

GREATER JOHNSTOWN SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2011

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

Mr. Richard Unger, Board President
Greater Johnstown School District
1091 Broad Street
Johnstown, Pennsylvania 15906

Dear Governor Corbett and Mr. Unger:

We conducted a performance audit of the Greater Johnstown School District (GJSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period May 15, 2009 through February 25, 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, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the GJSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

November 14, 2011

cc: **GREATER JOHNSTOWN 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 Greater Johnstown School District (GJSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the GJSD in response to our prior audit recommendations.

Our audit scope covered the period May 15, 2009 through February 25, 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 2007-08 and 2006-07.

District Background

The GJSD encompasses approximately 29 square miles. According to 2000 federal census data, it serves a resident population of 33,566. According to District officials, in school year 2007-08 the GJSD provided basic educational services to 3,193 pupils through the employment of 244 teachers, 99 full-time and part-time support personnel, and 12 administrators. Lastly, the GJSD received more than \$23.3 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding: Weaknesses in Controls and a Lack of Documentation Supporting Reimbursements for Pupil

Transportation. Our audit of pupil transportation reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found weaknesses in internal controls and a lack of documentation supporting reimbursements of \$1,164,890 and \$1,064,061, respectively (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the GJSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the GJSD had not taken appropriate corrective action in implementing our recommendations pertaining to weaknesses in internal controls and a lack of documentation supporting reimbursements for pupil transportation (see page 11). We found the GJSD had taken appropriate corrective action in implementing our recommendations pertaining to certification (see page 10), nonresident membership (see page 11), student activity funds (see page 12) and unmonitored vendor system access (see page 12).



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 May 15, 2009 through February 25, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2010 through December 31, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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

Objectives

What is the difference between a finding and an observation?

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

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

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ 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, regulations, 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.

GJSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

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

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, 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 GJSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2010, we reviewed the GJSD's response to DE dated April 6, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Criteria relevant to the finding:

DE's instructions for completing end-of-year transportation reports provides District personnel guidance for reporting the number of days vehicles provided service, the daily miles vehicles traveled with and without pupils, and the number of pupils assigned to ride vehicles..

Weaknesses in Controls and a Lack of Documentation Supporting Reimbursements for Pupil Transportation

Our audit of pupil transportation reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found weaknesses in internal controls and a lack of documentation supporting reimbursements of \$1,164,890 and \$1,064,061, respectively.

This represents a continuation of weaknesses found during our prior audit (see page 11).

Our audit found internal control weaknesses and a lack of documentation in the following areas:

Number of Days Buses Transported Pupils

According to the transportation director, when a bus transported only District pupils, the District's school calendar was used to calculate the number of days pupils were transported. When a bus transported District and nonpublic pupils, the director used a flat 180 days of service. Our review found that the District and nonpublic schools do not follow the same calendar and were not always open on the same days. Therefore, buses that transported both District and nonpublic pupils could have provided more than 180 days of services. Since nonpublic school calendars were not available for review, we could not determine the exact number of days buses transported both District and nonpublic pupils.

In addition, the transportation director indicated that when the District was closed and the nonpublic schools were open, the District utilizes a reduced fleet to transport the nonpublic pupils. Some buses, therefore, could have provided less than 180 days of service reported. We could not verify which buses operated when a reduced fleet was utilized.

Miles per Day With and Without Pupils

Although DE instructions were to report miles to the nearest tenth of a mile, District personnel rounded the average miles with pupils and miles without pupils to the nearest whole number for the 2006-07 school year. As a result, the number of miles per day that buses traveled with and without pupils could have been understated by as much as four tenths of a mile or overstated by as much as five tenths of a mile. Because source documentation used to calculate the miles was not available, we could not determine the effect of this procedural error.

Our audit of the 2007-08 school year found that District personnel failed to report the average daily miles for those buses that made noon runs in addition to the normal morning and afternoon trips. Because source documentation used to report average mileage was unavailable, we could not determine the effect of these errors.

Furthermore, the bus contractor provided the District transportation director with the number of miles per day that buses traveled. Our audit found no evidence that administrative personnel checked the information for accuracy.

Number of Pupils Assigned

Bus rosters used to determine the greatest number of pupils assigned to ride a bus excluded nonpublic pupils. As a result, the transportation director could have understated the greatest number of pupils assigned to ride buses that transported both District and nonpublic pupils. In addition, the transportation director failed to compute a weighted average or sample average when the number of pupils assigned changed during the school year due to pupils entering and withdrawing from the District or nonpublic schools.

We could not determine the greatest number of pupils assigned to ride some buses, or calculate a weighted or sample average of pupils assigned, because no documentation was available indicating which nonpublic students were assigned to a particular bus.

Recommendations

The *Greater Johnstown School District* should:

1. Institute the controls necessary to ensure that the number of days buses transported pupils, the miles per day buses traveled with and without pupils, and the number of pupils assigned to ride buses are reported accurately and in accordance with DE's instructions.
2. Review reports submitted to DE for the years subsequent to the audit period and submit revised reports if errors are found.

Management Response

Management stated the following:

1. The assistant Superintendent and Coordinator of Administrative Services will attend the bi-monthly transportation meetings, along with the Director of Transportation. These three Greater Johnstown School District employees will interact with the bus contractors in order to institute the necessary controls for determining the miles per day that each of the buses have traveled. These miles counted will include the number of miles with pupils and number of miles without pupils.

In addition, the Director of Transportation will be responsible for keeping and maintaining updated, at least monthly, record of the number of pupils assigned to ride each of the buses, at all schools, public and non-public. These reports will be reported accurately and in accordance with the Department of Education's instructions.

Both miles per day and pupil assignment reports will be submitted monthly to the Superintendent and the Board of Directors.

2. The Assistant Superintendent, Coordinator of Administrative Services, and Director of Transportation will meet with the bus contractor to review reports submitted to the Department of Education for the years subsequent to the audit period. If necessary, the reports will be revised to comply with and be in accordance with the Department of Education's guidelines.

These reports will be shared with the Superintendent and the Board of Directors no later than May 31, 2011. If revisions to the Department of Education are necessary, these will [be] submitted following their review on May 31, 2011.

Status of Prior Audit Findings and Observations

Our prior audit of the Greater Johnstown School District (GJSD) for the school years 2005-06 and 2004-05 resulted in four reported findings and one observation, as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the GJSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the GJSD did not implement recommendations related to weaknesses in controls and lack of documentation for transportation data, but implemented the recommendations related to the other findings and the observation.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Certification Deficiencies

Finding Summary: Our prior audit of professional employees' certification and assignments for the period April 1, 2006 through December 31, 2008, found that three individuals were assigned to teach classes that were outside their areas of certification.

Recommendations: Our audit finding recommended that the GJSD:

1. Ensure that emergency certificates are applied for and received on a timely basis.
2. Adopt procedures to ensure that all professional employees hold valid certification in the areas to which they are assigned, in accordance with Certification and Staffing Policies and Guidelines issued by the Bureau of School Leadership and Teacher Quality.

We also recommended that DE:

3. Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: During our current audit procedures we found that the GJSD implemented the recommendations.

DE deducted a subsidy forfeiture of \$2,173 from the District's basic education funding payment on June 1, 2010.

Finding No. 2: Errors in Reporting Nonresident Membership Resulted in an Underpayment of \$25,686 in Tuition for Children Placed in Private Homes

Finding Summary: Our prior audit of pupil membership data submitted to DE for the 2004-05 school year found that nonresident membership for four students placed in private homes was misclassified as resident membership. These errors resulted in an underpayment of \$25,686 in tuition for children placed in private homes.

Recommendations: Our audit finding recommended that the GJSD:

1. Review membership data thoroughly to ensure students are properly classified prior to submitting reports to DE.
2. Review reports submitted subsequent to the years audited and submit revised reports if errors are found.

We also recommended that DE:

3. Adjust the District's allocations to correct the \$25,686 underpayment.

Current Status: During our current audit procedures, we found that the GJSD implemented the recommendations.

As of February 25, 2011, DE had not adjusted the District's allocations; we therefore again recommend that DE do so to correct the \$25,686 underpayment.

Finding No. 3: Weaknesses in Controls and a Lack of Documentation Supporting Reimbursements for Pupil Transportation

Finding Summary: Our prior audit of pupil transportation reports submitted to DE for the 2005-06 and 2004-05 school years found weaknesses in internal controls and a lack of documentation supporting reimbursements of \$1,112,002 and \$986,272, respectively. The weaknesses were also found in the prior audit.

Recommendations: Our audit finding recommended that the GJSD:

1. Institute the controls necessary to ensure that the number of days buses transported pupils, the miles per day buses traveled with and without pupils, and the number of pupils assigned to ride buses are reported accurately and in accordance with DE's instructions.

2. Review reports submitted to DE for the years subsequent to the audit period and submit revised reports if errors are found.

Current Status: During our current audit procedures we found that the GJSD did not implement the recommendations; see the finding in the current audit report (page 6).

Finding No. 4: Improper Student Activity Fund Practices

Finding Summary Our prior audit of the GJSD high school student activity funds for the 2007-08 school year was conducted to determine compliance with the Public School Code and the GJSD's written policies and procedures for the management of these funds, and to determine if corrective actions were taken in response to our finding in the previous audit report.

Our audit found the existence of accounts unrelated to student activities, other funds commingled with student activity funds, and a lack of internal audit procedures.

Recommendations Our audit finding recommended that the GJSD:

1. Eliminate all accounts unrelated to student activities from the student activity fund.
2. Ensure all trust and agency funds are properly accounted for and not reported in the student activity fund.
3. Conduct an annual audit of the student activity funds as required by school policy and the Pennsylvania Association of School Board Officials' Student Activity Funds Guide.

Current Status: During our current audit procedures we found that the GJSD implemented the recommendations.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: Our prior audit found the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District utilizes an outside vendor to provide them with system maintenance and support. The vendor has remote access into the District's network 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 its system.

Recommendations

Our audit observation recommended that the GJSD:

1. Require the contract with the vendor to contain a non-disclosure agreement for the District's proprietary information.
2. Ensure the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
3. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
4. Implement 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); to use passwords that are a minimum length of eight characters; to use passwords that include alpha, numeric and special characters; to lock out users after three unsuccessful attempts; and to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's 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.
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. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.

Current Status:

During our current audit procedures we found that the GJSD implemented all the numbered recommendations shown above, with the exception of number 4, which relates to password security. We once again urge the District to adopt the procedures outlined in that recommendation.



Distribution List

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

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