

GIRARD SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2011



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

Ms. Kelly Weidler, Board President  
Girard School District  
1203 Lake Street  
Girard, Pennsylvania 16417

Dear Governor Corbett and Ms. Weidler:

We conducted a performance audit of the Girard School District (GSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 18, 2009 through June 28, 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 GSD 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. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with GSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve GSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the GSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 9, 2011

cc: **GIRARD SCHOOL DISTRICT** Board Members

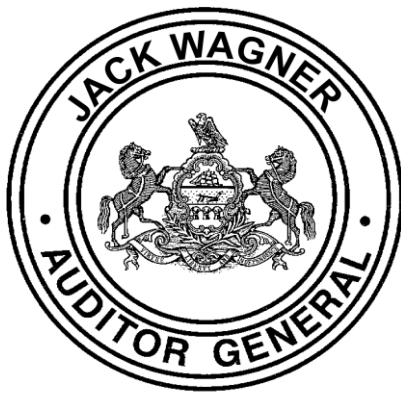


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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Girard School District (GSD). 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 GSD in response to our prior audit recommendations.

Our audit scope covered the period September 18, 2009 through June 28, 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 GSD encompasses approximately 38 square miles. According to 2000 federal census data, it serves a resident population of 11,100. According to District officials, in school year 2009-10 the GSD provided basic educational services to 2,021 pupils through the employment of 153 teachers, 92 full-time and part-time support personnel, and 13 administrators. Lastly, the GSD received more than \$11.5 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the GSD 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.

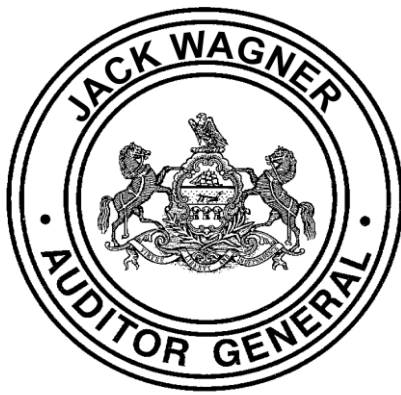
#### **Finding No. 1: Tuition Not Billed Timely.**

Our audit found that for the 2008-09 school year tuition billings of \$86,575 were sent to one neighboring school district in August of 2010, a full year later than provided for in the Public School Code. Also, as of June 28, 2011, the GSD still had not billed for the tuition owed to them for the 2009-10 school year (see page 6).

**Finding No. 2: Board Fails to Properly Govern Student Activity Funds.** Our audit of the 2009-10 student activity fund practices found continued deficiencies, including failure to comply with board policy, inappropriate accounts maintained within the fund, and excessive fund balances (see page 7).

**Status of Prior Audit Findings and Observation.** With regard to the status of our prior audit recommendations to the GSD, we found the GSD had not taken appropriate corrective action in implementing our recommendations pertaining to the student activity fund (see page 12).

We found the GSD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 13).





## Audit Scope, Objectives, and Methodology

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### 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 18, 2009 through June 28, 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 Department of Education (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

*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 GSD'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?

- ✓ 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**

*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.

*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.

GSD 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, nonresident pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2010, we reviewed the GSD's response to DE dated November 22, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### **Finding No. 1** →

### **Tuition Not Billed Timely**

*Criteria relevant to the finding:*

Section 2561(5) of the Public School Code (PSC) provides:

A school district shall compute the tuition charges for pupils who are residents of another school district for budgetary purposes at the beginning of each school year, and shall use the expenses of the next preceding school year as a basis for such computation. At the end of each school year, the tuition charges shall again be computed and based on the actual expenses for the school year immediately preceding and the tuition charges for non-resident pupils shall then be adjusted in accordance with this latter computation. The school district in which the non-resident pupil is a legal resident shall pay the tuition charges in accordance with the computation based upon these actual expenses.

Our audit of the tuition billings for the 2008-09 and 2009-10 school years found that District personnel failed to bill tuition in a timely manner to a neighboring school district whose students attend classes at Girard School District.

For the 2008-09 school year the District was owed \$86,575 from the neighboring district. The District sent out the bills in August 2010, a full year later than provided for in the PSC.

As of June 28, 2011, the billings for the 2009-10 school year had not yet been sent out. These billings should have been sent upon completion of the 2009-10 school year.

The late billings were caused by District personnel failing to follow the PSC and failing to adhere to recommendations made in a verbal comment presented during our prior audit.

### **Recommendations**

The *Girard School District* should:

1. Require District administrators to adhere to the mandates of the PSC.
2. Remit billings for the 2009-10 school year immediately.
3. At the end of the 2010-11 school year, remit billing in accordance with the PSC.

### **Management Response**

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

**Finding No. 2** →

*Criteria relevant to the finding:*

Section 511 (a) of the PSC provides, in relevant part:

The board of school directors in every school district shall prescribe, adopt and enforce such reasonable rules and regulations as it may deem proper, regarding . . . the organization management, supervision, control, financing or prohibition of organizations, clubs, societies and groups of the clubs, societies and groups of the members of any class or school. . . .

**Board Fails to Properly Govern Student Activity Funds**

Our audit of the District's 2009-10 student activity fund practices found continued deficiencies in the operation of student activity funds.

Background

On May 20, 2002, the board of school directors approved Board Policy #618. The policy states, in part, "student activity funds shall be raised by students and expended for the purposes related to the activity, with student participation in the decision making process regarding these areas."

The policy further states, "No funds shall be expended without the approval of the faculty advisor of the organization, a student representative of the organization and the principal."

On November 22, 2010, the Girard School District board of directors responded to the student activity fund finding in our prior audit report (see page 12). The board's response stated, in part:

Prior to graduation the class officers will be required to submit a written letter to the high school principal indicating the approved use of unexpended class funds. All accounts are appropriate. Summer school tuition, replacement fees, and banquet fees are processed through the Administration Office. Student signatures will be required on disbursements.

Continued deficiencies found in our current audit follow.

Graduated Class Funds

The board policy governing student activity funds stipulates that all graduating classes, after payment of all financial obligations and prior to graduation, shall make a commitment for distribution of the funds remaining in the class account to school activities of the class's choosing, such as a senior gift of scholarship fund.

However, we found that the remaining monies from the Class of 2009 and the Class of 2010 were deposited to a “School Store” account without student approval. As of October 9, 2009, there has been no school store in operation. As of June 30, 2010, the school store account still had a balance of \$831.

#### Inappropriate Accounts

Our audit of the Girard High School student activities fund for the 2009-10 school year found the following three accounts that should have been in the District’s general fund: the “general fund” account (High School and Middle School), the “Life Skills Class” account, and the “Family Consumer Science Class” account.

Additionally, the “Band” account, “Bell Choir” account, “Choir account,” “Unitas/Yearbook” account, and “Varsity Club” account do not have any evidence of student participation; the advisor of each account signs the check requests. Funds were expended from these accounts without student participation in the decision-making process.

#### “General Fund” Account

The District uses the high school “General Fund” student activity account to deposit summer school tuition payments, library fines, student debts, and class project fees. These deposits are general fund in nature and should not be filtered through the student activity account and should instead be deposited directly into the Girard School District’s general fund.

The “General Fund” at the Middle School is not a student activity account. During discussions with the Middle School secretary, the auditors were informed that the “General Fund” is used to process fees for replacement locks for lockers and replacement student agenda books. Additionally, the fund advances payments for the summer reading program and the annual honors dinner. These expenses are then reimbursed by the District administration.

Locks for lockers and student agenda books are general fund in nature and should be processed through the District's general fund. Summer reading is an instructional program, not an extracurricular activity, and should also be expensed through the District's general fund.

Expenses for the annual honors dinner could be processed through the student activity fund under the proper student organization.

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools (Manual of Accounting), issued by the Labor, Education and Community Services' Comptroller's Office, prohibits the commingling of student activity fund monies with other agency fund monies.

#### Inactive Accounts

The board policy governing student activity funds stipulates all funds accumulated in the name of a specific activity must be closed out annually and any residual funds are to revert to the same group for the following school year.

Two inactive accounts were noted during our review, one at Elk Valley Elementary School and one at Girard High School. The inactive account at Elk Valley is the "Recycling" account, with a balance of \$142, and at the High School it is the "Environmental" account, with a balance of \$232.

When inactive accounts remain on the books, bookkeeping costs increase and accounts become susceptible to misuse and misappropriation.

#### Deficits

The board policy governing student activity funds stipulates all student activities shall be on a self-sustaining basis, except for situations approved by the board.

Our audit found that the middle school general account had a withdrawal of \$950, although at the time the account balance was \$571; this created a deficit of \$379. This deficit required the use of the other accounts' monies to cover the shortfall. The resources and obligation of each

account should be maintained separately, detailing receipts, expenditures, and balances of each account. Balances in one account should not be used to offset a deficit in another.

Section 511 of the PSC does not make provisions for maintenance of accounts with deficit balances. The operation of accounts with deficit balances is an unsound business practice and teaches students poor fiscal management.

#### Accounts Established Without Board Approval

The board policy governing student activity funds stipulates student activity funds are not part of District funds but must be approved by the Board.

Our audit found that the middle school opened three new accounts without Board approval during the 2009-10 school year: “Class of 2014,” “Class of 2015,” and “Drama Club.”

The middle school secretary stated she talked to the business manager prior to opening these accounts and was given verbal approval to do so; however, no official action was taken by the board of directors. It should be noted that the Board approves activity fund financial reports on a monthly basis.

#### In Summary

Student activity fund operations should be an educational learning process for the students. Funds should be raised for a specific, approved school-related purpose and expended for the same, particularly when those students contributed to the accumulation of the funds. Patrons purchase goods through student fundraisers for student-related purposes, not to support other school district endeavors.

The problems uncovered during the audit of the student activity funds were caused by the lack of administrative oversight necessary to ensure that board policy and written procedures and guidelines governing the funds were being followed as intended by the board of school directors.



Student activity fund practices have been the topic of a finding in each of our last five audits of the District.

**Recommendations**

The *Girard School District* should:

1. Adhere to Board Policy #618 and Section 511 of the PSC.
2. Require student participation on all disbursement vouchers that are processed through the activity funds.
3. Discontinue commingling of general and agency fund monies with student activity fund monies.
4. Abolish all inactive and improper account.
5. Discontinue the practice of allowing accounts to operate with deficit balances.
6. Ensure accounts are approved by the board.
7. Obtain the Pennsylvania Association of School Business Official Administrator's Guide to the Development of Effective Student Activities Fund Policies and Procedures for guidance and distribute this guide to appropriate personnel.

**Management Response**

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

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Girard School District (GSD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one observation. The finding pertained to continued improper student activity practices and the observation pertained to unmonitored vendor system 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 GSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the GSD did not implement recommendations related to the finding. The GSD did implement recommendations for the observation.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Finding:**                      **Continued Improper Student Activity Practices**

Finding Summary:      Our prior audit of the District's 2009-10 student activity fund practices found continued deficiencies in the operation of student activity funds, including failure to comply with the board policy and inappropriate accounts maintained within the fund, inactive accounts, improper use of the general fund account and deficit balances.

Recommendations:      Our audit finding recommended that the GSD:

1. Adhere to Board Policy #618 and Section 511 of the Public School Code.
2. Require student participation on all disbursement vouchers that are processed through the activity funds.
3. Discontinue commingling of general and agency fund monies with student activity fund monies.

Current Status:              During our current audit procedures we found that the District did not implement the recommendations. Our current audit of the 2009-10 student activity fund practice again found continued deficiencies in the activity fund operations, as detailed in Finding No. 2 in our current report (page 7).

Based on our audit, the District did not take the appropriate corrective action to address our recommendations.

**Observation: Continued Unmonitored Vendor System Access and Logical Access**

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 all vendor activity in its system.

Recommendations:

Our audit observation recommended that the GSD:

1. Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on their system. Monitoring reports should include the date, time, and reason for access, changes(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and also ensure it is maintaining evidence of this monitoring and review.
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. 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.
3. Allow remote access to the District's 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.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
6. Store back-up tapes in a secure, off-site location.
7. Make upgrades/updates to the District's system only after receipt of written authorization from appropriate District Officials.
8. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

9. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign the policy, or require the vendor to sign the District's Acceptable User Policy.
10. Include provisions for authentication (e.g., password security and syntax requirements) and violations (what is to be reported and to whom) in the District's Acceptable Use Policy.
11. Implement a security policy and system parameter settings to require all users, including the vendor, to change 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 prevent the use of a repetitive password (i.e., last ten passwords), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
12. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturing of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.

Current Status: During our current audit procedures we found that the GSD implemented the recommendations.

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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Tom Corbett  
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Harrisburg, PA 17120

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