

MIDDLETOWN AREA SCHOOL DISTRICT
DAUPHIN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Ms. Barbara Layne, Board President
Middletown Area School District
55 West Water Street
Middletown, Pennsylvania 17057

Dear Governor Corbett and Ms. Layne:

We conducted a performance audit of the Middletown Area School District (MASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 17, 2009 through August 12, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the MASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **MIDDLETOWN AREA SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	9



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Middletown Area School District (MASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by MASD in response to our prior audit recommendations.

Our audit scope covered the period April 17, 2009 through August 12, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

MASD encompasses approximately 17 square miles. According to 2000 federal census data, it serves a resident population of 18,354. According to District officials, in school year 2009-10 MASD provided basic educational services to 2,332 pupils through the employment of 209 teachers, 119 full-time and part-time support personnel, and 18 administrators. Lastly, MASD received more than \$11.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

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

Status of Prior Audit Findings and Observations

With regard to the status of our prior audit recommendations to MASD from an audit we conducted of the 2009-10 and 2008-09 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to transportation errors (see page 7). However, MASD did not fully implement our recommendations pertaining to information technology (see page 8).



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 April 17, 2009 through August 12, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the MASD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ 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

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, 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, observations and conclusions based on our audit objectives.

MASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, and financial stability.
- Items such as Board meeting minutes, and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 15, 2010 we reviewed the MASD's response to DE dated March 22, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Middletown Area School District (MASD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to transportation reporting errors, and the observation pertained to information technology (IT) 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 MASD 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 MASD did implement recommendations related to the transportation finding, but did not fully implement our recommendations for the IT observation.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding: **Pupil Transportation Reporting Errors Resulted in a Net Overpayment of \$11,146**

Finding Summary: Our prior audit found errors in data reported to DE for all years of audit in the areas of daily mileage, the number of pupils transported, and the number of days transportation was provided, resulting in a net overpayment of \$11,146.

Recommendations: Our audit finding recommended that the MASD:

Establish collection and review procedures to ensure accurate reporting of all data elements, based on DE guidelines, used in the calculation of transportation reimbursement.

We also recommended that DE:

Adjust the District's allocations to recover the net overpayment of \$11,146.

Current Status: Our current audit found that the MASD did implement the recommendations starting in the 2008-09 school year.

As of August 12, 2011, DE had not yet recovered the net overpayment. Therefore, we again recommend that DE recover the net overpayment of \$11,146.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: Our prior audit found that MASD uses software purchased from Capital Area IU #15 (CAIU) for its critical student accounting applications, and that CAIU has remote access into MASD's network servers. We determined that a risk existed that unauthorized changes to MASD data could occur and not be detected.

Recommendations: Our audit observation recommended that the MASD:

1. Ensure the contract with the vendor is reviewed by legal counsel.
2. Ensure the District's acceptable use policy includes provisions for accountability (responsibilities of users, auditing, incident handling) and authentication (password security and syntax requirements)
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e. every 30 days). Passwords should be a minimum length of eight characters 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).
4. Generate monitoring reports (including firewall logs) of CAIU and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, changes made, and who made the changes. The District should review these reports to determine that the access was appropriate and that data was not improperly altered.

Current Status: Our current audit found that the MASD did implement our recommendations, with the exception of recommendation number 3. We again recommend that the District implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e. every 30 days). Passwords should be a minimum length of eight characters 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).

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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

The Honorable Ronald J. Tomalis
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

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

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

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

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

