

GROVE CITY AREA SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2010

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

Mr. Robert Montgomery, Board President
Grove City Area School District
511 Highland Avenue
Grove City, Pennsylvania 16127

Dear Governor Rendell and Mr. Montgomery:

We conducted a performance audit of the Grove City Area School District (GCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 12, 2008 through April 26, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the GCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, 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 observation and recommendations have been discussed with GCASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve GCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the GCASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 1, 2010

cc: **GROVE CITY AREA SCHOOL DISTRICT** Board Members

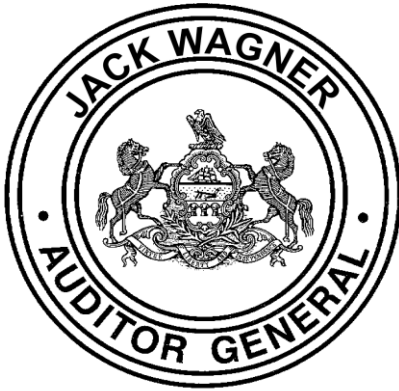


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Grove City Area School District (GCASD). 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 GCASD in response to our prior audit recommendations.

Our audit scope covered the period November 12, 2008 through April 26, 2010, 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 GCASD encompasses approximately 92 square miles. According to 2000 federal census data, it serves a resident population of 16,494. According to District officials, in school year 2007-08 the GCASD provided basic educational services to 2,232 pupils through the employment of 197 teachers, 104 full-time and part-time support personnel, and 11 administrators. Lastly, the GCASD received more than \$12.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Observation: Unmonitored Vendor Access and Logical Access Control

Weaknesses. GCASD uses software purchased from Midwestern Intermediate Unit #4 (MIU) for its critical student accounting applications. Additionally, this data is maintained on MIU's servers, which are physically located at the MIU. Weaknesses were noted in controls needed to reduce the risk of unauthorized changes to the GCASD's data (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the GCASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the GCASD had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of Social Security and Medicare wages (see page 8), health services reporting (see page 9), verification of student residency (see page 9), and the Memorandum of Understanding with the local law enforcement agency (see page 10).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period November 12, 2008 through April 26, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (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 GCASD'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?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ 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 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.

GCASD 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, 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 GCASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2009, we reviewed the GCASD's response to DE dated November 9, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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 Grove City Area School District uses software purchased from the Midwestern Intermediate Unit #4 (MIU) for its critical student accounting applications (membership and attendance). Additionally, the District’s computer system used to operate this software is maintained on the MIU’s servers which are physically located at the MIU. The District has remote access into the MIU’s network servers with the MIU providing system maintenance and support.

Based on our current procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Attendance and membership reconciliations are performed between manual reports and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasing 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 control access 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 the review, it was found that the District had the following weaknesses over the vendors’ access to the system:

1. The District does not require all employees to sign the information technology (IT) Security Policy.

2. No written forms are used and approved when adding or deleting a userID.
3. The District does not prepare written documentation to support the proper removal of terminated /resigned employees.

Recommendations

The *Grove City Area School District* should:

1. Require all employees to sign the IT Security Policy.
2. Ensure written forms are used and approved when adding or deleting a userID.
3. Prepare written documentation to support the proper removal of terminated/resigned employees.

Management Response

Management stated the following:

The school district has revised its IT Security Policy sign-off forms. It is in the process of receiving those forms from all employees.

The school district will develop forms to be used and approved when adding or deleting a user ID. Business office staff will provide a complete form to the Director of Computer Operations to add and delete user ID's. The Director of Computer Operations will return the forms to the business office when the work is completed. The business office staff will keep the forms in a file in the business office.

The school district will develop forms to remove former employees from computer access. The business office staff will provide a termination notice asking to remove each employee who leaves the school district. The Director of Computer Operations will remove the former employee's user ID's and return the form to the business office to file.

Status of Prior Audit Findings and Observations

Our prior audit of the Grove City Area School District (GCASD) for the school years 2005-06 and 2004-05 resulted in two findings and two observations, as shown in the following table. 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 GCASD 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 GCASD did implement recommendations related to the two findings and two observations.

<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. Finding No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in a Reimbursement Underpayment of \$2,724</i></u></p> <ol style="list-style-type: none"> 1. Perform an internal review of all data supporting the Commonwealth’s Social Security and Medicare tax reimbursement prior to submission of the reports to DE. 2. Review subsequent years’ reports for errors and resubmit as necessary. 3. DE should adjust the District’s allocations to resolve the reimbursement underpayment of \$2,724. 	<p>Background:</p> <p>Our prior audit found that Social Security and Medicare wages for the 2005-06 school year were incorrectly reported to DE, resulting in a reimbursement underpayment totaling \$2,724.</p>	<p>Current Status:</p> <p>Our current audit found no continuing problems in reporting Social Security and Medicare wages to DE.</p> <p>We determined that the District did take appropriate corrective action to adhere to our recommendations.</p> <p>DE personnel stated the underpayment of \$2,724 was pending final processing at the time of the audit.</p>

<p><u>II. Finding No.2: Continued Errors in Health Services Reporting Resulted in Reimbursement Underpayment Totaling \$2,050</u></p> <ol style="list-style-type: none"> 1. Develop procedures to ensure more accurate completion of health services reimbursement applications prior to submission to the Department of Health (DH). 2. Review subsequent years' applications for errors and resubmit as necessary. 3. DH should adjust the District's allocations to correct the reimbursement underpayment of \$2,050. 	<p>Background:</p> <p>Our prior audit of the District's health services reimbursement found that applications submitted to DH for the 2005-06 and 2004-05 school years were inaccurate. Errors in reporting average daily membership resulted in a reimbursement underpayment totaling \$2,050.</p>	<p>Current Status:</p> <p>Our current audit found no reporting errors in the health services reimbursement applications submitted to DH.</p> <p>We determined that the District did take appropriate corrective action to adhere to our recommendations.</p> <p>The underpayment of \$2,050 was pending final resolution by DH at the time of our audit.</p>
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<p><u>III. Observation No. 1: Internal Control Weaknesses and Lack of Documentation Regarding Verification of Student Residency</u></p> <ol style="list-style-type: none"> 1. Revise the enrollment requirements to include evidence that a student has appropriate claim to an education as a resident of the District. 2. Maintain proof of residency information from one year to the next to support residency classification. 	<p>Background:</p> <p>Our prior audit of the GCASD's pupil membership records and reports submitted to DE for the 2005-06 school year found internal control weaknesses and lack of supporting documentation to verify student residency.</p>	<p>Current Status:</p> <p>Our current audit found that proof of residency is required for students enrolling in GCASD.</p> <p>We determined that the District did take appropriate corrective action to adhere to our recommendations.</p>
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<p><i>IV. Observation No. 2: Memorandum of Understanding Not Updated Timely</i></p> <ol style="list-style-type: none">1. In consultation with the District's solicitor, continue to review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the local law enforcement agency.2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.	<p>Background:</p> <p>Our prior audit of District records found the MOU between the District and the local law enforcement agency was signed on September 4, 2001, and had not been updated as of November 12, 2008.</p>	<p>Current Status:</p> <p>Our current audit found that a MOU was signed between GCASD and the local law enforcement agency on October 19, 2009.</p> <p>We determined that the District did take appropriate corrective action to adhere to our recommendations.</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:

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

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

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

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

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

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

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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