

PITTSTON AREA SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MAY 2011

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

Mr. Terrance Best, Board President
Pittston Area School District
5 Stout Street
Pittston, Pennsylvania 18640

Dear Governor Corbett and Mr. Best:

We conducted a performance audit of the Pittston Area School District (PASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period February 4, 2009 through January 7, 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 PASD 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 PASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

May 26, 2011

cc: **PITTSTON AREA SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – School District Did Not Follow Proper Bidding Procedures	6
Status of Prior Audit Findings and Observations	8
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Pittston Area School District (PASD). 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 PASD in response to our prior audit recommendations.

Our audit scope covered the period February 4, 2009 through January 7, 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 PASD encompasses approximately 42 square miles. According to 2000 federal census data, it serves a resident population of 30,034. According to District officials, in school year 2007-08 the PASD provided basic educational services to 3,343 pupils through the employment of 204 teachers, 188 full-time and part-time support personnel, and 10 administrators. Lastly, the PASD received more than \$13.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the PASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: School District Did Not Follow Proper Bidding Procedures. Our review of PASD records found that the PASD did not adhere to the Public School Code requirements and guidelines, which require purchases in excess of \$10,000 be acquired only after advertisement to bid (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PASD had taken appropriate corrective action in implementing our recommendations pertaining to 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 February 4, 2009, through January 7, 2011, except for the verification of professional employee certification which was performed for the period October 31, 2008 through November 11, 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 PASD'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?
- ✓ 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 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

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

PASD 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.

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.

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, 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 PASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2010, we reviewed the PASD's response to DE dated October 20, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

School District Did Not Follow Proper Bidding Procedures

Section 7-751(a) of the Public School Code provides, in part:

All construction, reconstruction, repairs, maintenance or work of any nature, including the introduction of plumbing, heating and ventilating, or lighting systems, upon any school building or upon any school property, or upon any building or portion of a building leased under the provisions of section 703.1, made by any school district, where the entire cost, value or amount of such construction, reconstruction, repairs, maintenance or work, including labor and material, shall exceed ten thousand dollars (\$10,000), shall be done under separate contracts to be entered into by such school district with the lowest responsible bidder, upon proper terms, after due public notice has been given asking for competitive bids. . . .

Our review of Pittston Area School District (PASD) records found that the PASD did not adhere to Public School Code (PSC) requirements and guidelines, which require purchases in excess of \$10,000 be acquired only after advertisement to bid.

The PASD purchased, without solicitation of bids, the labor for installing carpeting and tile for part of their high school renovation project.

The construction manager for the high school renovation project hired a company to do the installation (labor, construction) for carpeting and tile in the high school at a total cost of \$242,540. All materials needed for the job were acquired by state contract.

By failing to seek competitive bids, the PASD:

- probably did not enjoy the benefits of lower costs normally associated with bidding; and
- excluded area businesses from the knowledge that labor and construction were to be purchased, thereby depriving them of the opportunity to submit competitive bids.

Recommendations

The *Pittston Area School District* should:

Adhere to Section 7-751 (a) of the PSC concerning proper bidding procedures.

Management Response

Management stated the following:

The management noted that the finding is vague and does not relate to any specific contract requiring bidding and therefore the District is unable to provide any meaningful response. However, the District enacted a Purchasing Policy on June 29, 2009, which provides for the District's compliance with 24 P.S. §7-751. In addition, the policy has more checks and balances than required under the Public School Code of 1949. For example, the policy

requires two Board Overseers for Purchases, the Purchasing Agent and the Business Manager to review and approve, in writing, all expenditures in excess of \$2,500. Further, all contracts submitted by a proposed vendor must be submitted to the District Solicitor for review and input and no such contract may be executed by anyone other than the proper officers of the District after having been so authorized by duly constituted vote of the Board.

Auditor Conclusion

Our finding clearly states that the District violated the PSC when it failed to seek competition for the labor and construction costs. Those costs totaled \$242,540 for the installation of tile and carpeting that were part of the high school renovation. When the costs of labor and construction exceed \$10,000, the PSC requires the District seek competitive bids. During our next audit, we will determine whether the District complies with the PSC and its newly enacted Purchasing Policy.

Status of Prior Audit Findings and Observations

Our prior audit of the Pittston Area School District (PASD) for the school years 2005-06 and 2004-05, resulted in one reported observation. The observation pertained to their child accounting applications. As part of our current audit, we determined the status of corrective action taken by the PASD to implement our prior recommendations. We analyzed the PASD Board's written response provided to the Department of Education, performed audit procedures, and questioned PASD personnel regarding the prior observation. As shown below, we found that the PASD did implement recommendations related to their child accounting applications.

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

Observation: **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Finding Summary: PASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the PASD's network servers.

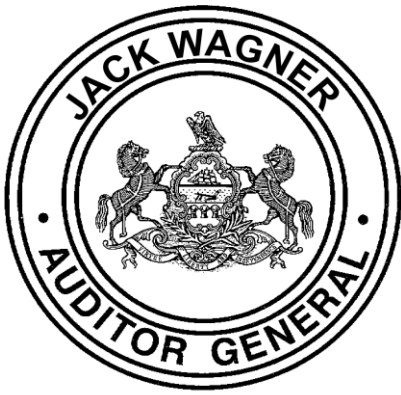
Recommendations: Our audit finding recommended that the PASD:

1. Develop an agreement with the Wilkes-Barre Area Vocational Technical School (WBAVTS) to provide student accounting related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Maintain on file a copy of the fully executed maintenance agreement signed by the WBAVTS and the District.
3. Maintain on file a copy of the fully executed non-disclosure agreement signed by the WBAVTS and the District.
4. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements). Further, the employees should be required to sign the policy.
5. Establish separate IT 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.

6. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
7. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
8. 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); and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
9. Develop and maintain a list of vendor users with “change” access to membership/attendance data.
10. 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 access to its data and ensure that changes to the data are made only by authorized vendor representatives.
11. Only allow access to their system when the vendor or WBAVTS need 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.
12. Generate monitoring reports (including firewall logs) of vendor 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:

During our current audit procedures, we found that the PASD did take corrective action to address our prior audit recommendations.



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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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