



**SCHOOL DISTRICT OF SPRINGFIELD TOWNSHIP
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

MAY 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

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

Mr. Walter Lapidus, Board President
School District of Springfield Township
1901 East Paper Mill Road
Oreland, Pennsylvania 19075

Dear Governor Corbett and Mr. Lapidus:

We conducted a performance audit of the School District of Springfield Township (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period June 8, 2009 through May 24, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009 and June 30, 2010. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

On November 1, 2012, the Department of the Auditor General (Department) initiated a special audit of the details surrounding the resignation of the District's former Superintendent. This performance audit covered the period June 8, 2009 through May 24, 2013, and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. This performance audit was separate and distinct from the District's cyclical performance audit, which was conducted simultaneously the results of which are described below.

The Department's special audit found that the District complied, in all significant respects, with relevant requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

May 22, 2014

cc: **SCHOOL DISTRICT OF SPRINGFIELD TOWNSHIP** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of Springfield Township (District) in Montgomery County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period June 8, 2009 through May 13, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2008-09 and 2009-10 school years.

District Background

The District encompasses approximately six (6) square miles. According to 2010 federal census data, it serves a resident population of 19,418. According to District officials, the District provided basic educational services to 2,218 pupils through the employment of 195 teachers, 221 full-time and part-time support personnel, and nineteen (19) administrators during the 2011-12 school year. The District received \$6,076,522 in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding.

Finding: Failure to Withhold Income Taxes From Taxable Income. Our audit found that the School District of Springfield Township (District) failed to report \$23,359 of the former Superintendent's taxable income on the Internal Revenue Service Form W-2 for the 2010, 2011, and 2012 calendar years (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the School District of Springfield Township (District) from an audit released on January 15, 2010, we found the District had taken appropriate corrective action in implementing four (4) of our recommendations pertaining to unmonitored vendor system access and logical control weaknesses but had not yet taken corrective action for three (3) of our recommendations (see page 7).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 June 8, 2009 through May 24, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09 and 2009-10 school years.

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 Pennsylvania Department of Education (PDE) 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the District's compliance with certain relevant 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

To determine the status of our audit recommendations made in a prior audit report released on January 15, 2010, we reviewed the District's response to PDE dated March 16, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Failure to Withhold Income Taxes From Taxable Income

Criteria relevant to the finding:

Internal Revenue Service (IRS) instructions for Form W-2, Box 1 (Wages, tips, other compensation) state, in part, that taxable income “includes taxable amounts that you paid to your employee from which federal income tax was not withheld.”

IRS instructions for Form 1040 state, in part:

Generally, you must report all income except income that is exempt from tax by law.

According to the IRS, “[e]mployers who do not comply with the employment tax laws may be subject to criminal and civil sanctions for willfully failing to pay employment taxes.”

[See <http://www.irs.gov/uac/Employer-and-Employee-Responsibilities--Employment-Tax-Enforcement>]

Our audit of the School District of Springfield Township’s (District) former Superintendent’s employment contracts, agreements, and payroll records found that the District neglected to report taxable income of \$23,359 on the former Superintendent’s Internal Revenue Service (IRS) *Form W-2 Wage and Tax Statement* (Form W-2) for the 2010 through 2012 calendar years.

The former Superintendent’s tenure at the District ended when she resigned, effective August 1, 2012. Over a three-year period, the District’s Board of School Directors forgave varying portions of a \$28,823 loan that the District had extended to her.

During our audit testing, District personnel confirmed that taxes were not withheld on the loan forgiveness—totaling \$23,359—and that this was not included on her IRS Form W-2 for any of the three (3) years.

It is the responsibility of District management to have in place internal policies and procedures to ensure that compensation paid by the District, and eligible for federal income tax withholding, are properly reported. Without such internal controls, the District is at risk to pay the underreported federal income taxes, plus penalties, and to incur additional tax payments and any possible IRS sanctions.

As a result of our audit, on May 8, 2013, the District sent the former Superintendent three (3) *W-2c Corrected Wage and Tax Statement* forms for the 2010, 2011, and 2012 calendar years, making adjustments of \$7,275, \$10,172, and \$5,912, respectively, for a total of \$23,359.

Recommendations

The *School District of Springfield Township* should:

1. Report on IRS *Form W-2 Wage and Tax Statement* all wages subject to federal, state, and local taxes in accordance with all applicable tax regulations.
2. Implement procedures to review and confirm all compensation deemed reportable to ensure that eligible wages are being reported for tax purposes.

Management Response

Management stated the following:

“An oversight was made due to turnover of key business office staff members. Corrected W2’s were issued for this employee on May 8, 2013.”

Auditor Conclusion

We are encouraged that the District acknowledges its error. We will follow up during our next cyclical audit of the District on its progress in implementing our recommendations to put in place internal controls to prevent against future possible oversights.

Status of Prior Audit Findings and Observations

Our prior audit of the School District of Springfield Township (District) released on January 15, 2010, resulted in an observation pertaining to unmonitored vendor system access and logical control weaknesses. 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 District Board's written response provided to the Pennsylvania Department of Education, performed audit procedures, and interviewed District personnel regarding the prior observation. As shown below, we found that the District did implement four (4) of our recommendations related to unmonitored vendor system access and logical control weaknesses and but had not yet addressed three (3) other recommendations.

Auditor General Performance Audit Report Released on January 15, 2010

Observation: Unmonitored Vendor System Access and Logical Control Weaknesses

Observation

Summary:

Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications. The District's entire computer system, including its data and the above vendor's software are maintained on the vendor's servers, which are physically located at the vendor's location. During our prior audit, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide evidence that it was adequately monitoring vendor activity in its system.

Recommendations:

Our audit observation recommended that the District should:

1. Include in its Acceptable Use Policy (AUP) provisions for authentication (password security and syntax requirements).
2. Establish separate information technology policies and procedures for controlling the activities of vendor/consultants, and have the vendor sign this policy, or require the vendor to sign the District's AUP.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that include alpha, numeric, and special characters.
4. Implement a security policy and system parameter settings to require all users, including the vendor, to log off the system after a period of inactivity (e.g., 60 minutes maximum).

5. Implement a security policy and system parameter settings to lock out users after three (3) unsuccessful access attempts.
6. Allow access into its system only when the vendor needs 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.
7. 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, we found that the District did implement recommendations one (1), two (2), three (3), and seven (7). However, the District had not yet implemented the remaining three (3) recommendations.

We again recommend that the District implement the three (3) other recommendations made in our prior audit.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.