

CLAIRTON CITY SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Richard P. Livingston, Board President
Clairton City School District
502 Mitchell Avenue
Clairton, Pennsylvania 15025

Dear Governor Rendell and Mr. Livingston:

We conducted a performance audit of the Clairton City School District (CCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 30, 2007 through October 8, 2009, 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 CCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings 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 findings, observation and recommendations have been discussed with CCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

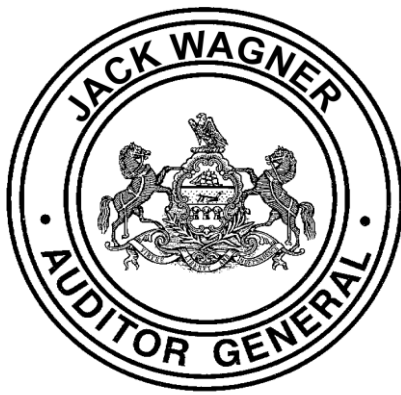
JACK WAGNER
Auditor General

August 4, 2010

cc: **CLAIRTON CITY SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding No. 1 – Inadequate Documentation to Support \$267,047 in Tuition for Orphans and Children Placed in Private Homes	6
Finding No. 2 – District Fund Balance Decreased by \$3,352,861 Over the Six Year Period Ending June 30, 2009	8
Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses	10
Status of Prior Audit Findings and Observations	14
Distribution List	15



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Clairton City School District (CCSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period November 30, 2007 through October 8, 2009, 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 CCSD encompasses approximately 1 square mile. According to 2000 federal census data, it serves a resident population of 8,491. According to District officials, in school year 2007-08 the CCSD provided basic educational services to 808 pupils through the employment of 78 teachers, 40 full-time and part-time support personnel, and 7 administrators. Lastly, the CCSD received more than \$9.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding 1: Inadequate Documentation to Support \$267,047 in Tuition for Orphans and Children Placed in Private Homes.

CCSD did not maintain adequate documentation to support data reported to the Department of Education for nonresident students placed in private homes (see page 6).

Finding 2: District Fund Balance Decreased by \$3,352,861 Over the Six Year Period Ending June 30, 2009.

According to the CCSD's annual financial reports, the CCSD's general fund balance decreased from a surplus of \$3,458,749 at June 30, 2003 to a surplus of only \$105,888 at June 30, 2009 (see page 8).

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

We determined that a risk exists that unauthorized changes to the CCSD's data could occur and not be detected because the CCSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 10).

Status of Prior Audit Findings and Observations. There were no findings or observations in our audit report for the school years 2005-06 and 2004-05.

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 30, 2007 through October 8, 2009, except for the verification of professional employee certification which was performed for the school year 2008-09.

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 CCSD'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?

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.

CCSD 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, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Findings and Observations

Finding No. 1

Inadequate Documentation to Support \$267,047 in Tuition for Orphans and Children Placed in Private Homes

Criteria relevant to the finding:

Section 2503(c) of the Public School Code provides:

The Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

Our audit of pupil membership records for the 2006-07 and 2007-08 school years found that the District did not maintain adequate documentation to support the students reported to the Department of Education (DE) as nonresident students placed in private homes.

The deficiencies occurred because the District failed to obtain confirmation letters from child placement agencies to verify the residency of the natural parents and/or legal guardians of the students, and to verify that the foster parents were being compensated.

As a result, we were unable to verify the correctness of the \$127,078 and \$139,969 received by the District for the 2007-08 and 2006-07 school years, respectively, for tuition for orphans and children placed in private homes.

Nonresident pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the Commonwealth payments of tuition for children placed in private homes.

Recommendations

The *Clairton City School District* should:

1. Provide regular in-service training to administrative and clerical personnel responsible for recording and reporting membership data. This training should stress the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.
2. Develop procedures to ensure proper classification of students enrolling in the District as resident or nonresident and the necessary steps required for documenting District of residency of the natural parents or guardians.

Management Response

Management stated the following:

We will now provide secretarial training regarding the enrollment process to ensure foster parents are required to provide a letter from the placement agency which verifies Foster Parent's name, address, child's name, start date, and per diem rate for every child registered as a foster child. This documentation will be required as well as our current district paperwork. The 2008/2009 enrollment documentation will be reviewed to determine if the file is complete and accurate, and corrections will be made as necessary.

Finding No. 2

District Fund Balance Decreased by \$3,352,861 Over the Six Year Period Ending June 30, 2009

Criteria relevant to the 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 school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Section 687(b) of the Public School Code provides, in part:

The board of school directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and state appropriation, available for school purposes in that district.

Our review of the District's annual financial reports and general fund budgets for fiscal years June 30, 2003 through June 30, 2009, found the general fund balance decreased from a surplus of \$3,458,749 to \$105,888, detailed as follows:

<u>Fiscal Year Ending June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Expenditures Over Revenue</u>	<u>General Fund Surplus</u>
2003	\$ -	\$ -	\$ -	\$3,458,749
2004	13,350,219	13,970,835	(620,616)	2,838,133
2005	12,799,207	13,295,037	(495,830)	2,342,303
2006	12,334,664	12,429,914	(95,250)	2,247,053
2007	13,236,195	13,640,193	(403,998)	1,843,055
2008	13,752,898	14,105,739	(352,841)	1,490,214
2009	13,795,638	15,179,964	(1,384,326)	105,888

As shown in the above schedule, expenditures have exceeded revenues received during each fiscal year since June 30, 2004.

In addition, as shown below, actual expenditures have exceeded budgeted expenditures in four of the last six years:

<u>Fiscal Year Ended 6/30</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>(Over)/Under Expenditures</u>
2004	\$14,322,101	\$13,970,835	\$ 51,266
2005	12,314,614	13,295,037	(980,423)
2006	12,450,180	12,429,914	20,266
2007	13,118,500	13,640,193	(521,693)
2008	13,400,000	14,105,739	(705,739)
2009	14,213,434	15,179,964	(966,530)

District personnel informed us that the decrease in the fund balance occurred because the District preferred to spend down their general fund balance as opposed to raising taxes or cutting spending. Management also cited skyrocketing charter school costs and stagnant revenues as a cause for this situation.

Recommendations

The *Clairton City School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues available and the amount appropriated.

Management Response

Management stated the following:

The deteriorating financial position is directly related to two expenditures that did not exist 5 years ago and have led to an increased financial burden on the district. Charter schools and security expenditures combine for an annual cost of over \$1,000,000.00. Raising taxes by the index would only generate \$100,000.00 in additional tax revenue. Therefore, the district chose to decrease expenditures and utilize some of the fund balance (which exceeded PDE limits by 30%) rather than raise taxes.

Auditor Conclusion

Using a portion of the general fund balance as described in management's response is prudent when the fund balance is sufficient. However, with the fund balance at only \$105,888 as of June 30, 2009, it is apparent that the District must control expenditures to ensure that available revenues are not exceeded by expenditures, resulting in a general fund deficit and possible violations of Public School Code Sections 609 and 687(b).

Observation →

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Clairton City School District 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 servers.

Based on our current year procedures, we determined that a risk exists 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 is adequately monitoring all vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Membership reconciliations are performed between manual records and reports generated from the student accounting system.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls.

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.

During our review, we found the District had the following weaknesses over vendor access to the District’s system:

1. District and vendor employees are not required to sign the Acceptable Use of the Internet Policy.
2. The District does not require written authorization before adding, deleting, or changing a userID.
3. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.

4. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days (the District requires a change every 120 days); to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (only one password remembered) and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
5. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
6. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
7. The District does not store data back-ups in a secure, off-site location.

Recommendations

The *Clairton City School District* should:

1. Require that all District employees and vendor employees to sign the Acceptable Use of the Internet Policy.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. 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).

5. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system.
6. Allow access to the system only when the vendor needs 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.
7. The District should store back-up tapes in a secure, off-site location.

Management Response

Management stated the following:

1. All employees will be required to sign the attached Acceptable Use of the Internet Policy as attached, and will be reflected in our amended Policy #815 to be approved September 21, 2009.
2. & 3. A User ID Information for Internet Usage Form has been developed to document adding, deleting, or changing a User ID. Terminated employees must be removed from the system within one week.
4. The District requires all users except the vendor to change their passwords every 42 days. We will now change that requirement to every 30 days. The minimum number of characters is currently six. We will change that to eight in the next change cycle. In our educational environment, it is not feasible to log users off the system after a period of inactivity. There are many intervening responsibilities during the course of the day for teachers. To log off after 60 minutes of inactivity would be a disruption to the educational process as teachers would need to log in each time the computers are utilized.
5. The [vendor's] system keeps a log of each remote access by one of their employees. The log includes the remote computer's name and that name corresponds to the staff member that the computer belongs to. We also are aware that any system changes would be initiated by [the vendor].

6. [The vendor] currently has 24/7 access due to the need to perform system updates at times when no other users are logged into the system.
7. The district will implement a procedure to swap out the backup tapes on a weekly basis. One set of tapes will be stored at the administration building, which is a remote location. The other set will reside in the tape autoloader in the district server room.

Auditor Conclusion

We continue to recommend that the District take corrective action to address all of the weaknesses we identified regarding its data security, its ability to demonstrate that it would know if changes were made to that data, and the monitoring of its outside vendor.

Status of Prior Audit Findings and Observations

Our prior audit of the Clairton City School District for the school years 2005-06 and 2004-05 resulted in no findings or observations.

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:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Thomas E. Gluck
Acting 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

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office 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

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

