

WATTSBURG AREA SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mr. Joseph Walko, Board President
Wattsburg Area School District
10782 Wattsburg Road
Erie, Pennsylvania 16509

Dear Governor Corbett and Mr. Walko:

We conducted a performance audit of the Wattsburg Area School District (WASD) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period May 16, 2008 through November 30, 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 WASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with WASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve WASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the WASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 22, 2012

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

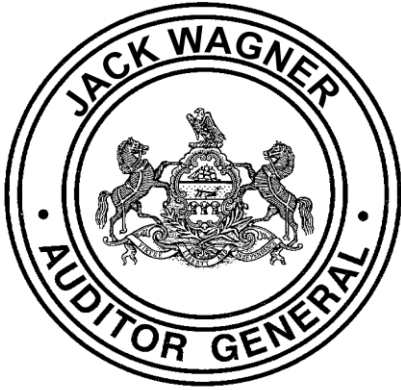
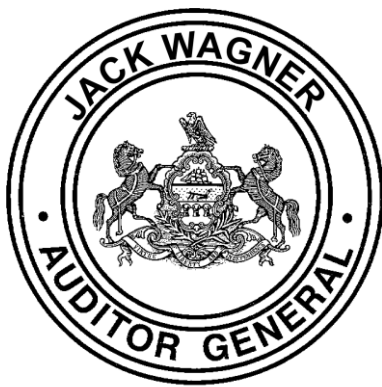


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Third Finding Regarding Incorrect Tuition Billings	6
Status of Prior Audit Findings and Observations	9
Distribution List	13



Executive Summary

Audit Work

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

Our audit scope covered the period May 16, 2008 through November 30, 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 WASD encompasses approximately 145 square miles. According to 2000 federal census data, it serves a resident population of 10,472. According to District officials, in school year 2007-08 the WASD provided basic educational services to 1,695 pupils through the employment of 123 teachers, 109 full-time and part-time support personnel, and 9 administrators. Lastly, the WASD received more than \$9.9 million in state funding in school year 2007-08.

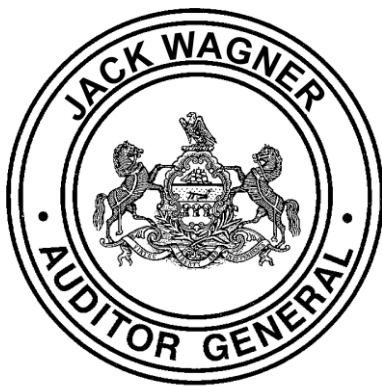
Audit Conclusion and Results

Our audit found that the WASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Third Finding Regarding Incorrect Tuition Billings. Our audit of WASD tuition records found that two neighboring school districts were not billed the appropriate tuition rate for students educated in the WASD. In addition, one of the districts did not pay the tuition it was billed (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the WASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the WASD had not taken appropriate corrective action in implementing our recommendations pertaining to tuition billings (see page 9). We also found that the WASD no longer receives alternative education funding, for which documentation was lacking for our prior audit (see page 9).

Additionally, the WASD has taken appropriate corrective action in implementing our recommendations for the observations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 10) and internal control weaknesses in administrative policies regarding bus driver qualifications (see page 12).



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 May 16, 2008 through November 30, 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 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 WASD'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:

- ✓ 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, 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.

WASD 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. 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 21, 2009, we performed audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 2562 of the Public School Code (PSC) provides, in part:

For each elementary or high school pupil attending a public school of another district, the receiving district shall bill the sending district, and the sending district shall pay the amount of the tuition charge.

Section 2561 of the PSC mandates the method of computing the tuition rate the educating district is to charge the home district of nonresident students.

Third Finding Regarding Incorrect Tuition Billings

On April 19, 2004, the District's school board approved a Regional Choice Initiative agreement (RCI). This agreement permitted the students of participating districts to enroll in classes at another district at an affixed rate of \$3,151 for the 2007-08 school year and \$3,071 for the 2006-07 school year. The rate is to increase in accordance with the Consumer Price Index.

For the 2007-08 school year, the District had 11 secondary RCI students from Harbor Creek School District, and 7 secondary RCI students from Iroquois School District. For the 2006-07 school year, the District had 16 secondary RCI students from Harbor Creek School District and 11 RCI secondary students from Iroquois School District.

Although the District approved the RCI agreement, the PSC mandates a tuition rate based on the operating expenditures of the Wattsburg Area School District (WASD). This mandated rate is higher than the rate in the RCI agreement.

The PSC mandated secondary tuition rate for the 2007-08 school year was \$8,108, and for the 2006-07 school year was \$7,375. The undercharges are explained as follows:

<u>Sending District</u>	<u>School Year</u>	<u>Amount Billed</u>	<u>Amount Due Per PSC</u>	<u>Undercharges</u>
Harbor Creek	2007-08	\$ 8,112	\$20,868	\$12,756
	2006-07	<u>9,548</u>	<u>22,929</u>	<u>13,381</u>
	Total	<u>\$17,660</u>	<u>\$43,797</u>	<u>\$26,137</u>
Iroquois	2007-08	\$ 3,045	\$ 7,832	\$ 4,787
	2006-07	<u>6,718</u>	<u>16,133</u>	<u>9,415</u>
	Totals	<u>\$ 9,763</u>	<u>\$23,965</u>	<u>\$14,202</u>
Grand Totals		<u>\$27,423</u>	<u>\$67,762</u>	<u>\$40,339</u>

In addition, the District, at the time of our audit, had not received the \$8,112 that was billed Harbor Creek School District for school year 2007-08.

District personnel believed that the RCI agreement superseded the PSC.

Tuition billings have also been the topic of findings in our previous two audit reports.

Recommendations

The *Wattsburg Area School District* should:

1. Require District personnel to bill nonresident students' district of residence for educational services provided by the District at the approved tuition rate provided under Section 2561 of the PSC for the 2007-08 and 2006-07 school years, and for subsequent years.
2. Contact Harbor Creek School District regarding its outstanding tuition for the 2007-08 school year.

Management Response

Management stated the following:

The Wattsburg Area School District does not agree with this finding. The WASD Board of Education approved the Regional Choice Initiative Agreement (RCI), which allows students of participating districts the opportunity to take courses that would not be available to member school districts due to costs to provide those programs at the home district. Districts are constantly facing increasing economical difficulties to provide educational programs that will allow students to be competitive outside of the educational environment. Thus a need to share resources between school districts can reduce cost to the taxpayer of this school district and provide outstanding educational programs for these students. This finding does not allow school districts to be creative, it limits the students ability to take courses not offered by member school districts, and could possibly increase the cost to the taxpayers of the WASD.

Auditor Conclusion

The auditors do not dispute the educational effectiveness of the RCI agreement. However, the fact that WASD charges tuition rates for nonresident students that are not based on the operating expenditures of the WASD, as required by Sections 2561 and 2562 of the PSC, effectively means that

the residents of the WASD are subsidizing the education of a neighboring school district student who attends WASD. The tuition rate established by the PSC approximates the cost of educating a student in the WASD's schools. We stand by our recommendation that the District charge the proper tuition rate, as mandated by law.

Status of Prior Audit Findings and Observations

Our prior audit of the Wattsburg Area School District (WASD) for the school years 2005-06 and 2004-05 resulted in two findings and two observations. The findings were in the areas of nonresident tuition billings and alternative education reporting. The observations were in the areas of unmonitored vendor system access and logical access control weaknesses and administrative policies regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. As shown below, we found that WASD did not implement recommendations related to the tuition billings finding, and no longer receive alternative education funding. WASD did implement recommendations for our observations regarding unmonitored vendor system access and logical access control weaknesses and bus drivers' qualifications.

<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: Incorrect Tuition Billings</i></u></p> <p>1. Require District personnel to bill nonresident students' district of residence for educational services provided by the District at the approved tuition rate under Section 2561 of the Public School Code (PSC) for the 2005-06 and 2004-05 school years and subsequent years.</p>	<p>Background:</p> <p>On April 19, 2004, the District's school board approved a Regional Choice Initiative Agreement (RCI). Our prior audit found that this agreement allowed the students of participating districts to enroll in classes at another district at fixed rates that differed from the tuition rates mandated by the PSC, resulting in undercharges of \$11,350 for the 2005-06 and 2004-05 school years.</p>	<p>Current Status:</p> <p>Our current audit found that the RCI Agreement was still in place and the District was still billing at the RCI tuition rate rather than the mandated tuition rate (see the finding in our current report, page 6). The District did not bill the mandated rate as we recommended for the 2005-06 and 2004-05 school years, or for subsequent years.</p> <p>We concluded that the WASD did not take corrective action to address this finding.</p>
<p><u><i>II. Finding No. 2: Continued Internal Control Weaknesses Noted in Alternative Education Reporting</i></u></p> <p>1. Follow through with the District's corrective action plan requiring the business administrator to perform an internal review of all applications prior to</p>	<p>Background:</p> <p>Our prior audit of the 2005-06 and 2004-05 school years' alternative education reports found that the District did not retain the necessary documentation supporting \$14,685 in alternative education funding received from the Commonwealth. Similar weaknesses were also addressed in our audit report for the 2003-04 and 2002-03 school years.</p>	<p>Current Status:</p> <p>Our current audit found that the District did not request alternative education funding for our current audit years. If the District receives the funding in the future we will review the documentation at that time.</p>

<p>their submission to the Department of Education.</p>		
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<p><u>III. Observation No. 1:</u> <u>Unmonitored Vendor System</u> <u>Access and Logical Access</u> <u>Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the District’s system. Monitoring reports should include the date, time, and reason for access, change(s). The District should review these reports to determine that access was appropriate and data was improperly altered. The District should also ensure it is maintaining evidence to support the monitoring and review. 2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives. 3. Allow access to the system only 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. 	<p>Background:</p> <p>The WASD uses software purchased from an outside vendor for its critical student accounting applications. The software vendor has remote access into the District’s network servers.</p> <p>Based on the procedures used during the prior audit period, 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 all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit found that the District has implemented our recommendations to help prevent unauthorized changes to the District’s data.</p> <p>We concluded that the WASD did take appropriate corrective action.</p>
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<p>4. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.</p> <p>5. Ensure that the contract with the vendor is reviewed by legal counsel.</p> <p>6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>7. Establish separate information technology policies and procedures controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>8. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password syntax requirements). Further, all employees should be required to sign and adhere to this policy.</p> <p>9. Upgrade the remote access software to the most current version.</p> <p>10. 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 at 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</p>		
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<p>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.</p>		
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<p><u>II. Observation No. 2:</u> <u>Continued Internal Control Weaknesses Noted in Administrative Policies Regarding Bus Driver 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 and District's independent 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 continued internal control weaknesses in administrative policies regarding bus driver qualifications. As of our fieldwork completion date of May 16, 2008, the District did not have written policies or procedures in place to ensure that they were notified in the event that current bus drivers were charged with or convicted of serious criminal offenses, which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This policy weakness was also the subject of an observation in our report for the 2003-04 and 2002-03 school years.</p>	<p>Current Status:</p> <p>Our current audit found that the District, as of November 30, 2009, was in the process of having all policies updated to follow the format of the Pennsylvania School Board Association policies. The District provided a draft copy of the new policy that will be approved when the policy book is complete. This policy will ensure that current bus drivers notify the District in the event they have been charged with or convicted of a serious criminal offense.</p> <p>During our next regular audit of the District, we will verify that the Board approved the new policy. However, based on the draft policy, the District has taken appropriate corrective action to implement recommendations in our prior audit report.</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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