

CRESTWOOD SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2009

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

Mr. Gerald Orloski, Board President
Crestwood School District
281 South Mountain Boulevard
Mountain Top, Pennsylvania 18707

Dear Governor Rendell and Mr. Orloski:

We conducted a performance audit of the Crestwood School District (CSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 28, 2007 through May 19, 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, as they were the most recent reimbursements subject to audit. 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, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one 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 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 and their willingness to implement our recommendations.

Sincerely,

/s/

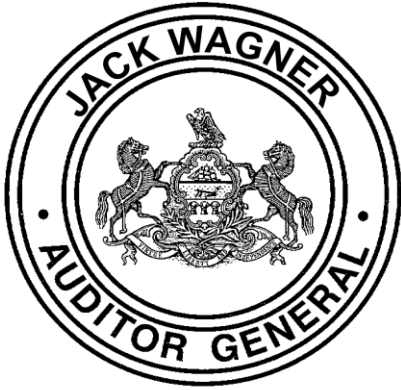
JACK WAGNER
Auditor General

October 8, 2009

cc: **CRESTWOOD SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments of \$54,661	6
Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses	7
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 Crestwood School District (CSD). 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 CSD in response to our prior audit recommendations.

Our audit scope covered the period June 28, 2007 through May 19, 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 CSD encompasses approximately 100 square miles. According to 2000 federal census data, it serves a resident population of 18,299. According to District officials, in school year 2007-08 the CSD provided basic educational services to 3,144 pupils through the employment of 179 teachers, 122 full-time and part-time support personnel, and 13 administrators. Lastly, the CSD received more than \$11.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding and one matter unrelated to compliance that is reported as an observation.

Finding: Errors in Reporting Pupil Transportation Data Resulted in an Reimbursement Underpayments of \$54,661.

Our review of the CSD's transportation reports, as submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found incorrect data was submitted to DE, resulting in underpayments of \$29,699 and \$24,962, respectively (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that CSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 7).

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 2005-06 and 2004-05 school years, we found the CSD had taken appropriate corrective action in implementing our recommendations pertaining to their Memorandum of Understanding (see page 9).

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 June 28, 2007 through May 19, 2009.

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 DE 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

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 CSD'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 pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

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.

- ✓ 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 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 finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation 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, 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, pupil membership records.

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 11, 2007. We performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Transportation data must be maintained in accordance with Chapter 23 of the State Board of Regulations titled "Pupil Transportation" and also with DE guidelines and instructions, since this data determines the district's transportation subsidies.

Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments of \$54,661

Our audit of the District's transportation reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years, found incorrect data resulting in underpayments of \$29,699 and \$24,962, respectively.

The District pays its transportation contracts based on DE's formula allowance. District personnel reconciled the contractor payments after receiving the final subsidy entitlement reports from DE, and then paid the difference between the total payments made to the contractors and DE's final formula allowance.

This process resulted in contractor payments being made in subsequent years, causing the District to omit the final payments on subsidy reports submitted to DE.

DE has been provided reports detailing the errors for use in recalculating the District's transportation subsidies.

Recommendations

The *Crestwood School District* should:

1. Review invoices from contractors to ensure the amount paid to each contractor is reported correctly for reimbursement.
2. Review transportation reports submitted for subsequent years and submit revisions, if necessary.
3. DE should adjust the District's allocations to resolve the \$54,661 underpayment to the District.

Management Response

Management has noted the deficiency and has changed disbursement procedures to avoid balance of transportation contracts being paid in subsequent fiscal year.

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 Crestwood School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor does not have remote access into the District’s network servers, however the Wilkes-Barre Area Career and Technology Center (WBACTC) houses the server and provides software and technical assistance to the District.

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 they are adequately monitoring all WBACTC activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

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 access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
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.

Recommendations

The *Crestwood School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
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.

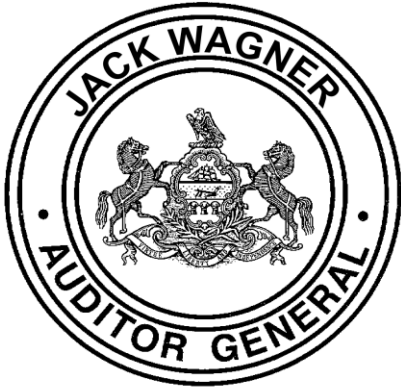
Management Response

Management agrees and will implement the recommendations.

Status of Prior Audit Findings and Observations

Our prior audit of the Crestwood School District (CSD) for the school years 2005-06 and 2004-05 resulted in one reported observation pertaining to the Memorandum of Understanding. 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 observation. As shown below, we found that the CSD did implement recommendations related to the observation.

<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: Memorandum of Understanding Not Updated Timely</i></u></p> <ol style="list-style-type: none"> Review, update and re-execute the current MOU between the District and Fairview Township and Wright Township police departments. Adopt a policy requiring the administration to review and re-execute the Memorandum of Understanding (MOU) every two years. 	<p>Background:</p> <p>Our prior audit of the District's records found that the current MOUs between the District and the Fairview, Rice and Wright Township police departments were signed June 7, 1999, and has not been updated.</p>	<p>Current Status:</p> <p>We followed up on the CSD's records and found that the District <u>did</u> take appropriate corrective action to ensure the MOUs between the CSD, and the Fairview, Rice, and Wright Township police departments were updated, June 28, 2007.</p>



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

The Honorable Gerald Zahorchak, D.Ed.
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

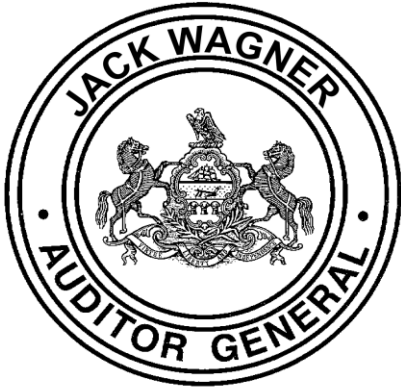
Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Acting 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.

