

EAST ALLEGHENY SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mrs. Gerri McCullough, Board President
East Allegheny School District
1150 Jacks Run Road
North Versailles, Pennsylvania 15137

Dear Governor Corbett and Mrs. McCullough:

We conducted a performance audit of the East Allegheny School District (EASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 12, 2010 through May 13, 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 EASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the one finding noted in this report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 23, 2012

cc: **EAST ALLEGHENY 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 East Allegheny School District (EASD). 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 EASD in response to our prior audit recommendations.

Our audit scope covered the period March 12, 2010 through May 13, 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

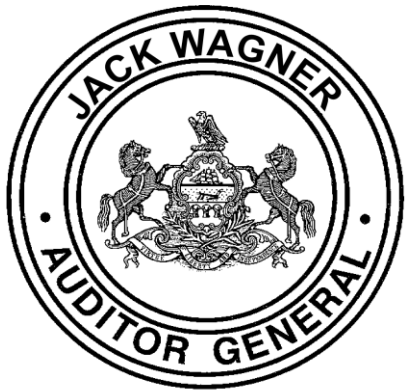
The EASD encompasses approximately 5 square miles. According to 2010 federal census data, it serves a resident population of 15,125. According to District officials, in school year 2009-10 the EASD provided basic educational services to 1,878 pupils through the employment of 137 teachers, 71 full-time and part-time support personnel, and 11 administrators. Lastly, the EASD received more than \$11.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the EASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: District Again Reports General Fund Deficit for the Fiscal Year Ended June 30, 2010. Our review of the EASD financial reports found a general fund deficit of \$2,628,735 (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the EASD from an audit we conducted of the 2008-09 and 2007-08 school years, we found the EASD still has a general fund deficit (see page 10). We found that EASD has taken appropriate corrective action in implementing our recommendations pertaining to information technology (see page 11).



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 March 12, 2010 through May 13, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2009 through June 30, 2010.

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 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 EASD'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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?

- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

EASD 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.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

Additionally, we interviewed selected administrators and support personnel associated with EASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 29, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

District Again Reports General Fund Deficit for the Fiscal Year Ended June 30, 2010

Criteria relevant to the finding:

Section 609 of the Public School Code provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Our review of the District's annual financial reports and general fund budgets for the fiscal year ending June 30, 2010, found that the general fund deficit increased to \$2,628,735.

Our prior audit also found general fund deficits for the fiscal years ended June 30, 2009 and 2008 (see page 10). The chart below details the increasing deficit over a three-year period:

Fiscal Year Ending June 30	Revenue	Expenditures	Expenditures (Over)/Under	General Fund Surplus/(Deficit)
2008				\$ (15,296)
2009	\$27,502,658	\$29,076,604	\$(1,573,946)	(1,589,242)
2010	28,293,989	29,333,483	(1,039,494)	(2,628,736)

As shown in the above chart, expenditures have continued to exceed revenues since June 30, 2008.

Audited data for the fiscal year ended June 30, 2011, were not yet available, but the business manager stated that the District is anticipating a continuing deficit, approximately the same as or somewhat less than the June 30, 2010 amount.

The most significant factor causing the general fund deficits was the failure to control expenditures in accordance with the general fund budgets. The following schedule details actual expenditures in excess of budgeted expenditures:

Fiscal Year Ending June 30	Budgeted Expenditures	Actual Expenditures	Over Expenditures
2008	\$23,045,879	\$26,494,623	\$(3,448,744)
2009	25,774,484	29,076,604	(3,302,120)
2010	28,542,798	29,333,483	(790,685)

The highest variances in actual to budgeted expenditures were in costs for operations maintenance and plant, student transportation services and other support services.

The District also assumed a zero beginning fund balance for the fiscal year ending June 30, 2010, when preparing budgets. In actuality there was a \$1,589,242 deficit.

Recommendations

The *East Allegheny School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues received and the amount appropriated.
3. Adopt budgets estimating beginning fund balances based on historical indicators and realistic expectations of the amount that will actually be available for the budgetary period.
4. Provide for the systematic reduction of the general fund deficit.

Management Response

Management stated the following:

The fund balance deficit at the end of the 2009-2010 fiscal year is the culmination of many factors, including but not limited to:

1. The continuous disregard of property tax payers not paying their current and delinquent real estate school taxes, which results in low collection rate.
2. Fixed costs increases in employee salaries per contracts, healthcare, retirement, utilities, fuel costs, respectively. Also included, retiree healthcare payments as per contracted ERIP [early retirement incentive plan].
3. The School Board of Directors not raising mills an adequate amount in order to plan for future fiscal year expenditures.

4. The restraints of Act 1 for mill increases to be no more than the district index makes it very difficult to budget local real estate tax revenues to support expenditures.
5. A long term spending of fund balance to soften the impact of 1 million less tax increases.
6. Lower interest rates for investments.
7. High costs in special education services, charter school tuition, and tuition placements.

Corrective Action

1. Recommend to the Board of Education to raise mills by index each fiscal year.
2. Continue the aggressive pursuit of delinquent tax revenue utilizing collection group services.
3. Continue to investigate and apply for grants when opportunity presents.
4. Diligence in reducing the use of electricity by turning off any lighting that is not needed and combine errands to reduce the cost of fuel for vehicles.
5. Team cleaning during the summer months to allow for the buildings to be shut down for the remaining months.
6. When retirements or resignations occur, the District has not replaced the individual who retired/resigned.
7. For 2011-12, reducing full day kindergarten to half-day kindergarten.
8. Continue requiring Employees to pay into their healthcare coverage -- For 2011-12, all professional employees pay \$70.00; all support staff members pay 1 percent of salary, capped at \$60.00 per month, plus will pay 1/2 of the difference of the fiscal year premium and any increase in premiums.
9. Cutting operational costs in the area of supplies, repairs and services when at all possible and pursuing the best available pricing.

10. Reducing the dependency on local printers and utilizing printing to the copiers, which require a code for printing, thus providing a tracking of paper usage.
11. Reduced the usage of Westinghouse building to only those organizations that pay rent and investigating selling the property.
12. Eliminate the burden of field trip costs from the District and requiring as a prerequisite for approval that a group or other organization pay all costs, including substitute costs.
13. Encourage students who attend cyber charter schools to return to East Allegheny and attend our own cyber school.
14. Reduce the tuition paid for placements by providing alternative education for disruptive students.
15. Investigate other avenues for investments that will provide a better interest rate.

Status of Prior Audit Findings and Observations

Our prior audit of the East Allegheny School District (EASD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one reported observation. The finding pertained to a deficit fund balance, and the observation pertained to unmonitored vendor system access. 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 finding and observation. As shown below, we found that the EASD did not implement recommendations related to the deficit fund balance. EASD did implement recommendations related to unmonitored vendor system access and logical access control weaknesses.

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

Finding: **District Reports Deficit Fund Balance for School Year Ended June 30, 2009**

Finding Summary: Our prior audit found the District's general fund balance decreased from a surplus of \$111,247 to a deficit of \$1,589,242.

Recommendations: Our audit finding recommended that the EASD:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues received and the amount appropriated.
3. Provide for the systematic reduction of the general fund deficit.

Current Status: During our current audit procedures we found that the EASD did not implement the recommendations (see the current finding, page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Our prior audit found the EASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's servers. 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 the system.

Recommendations:

Our audit observation recommended that the EASD:

1. Require all employees to sign the Acceptable Use of the Internet Policy.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change 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 repetitive password (i.e., last ten passwords).
4. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity of the system. Monitoring reports should include, date, time and reason for access, change(s). The District should review these reports to determine that the access was appropriate and the data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
6. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors in the computer room.

Current Status: During our current audit procedures we found that the EASD did implement most of our recommendations. We continue to recommend the District generate monitoring reports, and require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system.

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
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
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