

CORNELL SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2012

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

Mr. Jeffrey McBain, Board President
Cornell School District
1099 Maple Street
Coraopolis, Pennsylvania 15108

Dear Governor Corbett and Mr. McBain:

We conducted a performance audit of the Cornell School District (CSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 1, 2009 through August 31, 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, 2010 and June 30, 2009. 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 CSD complied, in all significant respects, with applicable state laws, 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 CSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 1, 2012

cc: **CORNELL SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – District Continues to Have a General Fund Deficit of \$650,950 as of June 30, 2010	6
Status of Prior Audit Findings and Observations	9
Distribution List	11



Executive Summary

Audit Work

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

Our audit scope covered the period May 1, 2009 through August 31, 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 2009-10 and 2008-09.

District Background

The CSD encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 7,363. According to District officials, in school year 2009-10 the CSD provided basic educational services to 701 pupils through the employment of 58 teachers, 35 full-time and part-time support personnel, and 5 administrators. Lastly, the CSD received more than \$3.1 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the CSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

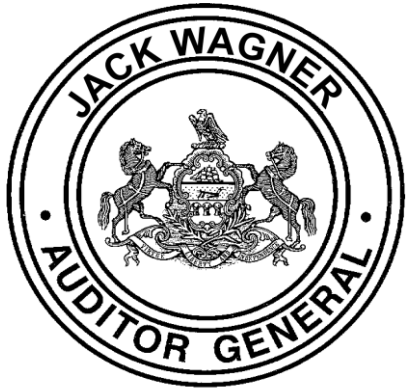
Finding: District Continues to Have a General Fund Deficit of \$650,950 as of June 30, 2010.

Our review of the CSD's annual financial reports, local auditor's reports, and general fund budgets for fiscal years ended June 2010 and 2009 found a deteriorating financial condition (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the CSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the CSD had not taken appropriate corrective action in implementing our recommendations pertaining to the general fund deficit (see page 9).

We found the CSD had taken, or is in the process of taking, appropriate corrective action in implementing our recommendations pertaining to 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 May 1, 2009 through August 31, 2011.

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

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 CSD's compliance with applicable state laws, 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 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 buy-out 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, 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.

CSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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 CSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 29, 2009, we reviewed the CSD's response to PDE dated January 21, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

District Continues to Have a General Fund Deficit of \$650,950 as of June 30, 2010

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.”

Our review of the District’s annual financial reports, local auditor’s reports, and general fund budgets for fiscal years ended June 30, 2010 and 2009 found a deteriorating financial condition, a continuation of a trend addressed in our prior audit (see page 9). General fund deficits are shown in the following schedule:

<u>Fiscal Ending June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Expenditures (Over)/Under</u>	<u>General Fund Surplus(Deficit)</u>
2008	\$ -	\$ -	\$ -	\$(456,901)
2009	10,867,441	10,649,130	218,311	(238,590)
2010	10,835,950	11,248,310	(412,360)	(650,950)

The most significant factors causing deterioration of the general fund balance were the overestimation of local and state revenues and the underestimation of expenditures in the 2009-10 school year, detailed in the following charts:

<u>Fiscal Year Ending June 30</u>	<u>Budgeted Revenues</u>	<u>Actual Revenues</u>	<u>Favorable (Unfavorable)</u>
2009	\$10,773,909	\$10,867,441	\$ 93,532
2010	11,200,461	10,835,950	(364,511)

<u>Fiscal Year Ending June 30</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Favorable (Unfavorable)</u>
2009	\$10,667,001	\$10,649,130	\$ 17,871
2010	10,922,309	11,248,310	(326,001)

The most significant unfavorable variances in local revenue were in the collection of current real estate taxes and delinquent taxes. For state revenue, the largest unfavorable variance was in basic education funding. For expenditures, the largest unfavorable variances were noted in pupil personnel services and operation and maintenance of plant services.

Recommendations

The *Cornell 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 the 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 District concurs that there was a deficit fund balance as of June 30, 2010.” The District anticipated reducing the FYE [fiscal year ending] 2008 deficit of (\$456,901) during FYE 2009 by approximately \$250,000 and the remaining amount during FYE 2010.

“However, during FYE 2009 a number of larger property owners began not paying their real estate taxes which also carried over to FYE 2010. Five property owners became delinquent in the amount of \$476,000. We also experienced some unforeseen operations and maintenance expenditures in the amount of \$260,000. The situations worked against the District budget plan to increase our deficit to (\$690,950).

“The District has made progress in dealing with two of the major delinquent property owners to collect back taxes and have these properties back on the active tax rolls for FYE 2012.

“As of August 30, 2011, the unadjusted FYE 2011 fund balance for the District is at (\$213,172) an improvement of \$437,778.

The District anticipates that the remaining deficit will be eliminated during FYE 2012 due to the fact that we raised our real estate millage and eliminated five teaching positions, one secretarial, and one maintenance position.

Auditor Conclusion

Subsequent to our completion of fieldwork, the District provided us with copies of the annual financial report and local auditor’s report for FYE June 30, 2011, dated November 7, 2011, and February 7, 2012, respectively. They showed a general fund deficit of \$336,651 as of June 30, 2011, higher than the estimate noted in management’s response, but an improvement over the June 30, 2010 deficit.

We will continue to follow-up on the District’s actions to eliminate the general fund deficit during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Cornell School District (CSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to a \$456,901 general fund deficit, and the observation pertained to unmonitored vendor access and logical access 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 CSD Board's written response provided to the Pennsylvania Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the CSD did not implement recommendations related to the general fund deficit. We found the District did implement the majority of our recommendations regarding unmonitored vendor access weaknesses.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: District Had a General Fund Deficit of \$456,901 as of June 30, 2008

Finding Summary: Our prior review of the District's annual financial reports, local auditor's reports, and general fund budgets for the fiscal years ending June 30, 2008, 2007, 2006 and 2005 found a deteriorating financial condition. The most significant factor causing deterioration of the general fund balance was the failure to control expenditures in accordance with the general fund budgets.

Recommendations: Our audit finding recommended that the CSD:

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 the current operations and limit them to revenues received and the amount appropriated.
3. Provide for the systematic reductions of the general fund deficit.

Current Status: During our current audit procedures we found that the CSD did not implement the recommendations. The District continues to have a general fund deficit balance (see the current finding on page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation

Summary:

Our prior audit found 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 vendor activity in its system.

Recommendations:

Our audit observation recommended that the CSD:

1. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters, and to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
2. 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.
3. Encrypt the District's remote connections.
4. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
5. Have formally documented compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

During our current audit procedures we found that the CSD did implement recommendations 1 through 4 and are currently developing procedures for number 5.

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:

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

The Honorable Ronald J. Tomalis
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

Ms. Nichole Duffy
Director
Bureau of Budget and Fiscal Management
Pennsylvania 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.

