

LAKEVIEW SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2010

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

Mr. Donald B. Barbour, Board President
Lakeview School District
2482 Mercer Street
Stoneboro, Pennsylvania 16153

Dear Governor Rendell and Mr. Barbour:

We conducted a performance audit of the Lakeview School District (LSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period September 21, 2007 through February 19, 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 LSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the LSD's cooperation during the conduct of the audit.

Sincerely,

/s/
JACK WAGNER
Auditor General

July 1, 2010

cc: LAKEVIEW 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 Lakeview School District (LSD). 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 LSD in response to our prior audit recommendations.

Our audit scope covered the period September 21, 2007 through February 19, 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 LSD encompasses approximately 146 square miles. According to 2000 federal census data, it serves a resident population of 8,462. According to District officials, in school year 2007-08, the LSD provided basic educational services to 1,318 pupils through the employment of 102 teachers, 70 full-time and part-time support personnel, and 6 administrators. Lastly, the LSD received more than \$8.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the LSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LSD had taken appropriate corrective action in implementing our recommendations pertaining to transportation (see page 7), nonresident tuition billings, and school bus drivers' qualifications (see page 8).

Additionally, the LSD has taken appropriate corrective action in implementing our recommendations for the observation pertaining to unmonitored vendor system access and logical access control weakness (see page 9).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period September 21, 2007 through February 19, 2010.

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.

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

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 LSD'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 and conclusions based on our audit objectives.

LSD 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.

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.

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 LSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 19, 2008, we reviewed the LSD's response to DE dated April 20, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Lakeview School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Lakeview School District (LSD) for the school years 2005-06 and 2004-05 resulted in three findings and one observation. The first finding pertained to pupil transportation, the second finding pertained to nonresident tuition billings, and the third finding pertained to bus drivers' qualifications. The observation pertained to unmonitored vendor access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the LSD 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 LSD did implement our recommendations related to the findings and observation.

| <i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i> | | |
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| <i>Prior Recommendations</i> | <i>Implementation Status</i> | |
| <p><u><i>I. Finding 1: Errors in Pupil Transportation Data Resulted in Reimbursement Underpayments of \$4,550</i></u></p> <ol style="list-style-type: none"> 1. Conduct an internal review to ensure all vehicles are reported for reimbursement. 2. Ensure vehicle data, including the number of days transported, daily mileage, pupil counts, and the number of trips per day, is reported accurately to DE. 3. Review reports submitted to DE for school years subsequent to our years of audit, and if necessary make revisions and resubmit to DE. 4. DE should adjust the District's future allocations to resolve the underpayments. | <p>Background:</p> <p>Our prior audit found that pupil transportation reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate, resulting in reimbursement underpayments of \$3,817 and \$733, respectively.</p> <p>The inaccuracies were caused by clerical errors and the District's failure to follow DE guidelines and instructions.</p> | <p>Current Status:</p> <p>Our current audit found that the District has implemented our recommendations and is following DE transportation guidelines and recommendations.</p> <p>We concluded that the LSD did take appropriate corrective action.</p> <p>As of February 19, 2010, DE had not adjusted the District's allocations to resolve the underpayments totaling \$4,550. DE personnel stated the finding adjustment was pending resolution.</p> |

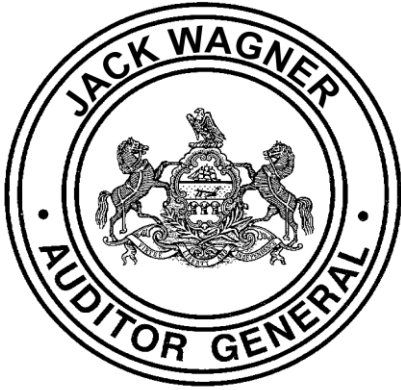
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| <p><u>II. Finding 2: Errors and Internal Control Weaknesses in Nonresident Tuition Billings</u></p> <ol style="list-style-type: none"> 1. Strengthen controls to help ensure the use of correct tuition rates. 2. Revise the tuition billings for the affected school districts. 3. Review tuition billings for years' subsequent to our years of audit and revise if necessary. 4. Ensure adequate documentation is retained for audit purposes. | <p>Background:</p> <p>Our prior audit of tuition records for the 2005-06 school year found errors in the amounts billed to three neighboring school districts for nonresident pupils attending educational programs within the LSD. These errors resulted in a net tuition overcharge of \$797. Our audit also noted an internal control weakness in that tuition charges of \$18,852 for a district–operated special education program could not be verified.</p> | <p>Current Status:</p> <p>Our current audit found that the District has implemented our recommendations to strengthen internal controls and revised the tuition billings for the affected Districts.</p> <p>We concluded that the LSD did take appropriate corrective action.</p> |
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| <p><u>III. Finding 3: School Bus Drivers' Qualifications Deficiencies</u></p> <ol style="list-style-type: none"> 1. Maintain files, separate from the transportation contractors, for all District drivers and work with contractors to ensure that the District's files are up-to-date and complete. | <p>Background:</p> <p>Our prior audit of the District's school bus drivers' qualifications on file at the District for the 2006-07 school year found deficiencies.</p> <p>We reviewed the personnel records of a random sample of 27 of 47 drivers currently employed by LSD and the District's transportation contractors. Our review found that of the 27 drivers' records reviewed, the LSD did not have on file an Act 34 Criminal History for two drivers and an Act 151 Child Abuse clearance for one driver.</p> | <p>Current Status:</p> <p>Our current audit found that the District implemented our recommendations and the District's bus driver files are up-to-date.</p> <p>We concluded that the LSD did take appropriate corrective action.</p> |
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| <p><u>IV. Observation:</u> <u>Unmonitored Vendor System Access and Logical Access Control Weakness</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of the intermediate unit (IU) and employee access and activity on its 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 data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review. 2. Require the IU to assign unique userIDs and passwords to the IU employees authorized to access the District's system. Further, the District should obtain a list of IU employees with access to its data and ensure that changes to the data are made only by authorized IU representatives. 3. Allow access to the system only when the IU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of IU changes. | <p>Background:</p> <p>The LSD uses software purchased from an outside vendor for its critical student accounting applications. The software vendor has remote access into the District's network servers.</p> <p>Based on the procedures used during the prior audit period, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide supporting evidence that it was adequately monitoring all vendor activity in its system.</p> | <p>Current Status:</p> <p>Our current audit found that the District implemented our recommendations, which will help prevent unauthorized changes to the District's data.</p> <p>We concluded that the LSD did take appropriate corrective action.</p> |
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| <p>4. Develop an agreement with the IU to provide student accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.</p> <p>5. Upgrades/updates to the District's system should be made only after receipt of written authorization from the appropriate District officials.</p> <p>6. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have vendors sign this policy, or require the IU to sign the District's Acceptable Use Policy.</p> <p>7. Include in the District's Acceptable Use Policy provisions for authentication (e.g., password security and syntax requirements).</p> <p>8. Establish policies or procedures to analyze the impact of proposed program changes in relation to other business critical functions.</p> | | |
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| <p>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, and log users off the system after a period of inactivity (i.e. 60 minutes maximum).</p> <p>10. Ensure the ability to provide requested documentation, e.g., screen shots, that evidence the remote access software security features are enabled.</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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