

LAUREL HIGHLANDS SCHOOL DISTRICT
FAYETTE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Mr. Angelo Giachetti, Board President
Laurel Highlands School District
304 Bailey Avenue
Uniontown, Pennsylvania 15401

Dear Governor Corbett and Mr. Giachetti:

We conducted a performance audit of the Laurel Highlands School District (LHSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period January 26, 2009 through January 24, 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 LHSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

October 11, 2011

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



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Laurel Highlands School District (LHSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period January 26, 2009 through January 24, 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 LHSD encompasses approximately 55 square miles. According to 2000 federal census, it serves a resident population of 25,477. According to District officials, in school year 2007-08 the LHSD provided basic educational services to 3,439 pupils through the employment of 235 teachers, 141 full-time and part-time support personnel, and 16 administrators. Lastly, the LHSD received more than \$20.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LHSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

Finding No. 1: Error in Reporting Nonresident Membership Resulted in an Underpayment of \$8,641 in Tuition for Children Placed in Private Homes. Our audit of pupil membership reports submitted to the Department of Education for the 2007-08 school year found that nonresident membership for children placed in private homes was understated (see page 6).

Finding No. 2: Certification Deficiency. Our audit of professional employees' certification and assignments found that one teacher was assigned outside her area of certification (see page 8).

Finding No. 3: Board Meeting Minutes Deficiencies. Our review of minutes of school board meetings found deficiencies in the maintenance of the minutes (see page 9).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the LHSD's data could occur and not be detected because the LHSD could not provide evidence it was adequately monitoring all vendor activity in its system (see page 11).

Status of Prior Audit Findings and Observations. Our prior audit of the LHSD resulted in no findings or observations.

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 January 26, 2009 through January 24, 2011, except for the verification of professional employee certification which was performed for the period October 1, 2008 through October 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 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 LHSD'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?

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.

LHSD 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, state ethics compliance, 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 LHSD operations.

Findings and Observations

Finding No. 1

Error in Reporting Nonresident Membership Resulted in an Underpayment of \$8,641 in Tuition for Children Placed in Private Homes

Criteria relevant to the finding:

Section 2503(c) of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2007-08 school year revealed nonresident membership for children placed in private homes was understated by 230 kindergarten days. The error resulted in an underpayment of \$8,641 in tuition for children placed in private homes.

District personnel incorrectly classified two nonresident children placed in private homes as resident students.

Nonresident pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the Commonwealth's payment of tuition for children placed in private homes.

DE has been provided reports detailing the nonresident membership error for use in recalculating the District's tuition payment.

Recommendations

The *Laurel Highlands School District* should:

1. Require District personnel to 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 to DE if errors are found.

The *Department of Education* should:

3. Adjust the District's allocations to resolve the \$8,641 underpayment of tuition for children placed in private homes.

Management Response

Management agreed with the finding and stated that the District has worked to improve its membership reporting procedures.

Finding No. 2 →

Certification Deficiency

Criteria relevant to the finding:

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 of the Public School Code provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Our audit of professional employees' certification and assignments for the period October 1, 2008 through October 31, 2010, found that one teacher was assigned outside her area of certification. The teacher was teaching hospitality and tourism with an accounting/secretarial/office technologies certificate from October 1, 2008 through the 2010-11 school year.

Information pertaining to the deficiency was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), DE, for its review. BSLTQ determined the teacher was assigned outside her area of certification; the District is therefore subject to subsidy forfeitures of \$887 for the 2009-10 school year and \$945 for the 2008-09 school year. The subsidy forfeiture for the 2010-11 school year could not be calculated because the aid ratio necessary for the calculation was not yet available at the time of our audit.

The certification deficiency occurred because the administration failed to accurately monitor assignments for its professional personnel.

Recommendations

The *Laurel Highlands School District* should:

Assign positions to professional personnel who hold appropriate certification for the assignment.

The *Department of Education* should:

Recover the subsidy forfeitures levied as a result of BSLTQ's determination.

Management Response

Management provided a response disagreeing with the finding but making no further comment at the time of the audit.

Auditor Conclusion

As noted in the body of the finding, after completion of our fieldwork BSLTQ determined the individual was not properly certified for her assignment. Any further disagreement must be addressed to DE.

Finding No. 3 →

Board Meeting Minutes Deficiencies

Criteria relevant to the finding:

Section 433 of the Public School Code provides, in part:

The secretary of the board of school directors shall perform the following duties:

- (1) He shall keep a correct and proper record of all the proceedings of the board, and shall prepare such reports and keep such accounts as are required by the provisions of this act. . . .

Section 518 of the Public School Code provides, in part:

Every board of directors shall retain as a permanent record of the district, the minute book. . . .

Our review of the minutes of school board meetings from January 2008 through June 2010 found deficiencies with the maintenance of the board meeting minutes and with the recording of information in the minutes. These deficiencies are discussed in greater detail below:

- Official copies of the board minutes were not retained in the permanent minutes from January 2008 through June 2009. By not keeping a complete and accurate record of board minutes, the District was not in compliance with the Public School Code. It should be noted that after our discussions with District personnel the assistant board secretary re-created the minutes for January 2008 through June 2009.

The minutes for the 2009-10 school year were not available for review in hard bound form until October 2010.

- During our review of the minutes, inaccurate vote counts were noted in five meetings in the 2009-10 school year and in five meetings in the 2008-09 school year.
- Additionally, we reviewed the October 18, 2010 board agenda, which is given to all board members for use at the school board meeting. Although item VI of the agenda stated, “approval of the minutes of September 16, 2010 and September 21, 2010,” there were no minutes included in the board agenda for board members to review prior to voting on approval; however, these September minutes were approved by a unanimous vote.

The minutes of a school board constitute the official records of action taken in board meetings and must provide evidence of the board’s actions, and must be kept as a permanent record.

Recommendations

The *Laurel Highlands School District* should:

1. Assure that the minutes of the board meetings are complete, permanently bound and kept in a secure place.
2. Require the board secretary to keep a correct and proper record of the minutes.
3. Ratify minutes for approval only upon assuring that board members have received copies of the minutes they are voting on.

Management Response

Management provided a response agreeing with the finding but making no further comment.

Observation

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Laurel Highlands School District uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting application (membership and attendance). The CSIU has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists 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 is adequately monitoring all vendor activity in its system.

During our review, we found the District had the following weaknesses over vendor access to the District’s system:

1. The District does not have any compensating controls that would mitigate the information technology (IT) weaknesses and ensure that the District would be alerted to unauthorized changes to the membership database, e.g., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.
2. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
3. The District does not require written authorization before deleting, or changing a userID.
4. The District does not have current IT policies and procedures for controlling the activities of CSIU, nor does it require the CSIU to sign the District’s Acceptable Use Policy.
5. The District has certain weaknesses in logical access controls. We noted that the District’s system parameter settings do not require all users, including the CSIU, to use passwords that are a minimum length of eight characters.

Recommendations

The *Laurel Highlands School District* should:

1. Mitigate IT control weaknesses by implementing compensating controls that would allow the district to detect unauthorized changes to the membership database in a timely manner.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Develop policies and procedures to require written authorization when deleting, or changing a userID.
4. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the CSIU sign this policy, or require the CSIU to sign the District's Acceptable Use Policy.
5. Implement a security policy and system parameter settings to require all users, including the CSIU, to use passwords that are a minimum length of eight characters.

Management Response

Management agreed with the observation and stated that the District is looking into solutions.

Status of Prior Audit Findings and Observations

Our prior audit of the Laurel Highlands School District resulted in no findings or observations.



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:

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