

PALMYRA AREA SCHOOL DISTRICT  
LEBANON COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006, 2005, 2004 AND 2003,  
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006

WITH FINDINGS, OBSERVATIONS, RECOMMENDATIONS AND  
STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

THROUGH NOVEMBER 9, 2007





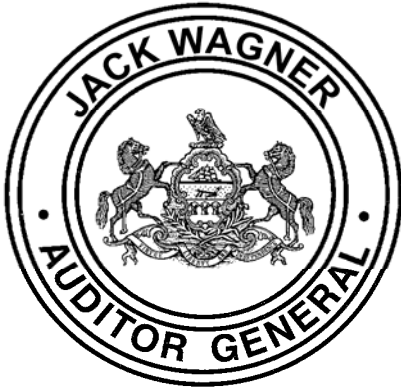
PALMYRA AREA SCHOOL DISTRICT  
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PERFORMANCE AUDIT REPORT

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THROUGH NOVEMBER 9, 2007



PALMYRA AREA SCHOOL DISTRICT  
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The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Michael Bratton, Board President  
Palmyra Area School District  
1125 Park Drive  
Palmyra, Pennsylvania 17078

Dear Governor Rendell and Mr. Bratton:

We have conducted a performance audit of the Palmyra Area School District for the years ended June 30, 2006, 2005, 2004 and 2003, and in certain areas extending beyond June 30, 2006. 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 was limited to the following objectives:

- Objective No. 1 - To determine if the Palmyra Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the Palmyra Area School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

To plan and perform our audit of the Palmyra Area School District, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

### Independent Auditor's Report (Continued)

The results of our tests indicated that, in all significant respects, the Palmyra Area School District was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit and took appropriate corrective action to address the findings and recommendations contained in our prior audit report, except as noted in the following findings. We also identified internal control weaknesses as discussed in the observations. The findings and observations are discussed further in the Conclusions section of this report:

#### Objective No. 1

- Finding No. 1 – Inaccurate Reporting of Membership Resulted in a Net Subsidy and Reimbursement Overpayment of \$220,098
- Finding No. 2 – Board Members Failed to File Statements of Financial Interests According to Provisions of the Public Official and Employee Ethics Act
- Observation No. 1 – Memorandum of Understanding Not Updated Timely
- Observation No. 2 – Unmonitored Vendor System Access and Logical Access Control Weaknesses

We believe that our recommendations, if implemented by the district, will improve the internal control weaknesses identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.



Independent Auditor's Report (Continued)

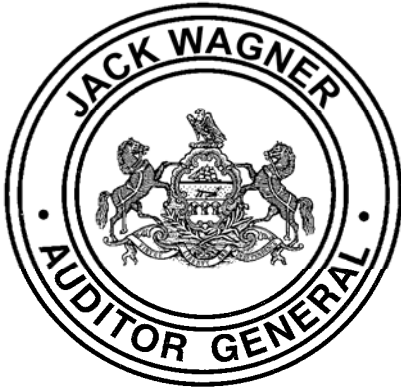
The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

November 9, 2007

/s/  
JACK WAGNER  
Auditor General

cc: Mr. George Downey, Board Vice-President  
Ms. Darcy Brenner-Smith, Board Secretary  
Mr. John W. Jeffrey, Board Treasurer  
Mr. Walter L. Smith, Board Member  
Ms. Karen Spillar, Board Member  
Ms. Ellen Wargo, Board Member  
Mr. Bradley E. White, Board Member  
Mr. Gerald Wimmer, Board Member  
Mrs. Christine Horn, Board Member  
Dr. Larry R. Schmidt, Superintendent



PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT  
BACKGROUND

**Background**

The Palmyra Area School District is located in Lebanon County and encompasses an area of approximately 37 square miles. The school district has a population of 19,325, according to the 2000 federal census. The administrative offices are located at 1125 Park Drive, Palmyra, Pennsylvania.

According to school district administrative officials, during the 2005-06 school year, the district provided basic educational services to 2,898 pupils through the employment of 13 administrators, 210 teachers, and 131 full-time and part-time support personnel. Special education was provided by the district and the Lancaster-Lebanon Intermediate Unit #13. Occupational training and adult education in various vocational and technical fields were provided by the district and the Lebanon County Career and Technology Center.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year in which the school district incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school district throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 23 through 25 of this report for a listing of the state revenue the district received during the 2005-06, 2004-05, 2003-04 and 2002-03 school years and for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. School district annual financial reports and the related certified audits of the payments are not available before October 31<sup>st</sup> of the following fiscal year.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT  
OBJECTIVES, SCOPE AND METHODOLOGY

**OBJECTIVES AND SCOPE**

Our audit objectives were:

- Objective No. 1 - To determine if the Palmyra Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the Palmyra Area School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report.

The scope of our audit covered the years ended June 30, 2006, 2005, 2004 and 2003, and in certain areas extending beyond June 30, 2006.

**METHODOLOGY**

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of a school district requires school board members to establish and maintain internal controls to provide reasonable assurance that specific school district objectives will be achieved. School board members are responsible for the adoption and use of policies and procedures that promote the economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the school district's internal controls as they relate to the district's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a school district's operations for a given year until after this information becomes available.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**CONCLUSIONS – OBJECTIVE NO. 1**

The first objective of our audit was to determine if the Palmyra Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the Palmyra Area School District complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the findings listed below. Additionally, we identified internal control weaknesses as noted in the observations included in this report. The findings, observations and recommendations were reviewed with representatives of the Palmyra Area School District, and their comments have been included in this report.

**Finding No. 1 – Inaccurate Reporting of Membership Resulted in a Net Subsidy and Reimbursement Overpayment of \$220,098**

Our review of documentation supporting pupil membership reports submitted to the Department of Education (DE) for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found errors in resident, nonresident and instructional days data. The errors resulted in a net overpayment of \$220,098, detailed as follows:

<u>Description</u>	<u>2005-06</u>	<u>(Over)/Underpayments</u>			<u>Totals</u>
		<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	
Basic Education Funding (BEF)	\$(77,377)	\$(74,745)	\$(33,188)	\$ -	\$(185,310)
Special Education Subsidy	(2,560)	(1,432)	75	74	(3,843)
Tuition for Children Placed in Private Homes	(409)	(17,822)	(9,833)	-	(28,064)
Transportation Subsidy	<u>(2,881)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,881)</u>
Totals	<u>\$(83,227)</u>	<u>\$(93,999)</u>	<u>\$(42,946)</u>	<u>\$ 74</u>	<u>\$(220,098)</u>

Child accounting guidelines and instructions require the accurate reporting of pupil membership days and student classifications, which are major factors used by DE to calculate various subsidies and reimbursements, including but not limited to BEF, special education, tuition for children placed in private homes and transportation.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**Finding No. 1 (Continued)**

Inaccurate reporting occurred because the district did not:

- reconcile membership data;
- understand how its software processed membership data;
- ensure that agency placement letters for children placed in private homes supported the classification reported for these students; and
- review data for accuracy.

This resulted in the district:

- reporting 178 instructional days for morning half-time kindergarten for the 2005-06 school year when the actual school year was 179 days;
- inaccurately reporting resident membership days for students enrolled at Lebanon County Career and Technology Center (LCCTC) during the 2005-06, 2004-05, 2003-04 and 2002-03 school years;
- inaccurately reporting:
  - resident and nonresident membership for children placed in private homes during the 2005-06, 2004-05 and 2003-04 school years;
  - district-paid tuition students during the 2005-06 school year;
  - nonresident children in group homes and wards of the state during the 2005-06 school year; and
  - affidavit students during the 2003-04 school year;
- failing to report nonresident membership days for a child placed in a private home during the 2005-06 school year;
- failing to report certain resident membership days during the 2004-05 and 2003-04 school years; and
- inaccurately computing and reporting resident membership days for the 2005-06, 2004-05, 2003-04 and 2002-03 school years.

The following information provides more detail regarding the inaccuracies in the reporting of resident and nonresident membership days.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**Finding No. 1 (Continued)**

Resident

Inaccurate reporting of resident membership resulted in the following membership day (over)/understatements:

<u>Description</u>	<u>2005-06</u>	<u>(Over)/Understated</u>		<u>2002-03</u>
		<u>2004-05</u>	<u>2003-04</u>	
Kindergarten	1,172	-	-	-
Elementary	54	(179)	461	-
Secondary	4,227	(17,179)	(7,385)	819

Nonresident

Inaccurate reporting of nonresident membership resulted in the following membership day (over)/understatements:

<u>Classification</u>	<u>2005-06</u>	<u>(Over)/Understated</u>	
		<u>2004-05</u>	<u>2003-04</u>
Children Placed in Private Homes:			
Kindergarten	(18)	-	-
Elementary	(38)	-	(106)
Secondary	2	(528)	(196)
Ward of the State:			
Secondary	33	-	-
District Paid Tuition:			
Secondary	1,042	-	-
Children in Group Homes:			
Secondary	(1,042)	-	-

PALMYRA AREA SCHOOL DISTRICT  
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**Finding No. 1 (Continued)**

Recommendations

Child accounting personnel should:

- establish reconciliation procedures to ensure instructional days reported on the instructional time summary agree with membership reports used to report membership days;
- ensure correct student data, including tracking codes, is entered into the district's child accounting software package;
- establish reconciliation procedures between district membership data and LCCTC data to ensure the correct reporting of vocational educational membership;
- establish reconciliation procedures between district membership data and data reported to DE to ensure all membership is reported;
- ensure the accurate reporting of membership for children placed in private homes, wards of the state, children in group homes, and district-paid tuition students; and
- review reports for years subsequent to the audit and submit revisions to DE if errors are noted.

DE should adjust district's allocations to correct the net overpayment of \$220,098.

Response of Management

Management provided the following response agreeing with the finding:

Instructional Days Calculation Error – Review procedures will be established to prevent incorrect reporting of number of instructional days.

Miscoding students/Incorrect Track Codes – Review procedures will be established to prevent coding errors.

Misclassification of Non-Resident Students - Review procedures will be established to prevent classification errors. All documentation for non-resident students will be forwarded to the district office for final review.



PALMYRA AREA SCHOOL DISTRICT  
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**Finding No. 1 (Continued)**

CTC Reporting Errors – Review procedures will be established to prevent miscoding of CTC students. Software changes have been made to prevent the double-reporting that occurred in the 2004-05 school year. District reporting for CTC students will be reconciled to CTC reports on a regular basis.

Lack of documentation for Manual Calculations – Child Accounting staff will continue to work with the IU [intermediate unit] and [the software] programmers to eliminate the need for any manual calculations. Detailed documentation will be maintained to support any manual calculations required. All manual calculations will be subject to a second review of the computations.

Inconsistencies between Powerschool reports - Child Accounting staff will perform comparisons and reconciliations to ensure there is consistent reporting of data. Any discrepancies will be reported to the IU via the ticket system.

Software glitch in calculating membership days – A ticket has been submitted to the IU for the software error identified in the 2004-05 school year. Care will be taken to review entry and withdrawal dates to ensure accuracy.

**Other Corrective Action**

Training manuals will be prepared and reviewed with all staff with child accounting responsibilities to ensure proper reporting and documentation for new students.

The Director of Business Affairs will perform a detailed analytical review of the summary child accounting data. Care will be taken to ensure that the totals of the data used for analytical review purposes ties in to the total membership reported to the Department of Education. Care will be taken to ensure that proper documentation exists for each reporting category on the summary of child accounting data.

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**Finding No. 2 - Board Members Failed to File Statements of Financial Interests According to Provisions of the Public Official and Employee Ethics Act**

Our review of the district's Statements of Financial Interests for the years ended December 31, 2006, 2005, 2004 and 2003 found that one board member failed to file her statement for 2004. Additionally, there were two board members who repeatedly filed their statements late, in 2006, 2004 and 2003. Two other board members also filed their statements late in 2006, and one other board member did so in 2003.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1101 *et seq.*, requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1<sup>st</sup> of each year they hold their positions and of the year after leaving such positions.

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public's trust. In addition, the board members' failure to file the Statement of Financial Interests constituted a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, 65 Pa.C.S. § 1104(d), which pertains to the failure to file the required Statement of Financial Interests, provides, in pertinent part, as follows:

No public official shall be allowed to take the oath of office or enter or continue upon his duties, nor shall he receive compensation from public funds, unless he has filed a statement of financial interests . . .

Section 1109(b), 65 Pa.C.S. § 1109(b) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so may be found guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned for not more than one year.

Section 1109(f), 65 Pa.C.S. § 1109(f) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so in a timely manner or who files a deficient Statement of Financial Interests may be subject to a civil penalty, at a rate of not more than \$25 for each day such statement remains delinquent or deficient, with a maximum penalty under this chapter of \$250.

A copy of this finding will be forwarded to the States Ethics Commission for additional review and investigation, as it deems necessary.

PALMYRA AREA SCHOOL DISTRICT  
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**Finding No. 2 (Continued)**

Recommendations

The board should:

- seek the advice of its solicitor in regard to the board's responsibility when an elected or former board member fails to file a Statement of Financial Interests; and
- develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.

Response of Management

Management agreed with the finding and provided the following response:

We believe we have appropriate procedures in place to diligently follow up with board members to obtain completed Statements of Financial Interests. Without exception, the instances cited were for Board members who had left office, but were still required to file a Statement of Financial Interests statement in the first year out of office.

It would be helpful if the forms were released in December when we could reach outgoing board members. We typically receive the updated forms in January.

Auditor's Comment

We spoke to personnel at the State Ethics Commission regarding the district's suggestion that the Statement of Financial Interests forms be made available in December. We were informed that it may be possible for districts to obtain the forms at that time, particularly since the forms are to be available online. We suggest the district contact the commission directly to discuss the matter.

**Observation No. 1 - Memorandum of Understanding Not Updated Timely**

Our audit of the school's records found that the district had on file a properly signed Memorandum of Understanding (MOU) between the district and all three of its local law enforcement agencies (Palmyra Borough, North Londonderry Township and South Londonderry Township Police Departments). However, the MOUs for Palmyra Borough and South Londonderry Township had not been updated since August 26, 1996.

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**Observation No. 1 (Continued)**

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

All school entities shall develop a memorandum of understanding with local law enforcement that 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.<sup>1</sup>

Additionally, the Basic Education Circular issued by the Department of Education 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. (Emphasis added)

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 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 board and school administration, in consultation with the solicitor should review, update and re-execute the current MOUs between the district and the Palmyra Borough and the South Londonderry Township police departments.

Additionally, the board should adopt a policy requiring the administration to review and re-execute the MOUs every two years.

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<sup>1</sup>24 P.S. § 13-1303-A(c).

PALMYRA AREA SCHOOL DISTRICT  
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**Observation No. 1 (Continued)**

Response of Management

Management agreed with the observation and provided the following response:

We will update the Memorandums of Understanding with South Londonderry Township and the Palmyra Borough. We will re-execute these agreements every two years according to the recommendation in the Basic Education Circular for Safe Schools and Possessions of Weapons.

**Observation No. 2 – Unmonitored Vendor System Access and Logical Access Control Weaknesses**

The Palmyra Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the district's membership and attendance data and the above vendor's software are maintained on the Lancaster-Lebanon Intermediate Unit's #13's (IU) servers which are physically located at the IU. The district has remote access into the IU's network servers. The IU also provides the district with system maintenance and support.

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 unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. However, since the district has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated.

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

During our review, we found the district had the following weaknesses as of November 9, 2007, over vendor access into the district's system:

1. The district does not have evidence to support they are generating or reviewing monitoring reports of user remote access and activity on the system (including IU, vendor and district employees). There is no evidence to support that the district is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system;

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**Observation No. 2 (Continued)**

2. The IU and the vendor have unlimited remote access (24 hours a day/7 days a week) into the district's system;
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 IU or the vendor to sign the district's Acceptable Use Policy;
4. The district's Acceptable Use Policy does not include provisions for authentication (e.g., password security and syntax requirements); and
5. 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 IU and the vendor, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); to lock out users after three unsuccessful attempts.

Recommendations

We recommend the district implement the following:

1. The district should generate monitoring reports (including firewall logs) of the IU, vendor and employee remote access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The district should review these reports to determine that the access was appropriate and that data was not improperly altered. The district should also ensure it is maintaining evidence to support this monitoring and review;
2. The district should only allow remote access to their system when the IU and/or vendor need access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU and/or vendor has completed its work. This procedure would also enable the monitoring of IU and/or vendor changes;

PALMYRA AREA SCHOOL DISTRICT  
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**Observation No. 2 (Continued)**

3. The district should establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the IU and the vendor sign this policy, or the district should require the IU and the vendor to sign the district's Acceptable Use Policy;
4. The district's Acceptable Use Policy should include provisions for authentication (e.g., password security and syntax requirements); and
5. The district should implement a security policy and system parameter settings to require all users, including the IU and the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the district should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and lock out users after three unsuccessful attempts.

Response of Management

Management responded to our observation as follows:

The Palmyra Area School District, along with a consortium of Lancaster and Lebanon County school districts, use[s] the Intermediate Unit as a service provider for software purchased from [a software vendor]. The . . . software is student information software used by 7,800 schools nationwide managing information for 3,200,000 students.

1. Palmyra Area School District has obtained instructions and is able to generate activity monitoring reports. To generate reports of remote access and activity on the system, [the vendor] is unable to operate at a proficient speed for current users. The district will work with the Intermediate Unit to determine if additional steps can be taken which will not sacrifice the speed or proficiency of the system. We are planning to install a new server in the 2008-09 school year which may allow us to successfully use this feature.
2. Unlimited access for the Intermediate Unit and its vendor is required for adequate support of our needs. Evening and weekend use must be supported.

PALMYRA AREA SCHOOL DISTRICT  
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**Observation No. 2 (Continued)**

3. The Intermediate Unit has a contract with the Palmyra Area School District that establishes its fiduciary duty to protect the integrity of the data and any proprietary information.

All employees of the Intermediate Unit are required to sign an Acceptable Use Policy (AUP) that is identical to the School District's AUP.

4. The district has established password criteria that meet the recommended syntax requirements. Passwords are assigned based on those criteria and communicated to all users.

[The vendor] is unable to support password aging as a security feature. See the response in 5. below.

5. [The vendor] is unable to support password aging. If future upgrades in our software support this, we will institute this security feature.

Passwords are assigned using the recommended syntax requirements. [The vendor] is unable to enforce the syntax requirements.

The district will work with the Intermediate Unit in implementing a system that will lock out users after three unsuccessful attempts.

Auditor's Conclusion

We continue to recommend that the district restrict the access of the IU into their servers. In fact, the IU contends that the district has the ability to restrict this access and should only grant access when a support ticket is filed requiring the IU to perform support activities.

Although the district may have established password criteria that meet the recommended syntax requirements, inclusion of password security requirements in the AUP would more directly communicate the district's expectations and may help prevent users from engaging in unsecure password practices such as posting passwords on their monitors. We continue to recommend district's AUP include these provisions.

Due to the sensitive nature of the information in the system, we continue to recommend the logical access settings detailed above. The district should work with the IU and the vendor to develop methodologies to force password changes, enforce syntax requirements, maintain password histories, and to lock-out users after three invalid attempts.



PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**CONCLUSIONS - OBJECTIVE NO. 2**

The second objective of our audit was to determine if the Palmyra Area School District took appropriate corrective action to address the findings and recommendations contained in our prior audit report for the years ended June 30, 2002 and 2001, and in certain areas extending beyond June 30, 2002. The status of these findings, along with a description of the school board's disposition of each recommendation, was determined by one or more of the following procedures:

- reviewing the board's written response, dated October 14, 2004, to the Department of Education, replying to the Department of the Auditor General's audit report for the years ended June 30, 2002 and 2001, and in certain areas extending beyond June 30, 2002;
- performing tests as a part of, or in conjunction with, the current audit; and
- questioning appropriate district personnel regarding specific prior years' findings and recommendations.

**Finding No. 1 – Certification Irregularities**

Our prior audit of the professional employees' certification for the period June 6, 2001 through May 7, 2004, found 6 certification irregularities. We submitted information about the apparent certification irregularities we found to the Department of Education's (DE) Bureau of Teacher Certification and Preparation's (BTCP) for its review, and recommended that the superintendent:

- upon receipt of BTCP's determination regarding the irregularities, take the necessary action required to ensure compliance with certification regulations;
- require all professional employees to have valid Pennsylvania certification prior to being hired; and
- submit job descriptions to BTCP for locally titled positions to ensure the individuals are properly certified for these positions.

We also recommended that DE take action to recover any appropriate subsidy forfeitures.

PALMYRA AREA SCHOOL DISTRICT  
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**Finding No. 1 (Continued)**

Subsequent to the release of our prior audit, BTCP confirmed that six individuals were not properly certified. DE computed subsidy forfeitures of \$2,718, \$1,722 and \$2,305 for the 2003-04, 2002-03 and 2001-02 school years, respectively, for a total subsidy forfeiture of \$6,745, which DE recovered from the district on June 1, 2005.

Our current audit found that all six individuals previously cited either received proper certification or left the district by June of 2004. The district also obtained certification prior to individuals being assigned to teach, and submitted locally titled positions to BTCP for determination.

Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

**Finding No. 2 – Inadequate Documentation to Support Pupil Transportation Data Reported to the Department of Education**

Our prior audit of pupil transportation data for the 2001-02 and 2000-01 school years found inadequate documentation to support data reported to DE. Inadequate documentation resulted in our inability to confirm the following:

- approved daily miles reported for the 2001-02 school year;
- the greatest number of pupils assigned to each vehicle during both school years;
- nonpublic and nonreimbursable pupils transported during both school years; and
- pupils transported who lived along routes deemed hazardous by the Pennsylvania Department of Transportation during the 2001-02 school year.

We recommended that the transportation coordinator:

- maintain and retain odometer readings, pupil rosters and calculation workpapers used in the preparation of data reported to DE for reimbursement;
- maintain and retain alphabetical pupil listings of all nonpublic, nonreimbursable and hazardous pupils transported by the district.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**Finding No. 2 (Continued)**

We further recommended that DE require the district to maintain sufficient and relevant documentation to ensure proper justification of the receipt of state funds.

In its written response the board stated:

[Individual A] was the Transportation Coordinator for the Palmyra Area School District [PASD] from 1977 through June 10, 2002. [Individual A] was properly trained and knowledgeable about the appropriate reporting and documentation requirements for pupil transportation. This is evidenced by previous state audits with no findings reported for this area.

[Individual A] was terminated on June 10, 2002 for willful misconduct. State auditors have been provided with forensic audit reports and other documentation of the fraudulent activities conducted by [Individual A], which were unrelated to his transportation responsibilities.

Upon [Individual A's] termination, the School District retained a transportation consultant until the position could be permanently filled. The consultant, [Individual B], is a retired Transportation Coordinator from a neighboring school district. [Individual B] completed the state transportation reports for the 2001-02 school year. He advised School District personnel that very little documentation could be located for the 2001-02 or the 2000-01 school year. [Individual B] worked closely with the transportation contractor for the PASD, to complete the state reports as accurately as possible, given the lack of documentation.

[Individual C] was hired on March 3, 2003 as Assistant Director of Business Affairs and Transportation Coordinator. [Individual B] was retained for the purpose of training [Individual C] and to assist with the implementation of Bus Tracks, student transportation management software.

[Individual C] has attended various PASBO [Pennsylvania Association of School Business Officials] and IU [intermediate unit] sponsored transportation seminars during the past year. She successfully implemented Bus Tracks software for the 2003-04 school year, which tracks all state reporting requirements. In addition, substantial cost savings have been identified through the consolidation of various bus routes.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**Finding No. 2 (Continued)**

Management believes that appropriate corrective action has been taken to prevent future findings of this nature.

Our current audit found that the district implemented procedures beginning with the 2002-03 school year to obtain and retain adequate documentation for mileage and pupils as addressed in our recommendations.

Based on the results of our current audit, we concluded that the district did take appropriate corrective action to address this finding.

PALMYRA AREA SCHOOL DISTRICT  
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**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

**Schedule of State Revenue Received**

The district reported it received state revenue of \$8,511,829, \$8,233,780, \$7,557,215 and \$7,289,396, respectively, for the years ended June 30, 2006, 2005, 2004 and 2003, as detailed in the following schedule:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>STATE REVENUE</b>				
Basic Education	\$5,141,634	\$4,980,367	\$4,801,001	\$4,703,526
Read to Succeed	-	-	-	7,043
Charter Schools	20,817	18,037	2,062	3,263
Tuition for Orphans and Children				
Placed in Private Homes	66,616	40,492	23,187	53,436
Homebound Instruction	676	476	539	855
Driver Education	5,990	7,095	6,915	6,685
Special Education	1,186,127	1,199,201	1,174,350	1,137,599
Transportation	543,393	578,434	463,855	460,351
Rental and Sinking Fund Payments	439,530	414,650	372,449	327,000
Health Services	58,528	50,275	52,817	53,866
Safe Schools	-	-	-	10,359
Social Security and Medicare Taxes	509,561	480,288	446,092	441,172
Retirement	314,299	245,287	213,948	75,809
Other Program Subsidies/Grants:				
PA Accountability	219,178	219,178	-	-
Dual Enrollment	2,480	-	-	-
PA Meaningful Watershed	3,000	-	-	-
Drug Abuse Resistance Education	-	-	-	5,948
PA Partnership Economic				
Education	-	-	-	220
Classroom Plus	-	-	-	2,264
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>TOTAL STATE REVENUE</u></b>	<b><u>\$8,511,829</u></b>	<b><u>\$8,233,780</u></b>	<b><u>\$7,557,215</u></b>	<b><u>\$7,289,396</u></b>

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

*Description of State Revenue Received (Source: Pennsylvania Accounting Manual)*

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

Driver Education

Revenue received from the Commonwealth as subsidy for conducting a standardized driver education program. Payments are made in accordance with Section 2504.1 of the Public School Code.

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school age special education students.

PALMYRA AREA SCHOOL DISTRICT  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Safe Schools

Revenue received from the Commonwealth as subsidy for Safe School programs.

Social Security and Medicare Taxes

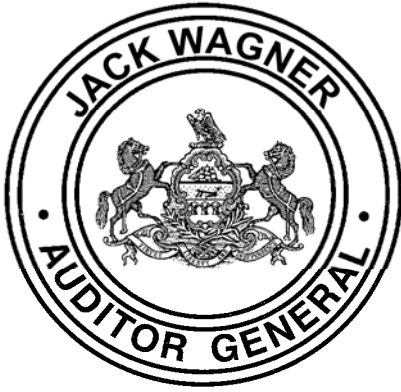
Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.





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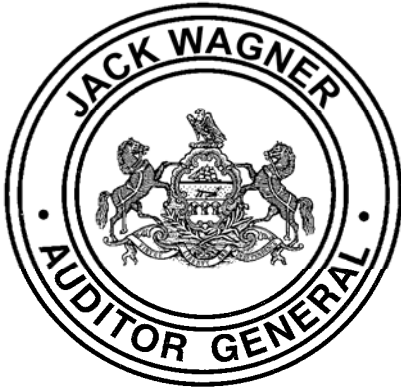
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