

VALLEY GROVE SCHOOL DISTRICT
VENANGO COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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

Ms. Cindy Swensden, Board President
Valley Grove School District
429 Wiley Avenue
Franklin, Pennsylvania 16323

Dear Governor Rendell and Ms. Swensden:

We conducted a performance audit of the Valley Grove School District (VGSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 15, 2009 through May 28, 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. 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 VGSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the VGSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 4, 2011

cc: **VALLEY GROVE SCHOOL DISTRICT** Board Members

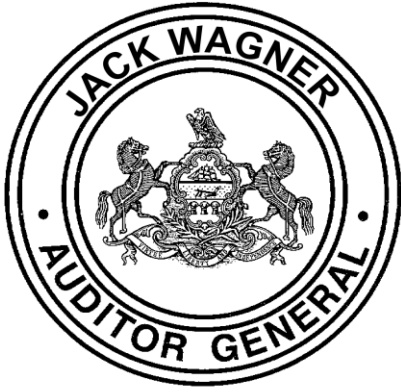
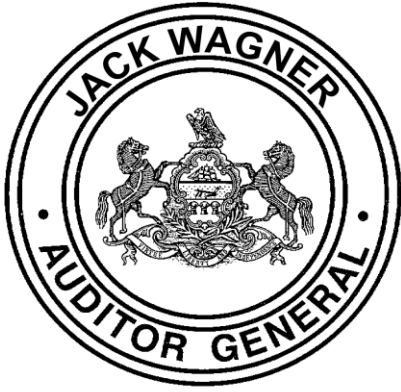


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Executive Summary

Audit Work

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

Our audit scope covered the period January 15, 2009 through May 28, 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 2006-07 and 2007-08.

District Background

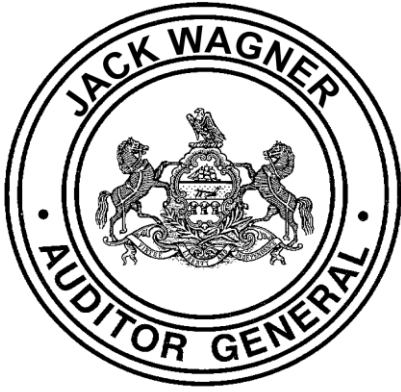
The VGSD encompasses approximately 63 square miles. According to 2001 local census data, it serves a resident population of 6,708. According to District officials, in school year 2007-08 the VGSD provided basic educational services to 1,029 pupils through the employment of 76 teachers, 51 full-time and part-time support personnel, and 7 administrators. Lastly, the VGSD received more than \$8.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the VGSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the VGSD from an audit we conducted of the 2004-05 and 2005-06 school years, we found the VGSD had taken appropriate corrective action in implementing our recommendations pertaining to bus drivers' qualifications (see page 7), bus driver policies (see page 8), and information technology weaknesses (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the 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 January 15, 2009 through May 28, 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 VGSD'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?
- ✓ 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.

VGSD 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, nonresident pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 29, 2009, we reviewed the VGSD's response to DE dated October 26, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Valley Grove School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Valley Grove School District (VGSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two observations. The finding pertained to bus driver qualification irregularities. The two observations pertained to bus driver qualification policies and information technology 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 VGSD 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 VGSD did implement recommendations related to the finding and observations.

<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: School Bus Drivers’ Qualification Irregularities</i></u></p> <ol style="list-style-type: none"> 1. Ensure that the District’s transportation coordinator reviews each driver’s qualifications prior to that person transporting students. 2. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District’s files are up-to-date and complete. 	<p>Background:</p> <p>Our prior audit found that of the 25 driver’s records reviewed there were no records on file (drivers’ license, physical examination form, criminal records check, child abuse clearance, or the Federal Bureau of Investigations record check) for two contracted drivers. In addition, two other contracted drivers’ physical examination forms were not current.</p>	<p>Current Status:</p> <p>For our current audit, we reviewed 25 randomly selected bus drivers for the 2009-10 school year and found no irregularities. Our current audit procedures further determined that proper documentation was available for the four drivers cited in our prior audit.</p> <p>Based on our current audit, we determined the District did take the necessary corrective actions to comply with our recommendations.</p>

<p><u>II. Observation No. 1:</u> <u>Internal Control</u> <u>Weaknesses in</u> <u>Administrative Policies</u> <u>Regarding Bus Drivers'</u> <u>Qualifications</u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure that 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. 	<p>Background:</p> <p>Our prior audit found that neither the District nor the transportation contractors had 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.</p>	<p>Current Status:</p> <p>On March 23, 2009, the board adopted a policy requiring that the District be notified in the case of a current employee being charged with or convicted of a crime.</p> <p>Based on our current audit, we determined that the District did take the necessary corrective actions to comply with our recommendations.</p>
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<p><u>III. Observation No. 2:</u> <u>Unmonitored System</u> <u>Access and Logical Access</u> <u>Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Complete and have signed a non-disclosure agreement with the vendor regarding the District's proprietary information. 2. Revise the District's information technology policy to address password and syntax requirements. 3. Require District and vendor employees to sign the District's 	<p>Background:</p> <p>We determined that a risk existed 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 was adequately monitoring vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit of vendor system access and logical access control weaknesses found that the District did take the necessary corrective action to implement each of our recommendations.</p>
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<p>Acceptable Use Policy.</p> <ol style="list-style-type: none">4. Require the vendor to assign unique userID's and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.6. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.7. 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 (i.e., last ten passwords).8. Remove the vendor's access to the system after the vendor has completed work on the system.		
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<p>9. Implement a procedure to have written evidence that a District employee reviews the log of vendor activity on the system.</p> <p>10. Prepare written reconciliation procedures to support how the District's personnel reconcile the system generated pupil membership and attendance reports and District manual records. This should also require that the District's reconciliations and rollforward procedures are documented.</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.auditor.gen.state.pa.us, and the following:

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

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

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

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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