

MUHLENBERG SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Donald B. Raifsnider, Jr., Board President
Muhlenberg School District
801 Bellevue Avenue
Laureldale, Pennsylvania 19605

Dear Governor Rendell and Mr. Raifsnider:

We conducted a performance audit of the Muhlenberg School District (MSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 12, 2008 through June 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 MSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 13, 2010

cc: **MUHLENBURG 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 Muhlenberg School District (MSD). 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 MSD in response to our prior audit recommendations.

Our audit scope covered the period September 12, 2008 through June 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 MSD encompasses approximately 13 square miles. According to 2000 federal census data it serves a resident population of 20,064. According to District officials, in school year 2007-08 the MSD provided basic educational services to 3,434 pupils through the employment of 245 teachers, 184 full-time and part-time support personnel, and 17 administrators. Lastly, the MSD received more than \$7.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the MSD 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 MSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the MSD had taken appropriate corrective action in implementing our recommendations pertaining to transportation operations (see page 7) and their student 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 September 12, 2008 through June 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 MSD'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?
- ✓ 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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 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.

MSD 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 and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 7, 2009, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Muhlenberg School District (MSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to transportation operations and the observation pertained to their student accounting applications. 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 MSD did implement recommendations related to transportation operations and their student accounting applications.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Weak Internal Controls Regarding Transportation Operations.</i></u></p> <ol style="list-style-type: none"> 1. Obtain original source documents from the contractor for mileage and pupil data which is reported to the Department of Education (DE). 2. Review source documents provided by the contractor. 3. Reconcile days billed by the contractor to an independent document maintained by the District to identify days in which transportation was provided. 4. Ensure contracts are obtained and retained for each vehicle that requires a contract. 5. Review invoices generated by the contractor for accuracy. 6. Require appropriate personnel to familiarize themselves with DE end-of-year 	<p>Background:</p> <p>Our prior audit of transportation operations for the 2005-06 and 2004-05 school years found weak internal controls which resulted in inaccurate transportation data (mileage, pupil counts, number of days vehicles provided transportation and contractor costs) reported to DE for reimbursement.</p>	<p>Current Status:</p> <p>We followed up on the MSD transportation operations and found that the MSD did take appropriate corrective action to address this finding.</p>

<p>transportation report instructions, including requirements for reporting vehicle data for shared service, mileage, pupil data, the number of days transportation was provided and seating capacity for each vehicle, to ensure accuracy before reporting the data to DE.</p>		
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<p><u>II. Observation:</u> <u>Unmonitored Vendor System Access and Logical Access Control Weaknesses.</u></p> <ol style="list-style-type: none"> 1. Include in its contract with the Berks County Intermediate Unit #14 (BCIU) a non-disclosure agreement for the District's proprietary information. 2. Ensure that the District's Acceptable Use Policy (AUP) addresses authentication in terms of password syntax requirements. 3. Establish separate information technology (IT) policies and procedures for controlling the activities of vendors/consultants and have the BCIU sign this policy, or the District should require the BCIU to sign the District's AUP. 4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. 	<p>Background:</p> <p>Our prior audit found that the MSD uses software purchased from the BCIU for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the above software are maintained on the BCIU's servers which are physically located at the BCIU. The District has remote access into the BCIU's network servers, with the BCIU providing system maintenance and support.</p>	<p>Current Status:</p> <p>We followed up on the MSD's IT controls/access and found that MSD did take appropriate corrective action as recommended in our prior audit report.</p>
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<p>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 passwords).</p> <p>6. Allow access to its system only when the BCIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the BCIU has completed its work. This procedure would also enable the monitoring of BCIU changes.</p> <p>7. Generate monitoring reports of BCIU 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.</p>		
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8. To mitigate IT control weaknesses, have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.		
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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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