

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

NOVEMBER 2010



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

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

Dear Governor Rendell and Mr. Kovalcin:

We conducted a performance audit of the West Branch Area School District (WBASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 6, 2008 through March 19, 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 WBASD 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 two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding, observations and recommendations have been discussed with WBASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve WBASD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 5, 2010

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

## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding – Insufficient Documentation to Support Reported Student Membership .....	6
Observation No. 1 – Unmonitored Vendor System Access and Logical Access Control Weaknesses .....	8
Observation No. 2 – Memorandum of Understanding Not Updated Timely .....	11
Status of Prior Audit Findings and Observations .....	13
Distribution List .....	17



## **Executive Summary**

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### **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, regulations, 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 February 6, 2008 through March 19, 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 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 2007-08 the WBASD provided basic educational services to 1,236 pupils through the employment of 93 teachers, 81 full-time and part-time support personnel, and 10 administrators. Lastly, the WBASD received more than \$9.5 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the WBASD 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, two matters unrelated to compliance are reported as observations.

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

Our 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 (see page 6).

#### **Observation 1: Unmonitored Vendor System Access and Logical Access**

**Control Weaknesses.** Weaknesses were noted in our review of the WBASD's information technology controls (see page 8).

#### **Observation 2: Memorandum of Understanding Not Updated Timely.**

Our audit of WBASD records found that the Memorandum of Understanding between the WBASD and the local law enforcement agency has not been updated since January 25, 2007 (see page 11).

#### **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 2005-06 and 2004-05 school years, we found the WBASD had taken appropriate corrective action in implementing our recommendations pertaining to termination

provisions in the superintendent's contract (see page 13) and noncompliance with the Sunshine Law (see page 14).

We found the WBASD had not taken appropriate corrective action in implementing recommendations pertaining to insufficient documentation to support reported membership (see page 14) and board members failing to file Statements of Financial Interests (see page 15).



## Audit Scope, Objectives, and Methodology

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### 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 February 6, 2008 through March 19, 2010, except for the review of outside vendor access to the District's student accounting applications which was completed on March 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 WBASD'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:

- ✓ 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?
- ✓ 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.

WBASD 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 and pupil transportation.

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 April 1, 2009, we reviewed the WBASD's response to DE dated November 16, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

### Finding

### Insufficient Documentation to Support Reported Student Membership

*Criteria relevant to the finding:*

Section 518 of the Public School Code requires that records be retained for a period of not less than six years. Department of Education (DE) guidelines and instructions require the maintenance and retention of adequate documentation to verify the District's entitlement to state payments.

Our audit of the District's child accounting data for the 2006-07 and 2007-08 school years found that not all source documentation was retained for audit purposes, resulting in our inability to verify the District's entitlement to subsidies and reimbursements that were based on membership data totaling \$14,646,740, detailed as follows:

<u>Identification</u>	<u>2007-08</u>	<u>2006-07</u>
Basic Education Funding	\$6,686,719	\$6,438,736
Tuition for Children Placed in Private Homes	-	5,080
Vocational Education Subsidy	38,341	42,300
Special Education Subsidy	701,709	686,282
Health Services Reimbursement	<u>23,705</u>	<u>23,868</u>
Total	<u>\$7,450,474</u>	<u>\$7,196,266</u>

This is a continuation of a finding in our prior audit report (see page 14).

District personnel were unable to provide detailed reports to support membership days reported to the Department of Education (DE) for kindergarten through 12<sup>th</sup> grade and for area vocational-technical school classifications. Moreover, District personnel were unable to reprint computer membership reports, as all records relating to pupil membership had been "erased" from the server, and no back-up of the information could be located. Failure to maintain and retain this documentation could result in the future loss of state funding.

Moreover, the District lacked written policies and procedures governing its child accounting function. Such procedures could have ensured that District personnel retained certain documentation for audit purposes. Such written procedures are particularly important in the event of employee turnover.

**Recommendations**

The *West Branch Area School District* should:

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

The *Department of Education* should:

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, DE should review the propriety of the \$14,646,740 in subsidies received.

**Management Response**

Management stated the following:

The Finding is in concert with present recommendations of the individual who provided this service to the district. The district is researching the hiring of an in-house individual who can perform this function.

**Observation No. 1**

*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 West Branch Area School District (WBASD) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The vendor has remote access into the WBASD’s network server.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the WBASD’s data could occur. However, since the WBASD has adequate manual compensating controls in place to verify the integrity of the current membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the WBASD 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 WBASD’s membership information and result in the WBASD not receiving the funds to which it was entitled from the state.

During our review, we found the WBASD had the following weaknesses over vendor access to the WBASD’s system:

1. The WBASD does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and WBASD employees).
2. The WBASD was unable to provide evidence that they have a signed fully executed contract with the vendor providing student accounting applications and related information technology (IT) services.
3. The WBASD does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.

4. The WBASD does not require written authorization before adding, deleting, or changing a userID.
5. The WBASD does not have current IT policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the WBASD's Acceptable Use Policy.
6. The WBASD's Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
7. The WBASD has certain weaknesses in logical access controls. We noted that the WBASD's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days, and to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters.

## **Recommendations**

The *West Branch Area School District* should:

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 also 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 vendors/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 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.

**Management Response**

Management stated the following:

We are seeking solutions to this issue based on the recommendations of our service provider . . . and best practices of local school districts.



**Observation No. 2** →

**Memorandum of Understanding Not Updated Timely**

*Criteria relevant to the observation:*

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by DE entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Our audit of District records found that the current Memorandum of Understanding (MOU) between the District and a local law enforcement agency was signed January 25, 2007, and has not been updated.

The failure to update MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

**Recommendations**

The *West Branch Area School District* should:

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.

**Management Response**

Management stated the following:

Changes in Administration contributed to a lack of attention in this area and caused a lapse in seeking updated MOU's. New MOU's are now being sought.

## Status of Prior Audit Findings and Observations

Our prior audit of the West Branch Area School District (WBASD) for the school years 2005-06 and 2004-05 resulted in four reported findings, 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 WBASD Superintendent’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 WBASD did implement recommendations related to superintendent contract provisions and noncompliance with the Sunshine Law, but did not implement recommendations related to membership documentation and compliance with the Public Official and Employee Ethics Act (Ethics Act).

<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: The District Did Not Provide Adequate Termination Provisions in the Superintendent’s Employment Contract, Leading to a Costly and Confidential Buy-Out of the Contract</i></u></p> <p>1. Ensure that future employment contracts contain adequate termination provisions sufficient to protect the interests of the taxpayers of the District in the event that the employment ends prematurely for any reason, and comply with their provisions in the event of a buy-out.</p> <p>2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and justifying the District’s expenditure of public funds to buy-out the Superintendent’s</p>	<p><b>Background:</b></p> <p>Our prior audit found that on November 29, 2007, after the Superintendent had served only two years and five months of the three-year term of the Contract, the Board approved an Agreement with the Superintendent, which terminated her employment with the District. The Agreement terminated the employment of the Superintendent as of December 1, 2007, and, required the District to make payments valued at more than \$159,236.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that there were no additional administrative buy-outs during the audit period.</p> <p>Additionally, we found that the current Superintendent’s employment contract contains adequate termination provisions sufficient to protect the interests of the taxpayers of the District in the event that the employment ends prematurely.</p> <p>Based on our current review, we concluded the District had taken corrective action for this finding.</p>

Contract.		
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<p><b><u>II. Finding No. 2:</u></b>  <u>District's Entitlement to \$7,068,943 of Subsidies and Reimbursements is Questionable as a Result of Insufficient Documentation to Support Reported Membership</u></p> <ol style="list-style-type: none"> <li>1. Develop and implement procedures to ensure supporting documentation for child accounting data reported to DE is retained and available for audit.</li> <li>2. Establish written procedures for the child accounting function.</li> <li>3. DE should 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, DE should review the propriety of the \$7,068,943 in subsidies received.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's 2005-06 school year child accounting data found that not all source documentation was retained for audit purposes, resulting in our inability to verify the District's entitlement to subsidies and reimbursements totaling \$7,068,943.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the 2007-08 and 2006-07 school years' child accounting data again found that not all source documentation was retained for audit purposes, resulting in our inability to verify the District's entitlement to subsidies and reimbursements totaling \$14,646,740. (See the finding on page 6.)</p> <p>Based on our current audit, we concluded the District had not taken corrective action for this finding.</p>
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<p><b><u>III. Finding No. 3:</u></b>  <u>Noncompliance with the Sunshine Law</u></p> <ol style="list-style-type: none"> <li>1. Hold executive sessions only for purposes outlined in the Sunshine Law.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of board minutes found that the board held executive sessions in violation of the Sunshine Law.</p>	<p><b>Current Status:</b></p> <p>Our current audit found no further violations of the Sunshine Law.</p> <p>Based on our current review, we concluded the District had taken corrective action for this finding.</p>
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<p><u>VI. Finding No. 4:</u> <u>Continued Violation of the</u> <u>State Public Official and</u> <u>Employee Ethics Act</u></p> <p>1. Seek the advice of the State Ethics Commission in regard to the board's responsibility when elected board members fail to file Statements of Financial Interests.</p>	<p><b>Background:</b></p> <p>Our prior audit found one former board member failed to file a Statement of Financial Interests for the year ended December 31, 2005.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the years ended December 31, 2007 and 2008, found that one ex-board member failed to file a Statement of Financial Interests for the year ended December 31, 2007. Additionally, one ex-board member failed to file a Statement of Financial Interests for the year ended December 31, 2008.</p> <p>We will submit these violations to the State Ethics Commission for their review.</p> <p>Based on our current review, we concluded the District had not taken corrective action for this finding.</p>
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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Edward G. Rendell  
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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](http://www.auditorgen.state.pa.us).

