

AMBRIDGE AREA SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

APRIL 2011

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

Ms. Kimberly Locher, Board President
Ambridge Area School District
740 Park Road
Ambridge, Pennsylvania 15003

Dear Governor Corbett and Ms. Locher:

We conducted a performance audit of the Ambridge Area School District (AASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period September 9, 2008 through July 29, 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 AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding 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 finding, observation and recommendations have been discussed with AASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve AASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the AASD's cooperation during the conduct of the audit and their willingness to implement our recommendations

Sincerely,

/s/
JACK WAGNER
Auditor General

April 13, 2011

cc: **AMBRIDGE AREA 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 Ambridge Area School District (AASD). 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 AASD in response to our prior audit recommendations.

Our audit scope covered the period September 9, 2008 through July 29, 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 AASD encompasses approximately 27 square miles. According to 2000 federal census data, it serves a resident population of 25,022. According to District officials, in school year 2007-08 the AASD provided basic educational services to 2,822 pupils through the employment of 214 teachers, 197 full-time and part-time support personnel, and 16 administrators. Lastly, the AASD received more than \$15.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding: District Reported a Deficit Fund Balance for the School Year ended June 30, 2009. Our review of the AASD's financial reports found a general fund deficit of \$308,053 as of June 30, 2009 (see page 6).

Observation: Memoranda of Understanding Not Updated Timely. The AASD currently has updated two of the four Memoranda of Understanding (MOU) with local law enforcement agencies. The other two local law enforcement agencies requested minor changes to the MOU. The MOU has not been updated; however, the AASD is working to achieve this result (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the AASD, we found the AASD had taken appropriate corrective action in implementing some but not all of our recommendations pertaining to unmonitored vendor system access and logical access control weakness (see page 11). The AASD tried to implement our recommendations regarding MOUs with local law enforcement agencies, but two of the four agencies have not yet signed MOUs (see page 14).



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 9, 2008 through July 29, 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 AASD'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:

- ✓ 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 and conclusions based on our audit objectives.

AASD 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, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 29, 2009, we performed audit procedures targeting the previously reported matters.

Findings and Observations

Finding

District Reported a Deficit Fund Balance for the School Year Ended June 30, 2009

Criteria relevant to this finding:

Section 609 of the Public School Code provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of the school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Our review of the District's annual financial reports, local auditor's reports, and general fund budgets for the fiscal years June 30, 2006 through June 30, 2009, found that the general fund balance decreased from a surplus of \$2,649,573 to a deficit of \$308,053, as shown in the following schedule:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Revenue</u>	<u>Prior Period</u> <u>Adjustment</u>	<u>Expenditures</u>	<u>Expenditures</u> <u>(Over)/Under</u>	<u>General Fund</u> <u>Surplus/(Deficit)</u>
2006	\$ -	\$ -	\$ -	\$ -	\$2,649,573
2007	33,555,980	-	34,021,557	(465,577)	2,183,996
2008	35,121,930	-	36,412,643	(1,290,713)	893,283
2009	36,576,546	*228,551	38,006,433	(1,429,887)	(308,053)

*The prior period adjustment was to reflect a change in accounting for prepaid insurance.

The most significant factor causing the general fund deficit was the failure to control expenditures in accordance with the general fund budgets. The following schedule details total actual expenditures in excess of budgeted expenditures:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>Over</u> <u>Expenditures</u>
2007	\$34,209,316	\$34,021,557	\$ 187,759
2008	35,073,941	36,412,643	(1,338,702)
2009	36,544,152	38,006,433	(1,462,281)

The highest variances occurred in regular programs, special programs, operation and maintenance of plant services, student transportation services and debt service. The Pre-K account was not in the original budget for the 2008-09 school year; the cost to the District for the program was \$157,154.

Recommendations

The *Ambridge Area School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues received and the amount appropriated.
3. Provide for the systematic reduction of the general fund deficit.

Management Response

Management stated the following:

The deficit fund balance for the school year ended June 30, 2009, was a result of flawed budgeting practices, overestimating revenues and underestimating expenditures, as well as the lack of timely real estate tax increases necessitated by the increase in debt service related to the upgrade of District school buildings.

During the 2009-10 the District has taken several steps to correct the deficit fund balance:

1. In November 2009, the district froze the General Fund Budget eliminating all non-essential purchases.
2. The former Business Manager was relieved of his position and a new Business Manager was hired in March 2010.
3. The District began a process of debt restructuring to provide budgetary relief beginning with the May 1, 2010 debt service payment.
4. The District contacted PDE and asked for an in-depth analysis of the district by the Education Management Group, LLC, (EMG) which occurred during June 2010. The District will review the recommendations as presented in EMG's report and plan for the

implementation of all feasible recommendations as approved by the School Board.

Observation →

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by DE entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This memorandum may be amended, or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memoranda of Understanding Not Updated Timely

Our review of the District's records found that the current Memoranda of Understanding (MOU) between the District and two of the four local law enforcement agencies have been properly re-executed, but the MOUs between the District and two other local law enforcement agencies have not been signed by those agencies.

This is a continuation of an observation in our prior audit report (see page 14).

The failure to update MOU's with the local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and the law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Ambridge Area School District* should:

1. Emphasize to the two local law enforcement agencies that have not signed the MOU the importance of keeping them current, because the failure to do so could affect response time if an incident occurs.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Management Response

Management stated the following:

The District has two of four fully executed MOU effective July 28, 2009. There were minor changes requested by the municipalities on the two remaining unexecuted MOU that were referred to the District's solicitor. During the 2010-11 fiscal year District administration will work closely with the solicitor to resolve the language issues in the two remaining unexecuted MOU.

Status of Prior Audit Findings and Observations

Our prior audit of the Ambridge Area School District (AASD) for the school years 2005-06 and 2004-05 resulted in two reported observations. The first observation pertained to unmonitored vendor system access and logical access control weaknesses, and the second to Memoranda of Understanding (MOU) that were not updated timely. 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 observations. As shown below, we found that the AASD did implement some, but not all, recommendations related to unmonitored vendor system access and logical access control weaknesses. The AASD has attempted to update the Memoranda of Understanding with two remaining local law enforcement agencies but as of our audit date the agencies still had not signed the MOUs.

<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. Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses</i></u></p> <p>1. Generate 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 the data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.</p> <p>2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system.</p>	<p>Background:</p> <p>Our prior audit found that the AASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers.</p> <p>We determined that a risk existed 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 was adequately monitoring all vendor activity on its system.</p>	<p>Current Status:</p> <p>1. The District has requested that the vendor install a monitoring program that captures the vendor support logins, workstation date/time stamp and reason for login. The District will be able to print this report and monitor the vendor logins.</p> <p>2. The District did not take corrective action, but believes the monitoring program detailed above is an alternative to having multiple support staff user accounts and will note the logins corresponding to each vendor employee's workstation.</p> <p>3. The District did not take corrective action but feels the Login Monitoring Program option detailed above will adequately monitor vendor activity without unduly restricting logins, especially those logins that may occur</p>

<p>Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.</p> <ol style="list-style-type: none"> 3. Allow access to the 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. 4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. 5. Back up the application(s) before placing program changes into production to ensure the District could recover data if problems are encountered. 6. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID. 7. Require written authorization from appropriate District officials before upgrades/updates are made to the District's system. 		<p>infrequently but after normal working hours to apply required program modifications such as those needed for Pennsylvania Information Management System.</p> <ol style="list-style-type: none"> 4. The District took corrective action and currently maintains a spreadsheet which evidences terminated employees are properly removed from the system. 5. The District took corrective action and now backs up the application(s) before placing changes into production to ensure recovery if problems are encountered. 6. District policy now requires written authorization when adding, deleting or changing a userID. 7. The Software Maintenance Agreement with the vendor states that changes to client data will only be made upon written request. 8. The District has implemented policies regarding emergency changes to systems or programs that do not follow the established change process. 9. The District has implemented procedures to test the impact of proposed program changes in relation to business-critical functions before implementation of updates.
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<p>8. Establish a process for defining, raising, testing, documenting assessing and authorizing emergency changes to systems or programs that do not follow the established change process.</p> <p>9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>10. Establish separate information technology policies and procedures for controlling the activities of the vendor and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>11. Include provisions in the Acceptable Use Policy for authentication (password security and syntax requirements) and for violations/incidents (what is to be reported and by whom).</p> <p>12. 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), and to use passwords that are of a minimum length of eight characters.</p>		<p>10. The District requires vendors to sign the District's Acceptable Use Policy.</p> <p>11. The Acceptable Use Policy now includes provisions for authentication (password security and syntax requirements) but not for violations/incidents (what is to be reported and to whom).</p> <p>12. The District has implemented a security policy and parameter settings that requires all users, including the vendor to change their passwords every 30 days and to use passwords that are a minimum length of 8 characters.</p> <p>Based on our current audit we determined the District has implemented most of our recommendations. During our next audit, we will review the recommendations not implemented to determine if a risk exists that changes could be made and not be detected by the District.</p>
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<p><u>I. Observation No. 2:</u> <u>Memoranda of</u> <u>Understanding Not</u> <u>Updated Timely</u></p> <p>1. Review, update and re-execute the current MOU between the District and the local law enforcement agencies.</p> <p>2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.</p>	<p>Background:</p> <p>Our prior audit of the District's records found that the MOUs between the District and its four local law enforcement agencies were executed in November 1998, and had not been updated.</p>	<p>Current Status:</p> <p>The District has updated two of the four MOUs with the local law enforcement agencies. The other two agencies have not signed the current MOUs with the District because they desired minor changes to the MOU (see the current observation, page 9).</p>
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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.auditor.gen.state.pa.us, and the following:

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