

WEST BRANCH AREA SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Joseph M. Kovalcin, Board President
West Branch Area School District
516 Allport Cutoff
Morrisdale, Pennsylvania 16858

Dear Governor Corbett and Mr. Kovalcin:

We conducted a performance audit of the West Branch Area School District (WBASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 19, 2010 through September 22, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 WBASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **WEST BRANCH AREA SCHOOL DISTRICT** Board Members

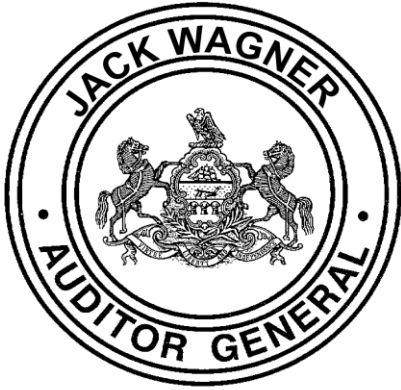
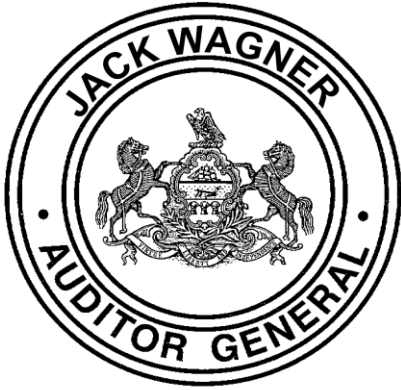


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Executive Summary

Audit Work

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

Our audit scope covered the period March 19, 2010 through September 22, 2011, 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 2009-10 and 2008-09.

District Background

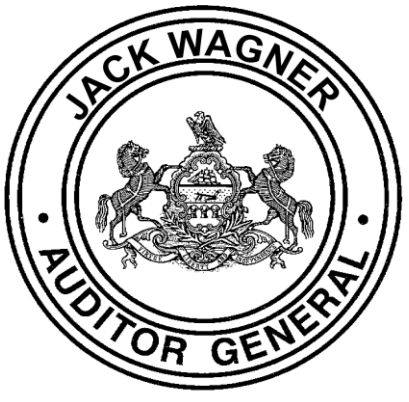
The WBASD encompasses approximately 165 square miles. According to 2000 federal census data, it serves a resident population of 7,833. According to District officials, in school year 2009-10 the WBASD provided basic educational services to 1,192 pupils through the employment of 93 teachers, 54 full-time and part-time support personnel, and 9 administrators. Lastly, the WBASD received more than \$9.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to the WBASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the WBASD had taken appropriate corrective action in implementing our recommendations pertaining to lack of documentation to support reported student (see page 7) membership and Memorandum of Understanding that had not been updated (see page 9). We found the WBASD had taken partial corrective action to address our recommendations regarding system access and logical access control 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 March 19, 2010 through September 22, 2011.

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

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

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 WBASD'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?
- ✓ 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, observations and conclusions based on our audit objectives.

WBASD 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 bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 5, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the West Branch Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the West Branch Area School District (WBASD) for the school years 2007-08 and 2006-07 resulted in one reported finding and two observations. The finding pertained to a lack of documentation to support reported pupil membership. The first observation pertained to information technology, and the second observation pertained to a Memorandum of Understanding that was not updated timely. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior finding and observations. As shown below, we found that the WBASD did implement recommendations related to the documentation of reported membership and the Memorandum of Understanding. The District partially implemented recommendations related to information technology.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding: **Insufficient Documentation to Support Reported Student Membership**

Finding Summary: Our prior audit of child accounting data found that not all source documentation was retained for audit purposes, resulting in our inability to verify the WBASD's entitlement to subsidies and reimbursements totaling \$14,646,740.

Recommendations: Our audit finding recommended that the WBASD:

1. Develop and implement procedures to ensure supporting documentation for child accounting data reported the Department of Education is retained and available for audit.
2. Establish written procedures for the child accounting function.

Our audit finding also recommended that DE:

3. Require the District to maintain sufficient and relevant evidence to ensure proper justification for the receipt of state funds. Moreover, in view of the lack of documentation, review the propriety of the \$14,646,740 in subsidies received.

Current Status: During our current audit procedures we found that the WBASD did implement the recommendations beginning with the 2009-10 school year, the first year our recommendations could be acted on.

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Weaknesses were noted in our review of the WBASD's information technology (IT) controls.

Recommendations:

Our audit observation recommended that the WBASD:

1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The WBASD should review these reports to determine that the access was appropriate and that data was not improperly altered. The WBASD should ensure it is maintaining evidence of this monitoring and review.
2. Maintain evidence that it has a signed fully executed contract with the vendor. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
5. Establish separate IT policies and procedures for controlling the activities of vendor/consultants and have the vendor sign this policy, or require the vendor to sign the WBASD's Acceptable Use Policy.
6. Ensure that the WBASD's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
7. Implement a security policy and system parameter setting to require all users, including the vendor, to change 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.

Current Status: During our current audit procedures we found that the WBASD did implement recommendations 1 and 7; the other recommendations had not yet been implemented. District management informed us that they intended to implement our other recommendations as well. We will follow-up on the District's further corrective actions during our next audit of the District.

Observation No. 2: Memorandum of Understanding Not Updated Timely

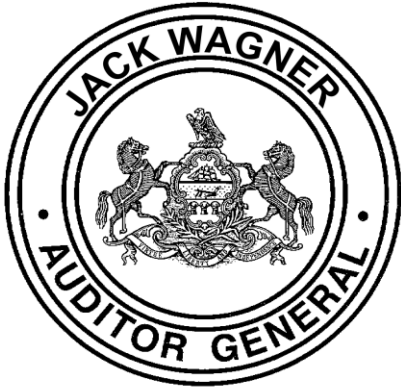
Observation

Summary: Our audit of WBASD records found that the Memorandum of Understanding (MOU) between the WBASD and the local law enforcement agency had not been updated since January 25, 2007.

Recommendations: Our audit observation recommended that the WBASD:

1. In consultation with the solicitor, review, update and re-execute the current 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.

Current Status: During our current audit procedures we found that the WBASD implemented the recommendations.



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:

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

The Honorable Ronald J. Tomalis
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. Nichole Duffy
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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