

SCHOOL DISTRICT OF THE CITY OF MONESSEN
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Mr. Joseph Gigliotti, Board President
School District of the City of Monessen
1275 Rostraver Street
Monessen, Pennsylvania 15062

Dear Governor Corbett and Mr. Gigliotti:

We conducted a performance audit of the School District of the City of Monessen (SDCM) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 17, 2007 through March 10, 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, 2007, 2006 and 2005. 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 SDCM complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. A summary of these results is presented in the Executive Summary section of the audit report.

We appreciate the SDCM's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 11, 2011

cc: **SCHOOL DISTRICT OF THE CITY OF MONESSEN** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of the City of Monessen (SDCM). 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 SDCM in response to our prior audit recommendations.

Our audit scope covered the period November 17, 2007 through March 10, 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, 2006-07, 2005-06 and 2004-05.

District Background

The SDCM encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 8,670. According to District officials, in school year 2007-08 the SDCM provided basic educational services to 972 pupils through the employment of 89 teachers, 57 full-time and part-time support personnel, and 5 administrators. Lastly, the SDCM received more than \$7.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SDCM complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audit period, our audit of the SDCM resulted in no findings or observations.

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the SDCM from an audit we conducted of the 2003-04 and 2002-03 school years, we found the SDCM had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting nonresident membership (see page 7) and unmonitored vendor system access (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 November 17, 2007 through March 10, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2010 through February 28, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 SDCM'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.

SDCM 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, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 17, 2010, we reviewed the SDCM's response to DE dated February 8, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the School District of the City of Monessen (SDCM) for the school years 2003-04 and 2002-03 resulted in one reported finding and one reported observation. The finding pertained to errors in reporting nonresident membership, and the observation pertained to unmonitored vendor system access. 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 SDCM Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the SDCM did implement recommendations related to errors in nonresident membership and unmonitored vendor system access.

School Years 2003-04 and 2002-03 Auditor General Performance Audit Report

Finding: **Errors in Reporting Nonresident Membership Resulted in Overpayments of \$64,503**

Finding Summary: Our prior audit of pupil membership reports submitted to DE for the 2003-04 and 2002-03 school years found that nonresident membership days for children placed in private homes was overstated by 180 days in elementary and 14 days in secondary for the 2003-04 school year, and by 179 days in full-time kindergarten and 1,522 days in secondary for the 2002-03 school year. The errors resulted in overpayments of \$5,631 and \$58,872, respectively.

Recommendations: Our audit finding recommended that the SDCM:

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 to DE if errors are found.
3. DE should adjust the District's allocations to recover the overpayments of \$64,503 in tuition for children placed in private homes.

Current Status: During our current audit procedures we found that the SDCM did implement the recommendations pertaining to the finding. As of March 10, 2011, DE had not yet adjusted the District's allocations to recover the overpayments. Therefore, we again recommend that DE adjust the District's allocations to recover the \$64,503 in tuition for children placed in private homes.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Our prior audit found that unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District's membership information and result in the District not receiving the funds to which it was entitled from the state.

Recommendations:

Our audit observation recommended that the SDCM:

1. Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on their system.
2. Allow the vendor to perform the upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
3. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system.
4. Allow remote access to the system only when the vendor needs access to make pre-approved change/updates or requested assistance.
5. 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.
6. Implement a 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). 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), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
7. Maintain evidence that it performs reconciliations between system-generated membership and attendance reports and manually kept membership and attendance records, to ensure that any unauthorized changes within the system would be detected in a timely manner.

8. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
9. Analyze the impact on the system of any software updates/patches/changes before implementing the change.
10. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
11. Include in the District's Acceptable Use Policy provisions for authentication (e.g., password security and syntax requirements).
12. Keep a list of all employees with access to the District's server room.

Current Status: During our current audit procedures we found that the SDCM did implement the 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:

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