

WAYNE HIGHLANDS SCHOOL DISTRICT
WAYNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2012

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

Mr. Thomas Fasshauer, Board President
Wayne Highlands School District
474 Grove Street
Honesdale, Pennsylvania 18431

Dear Governor Corbett and Mr. Fasshauer:

We conducted a performance audit of the Wayne Highlands School District (WHSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 30, 2009 through October 28, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the WHSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, 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 observation and recommendations have been discussed with WHSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve WHSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the WHSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

July 10, 2012

cc: **WAYNE HIGHLANDS SCHOOL DISTRICT** Board Members

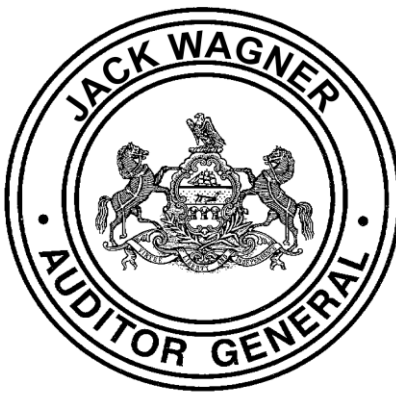


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Wayne Highlands School District (WHSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the WHSD in response to our prior audit recommendations.

Our audit scope covered the period October 30, 2009 through October 28, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

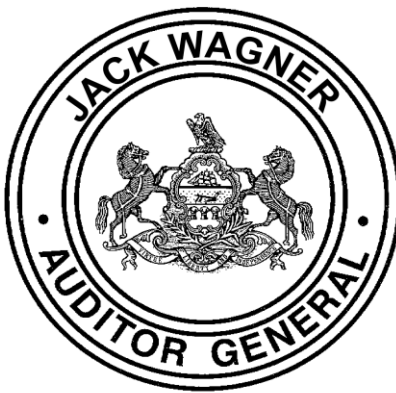
The WHSD encompasses approximately 435 square miles. According to 2010 federal census data, it serves a resident population of 21,506. According to District officials, in school year 2009-10 the WHSD provided basic educational services to 3,125 pupils through the employment of 248 teachers, 137 full-time and part-time support personnel, and 19 administrators. Lastly, the WHSD received more than \$13.8 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the WHSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Lack of Board Policy and Approval of Tuition Waivers. Our audit of child accounting records for the 2009-10 and 2008-09 school years found the WHSD waived tuition for 14 and 13 nonresident students, respectively. The nonresident students were children of teachers employed by the WHSD. The board did not approve the tuition waivers and the written board policies did not address tuition waivers (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the WHSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the WHSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period October 30, 2009 through October 28, 2011.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the WHSD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation 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, contracts, grant requirements and administrative procedures.

WHSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification 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 WHSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 25, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Public School Code relevant to the observation:

Section 1316 of the Public School Code (PSC) provides, in part:

The board of school directors of any school district may permit any non-resident pupils to attend the public schools in its district upon such terms as it may determine, subject to the provisions of this act.

Section 2561(5) of the PSC, provides:

A school district shall compute the tuition charges for pupils who are residents of another school district. . . . At the end of each school year, the tuition charges shall again be computed and be based on the actual expenses for the school year immediately preceding and the tuition charges for non-resident pupils shall then be adjusted in accordance with this latter computation. The school district in which the non-resident pupil is a legal resident shall pay the tuition charges in accordance with the computation based upon these actual expenses.

Lack of Board Policy and Approval of Tuition Waivers

Our audit of the Wayne Highlands School District's (WHSD) child accounting records found that WHSD waived tuition for 14 nonresident students in the 2009-10 school year and 13 nonresident students for the 2008-09 school year. The nonresident students were children of teachers employed by the WHSD. It has been the practice of the WHSD to allow nonresident children of WHSD teachers to attend WHSD tuition free. However, the District does not have a written tuition waiver policy. The District also lacked board approval of the tuition waivers.

Although Section 1316 of the PSC allows the board to waive tuition rates, there is no provision in the WHSD's Board Policy No. 607 entitled Tuition Income, No. 202 entitled Eligibility of Nonresident Students, nor was there board approval in the minutes to substantiate the tuition waivers. Thus, the action by the WHSD, without the approval of the board of directors, resulted in a loss of tuition revenue of \$124,265 and \$113,317 for the 2009-10 and 2008-09 school years, respectively.

A nonresident student is a student educated by the district whose parents or legal guardian resides in another district. Section 2561 of the PSC governs tuition charges for pupils attending classes from other districts.

Management has the responsibility for the establishment and maintenance of internal controls in order to provide reasonable assurance that the board is aware of the cost to educate the nonresident children of District teachers and the effect the waivers have on the District's budget prior to educating that student.

WHSD personnel have been provided a report detailing the cost of the tuition waivers to the WHSD.

Recommendations

The *Wayne Highlands School District* should:

1. Implement board policy to address tuition waivers, specifically, waivers for teachers' children.

2. Receive board approval for each tuition waiver prior to educating the nonresident student.

Management Response

Management stated the following:

Past practice at Wayne Highlands School District has been to allow Nonresident Professional Employees of the District to enroll their children in the District free of tuition cost, upon approval. The observation is, in part, an assumption and misleading. The assumption is that all nonresident students of professional employees who had their tuition waived would have continued to attend had they been charged tuition. This is purely speculative.

The corrective action plan is to recommend to the Board the revision of “Policy No. 202” to include and continue the past practice of waiving tuition of Nonresident Professional Employees’ children. Upon approval, Nonresident Professional Employees’ and their enrolled children will be subject to all “Policy No. 202, Eligibility of Nonresident Students” guidelines, minus tuition.

Auditor Conclusion

Although WHSD personnel stated that it is an assumption that all nonresident students of professional employees who had their tuition waived would have continued to attend had they been charged tuition, the nonresident students were educated free of tuition. The PSC does not exclude tuition waivers; however, as stated above, there is no provision in the WHSD’s board policy nor was there board approval in the minutes to substantiate the tuition waivers.

Status of Prior Audit Findings and Observations

Our prior audit of the Wayne Highlands School District (WHSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the WHSD did implement all recommendations related to logical access control weaknesses.

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

Observation: **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation
Summary:

The WHSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District utilizes Central Susquehanna Intermediate Unit #16 (IU) to provide them with system maintenance and support. Both the vendor and the IU have remote access into the District's network servers.

Recommendations: Our audit observation recommended that the WHSD:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.
3. 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.

Current Status: During our current audit procedures, we found that the WHSD did implement the recommendations.

Distribution List

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

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

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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.

