded and reported to the tenth of a mile.

- District personnel failed to obtain for all the buses the eight monthly odometer readings needed to calculate the sample mileages as directed by DE. Our audit found that only one bus of the ten audited had the required eight months of mileage readings.
- No documentation was provided for two of the ten buses audited to support the greatest number of pupils assigned to the busses at the beginning of the year, as shown on sample average calculation worksheets generated by the District for each bus.
- No documentation was available to support the number of pupils transported on approved hazardous routes. Hazardous pupils are any pupils living in an area where the highway, road or traffic conditions are such that walking constitutes a hazard to the safety of the child, as certified by the Pennsylvania Department of Transportation.
- No documentation was available to support the number of nonreimbursable pupils reported. Nonreimbursable pupils are elementary pupils living within 1.5 miles of their school or secondary pupils living within 2 miles of their school who are transported by the District. Such pupils do not qualify the District for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over certified hazardous walking routes.

The daily mileages, the greatest number of pupils transported, hazardous pupil counts, and the number of nonpublic pupils transported are all integral parts of the pupil transportation reimbursement formula and must be maintained in accordance with the State Board of Education regulations. These factors must be accurately reported in accordance with DE guidelines and instructions to ensure that the correct reimbursement is received.

As a result of District personnel's failure to prepare and/or retain support documentation, the auditor was unable to verify that the District received accurate reimbursement for pupil transportation services.

No monetary adjustment will be recommended to DE as we were unable to verify all elements necessary to calculate the correct reimbursement to which the District was entitled.

It should be noted that pupil transportation operations reporting and recordkeeping has been a subject of a finding or verbal comment in the District's prior two audits.

Pupil transportation for the 2006-07 school year was not audited since District personnel informed the auditors they had not revised reports for either audit year, as recommended in our previous audit.

Recommendations

The *Union Area School District* should:

1. Conduct an internal review to ensure the pupil counts and the number of nonpublic pupils are accurately recorded and reported to DE.
2. Ensure the board-approved bus route descriptions include pupil rosters, stop-by-stop mileage or total mileage with and without students.
3. Prepare and maintain records on file of odometer readings between all bus stops and schools calculated to tenths of a mile, as required by DE instructions.
4. Retain backup documentation and pupil rosters to support the greatest number of pupils assigned to each bus as used on the District's sample average calculation worksheets.
5. Prepare and retain supporting documentation for all students that entered, withdrew or relocated within the District to support the District's sample average calculation in accordance with DE guidelines and instructions.

6. Prepare and retain miles with and without pupils for all buses for all eight individual sample average monthly readings, including documentation to support route mileage changes from month to month.
7. Prepare and retain on file at the District, source documentation used to support the number of hazardous and nonreimbursable pupils transported.
8. Review transportation reports submitted to DE for subsequent years of audit and ensure the reported information is accurate and supporting documentation is on file to support all data reported to DE and resubmit reports, if necessary, to DE.
9. Allow the District's pupil transportation director and the administrative support staff to attend conferences and training sessions relating to pupil transportation reporting and recordkeeping requirements.

Management Response

Management stated the following:

Our intent is to gather enough information through this current audit to enable us to make the most informed decisions possible concerning our school district. We view this as a learning experience for me [the superintendent] and our school district which helps us to improve. Since the last audit, we have a new superintendent and business manager. Resolving this issue has become one of the major goals of the 2010-11 school year.

In regards to the audit findings, the district agrees with the findings and understands the serious nature of these rulings. Meetings with the district personnel whom are most responsible for adhering to the guidelines which impact our daily transportation have commenced. Specific personnel include our transportation coordinator and transportation clerk. It may be useful to know that the transportation coordinator also serves as the school district's elementary principal, curriculum coordinator, and professional development coordinator. Our transportation clerk also serves as the school district's secretary of special education. Both of these individuals take their roles within the school district seriously.

Our plan to address the findings produced from this audit include closer examination of daily pupil membership, improved record-keeping and documentation, immediate enrollment into a pupil transportation association, and training to assist us in improving the district's overall handling of transportation matters. Specifically, we plan to:

- Meet with UASD bus drivers regularly to review forms, requirements, and pass on information in order to improve and resolve issues/concerns.
- Collaborate with another local school district's successful transportation coordinator to glean information relative to accomplished practices.
- Become member of the Midwestern Pupil Transportation Association.
- Attend workshops and seminars connected to the association.

The superintendent will closely monitor the steps listed above by receiving monthly reports from personnel affiliated closely with district transportation. By engaging in more reliable practices, such as those listed above, the district is confident it can become more prudent and successful in the area of pupil transportation.

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 Vendor System Access and Logical Access Control Weaknesses

The UASD 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.

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 not able to provide supporting evidence that it is adequately monitoring vendor activity in its 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. Membership and attendance reconciliations are performed between manual reports and reports generated from the student accounting system.

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 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. The District’s employees are not required to sign that they agree to abide by the District’s Acceptable Use Policy.
2. The District’s system parameter settings do not automatically log a user off the system after a period of inactivity (i.e., maximum of 60 minutes) and does not maintain a password history (i.e. approximately ten passwords).

3. District personnel stated they are not aware of a log that could be run to check if the vendor changed the District's data without the District's authorization.
4. The District's reconciliation procedures that would allow the District to detect significant changes in membership/attendance data are not formally documented, and no sample of any reviews were available to support the reconciliations.

Recommendations

The *Union Area School District* should:

1. Require all employees to sign its Acceptable Use Policy as acknowledgement that they have read and understood the policy.
2. Implement a security policy and system parameter settings to automatically log a user off the system after a period of inactivity (i.e., maximum of 60 minutes) and maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
3. Ensure a log is available to check if the vendor changed the District's data without the District's authorization.
4. The District should formally document reconciliation procedures performed and generate reports that would allow the District to detect significant changes in the membership/attendance data. 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.

Management Response

Management stated the following:

The District agrees with all items stated in the "Unmonitored Vendor System Access and Logical Access Control" weaknesses as stated in the audit observation.

The District has already implemented a preliminary plan to improve upon the observed items. I [the superintendent] have asked the technology coordinator to provide me a workable timetable to address and eliminate the concerns listed in the observation. The IT [information technology]

personnel will work with the IU [intermediate unit] and district administration to see that staff updates their passwords at a minimum of once each semester. We will also investigate a system which allows us to address concerns relative to password history by implementing a system-based, password-monitoring program. We will also cooperate with our IU in finding successful examples of school districts which adopt such practices.

Status of Prior Audit Findings and Observations

Our prior audit of the Union Area School District (UASD) resulted in three reported findings and one observation, as shown in the following table. 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 UASD 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 UASD did not implement recommendations related to the three findings but did implement recommendations for the observation.

<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 No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$6,146</i></u></p> <ol style="list-style-type: none"> 1. Ensure District personnel comply with DE instructions for reporting wages paid by federal funds. 2. Review subsequent years’ reports for inclusion of federal wages and resubmit to DE, if necessary. 3. DE should adjust the District’s allocations to resolve the reimbursement overpayments of \$6,146. 	<p>Background:</p> <p>Our prior audit of District records found that Social Security and Medicare wages for the 2005-06 and 2004-05 school years were incorrectly reported to DE, resulting in overpayments of \$3,081 and \$3,065, respectively, totaling \$6,146.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years’ Social Security and Medicare wages again found the same reporting errors. However, the effect on the District’s reimbursements was insignificant.</p> <p>Based on the results of the current audit, we concluded the District did not take appropriate corrective action to address this finding.</p> <p>As of our fieldwork completion date of October 8, 2010, DE personnel stated the monetary adjustments were pending resolution.</p>

<p><u>II. Finding No. 2: Errors in Reporting Pupil Transportation Data and Internal Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Thoroughly review all transportation data for accuracy before submitting reports to DE for reimbursement. 2. Adhere to DE guidelines and instructions and Chapter 23 regulations. 3. Prepare and retain on file the source data used to report pupil transportation data to DE. 4. Perform a review of subsequent years' data and applications and resubmit, if necessary, to DE. 5. DE should adjust the District's future allocations to resolve the \$9,745 in underpayments to the District. 	<p>Background:</p> <p>Our prior audit of the District's pupil transportation data and reimbursement applications for the school years of audit found inaccuracies in the 2005-06 and 2004-05 school years' data submitted to DE and internal control weaknesses.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 school year found pupil transportation reporting errors as well as internal control weaknesses and lack of supporting documentation, as detailed in the Finding (see page 6).</p> <p>Based on our current audit, the District did not take corrective action to address this finding.</p> <p>As of our fieldwork completion date of October 8, 2010, DE personnel stated the reimbursement adjustments were pending resolution.</p>
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<p><u>III. Finding No.3: Errors in Reporting Charter School Tuition Resulted in a Net Underpayment of \$1,911</u></p> <ol style="list-style-type: none"> 1. Report for reimbursement actual tuition expenses incurred for approved charter school programs. 2. Adhere to DE's guidelines to complete and file on time the PDE-363 form. 3. Perform a review of subsequent years' data and applications and resubmit, if necessary, to DE. 4. DE should adjust the District's allocations to resolve the net charter school tuition reimbursement underpayment of \$1,911. 	<p>Background:</p> <p>Our prior audit of the District's tuition payments to charter schools for the 2005-06 and 2004-05 school years found the District failed to report to DE tuition paid to one charter school for each school year, and incorrectly reported tuition for another charter school for the 2004-05 school year. As a result, there was a net underpayment of \$1,911 in charter school reimbursement to the District.</p>	<p>Current Status:</p> <p>Our current audit of the District's 2007-08 and 2006-07 tuition payments to charter schools again found reporting errors. However, the effect on the District's reimbursements was insignificant; therefore a verbal comment was made but no related finding is included in the current audit report.</p> <p>Based on the results of the current audit, we concluded the District did not take appropriate corrective action to address this finding.</p> <p>As of our fieldwork completion date of October 8, 2010, DE personnel stated the reimbursement adjustments were pending resolution.</p>
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<p><u>IV. Observation: Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"> 1. In consultation with the solicitor, continue to review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the local law enforcement agency. 2. Adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the District's records found that the current MOU between the District and the local law enforcement agency was not updated since it was signed May 28, 1999.</p>	<p>Current Status:</p> <p>Our current audit found the MOUs with local law enforcement agencies on file at the District were updated on October 5, 2009 and June 4, 2010.</p> <p>Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address the observation.</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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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.

