

ARMSTRONG SCHOOL DISTRICT
ARMSTRONG COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Ms. Rose N. Stitt, Board President
Armstrong School District
410 Main Street
Ford City, Pennsylvania 16226

Dear Governor Corbett and Ms. Stitt:

We conducted a performance audit of the Armstrong School District (ASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 27, 2008 through August 6, 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 ASD 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. 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 ASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve ASD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 25, 2011

cc: **ARMSTRONG 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 Armstrong School District (ASD). 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 ASD in response to our prior audit recommendations.

Our audit scope covered the period October 27, 2008 through August 6, 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 ASD encompasses approximately 437 square miles. According to 2000 federal census data, it serves a resident population of 44,970. According to District officials, in school year 2007-08 the ASD provided basic educational services to 5,867 pupils through the employment of 486 teachers, 260 full-time and part-time support personnel, and 34 administrators. Lastly, the ASD received more than \$42.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the ASD 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.

Finding: Internal Control Weaknesses and Lack of Support Documentation for Retirement Reimbursement Data.

Our audit of retirement reimbursement data for the 2007-08 and 2006-07 school years found a lack of supporting documentation to verify the accuracy of wages reported for existing and new employees for retirement reimbursements of \$1,493,866 and \$1,342,472, respectively (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the ASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the ASD had not taken appropriate corrective action in implementing our recommendations pertaining to errors in retirement reimbursement data (see page 7) and had not yet implemented our recommendations related to transportation data (see page 8). We found that the ASD had implemented the recommendations in our observations related to a Memorandum of Understanding (see page 9) and unmonitored vendor system access and logical access control weaknesses (see page 10).



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 October 27, 2008 through August 6, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006.

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 ASD'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:

- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), 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 and conclusions based on our audit objectives.

ASD 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, and financial stability.
- Items such as Board meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2010, we performed audit procedures and questioned District personnel regarding the prior findings and observations.

Findings and Observations

Finding

Internal Control Weaknesses and Lack of Support Documentation for Retirement Reimbursement Data

Criteria relevant to the finding:

Act 29 of 1994 created two categories of employees to be tracked by school entities. These two categories of employees to be tracked were “existing” and “new” employees. An “existing” employee is an individual who has an effective date of employment with a public school entity prior to July 1, 1994 or has an effective date of employment after June 30, 1994, but was employed by any other public school entity in Pennsylvania prior to July 1, 1994. A “new” employee is an individual with an effective date of employment after June 30, 1994 who has never been employed by another school entity in Pennsylvania prior to July 1, 1994.

Our audit of the Armstrong School District’s payroll records for the 2007-08 and 2006-07 school years found a lack of supporting documentation to verify the accuracy of wages reported for existing and new employees for retirement reimbursements of \$1,493,866 and \$1,342,472, respectively.

The passage of Act 29 of 1994 legislation created two categories of employees to be tracked by school entities. The two categories of employees to be tracked were “existing” and “new” employees. Reimbursement rates differ for the two categories of employees.

Our review of the payroll department records found that the District was unable to provide a listing of salaries identifying existing and new employees; the District’s payroll software did not identify new and existing employees. As a result, we could not verify the propriety of state reimbursement for retirement.

Recommendations

The *Armstrong School District* should:

1. Prepare source documents to separate existing and new employees.
2. Reconcile the retirement reimbursement to source documents to ensure that the reimbursement received is correct.
3. Update payroll software to identify new and existing employees.

The Department of Education should:

4. Consider the appropriateness of the District’s retirement reimbursement due to the facts stated above.

Management Response

Management waived the opportunity to reply at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Armstrong School District (ASD) for the school years 2005-06 and 2004-05 resulted in two reported findings and two observations, as shown in the following table. 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 findings and observations. As shown below, we found that the ASD did not implement recommendations related to Findings No. 1 and No. 2, but did implement the recommendations related to Observations No. 1 and No. 2.

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

Finding No. 1: Net Overpayment Totaling \$10,499 in Retirement Reimbursement

Finding Summary: Our prior audit of wages for the 2004-05 and 2003-04 school years found that the District had improperly reported wages earned in the 2003-04 school year as 2005 wages to the Department of Education (DE).

These errors, which were clerical in nature, resulted in the Public School Employees' Retirement System (PSERS) not including all retirement wages in the District's reimbursement calculations for the 2003-04 school year, and in an overstatement of retirement wages for the 2004-05 school year.

The net effect was a reimbursement overpayment of \$10,499.

Recommendations: Our audit finding recommended that ASD:

1. Revise and resubmit retirement statements for quarters ending June 30, 2004 and September 30, 2004.
2. Review subsequent years' reports for accuracy and resubmit as necessary.

We also recommended that PSERS and DE:

3. Adjust the District's allocations to correct the net overpayment of \$10,499.

Current Status: Our current audit of the 2007-08 and 2006-07 school years found a lack of supporting documentation to verify the accuracy of wages reported for existing and new employees for retirement reimbursements. (Refer to the Finding in the current audit report, page 6.)

Based on the results of our current audit, we concluded the ASD did not take appropriate corrective action to address this finding.

As of our fieldwork completion date of August 6, 2010, DE had not adjusted the District's allocations.

Finding No. 2: Reporting Errors, Internal Control Weaknesses and Lack of Reliable Documentation Found in Audit of Pupil Transportation Reimbursements

Finding Summary: Our prior audit of pupil transportation records and reports submitted to DE for the 2005-06 and 2004-05 school years found reporting errors, internal control weaknesses, and a lack of reliable supporting documentation for pupil transportation reimbursements of \$5,034,141 and \$4,550,876, respectively.

Recommendations: Our prior audit finding recommended that ASD:

1. Conduct an internal review prior to submission of reimbursement reports to DE to ensure accuracy of vehicle data, mileage, pupil counts, the number of nonpublic pupils, and the number of trips.
2. Prepare weighted average pupil rosters for all students assigned to each bus including all students that entered, withdraw, or re-located within the District.
3. Prepare and retain complete daily mileage roster identifying miles with and miles without pupils for each bus run and verify veracity of contractor odometer readings.
4. Prepared detailed route descriptions and perform a yearly verification of all bus routes and mileage to ensure all buses follow board approved bus routes.
5. Ensure the vehicle year of manufacture is correctly recorded and reported.
6. Require District transportation personnel to attend pupil transportation training seminars.
7. Maintain on file the source data used to report all pupil transportation data to DE.
8. Perform a review of subsequent years' data to ensure reliable supporting documentation is on file, accurate data was reported, and

resubmit reports to DE, if necessary.

We also recommended that DE:

9. Consider withholding pupil transportation reimbursement until such time as the District can show it is taking its corrective action implementation seriously.

Current Status: Our prior audit was released January 29, 2010. Therefore, the District's corrective action plan to resolve this finding could not have taken effect for the 2007-08 and 2006-07 school years. Our next audit will determine the effectiveness of any corrective action implemented by the District.

Observation No. 1: Lack of Memorandum of Understanding and Failure to Update Timely

Observation Summary:

Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and one local law enforcement agency was signed January 24, 2004, and was not updated.

Also, the District did not have signed MOUs with three other local law enforcement agencies. The District contacted the three local law enforcement agencies in 1997 in an attempt to obtain signed MOUs.

Recommendations: Our audit observation recommended that ASD:

1. In consultation with the District solicitor, review, update and re-execute MOUs with local law enforcement agencies every two years.
2. Contact the three local law enforcement agencies again in an attempt to obtain a current MOU with each agency.

Current Status: Our current audit of MOUs found the District implemented both recommendations. We concluded that the ASD did take appropriate corrective action to address this observation.

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting application (membership and attendance). The software vendor has remote access into the District's network servers.

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 in its system.

Recommendations:

Our audit observation recommended that ASD:

1. 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.
2. Include provisions for authentication (e.g., password security and syntax requirements) in its Acceptable Use Policy.
3. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
4. Implement a security policy and system parameter setting 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. Also, the District should maintain a password history that will lock out users after three unsuccessful attempts.

Current Status:

Our current review found that the District implemented all of our recommendations. We concluded that the ASD did take appropriate corrective action to address this observation.

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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