

LAKE LEHMAN SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2011

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

Mr. Mark Kornoski, Board President
Lake Lehman School District
1237 Market Street
Lehman, Pennsylvania 18627

Dear Governor Corbett and Mr. Kornoski:

We conducted a performance audit of the Lake Lehman School District (LLSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 15, 2008 through December 22, 2010, 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 LLSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the LLSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

June 2, 2011

JACK WAGNER
Auditor General

cc: **LAKE LEHMAN 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 Lake Lehman School District (LLSD). 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 LLSD in response to our prior audit recommendations.

Our audit scope covered the period August 15, 2008 through December 22, 2010, 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 LLSD encompasses approximately 137 square miles. According to 2000 federal census data, it serves a resident population of 16,350. According to District officials, in school year 2007-08 the LLSD provided basic educational services to 2,170 pupils through the employment of 157 teachers, 89 full-time and part-time support personnel, and 16 administrators. Lastly, the LLSD received more than \$10.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LLSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the LLSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LLSD had taken appropriate corrective action in implementing our recommendations pertaining to student activities (see page 7) Memorandums of Understanding, and their child accounting applications (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 August 15, 2008 through December 22, 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 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 LLSD'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?
- ✓ 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

LLSD 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 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 LLSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 3, 2009, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Lake Lehman School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Lake Lehman School District (LLSD) for the school years 2005-06 and 2004-05 resulted in two reported findings and one observation as shown in the following table. 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 findings and observation. As shown below, we found that the LLSD did implement recommendations related to student activity funds, Memorandums of Understanding, and their student accounting applications.

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

Finding No. 1: Continued Inadequate Control of Student Activity Funds

Finding Summary: Our two previous audits of the District's student activity funds found that controls were inadequate.

Our prior audit of District records found that the board did not establish sufficient guidelines for the District to provide adequate controls over the student activity funds. The continued lack of control resulted in inactive and nonstudent related accounts operating within the student activity fund.

Recommendations: Our audit finding recommended that the LLSD:

1. Adopt detailed written procedures for the administration and accountability of activity accounts in accordance with the provisions of Section 511 of the Public School Code.
2. Close out inactive student activity accounts in accordance with board policy.
3. Determine the distribution and proper accounting for monies in the nonstudent activity accounts.

Current Status: We followed up on the LLSD student activity reports and found that the LLSD did take corrective action to address our prior audit recommendations.

Finding No. 2: Lack of Memorandum of Understanding and Memorandum Not Updated Timely

Finding Summary: Our prior audit of the District's records found that the District did not have signed Memorandum of Understandings (MOU) with the local police department and the Pennsylvania State Police.

Furthermore, we found that the MOU between the District and the township police department was signed September 30, 1998 and was not updated.

Recommendations: Our audit observation recommended that the LLSD:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOUs between the District and the Harvey's Lake Borough Police Department, Pennsylvania State Police, and Lehman Township Police Department.
2. Adopt a policy requiring the administration to review, update and re-execute the MOUs every two years.

Current Status: We followed up on the LLSD's MOUs and found the LLSD did have current MOUs in force.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found the LLSD 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 network servers.

Recommendations: Our audit finding recommended that the LLSD:

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

3. Develop policies and procedures to require written authorization when deleting a userID.
4. Ensure that the District maintains proper documentation to evidence terminated employees were removed from the system in a timely manner.
5. 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. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten password); lock out users after three unsuccessful attempts and log users of the system after a period of inactivity (i.e., 60 minutes maximum).
6. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. Generate monitoring reports (including firewall logs) of CSIU and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Current Status: We followed up on the LLSA's records and found that the LLSA did take appropriate action to correct their child accounting applications.



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

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