

GLENDALE SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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

Dr. Andy Mulhollen, Board President
Glendale School District
1466 Beaver Valley Road
Flinton, Pennsylvania 16640

Dear Governor Corbett and Dr. Mulhollen:

We conducted a performance audit of the Glendale School District (GSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 16, 2006 through July 25, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, 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 GSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the eight findings noted in this report. In addition, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

While conducting the audit, we discovered matters that we referred to our Office of Special Investigations (OSI). OSI and appropriate law enforcement agencies are conducting a joint investigation.

Our audit findings, observations 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.

Sincerely,

/s/

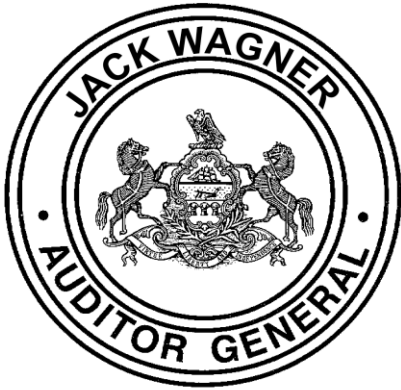
JACK WAGNER
Auditor General

January 31, 2011

cc: **GLENDAL 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 Glendale 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 March 16, 2006 through July 25, 2008, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The GSD encompasses approximately 60 square miles. According to 2000 federal census data, it serves a resident population of 5,582. According to District officials, in school year 2005-06 the GSD provided basic educational services to 866 pupils through the employment of 77 teachers, 48 full-time and part-time support personnel, and 6 administrators. Lastly, the GSD received more than \$6.7 million in state funding in school year 2005-06.

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; however, as noted below, we identified eight compliance-related matters reported as findings and two matters unrelated to compliance that are reported as observations.

Finding 1: Failure to Comply with Grant Guidelines. The GSD failed to follow guidelines established by the United States Department of Education in regard to the Carol M. White Physical Education Program Grant (see page 6).

Finding 2: Errors in Reporting Dual Enrollment Data Resulted in a Reimbursement Overpayment. Data reported to the Pennsylvania Department of Education (DE) for dual enrollment reimbursement was inaccurate (see page 10).

Finding 3: Failure to Bid Equipment Purchases. The GSD superintendent failed to comply with bidding requirements on several instances (see page 12).

Finding 4: Errors in Reporting Social Security and Medicare Wages Resulted in a Net Reimbursement Overpayment of \$15,178. GSD administrative personnel failed to deduct federal funded wages on reports submitted to DE when filing for Social Security and Medicare Reimbursement (see page 14).

Finding 5: Possible Inaccurate Reporting of Retirement Wages Totaling \$54,052.

Unqualified employee wages were reported by the GSD to the Pennsylvania School Employee Retirement System for retirement purposes (see page 17).

Finding 6: Certification Deficiencies.

Two GSD employees were assigned to teaching positions for which they did not possess the proper certification (see page 19).

Finding 7: District Entered into Contracts and Agreements Without Approval From School District Board of Directors.

The GSD superintendent entered the GSD into various contracts and agreements without seeking approval from the GSD board of school directors as required by Section 508 of the Public School Code (see page 20).

Finding 8: Continued Internal Control Weaknesses Noted in Student Activity Fund Operations.

Several internal control weaknesses were noted during the review of the GSD's student activity funds (see page 23).

Observation 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

Weaknesses were noted in the review of the GSD's information technology controls (see page 26).

Observation 2: Memorandum of Understanding Not Updated Timely.

The GSD did not update their Memorandum of Understanding with local law enforcement as required by DE (see page 30).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the GSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the GSD had not taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses over student activity funds and board members failure to file their Statements of Financial Interests (see pages 31 and 32, respectively) but had taken appropriate corrective action in implementing our recommendations pertaining to an observation concerning the GSD's bus driver policy (see page 32).

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 March 16, 2006 through July 25, 2008, except for the verification of professional employee certification which was performed for the period January 31, 2006 to March 31, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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?

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.

- ✓ 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?
- ✓ 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?
- ✓ 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.

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 11, 2006. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

Education General Administrative Regulations (EDGAR)
Section 80.36 (b) states in part:

Procurement standards: (1)
Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations . . .

Board Policy #610 states in part:

The Board shall, after due public notice advertising for competitive bids, purchase furniture, equipment, school supplies and appliances costing \$10,000 or more, unless exempt by statute. The Board shall advertise once a week for three (3) weeks in not less than two (2) newspapers of general circulation.

Public School Code (PSC)
Section 807.1 states in part:

All furniture, equipment, textbooks, school supplies and other appliances for the use of public schools, costing ten thousand dollars (\$10,000) or more shall be purchased by the board of school directors only after due advertisement . . .

Failure to Comply with Grant Guidelines

The Glendale School District (GSD) was the recipient of a Carol M. White Physical Education Program Grant (PEP Grant). The purpose of the grant is to initiate, expand, and improve physical education programs for all kindergarten through 12th grade students.

The grant period is three years beginning with the 2007-08 school year. The GSD received \$403,890 for the first year of the grant and was awarded \$315,462 and \$211,484 for the second and third years of the grant, respectively.

The following deficiencies in disbursement of grant funds and adherence to grant guidelines were noted:

Bidding Violation

The District purchased \$326,219 of athletic equipment during the 2007-08 school year without advertising and requesting bids.

By failing to solicit competitive bids the District:

- lost the benefit of lower costs normally associated with competitive bidding;
- excluded area businesses from the knowledge that there were items to be purchased, thereby depriving them of the opportunity to submit competitive bids; and
- may not have operated its purchasing activities in the most economical and efficient manner.

Administrative

According to the PEP Grant narrative, the District stated that two site coordinators would be hired to manage the grant activities and provide a sustained program of training in the field. At the June 26, 2007 board meeting, the board approved the elementary and secondary principals to act as site coordinators. The narrative states that the two site coordinators would devote 15 percent of their work day to serve as project coordinators. In addition, the project director and the superintendent were to devote 30 percent of their day to the project. The application also states that 20 percent of the elementary and secondary principal's day would be committed as an "in kind" match. Therefore, the elementary principal, according to the grant application, was committed to spending 65 percent of his work day fulfilling the grant obligations. In addition, the secondary principal and superintendent were committed to spend 35 percent and 30 percent of their work days, respectively, to fulfill their responsibilities as listed on the grant application. None of the proposed responsibilities were performed outside of the employees scheduled work hours. The three individuals could then only be able to commit 35 percent, 65 percent, and 70 percent of their work day to performing their duties as principals and superintendent, respectively.

The project director stated that the above noted percentages of time dedicated to the project were never attained. Therefore, the District did not comply with grant requirements.

The grant narrative did not disclose that the same individuals would be fulfilling multiple roles and therefore were not questioned by the United States of America Department of Education (US DE), the grant donor.

Stipends

On October 5, 2007, the superintendent, elementary principal, and secondary principal each received \$5,750 stipend as a site administrator. At the time of audit, the grant education contact person from the US DE stated to the auditor that no stipends were to be paid from grant funds since the site coordinators were District employees that were performing these duties during their standard work day. Additionally, the stipends were not listed on the program budget.

District Did Not Fulfill Budgeted Obligations

The GSD failed to fulfill obligations as required by grant guidelines as follows:

According to the program budget, the District was committed to an “in kind” match of \$27,560 in year one, \$37,560 in year two and \$47,560 in year three for physical education supplies and equipment. A total of \$26,310 of District funds was to be spent on interlocking safety flooring, which the District did not purchase. The District instead purchased a rubber mat as a substitute and paid for it with the PEP Grant funds. This violated the District’s “in kind” match commitment. Additionally, the District business manager did not budget for “in kind” matching funds for any of the three years for the project in the District’s general fund budget and stated that he was not made aware that there was an “in kind” District match obligation.

Recommendations

The *Glendale School District* should:

1. Consult with their solicitor to determine if the stipends should be refunded to the District.
2. Adhere to the approved program narrative/budget in order to fulfill the grant objectives, goals and obligations.
3. Include required “in kind” matches as part of their general fund budget.
4. Abide by PSC and board policy bidding requirements.

The *United States Department of Education* should:

5. Conduct a detailed review to determine if the GSD fulfilled their goals, objectives and activities as outlined in the program narrative submitted to the US DE, and if not, detail what remedies the GSD can implement to satisfy the PEP Grant requirements, if possible.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 2

Errors in Reporting Dual Enrollment Data Resulted in a Reimbursement Overpayment

Criteria relevant to the finding:

In accordance with Article XVI-B of the Public School Code, 24 P.S. §§ 1601-B-1615-B, PDE will award grants to school districts and area vocational-technical schools that have students participating in dual enrollment programs that meet the requirements of the law.

Article XVI-B of the PSC Section 1613-B(B)(2) states:

An explanation of the criteria used to determine student qualifications for concurrent enrollment, which shall include all of the following:
 (iii) Satisfactory progress towards fulfilling applicable high school graduation requirements . . .

Our audit of the dual enrollment data found that the program costs reported to the Department of Education (DE) for the 2005-06 school year were incorrect, resulting in a reimbursement overpayment of \$4,622.

Dual enrollment is an effort by the Commonwealth to encourage a broader range of students to experience post-secondary coursework and its increased academic rigor, while still in the supportive environment of their local high school. The intent is to increase the number of students that go on to post-secondary education and to decrease the need for remedial coursework at postsecondary institutions. It is a locally administered program that allows a secondary student to concurrently enroll in post-secondary courses and to receive both secondary and post-secondary credit for that coursework.

The Dual Enrollment Program enables districts and area vocational-technical schools (“school entities”) to receive funds to offset the cost of post-secondary coursework completed under an approved dual enrollment program. Dual enrollment reimbursement is to cover tuition, books, fees, and transportation.

The following errors were found:

<u>Approved Course</u>	<u>Number of Enrolled Students</u>		<u>Total Course Costs</u>		<u>Overpayment</u>
	<u>Audited</u>	<u>Reported</u>	<u>Audited</u>	<u>Reported</u>	
Chemistry	25	25	\$170	\$260	\$2,250
Anatomy/Microbiology	28	30	\$130	\$180	<u>\$1,760</u>
Total Overpayment					<u>\$4,010</u>

A reimbursement overpayment was also received for one student enrolled in a public speaking course in the amount of \$612 from DE. Moreover, the student did not receive any secondary credits, which is a violation of the program guidelines.

Recommendations

The *Glendale School District* should:

1. Review subsequent final expenditure reports to ensure accurate data was reported and submit revisions if necessary.
2. Reconcile with Saint Francis University the possible overcharges by the university.

The *Department of Education* should:

3. Recover the \$4,622 overpayment from allotment.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 3

Failure to Bid Equipment Purchases

Criteria relevant to the finding:

Section 807.1 (a) of PSC provides, in part:

All furniture, equipment, textbooks, school supplies and other appliances for the use of the public schools, costing ten thousand dollars (\$10,000) or more shall be purchased by the board of school directors only after due advertisement as hereinafter provided.

Section 751 (a) of PSC provides, in part:

All construction, reconstruction, repairs, maintenance or work of any nature, . . . made by any school district, where the entire cost, value, or amount of such construction, reconstruction, . . . including labor and material, shall exceed ten thousand dollars (\$10,000), shall be done under separate contracts to be entered into by such school district with the lowest responsible bidder . . . after due public notice has been given asking for competitive bids.

Board Policy #610 states:

The board shall, after due public notice advertising for competitive bids, contract for construction, reconstruction, repairs, maintenance or work on any school building or property having a cost or value of more than \$10,000, unless exempt by statute.

Our audit of the District's general fund expenditures for the 2004-05, 2005-06, 2006-07 and 2007-08 school years found that the District violated provisions of the PSC and board policy by failing to bid equipment purchases.

Our audit of District records from the period July 1, 2004 through June 30, 2008, found that the District also failed to abide by PSC bidding requirements for the following purchases:

- playground equipment from Kompan Inc. in the amount of \$48,529;
- three computers and related equipment purchases from Hewlett Packard totaling \$82,165;
- computer equipment from Gateway in the amount of \$23,848;
- computer equipment from Prismworks Technology Inc. in the amount of \$28,051; and
- smartboards from Prismworks Technology Inc. in the amount of \$27,798.

Although several purchases list Pennsylvania Education Purchasing Program (PEPPM) as their contract name, none of the purchase orders were sent to PEPPM as required by the program. Furthermore, at the time of audit, a representative from PEPPM disclosed to the auditor that the smartboards were available at a cheaper rate through the PEPPM state contract.

The District has been cited by our department for bidding violations in the past. However, the District did not implement our previous recommendations.

By failing to solicit competitive bids, as required by the PSC, the District:

- lost the benefit of lower costs normally associated with competitive bidding;

- excluded area businesses from the knowledge that there were items to be purchased, thereby depriving them of the opportunity to submit competitive bids; and
- may not have operated its purchasing activities in the most economical and efficient manner.

Recommendations

The *Glendale School District* board of directors should:

1. Abide by Sections 807.1 and 751(a) of the PSC and District Board Policy #610.
2. Strengthen controls to ensure compliance with PSC and board policy.

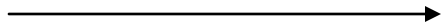
District administration should:

3. Review all purchases to ensure that purchases requiring bidding have been bid and that PEPPM waiver purchases are properly noted and adequately documented.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 4



Errors in Reporting Social Security and Medicare Wages Resulted in a Net Reimbursement Overpayment of \$15,178

Criteria relevant to the finding:

The 1986 Budget Reconciliation Act required local education agencies (LEA's) to deposit Social Security tax contributions for wages earned on or after January 1, 1987, directly to their authorized depositories or Federal reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's matching share, which was 50 percent of the employer's share of tax due for employees employed by the LEA prior to July 1, 1994, (existing employees). LEAs are subsequently reimbursed the Commonwealth's matching share based on wages reported to the Labor Education and Community Services, excluding wages paid with the federal funds.

Act 29 of 1994 further changed the way in which LEAs are reimbursed for Social Security contributions. A part of the law provides that employees who have never been employed by an LEA prior to July 1, 1994, (new employees) would have Social Security employer shares reimbursed based on the LEAs aid ratio or 50 percent, whichever is greater.

Our audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that wages were incorrectly reported to DE, resulting in a net reimbursement overpayment of \$15,178.

For the 2005-06 and 2004-05 school years, District personnel did not accurately report federally funded wages. These errors resulted in a net reimbursement overpayment to the District.

Reimbursement is not paid for taxes on wages paid with federal funds. Reported federal wages are deducted from total wages when reimbursement is calculated.

Wages eligible for Social Security and Medicare reimbursement were incorrectly submitted to DE, as follows:

<u>Reporting Period</u>		<u>Federal Wages</u>			<u>Rate</u>	<u>Reimbursement</u>
		<u>Federal Wages Audited</u>	<u>Federal Wages Reported</u>	<u>(Over)/ Understated</u>		<u>(Over)/ Underpayment</u>
<u>Existing Employees:</u>						
7/05 – 6/06	*	\$188,198	\$184,550	\$3,648	.03100	(\$113)
7/05 – 6/06	**	\$188,198	\$184,550	\$3,648	.00725	(26)
7/04 – 6/05	*	\$148,721	\$154,284	(\$5,563)	.03100	172
7/04 – 6/05	**	\$148,721	\$154,284	(\$5,563)	.00725	40
<u>New Employees:</u>						
7/05 – 6/06	*	\$126,814	\$16,972	\$109,842	.04801	(5,274)
7/05 – 6/06	**	\$126,814	\$16,972	\$109,842	.01122	(1,232)
7/04 – 6/05	*	\$149,963	\$1,607	\$148,356	.04778	(7,088)
7/04 – 6/05	**	\$149,963	\$1,607	\$148,356	.01117	<u>(1,657)</u>
		* Social Security Wages	** Medicare Wages	Total		<u>(\$15,178)</u>

Recommendations

The *Glendale School District* should:

1. Ensure that all employees wages paid with federal funds are properly coded in the payroll system.
2. Perform a reconciliation of the final federal expenditure reports to the payroll reports to ensure accuracy.
3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to DE.

The Department of Education should:

4. Adjust the District’s allocations to resolve the net reimbursement overpayment.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 5

**Possible Inaccurate Reporting of Retirement Wages
Totaling \$54,052**

Our audit of the administrative employment contracts, payroll and retirement records found that retirement wages may have been overstated for the superintendent for the 2004-05, 2005-06, 2006-07, and 2007-08 school years and for two other administrators for the 2007-08 school year, in reports submitted to the Public School Employees' Retirement System (PSERS).

The superintendent's retirement wages reported to PSERS for the 2004-05, 2005-06, 2006-07, and 2007-08 school years included salary paid in lieu of vacation days and bonuses that were paid for grant writing services. For the 2007-08 school year, the superintendent and two other administrators' retirement wages reported to PSERS included stipends of \$5,750 paid in the form of a lump sum for being site administrators of a grant. These stipends were paid using the Carol M. White PEP Grant funds that the District received in 2007-08.

The possible overstatement of retirement wages is detailed, as follows:

<u>School Year</u>	<u>Number of Individuals</u>	<u>Payment for Unused Vacation</u>	<u>Site Administrator Stipends</u>	<u>Grant Writing Bonus</u>	<u>Total Possible Overstated</u>
2004-05	1	-	-	\$ 4,639	\$ 4,639
2005-06	1	\$2,803	-	11,626	14,429
2006-07	1	2,879	-	10,897	13,776
2007-08	3	2,954	\$17,250	1,004	<u>21,208</u>
Total Possible Overstatement					<u>\$54,052</u>

PSERS allows only qualified salary and wages to be included for retirement purposes. The PSERS Reference Manual, states that the following items are identified as unqualified salary/wages: payment for unused vacation, personal and sick days as well as severance payment contingent upon retirement. Bonus payments, in most cases, are also not considered salary/wages.

The District's payroll clerk was unaware that payment for unused vacation days was categorized by PSERS as unqualified wages. Additionally, the District's payroll clerk was instructed to pay the bonuses to the superintendent at his request, and incorrectly reported the bonuses to PSERS for retirement purposes.

PSERS has been provided reports detailing the questionable retirement wages for determination of eligibility and adjustments to individual retirement calculations.

Recommendations

The *Glendale School District* should:

1. Review PSERS reference manual for determination of wages eligible for retirement and contact PSERS for determination of any payments that the payroll clerk is unsure how to report.

The *Public School Employees' Retirement System* should:

2. Review the compensation reported for the former superintendent for the 2004-05, 2005-06, 2006-07 and 2007-08 school years and wages reported for the two additional administrators for the 2007-08 school year, and render an opinion on the propriety of the retirement wages reported by the District for the individuals.
3. If any parts of the payments are determined to be ineligible for retirement, make the necessary corrections to pension benefits and contributions.

The *Department of Education*, in conjunction with PSERS's determination of the propriety of wages reported for retirement, should:

4. Determine if the District was overpaid retirement subsidy, and make any necessary adjustments.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 6 →

Certification Deficiencies

Criteria relevant to the finding:

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certified to teach.

Section 2518 of the Public School Code mandates any school district that:

. . . has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certified for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio . . .

Our audit of the professional employees' certificates and assignments for the period January 31, 2006 through March 31, 2008, found one individual was assigned to teach business computer information technology from the beginning of the 2006-07 school year until March 31, 2007 without possessing proper certification, resulting in a subsidy forfeiture of \$1,106 for the 2006-07 school year. The individual then received proper certification for the position on April 1, 2007. Additionally, another individual began teaching Mandarin Chinese in the 2007-08 school year with no certification until October 31, 2007. This individual received an emergency certificate for the position on November 1, 2007. The subsidy forfeiture for the 2007-08 school year was \$311.

On April 25, 2008, the Bureau of School Leadership and Teacher Quality determined that the individuals did not possess proper certification for their assignments.

Recommendations

The *Glendale School District* should:

Ensure that all personnel are properly certified for their assignments.

The *Department of Education* should:

Adjust the District's allocations to recover the subsidy forfeiture.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 7 →

District Entered Into Contracts and Agreements Without Approval From School District Board of Directors

Criteria relevant to the finding:

Section 24 PS 5-508 provides, in part:

The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following subjects . . .

Entering into contracts of any kind, including contracts for the contracts of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100) . . . Failure to comply with the provisions of this section shall render such acts of the board of school directors void and unenforceable.

The IRS Form 1099-Misc guidelines state:

Payment for services, including payment for parts or materials used to perform the services must be reported if supplying the parts or materials was incidental for providing the service.

Section § 31.4 of the Pennsylvania Revenue code states:

The rental, lease or license to use or consume tangible property is subject to tax . . . If a transferee fails to pay the tax to the transferor with a taxable transaction, the Commonwealth may collect the tax from the transferor or transferee.

Beginning in the 2004-05 school year, the GSD superintendent entered the District into several contracts and agreements **without approval** from the GSD board of directors.

A description of the vendors and contracts are detailed as follows:

Prismworks Technology Inc.

Since the 2004-05 school year, the District has contracted with Prismworks Technology for information technology (IT) network support. Additionally, the District has purchased computer hardware and software through this vendor. The amount disbursed to the vendor for the period of July 1, 2004 through June 30, 2008, was \$182,121.

Cellular Phone Companies

The District has entered into contracts with AT&T and Cingular Wireless for cellular telephone service. The phones were distributed to various employees of the District. The total amount disbursed to the vendors from the period July 1, 2004 through June 30, 2008, was \$25,997.

School Wires

The District entered into a written contract with School Wires, Inc., a local web hosting company, to host and maintain the District's web page beginning in the 2005-06 school year. The District paid annual web hosting fees at a discount price of \$1,000 per year for the 2005-06, 2006-07 and 2007-08 school years. The total amount paid to the vendor was \$3,000. The District, as per contract, will begin paying non-discount annual fees of \$2,500 starting in the 2008-09 school year.

In addition to web hosting service, the District superintendent entered into a verbal contract with School Wires, Inc. The District superintendent agreed to rent District laptop computers to School Wires for a period of time for a fee determined by the superintendent. School Wires Inc. rented computers on five occasions for a total fee of \$14,000. The District superintendent then deposited the revenue into a District account.

Also during our audit of these transactions, we found that sales tax was not charged for the equipment rental and not remitted to the Pennsylvania Department of Revenue (DR).

Sam's Club Discover Credit Card

The District superintendent opened a Sam's Club Discover Credit Card account on October 23, 2005, in the name of the GSD. The total amount billed to the credit card from October 23, 2005 to June 30, 2008, was \$38,430.

Ming Chuan University

On October 25, 2007, the GSD superintendent entered into a written five year contract with Ming Chuan University of Taiwan to develop a Teaching Chinese as a Second Language Internship Program. The GSD superintendent agreed to provide room and board as well as necessary transportation during the internship for five female students from January 19, 2008 through February 18, 2008. The GSD board of directors were made aware of the contract by the District solicitor and on September 4, 2008, agreed and voted to contact the university to terminate the contract.

All of these transactions, contracts and agreements were entered into without approval from the GSD school board.

Recommendations

The *Glendale School District* personnel should:

1. Obtain approval from the board of directors prior to entering into written and verbal contracts in compliance with PSC Section 508.
2. Familiarize themselves with IRS Form 1099 and DR reporting guidelines and instructions.

3. Contact the IRS to determine if a revised Form 1099 is necessary.
4. Remit the proper sales tax for the computer rentals to the DR.
5. Deposit proceeds from the lease of District equipment into the general fund, not a separate account.

The *Glendale School District* school board should:

6. Ensure that all written and verbal contracts are approved by the board prior to approving payments.

Management Response

Management waived the opportunity to respond to the finding.

Finding No. 8 →

Continued Internal Control Weaknesses Noted in Student Activity Fund Operations

Criteria relevant to the finding:

Section 511(a) of the Public School Code (PSC) provides, in 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 (1) the management, supervision, control, or prohibition of exercises, athletics, or games of any kind, school publications, debating, forensic, dramatic, musical, and other activities related to the school program, including raising and disbursing funds for any or all such purposes and for scholarships, and (2) the organization, management, supervision, control, financing, or prohibition of organizations, clubs, societies and groups of the members of any class or school.

Board policy #618 states:

“Checks may be drawn on a fund only after proper voucher has been signed by the advisor and an officer of the organization.”

Board Policy #618 states:

“student activity fund expenditures can be made only if funds are available in the club’s account.”

Our audit of the District’s high school student activity fund for the 2006-07 school year found weaknesses in the management and control of student activity funds. The District failed to implement our recommendations as listed in our prior audit finding. As a result of weaknesses in internal control, the following conditions exist:

- lack of documentation to support expenditures and deposits;
- lack of minutes, bylaws and a listing of officers for several clubs;
- failure to remove an inactive account balance from the activity fund ledger; and
- one expenditure was made that exceeded the club’s available balance.

Lack of documentation to support expenditures and deposits

Our audit of three of the District’s 17 student activity fund clubs found several expenditures and deposits were processed without proper student documentation. Out of 44 expenditures chosen for review, four lacked appropriate student and advisor documentation. Also, of the 33 deposits that were reviewed, 10 deposits lacked appropriate student and advisor documentation. All expenditures and deposits require student and advisor signatures.

Student control over their funds is a valuable learning experience and helps prevent possible misuse of student monies.

Lack of minutes, bylaws and a listing of officers for several clubs

Nine of 17 of the District's student activity fund clubs provided no record of club meeting minutes. Bylaws were not available for the Class of 2009 and Class of 2010. The Band and Pride Club did not provide a listing of officers. All clubs must have officer listings, bylaws, and minutes of meetings must be kept. Student signatures on minutes of meetings and club by-laws enhance student participation in the decision-making process of their organization.

Failure to remove an inactive account from the activity fund ledger

The Pride Club had no activity during our period of audit. Section 511(d) of the PSC does not make provisions for the maintenance of inactive accounts. Inactive accounts increase bookkeeping costs and are susceptible to potential misuse. Board Policy #618 states that funds from inactive accounts are to be transferred to the Student Council.

One expenditure was made that exceeded the club's available balance

During our audit, we noted that the Student Council made a \$2,083 payment on March 30, 2007, that exceeded the council's available balance by \$451.

The operation of accounts with deficit balances is an unsound business practice and teaches students poor fiscal management.

Recommendations

The *Glendale School District* board of directors should require the fund custodians and advisors to adhere to the PSC and board policy by implementing the following:

1. Ensure that students are involved in the process of determining how activity funds are disbursed and the approval of all disbursements by requiring proper documentation of expenditures and receipts to and from the activity accounts.
2. Ensure that minutes are being kept, and that bylaws and a listing of club officers are present.

3. Follow board policy and require that all inactive accounts be terminated and that their balances be transferred to Student Council.
4. Prohibit the practice of using other account monies to offset shortfalls in accounts with negative balances.
5. Develop policies and procedures in addition to the PSC and board policy governing the management of student activity funds.
6. Provide training sessions to advisors reviewing the PSC, board policy, administrative policies and procedures governing the management of the student activity funds.

Management Response

Management waived the opportunity to respond to the finding.

Observation No. 1

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 GSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District utilizes the Greater Altoona Career and Technology Center (GACTC) to provide them with system maintenance and support. Both the vendor and the GACTC have remote access into the District’s network 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 they are adequately monitoring all vendor 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. Attendance and 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. The District does not have evidence they are generating or reviewing monitoring reports of user remote access and activity on the system (including GACTC and District employees). There is no evidence that the District is performing procedures in order to determine which data the GACTC may have altered or which GACTC employees accessed their system.

2. The GACTC has unlimited access (24 hours a day/7 days a week) into the District's system.
3. The contract with the vendor did not contain a non-disclosure agreement for the District's proprietary information.
4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. The District was unable to provide evidence that they require written authorization for adding, deleting, or changing a userID.
6. The District does not require written authorization prior to the updating/upgrading of key applications.
7. The District does not have current IT policies and procedures for controlling the activities of GACTC, nor does it require the GACTC to sign the district's Acceptable Use Policy.
8. The District's Acceptable Use Policy does not include provisions for authentication (password security requirements). Further, the employees are not required to sign the policy.
9. 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; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); to log off the system after a period of inactivity (i.e., 60 minutes maximum).
10. The District does not have a list of personnel with authorized access to the area where the servers with the membership/attendance data reside.

11. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire detection or fire suppression equipment.

Recommendations

The *Glendale School District* should:

1. Generate monitoring reports (including firewall logs) of GACTC 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.
2. Only allow access to their system when the GACTC needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the GACTC has completed its work. This procedure would also enable the monitoring of GACTC changes.
3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
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. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
7. Establish separate IT policies and procedures for controlling the activities of the GACTC and have the GACTC sign this policy, or the District should require the GACTC to sign the District's Acceptable Use Policy.

8. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security requirements). Further, the employees should be required to sign the policy.
9. 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).
10. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
11. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.

Management Response

Management waived the opportunity to respond to the observation.

Observation No. 2 →

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

The Basic Educational Circular (BEC) issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added).

Memorandum of Understanding Not Updated Timely

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the State Police was signed January 26, 1999, and has not been updated. The District was made aware of the issue by the auditors during the review of school safety and subsequently updated their MOU on August 26, 2008.

The failure to update MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Glendale School District* should:

1. Continue to review, update and re-execute the current MOU between the District and the Pennsylvania State Police.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management waived the opportunity to respond to the observation.

Status of Prior Audit Findings and Observations

Our prior audit of the Glendale School District (GSD) for the school years 2003-04 and 2002-03 resulted in two reported findings and one observation. The first finding pertained to student activity funds operation weaknesses, and the second finding pertained to violations of the Ethics Act. The observation addressed internal control weaknesses in administrative policies regarding bus drivers' qualifications. 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 (DE), performed audit procedures and questioned District personnel regarding the prior findings. As shown below, we found that the GSD did not implement recommendations related to the student activity fund and Ethics findings, but did implement recommendations related to the bus driver qualifications policy observation.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Internal Control Weaknesses Noted in Student Activity Funds Operations</i></u></p> <ol style="list-style-type: none"> 1. Ensure that students are involved in the process of all disbursements by requiring proper documentation of expenditures and receipts to and from the activity accounts. 2. Ensure that minutes are being kept and a listing of club officers is available. 3. Require approval for all student activity fund expenditures. 4. Prohibit the practice of using other account monies to offset shortfalls in accounts with negative balances. 	<p>Background:</p> <p>Our prior audit of the District's high school student activity funds for the 2004-05 school year found weaknesses in the management and control of student activity funds. The following conditions were present: documentation to support expenditures was lacking; minutes and listing of officers were not available for several clubs; expenditures lacked approval; and one expenditure was made that exceeded a club's available balance.</p>	<p>Current Status:</p> <p>Our current audit of the District's high school student activity funds again found weaknesses in the management and control of student activity funds (see Finding No. 8). Based on our current review, we concluded the District did not take appropriate corrective action.</p>

<p><u>II. Finding No. 2: Board Members Failed to File Statement of Financial Interests in Violation of the Ethics Act</u></p> <ol style="list-style-type: none"> 1. Seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of the District's records found that two ex-board members failed to file their Statements of Financial Interests for the years ended December 31, 2002 and December 31, 2003, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that one ex-board member failed to file their Statements of Financial Interests for the year ended December 31, 2006. Based on our current review, we concluded the District did not take appropriate corrective action.</p> <p>A copy of this finding was submitted to the State Ethics Commission for additional review and investigation as it deems necessary.</p>
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<p><u>III. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Driver's Qualifications</u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children. 	<p>Background:</p> <p>Our prior audit found that neither the District nor the transportation contractor had written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.</p>	<p>Current Status:</p> <p>The District has revised its policy to require drivers to advise the transportation coordinator in the event they are charged with or convicted of a crime. Based on our current review, we concluded the District did take appropriate corrective action.</p>
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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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