



CLAIRTON CITY SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Richard Livingston, Board President
Clairton City School District
502 Mitchell Avenue
Clairton, Pennsylvania 15025

Dear Governor Corbett and Mr. Livingston:

We conducted a performance audit of the Clairton City School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period October 8, 2009 through October 12, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects, with relevant requirements, 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 the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

October 15, 2013

cc: **CLAIRTON CITY SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

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

Our audit scope covered the period October 8, 2009 through October 12, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 3 square miles. According to 2010 federal census data, it serves a resident population of 6,796. According to District officials, the District provided basic educational services to 742 pupils through the employment of 83 teachers, 19 full-time and part-time support personnel, and 5 administrators during the 2009-10 school year. Lastly, the District received \$8.9 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding. In addition, we identified one matter unrelated to compliance that is reported as an observation.

Finding: Continued Inadequate Documentation to Support \$63,958 in State Tuition for Children Placed in Private Homes. For a second consecutive audit, our review of the Clairton City School District's (District) pupil membership records for the 2009-10 school year found that the District did not maintain adequate documentation to verify the accuracy of the student data it reported to the Pennsylvania Department of Education for non-resident students placed in private homes (foster children). As a result, we could not determine whether the District was entitled to \$63,958 state reimbursement for non-resident students (see page 6).

Observation: The Clairton City School District is in a Financially Declining Position Which May Lead to Distressed Status. Our review of 22 financial benchmarks found that the District's financial stability and viability are declining, and failure to act may put the District in distressed status (see page 8).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the District from an audit released on August 4, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 15). However, the District had not taken appropriate corrective action regarding children placed in private homes (see page 14). We found that the District had taken some corrective actions regarding the District's decreasing fund balance. However, the District remains in a financially declining position (see page 15).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 8, 2009 through October 12, 2012, except for the verification of professional employee certification which was performed for the school year 2009-10.

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

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 (PDE) 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 District's compliance with certain relevant 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE

through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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 certain relevant state laws, regulations, contracts, grants 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 4, 2010, we reviewed the District's response to PDE dated October 25, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Continued Inadequate Documentation to Support \$63,958 in State Tuition for Children Placed in Private Homes

Criteria relevant to the finding:

24 P.S. § 25-2503(e) of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

The Pennsylvania Department of Education (PDE) guidelines and instructions require the maintenance and retention of adequate documentation to verify the District's entitlement to state payments. Failure to maintain and retain this documentation could result in the loss of state funding.

24 P.S. § 5- 518 of the Public School Code requires that records be retained for a period of not less than six years.

For the second consecutive audit, our review of the Clairton City School District's (District) pupil membership records for the 2009-10 school year found that the District did not maintain adequate documentation to verify the accuracy of the student data it reported to the Pennsylvania Department of Education (PDE) for non-resident students placed in private homes (foster children). As a result, we could not determine whether the District was entitled to \$63,958 in Commonwealth tuition for non-resident students.

School districts that educate foster children residing within their borders are entitled to additional non-resident tuition payments from the Commonwealth. However, to ensure that districts are eligible for these payments, PDE guidelines require them to maintain confirmation letters from the child welfare agency that placed the foster child within the district. Our testing found that the District did not have these required confirmation letters for those students it reported to PDE as foster children.

These deficiencies occurred because the District failed to obtain confirmation letters from child placement agencies as a means of verifying the residency of the students' natural parents and/or legal guardians. Without this information, we could not verify that the \$63,598 in non-resident tuition for foster children that the District received for the 2009-10 school year was correct.

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that student data collected and reported to PDE is adequately supported, when applicable. Without internal controls, the District cannot be assured that it will receive the correct amount of state subsidy to which it is entitled.

Recommendations

The *Clairton City School District* should:

1. Ensure that the staff responsible for enrolling students in the District obtains all required documents at the time of enrollment including, but not limited to, confirmation letters from child placement agencies for foster children.
2. Establish procedures for cross checking that all students reported in the District's Student Information System as foster children have corresponding confirmation letters from the child welfare agency prior to reporting non-resident student membership data to PDE.

Management Response

Management agreed with the finding without further comment.

Auditor Conclusion

While we acknowledge that the District agrees with our finding, it must follow through and adopt the internal controls needed to ensure that it has adequate documentation to support the student data it reports to PDE. The finding will remain as written.

Observation

The Clairton City School District is in a Financially Declining Position Which May Lead to Distressed Status

Criteria relevant to the observation:

The Pennsylvania Association of School Business Officials (PASBO) in its testimony, at a public hearing of fiscally distressed school district, to the Senate Education Committee on January 24, 2012, provided a number of indicators that should be disclosed annually. These indicators require the following:

- The total of budgeted expenditures plus other uses must be less than the total of revenues plus other resources plus fund balance in the General Fund. In other words, the budget must be balanced.
- Total debt service is not to exceed 10% of the General Fund expenditures.
- Liquidity (current assets ÷ current liabilities) as reflected in the Balance Sheet for total Governmental Funds is to be greater than one.
- The total of all cash and investments in the General Fund should exceed zero.
- Operating position is the difference between actual revenues and actual expenditures. Financial industry guidelines recommend that the district operating position always be positive (greater than zero).

Our analysis of 22 financial benchmarks found that the Clairton City School District (District) is in a financially declining position. These benchmarks indicate that if the District does not address these issues, the District may need to reduce educational services and programs. Otherwise, the District may become a distressed school district and require state intervention.

We reviewed 22 financial benchmarks based on best business practices established by several agencies, including the Pennsylvania Association of School Business Officials, the Colorado State Auditor, and the National Forum on Education Statistics. The following were among the general areas we evaluated: (1) the level of the general fund balance (assigned and unassigned), (2) the amount of total debt service, (3) the current ratio (current assets ÷ current liabilities) of all governmental funds, and (4) the trend of annual changes in financial position of all governmental funds.

Act 141 of 2012 permits the Pennsylvania Department of Education (PDE) to place school districts with serious financial problems on a financial watch list. This designation gives the district access to additional technical assistance from PDE. Likewise, if a school district's financial condition deteriorates to the point that it has to request an advance on its annual state basic education subsidy, PDE may declare it to be in financial recovery status. School districts in financial recovery status have a PDE appointed chief recovery officer whose responsibilities include oversight of the district and development of a district-wide financial recovery plan.

Our testing found that the District had the following negative benchmarks:

- The District's Board of School Directors (Board) passed an unbalanced budget for the most recently completed school year (2010-11). As a result, the District did not comply with the requirements of 24 P.S. 6-687(b) of the Public School Code. This noncompliance could cause the District to incur a

Criteria relevant to the observation (continued):

Best Business Practices and/or general financial statement analysis tools require the following:

- A school district should maintain a trend of stable or increasing fund balances;
- The trend of current ratios should be at least 2 to 1 or increasing. Anything less calls into question the school district's ability to meet its current obligations with existing resources;
- A quick asset ratio or trend of ratios approaching 1 or less indicates a declining ability to cover obligations with the most liquid assets;
- A debt-to-asset ratio or trend of ratios increasing towards 1-to-1 or greater is an indication that the school district's liabilities are approaching the level of the district's assets. This indicates the district has a debt level that may be too great for the district to adequately function.

deficit fund balance because expenditures could exceed revenues and available fund balance. The passing of a budget with a deficit fund balance is an indicator of poor governance by the Board and an inability of the administrative staff to accurately prepare a valid budget.

2010-11 School Year Budget		
Total Budgeted Revenues + Other Sources + Fund Balance	Total Budgeted Expenditures + Other Uses of Funds	Difference
\$14,276,847	\$14,357,956	\$(81,109)

- For the trend period 2006 through 2011, the District over expended its revenues, thereby decreasing its operating position. This reduction in operating position could leave the District in a more vulnerable financial position and move it closer to distressed status. Each year that expenditures exceed revenues a deficit is incurred. This deficit results in a decrease to the District's fund balance and could lead to a negative fund balance status, which could potentially affect the District's ability to continue providing educational services.

Trend: Revenues v. Expenditures				
Year End	Total		Total	<i>Excess/</i>
<u>June 30</u>	<u>Revenues</u>	-	<u>Expenditures</u>	= <u>(Deficit)</u>
2006	\$12,334,664		\$12,404,211	\$ (69,547)
2007	13,236,195		13,580,877	(344,682)
2008	13,752,898		14,058,931	(306,033)
2009	13,795,638		15,107,809	(1,312,171)
2010	13,861,006		14,681,540	(820,534)
2011	14,006,364		14,589,371	(583,007)

It should be noted that the District borrowed \$1 million during the 2009-10 school year, and another \$1 million during the 2010-11 school year. Both notes are general obligation, and are considered a revenue source.

- For the trend period 2006 through 2011, the District's General Fund balance decreased. A decreasing trend indicates that the District's expenditures are exceeding its revenues. This reduction of the fund balance is an indicator that the District's financial position is declining and could

possibly send the District into distressed status. Without the generation of additional revenues or the reduction of expenditures, the fund balance will continue to decrease. The District must make concerted effort towards preventing their General Fund balance from falling below zero into a distressed situation, which could require PDE intervention.

Trend: General Fund Balance	
Year End June 30	Balance
2006	\$ 2,247,053
2007	1,843,055
2008	1,490,214
2009	105,888
2010	252,241
2011	613,570

- For the trend period 2006 through 2011, the general fund current ratio (current assets ÷ current liabilities) decreased. A decreasing trend towards 1-to-1 or even lower indicates that the District's financial solvency is decreasing toward a point where the District may not be able to pay its current debts as they become due without an infusion of cash from the disposal of assets or receipt of revenues. Potential creditors use this ratio to measure a District's ability to pay its short-term debts. A declining trend may prevent the District from obtaining any new debt or if obtainable, the debt may bear an inflated interest rate, thereby costing the District more for the borrowing.

Trend: Declining Current Ratio					
<i>(Current Assets ÷ Current Liabilities)</i>					
Year End June 30	Current Assets	÷	Current Liabilities	=	Current Ratio
2006	\$ 6,091,696		\$ 3,844,643		1.58
2007	6,000,026		4,156,971		1.44
2008	5,633,703		4,143,489		1.36
2009	5,697,116		5,591,228		1.02
2010	5,897,084		5,644,843		1.04
2011	5,462,121		4,848,551		1.13

- For the trend period 2006 through 2011, the general fund quick ratio ((cash + investments) ÷ current liabilities) decreased. A decreasing trend of this rigorous test of short-term solvency is an indicator that the District may not have the ability to pay its

Criteria relevant to the observation (continued):

- The cost for a school district student attending a charter school is paid out of the sending district's operating funds. This results in a reduction of the funds available for use in providing educational services to the district's students that remained in the traditional public school. This scenario continues until the number of students attending charter schools is so large that the district can reduce costs by closing a school building and reduces the number of staff employed by the district.
- A school district's taxable property value per student is driven by new building construction, the quality of the school district, and the district's student population as well as other factors. To maintain student services, the taxable property value per student must continue to increase.

current debts without the disposal of other current assets. Potential creditors use this ratio to measure a district's ability to pay its short-term debts. A declining trend may prevent the District from obtaining any new debt or, if obtainable, the debt may bear an inflated interest rate, thereby costing the District more for the borrowing.

Trend: Declining Quick Ratio					
<i>((Cash + Investments) ÷ Current Liabilities)</i>					
Year End	Cash +	÷	Current	=	Quick
<u>June 30</u>	<u>Investments</u>		<u>Liabilities</u>		<u>Ratio</u>
2006	\$ 3,217,084		\$ 3,844,643		0.84
2007	2,498,540		4,156,971		0.60
2008	2,064,732		4,143,489		0.50
2009	1,794,023		5,591,228		0.32
2010	1,920,568		5,644,843		0.34
2011	900,914		4,848,551		0.19

- For the trend period 2006 through 2011, the general fund debt-to-asset ratio (current liabilities ÷ current assets) increased. An increasing trend towards 1-to-1 or more is an indication of the District's ability to pay its current liabilities with current assets on hand. A ratio that exceeds 1-to-1 indicates the District does not have the current resources to pay its current liabilities. This results in the need to liquidate non-current assets or wait for an inflow of revenues. This could result in an increase in the time the District holds invoices prior to making payment and may reduce the likelihood that the District being able to obtain loans or other debt instruments. It could also result in a higher cost for any new debt that is obtained.

Trend: Increasing Debt-to-Asset Ratio					
<i>(Current Liabilities ÷ Current Assets)</i>					
Year End	Current	÷	Current	=	Ratio
<u>June 30</u>	<u>Liabilities</u>		<u>Assets</u>		
2006	\$ 3,844,643		\$ 6,091,969		0.63
2007	4,156,971		6,000,026		0.69
2008	4,143,489		5,633,703		0.74
2009	5,591,228		5,697,116		0.98
2010	5,644,843		5,897,084		0.96
2011	4,848,551		5,462,121		0.89

- For the trend period 2006-11, the number of District students attending charter schools increased and the charter school costs as a percentage of revenues increased. As a result, the amount of District funds

available for in-house educational services has been reduced. This could cause the District to reduce services to the students that remained in the District's schools, because unless the number of students attending charter schools is significant enough to reduce the number of staff or the number of school buildings, there is no ability to reduce operating costs for the District.

Trend: Charter School Membership Growth				
<i>(As a Percentage of Total District Membership)</i>				
Year End	Charter School ADM ¹	÷	Total District ADM	= Charter/District ADM
June 30				
2006	30.2		989.2	3.06 %
2007	55.3		970.4	5.70 %
2008	72.8		903.2	8.06 %
2009	70.8		885.6	7.99 %
2010	76.4		902.8	8.46 %
2011	83.1		938.5	8.85 %

Trend: Charter School Cost to District Growth				
<i>(As a Percentage of Total District Expenditures)</i>				
Year End	Tuition Paid to Charters	÷	Total District Expenditures	= Charter Costs/ Total Costs
June 30				
2006	\$ 327,497		\$ 12,404,211	2.64 %
2007	614,503		13,580,877	4.52 %
2008	727,755		14,058,931	5.18 %
2009	826,263		15,107,809	5.47 %
2010	1,130,139		14,681,540	7.70 %
2011	1,593,892		14,589,371	10.93 %

Our discussions with District administrative staff disclosed that the general fund balance decreased because its Board chose to draw down those funds rather than increase property taxes. In addition, the District's administration pointed to inadequate operating funds due to a poor tax base and increases in charter school payments as reasons for its declining financial position.

¹ ADM (Average Daily Membership) is the average number of students in membership during the reporting period (aggregate days membership divided by days in session). *Glossary of Child Accounting Terms*, Pennsylvania Department of Education, pg. 1-8, September 2004.

Recommendations

The *Clairton City School District* should:

1. Maintain and monitor sensitive budgetary controls so that expenditures do not exceed revenues.
2. Open a dialogue with the community to keep stakeholders informed of the financial status and health of the school district.
3. Ensure that the business office is providing the Board of School Directors with accurate and timely reports of key financial indicators.
4. Conduct a survey of parents sending children to a charter school to determine the reason why the District is losing more students to charter schools.

Management Response

Management stated the following:

“Management is aware of the importance of monitoring the financial health of the District and is aware of the financial and economic challenges that face the District currently and in the future.”

Auditor Conclusion

The purpose of this observation is to provide the District with information about its potential financial instability and to give it the opportunity to integrate these issues into its financial planning. The District’s management should continue to monitor these financial benchmarks in order to track how the District is performing in the areas where we noted a negative outcome. Finally, the District must work to develop possible solutions to improve its overall financial position.

Status of Prior Audit Findings and Observations

Our prior audit of the Clairton City School District (District) released on August 4, 2010, resulted in two findings and one observation. The first finding pertained to the District failing to obtain the required documentation for non-resident students and the second pertained to the District's fund balance decreasing. 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 audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District did not implement our recommendations related to inadequate documentation to support tuition for children placed in private homes (foster children), and only partially addressed the District's declining financial position, as evidenced by the small general fund balance. We found that the District did implement our recommendations related to unmonitored vendor system access and logical access control weaknesses.

Auditor General Performance Audit Report Released on August 4, 2010

Finding No. 1: Inadequate Documentation to Support \$267,047 in Tuition for Children Placed in Private Homes

Finding Summary: The District failed to obtain confirmation letters from child placement agencies and to verify that foster parents were being compensated. We were unable to verify the correctness of the \$127,078 and \$139,969 in tuition for children placed in private homes received by the District for the 2007-08 and 2006-07 school years.

Recommendations: Our audit finding recommended that the District:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or nonresident and take the necessary steps for documenting the district of residency of the natural parents or guardians.

Current Status: During our current audit, we found that the District did not implement the recommendations. (See the finding on page 6 of our current audit report.)

Finding No. 2: District Fund Balance Decreased by \$3,352,861 over the Six Year Period Ending June 30, 2009

Finding Summary: Our prior audit found that the District’s general fund balance decreased from \$3,458,749 in the 2002-03 school year to \$105,888 in the 2008-09 school year.

Recommendations: Our audit finding recommended that the District:

1. Monitor and maintain budgetary control over expenditures in compliance with the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues available and the amount appropriated.

Current Status: During our current audit, we found that the District had slightly increased its fund balance to \$613,570 at the end of the 2010-11 school year. The District improved its monitoring and maintenance of budgetary controls over expenditures by monitoring budget status on a monthly basis. Additionally, the District raised its property tax rate and improved its delinquent tax collections program. However, the District remains in a financially declining position (see the observation on page 8 of our current audit report.)

Observation Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: We determined that a risk existed that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the District:

1. Require all District employees and vendor employees to sign the Acceptable Use Policy.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

4. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (e.g., 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 to prevent the use of a repetitive password (e.g., last ten passwords) and log users off the system after a period of inactivity (e.g., 60 minutes maximum).
5. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system.
6. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
7. The District should store back-up tapes in a secure, off-site location.

Current Status:

During our current audit, we found that the District did implement our recommendations. The Acceptable Use Policy was revised on September 21, 2009, and signed by all employees. Verification is maintained when adding, deleting, or changing a userID. E-mails are maintained as evidence of the action taken when removing terminated employees from the system. The system forces the user to change passwords every 90 days and use a minimum of six characters. The vendor uses the same group password with separate userIDs, which the District can monitor by reviewing the access log and obtaining the vendor's log of each remote access by one of the vendor's employees. The District backs the system up nightly and stores the backed-up data off site.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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

The Honorable Carolyn Dumaesq
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
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Ms. Lori Graham
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Assistant Executive Director
School Board and Management Services
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