

OIL CITY AREA SCHOOL DISTRICT  
VENANGO COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JULY 2010



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

Mr. J. D. Stanley, Board President  
Oil City Area School District  
P.O. Box 929  
825 Grandview Road  
Oil City, Pennsylvania 16301

Dear Governor Rendell and Mr. Stanley:

We conducted a performance audit of the Oil City Area School District (OCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period September 24, 2008 through February 17, 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 OCASD 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 OCASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve OCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the OCASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

July 1, 2010

cc: **OIL CITY 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 – Internal Control Weakness and Errors in Reporting Membership for Nonresident Children Resulted in a Net Reimbursement Underpayment of \$16,711 .....	6
Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses .....	8
Status of Prior Audit Findings and Observations .....	12
Distribution List .....	15



## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period September 24, 2008 through February 17, 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 OCASD encompasses approximately 80 square miles. According to 2000 federal census data, it serves a resident population of 16,270. According to District officials, in school year 2007-08 the OCASD provided basic educational services to 2,355 pupils through the employment of 167 teachers, 58 full-time and part-time support personnel, and 13 administrators. Lastly, the OSASD received more than \$17.3 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the OCASD 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: Internal Control Weakness and Errors in Reporting Membership for Nonresident Children Resulted in a Net Reimbursement Underpayment of \$16,711.** The OCASD incorrectly reported nonresident childrens' membership days as resident to the Department of Education for the 2007-08 and 2006-07 school years, resulting in a net reimbursement underpayment of \$16,711. Additionally internal control weaknesses existed related to the verification of residency and legal guardianship for nonresident students enrolling in the OCASD (see page 6).

**Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.** We noted the OCASD 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 8).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the OCASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the OCASD had not taken appropriate corrective action in implementing our

recommendations pertaining to reporting membership for nonresident children (see page 12). However, the OCASD did take appropriate corrective action in implementing our recommendations pertaining to health services and verification of student existence and residency (see page 13).



## 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 September 24, 2008 through February 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 the 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

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 OCASD'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?

*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.

- ✓ 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**

*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.

*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.

OCASD 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 OCASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 23, 2009, we reviewed the OCASD's response to DE dated July 27, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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#### **Internal Control Weakness and Errors in Reporting Membership for Nonresident Children Resulted in a Net Reimbursement Underpayment of \$16,711**

*Criteria relevant to the finding:*

Section 2503(c) of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found reporting errors resulting in a net underpayment of \$16,711. This was the result of an internal control weakness in the verification of the nonresidency status of students placed in private homes.

For the 2007-08 school year, the District underreported 130 elementary membership days and 40 secondary membership days for children placed in private homes. The errors resulted in an underpayment of \$7,019 in Commonwealth-paid tuition for children placed in private homes.

For the 2006-07 school year, the District underreported 96 full-time kindergarten membership days, 96 elementary membership days, and 73 secondary days for children placed in private homes. The errors resulted in an underpayment of \$10,833 in tuition for children placed in private homes.

Additionally, the 2006-07 school year membership errors affected the basic education funding formula, resulting in a \$1,141 overpayment of the District's basic education funding.

The membership reporting errors were caused by District personnel incorrectly reporting children placed in private homes as residents of the District. This occurred because District personnel, at each school building, failed to request placing agency letters verifying the nonresidency status of students placed in private homes.

Nonresident pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

We have provided DE with reports detailing the membership errors for use in recalculating the District's tuition for children placed in private homes.

## **Recommendations**

The *Oil City Area School District* should:

1. Strengthen controls to ensure adherence to DE regulations when reporting nonresident students attending the District's educational programs.
2. Perform an internal audit of all records received from each school building to ensure accuracy.
3. Implement internal control procedures to ensure District personnel request and obtain verification of nonresidency for nonresident students enrolled in the District.
4. Review reports submitted subsequent to the years audited, and submit revised reports to DE if errors are found.

The *Department of Education* should:

5. Adjust the District's allocations to resolve the net underpayment of \$16,711.

## **Management Response**

Management stated the following:

The District has tightened its enrollment procedures since the 2006-07 school year. Building secretaries currently utilize a checklist that requires such things as proof of residency and guardianship papers. However, as a result of the audit, the district will revise the enrollment form to include documentation for nonresident students who are placed by an agency or the court into the district.

The District realizes the importance of maintaining both resident and nonresident pupil membership data since it is one of the most important factors in determining our subsidy payments from the state.

The District respectfully requests that the underpayment of \$16,711 be paid to the district.

**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 Oil City Area School District 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 only when the District permits.

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 the vendor activity in its system.

During the review, it was found that the District had the following weakness:

1. The District does not have a formal contract with the vendor to provide student accounting applications and related information technology services.
2. The District does not require employees to sign the Acceptable Use Policy.
3. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.
4. The District has certain weaknesses in logical access controls. We noted that the District’s system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; to use passwords that are minimum length of eight characters and include alpha, numeric and special characters, and to maintain a password history (i.e., approximately ten passwords).
5. The District does not have evidence that it is reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There was no evidence that the District is performing procedures to monitor the system for unauthorized

6. access (i.e., hackers) by reviewing firewall logs, changes to the network configuration or by some other means.
7. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
8. The District stores their back-up data in a school building that is attached to the school building housing the district's server.
9. The District does not have written procedures for entering membership/attendance information into the database system.
10. The District does not have formal evidence to support any reconciliation is performed that would allow the District to detect significant changes in membership/attendance data (i.e., system-generated reports and manual records, rollforwards of balances from beginning of the period to the end of the period).

## **Recommendations**

The *Oil City Area School District* should:

1. Develop an agreement with the vendor to provide student accounting applications and related IT services. 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.
2. Revise the District's Acceptable Use Policy to require all employees to sign the policy.
3. Develop and maintain a written security policy which includes provisions for privacy (monitoring of electronic mail, access to files), access (acceptable use guidelines for users), accountability (responsibilities of users, auditing, incident handling), authentication (password security and syntax requirements), and violation/incidents (what is to be reported and to whom) In addition, the District should ensure that the vendor's employees are aware of the policy and sign a copy of it annually.

4. Implement a security policy and system parameter settings to require all users to change their passwords on a regular basis. 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 repetitive password.
5. Generate monitoring reports (including firewall logs) of vendor and employee remote access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s). Review these reports to determine that the access was appropriate and that data was not improperly altered. Ensure it is maintaining evidence to support this monitoring and review.
6. Require the vendor to assign unique userID's and passwords to vendor employees authorized to access the District's system. Further, obtain a list of the vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. Store back-up data in a secure, off-site location.
8. Prepare written procedures for entering membership/attendance information into the database system to avoid problems that could arise should the District experience unexpected personnel changes.
9. Document the reconciliation procedures used by District that allow the District to detect significant changes in membership/attendance data.

**Management Response**

Management stated the following:

The District understands the importance of the security of our various computerized applications for systems maintained both in-house and through an outside vendor. It is especially important to have security procedures in place for software hosted by a vendor to maintain the same level of control that we have over those that are housed internally.



As a result of the audit, the district will consider implementing as many of the 9 recommendations as possible in order to keep our systems more secure and less prone to unauthorized access.

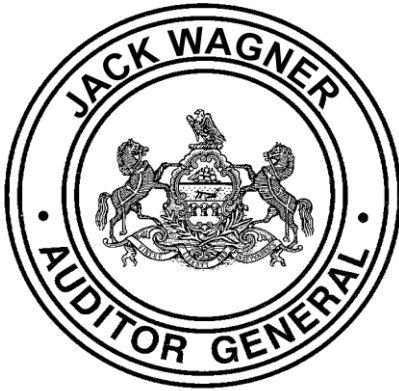
## Status of Prior Audit Findings and Observations

Our prior audit of the Oil City Area School District (OCASD) for the school years 2005-06 and 2004-05 resulted in three reported findings. The findings pertained to nonresident children, health services and verification of student existence and residency. 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 OCASD 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 OCASD did not implement recommendations related to nonresident children but did implement recommendations related to health services and verification of student existence and residency.

<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 1: Errors in Reporting Membership for Nonresident Children Resulted in Reimbursement Overpayments Totaling \$21,691</i></u></p> <ol style="list-style-type: none"> <li>1. Strengthen controls to ensure adherence to DE regulations regarding nonresident students.</li> <li>2. Perform an internal audit of all records received from each school building to ensure accuracy.</li> <li>3. Require private residential rehabilitative institutions to guarantee tuition for all out-of-state students.</li> <li>4. Review subsequent school years’ pupil membership reports submitted to DE for accuracy and revise reports, if necessary.</li> <li>5. DE should adjust the District’s allocations to resolve the overpayments of \$21,691.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District’s pupil membership reports submitted to DE found nonresident reporting errors for the 2005-06 and 2004-05 school years. The elementary and secondary membership days for nonresident foster children were underreported, and the secondary membership days for nonresident wards of the state were overstated. The errors resulted in overpayments of \$21,691.</p>	<p><b>Current Status:</b></p> <p>Our current audit of pupil membership data for the 2007-08 and 2006-07 school years again found nonresident reporting errors (see page 6). We concluded the OCASD did not take appropriate corrective action to address this finding.</p> <p>As of February 17, 2010, DE had not adjusted the District’s allocations to recover the overpayments of \$21,691. DE personnel stated this finding was still pending resolution.</p>

<p><u>II. Finding 2: Net Underpayment of \$3,920 for Health Services Reimbursement</u></p> <ol style="list-style-type: none"> <li>1. Strengthen controls to ensure that average daily membership (ADM) is accurately reported for reimbursement.</li> <li>2. Review subsequent applications submitted to the Department of Health (DH) for accuracy and revise reports if necessary.</li> <li>3. DH should adjust the District's allocations to correct the net underpayment of \$3,920.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of health services reimbursement applications for the 2005-06 and 2004-05 school years found inaccuracies in the ADM reported to DH for reimbursement, resulting in a net underpayment of \$3,920.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the health services reimbursement applications for the 2007-08 and 2006-07 school years found no discrepancies in the health services data. We concluded that the OCASD did take appropriate corrective action to address this finding.</p> <p>On January 22, 2010, DH submitted a supplemental voucher in the amount of \$3,920 to the OCASD.</p>
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<p><u>III. Finding 3: Internal Control Weaknesses and Lack of Documentation Regarding Verification of Student Existence and Residency</u></p> <ol style="list-style-type: none"> <li>1. Obtain and retain appropriate legal documentation to verify the existence, guardianship and residency of all students enrolled within the District.</li> <li>2. Review subsequent school years student records to ensure documentation is on file to verify student existence and residency.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of verification of student existence and residency for the 2005-06 and 2004-05 school year found internal control weaknesses and lack of documentation. The District failed to retain documentation verifying the existence and residency of the children.</p>	<p><b>Current Status:</b></p> <p>We followed up on the OCASD verification of student existence and residency deficiencies and found that the OCASD did take corrective action to address this finding.</p> <p>District personnel created an enrollment checklist requiring proof of residence and thereby existence of students.</p> <p>One deficiency related specifically to nonresident students placed in private homes remained and is the partial subject of the finding in our current report (see page 6).</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:

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