

MIDLAND BOROUGH SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2012

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

Mr. David Vuckovich, Board President
Midland Borough School District
173 Seventh Street
Midland, Pennsylvania 15059

Dear Governor Corbett and Mr. Vuckovich:

We conducted a performance audit of the Midland Borough School District (MBSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period September 11, 2009 through October 18, 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 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 MBSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures

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

Sincerely,

/s/

JACK WAGNER
Auditor General

August 13, 2012

cc: **MIDLAND BOROUGH SCHOOL DISTRICT** Board Members

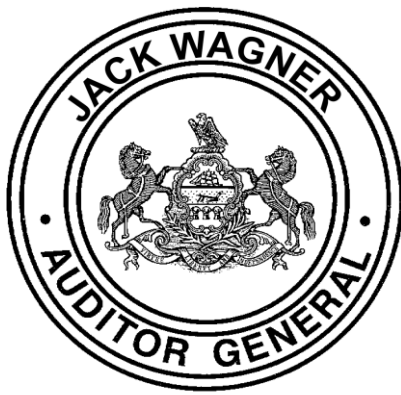
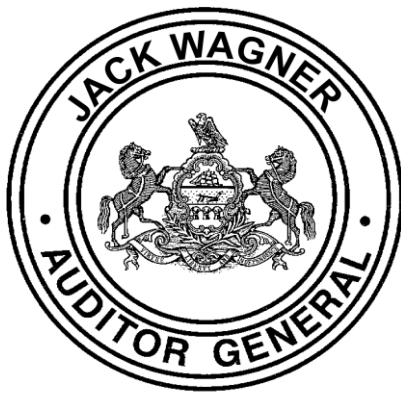


Table of Contents

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



Executive Summary

Audit Work

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

Our audit scope covered the period September 11, 2009 through October 18, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

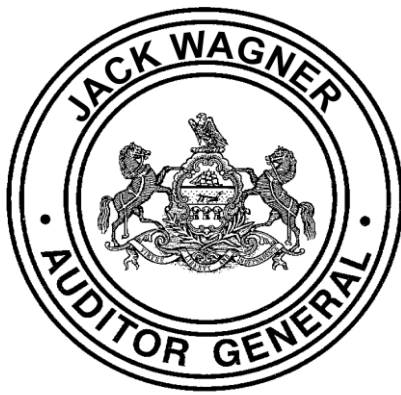
The MBSD encompasses approximately 2 square miles. According to 2009 local census data, it serves a resident population of 2,972. According to District officials, in school year 2009-10 the MBSD provided basic educational services to 363 pupils through the employment of 22 teachers, 20 full-time and part-time support personnel, and 4 administrators. Lastly, the MBSD received more than \$3.4 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the MBSD complied, in all significant respects, with applicable state laws, 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 MBSD from an audit we conducted of the 2007-08, 2006-07, 2005-06, and 2004-05 school years, we found the MBSD had taken appropriate corrective action in implementing our recommendations pertaining to logical access control weaknesses (see page 7).



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 11, 2009 through October 18, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2010 through June 30, 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 Pennsylvania Department of Education (PDE) 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 MBSD'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?

- ✓ Did the District pursue a contract buy-out 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.

MBSD 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 comparative financial information.

Our audit examined the following:

- Records pertaining to professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2010, we reviewed the MBSD's response to PDE dated November 23, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Midland Borough School District (MBSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to 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 superintendent's written response provided to the Pennsylvania Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the MBSD did implement recommendations related to logical access control weaknesses.

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

Observation: Logical Access Control Weaknesses

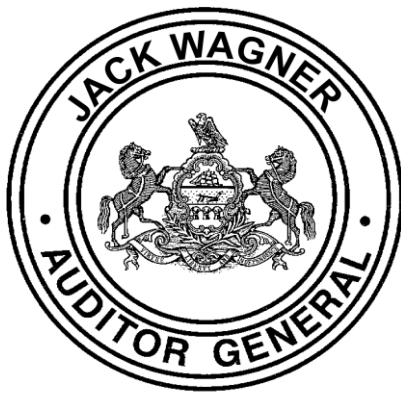
Observation Summary:

Our prior audit found the MBSD uses software purchased from an outside vendor for its critical student accounting application (membership and attendance). We noted logical access control weaknesses that 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.

Recommendations: Our audit observation recommended that the MBSD:

1. Include provisions for authentication (password security and syntax requirements) in the District's Acceptable Use Policy.
2. 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); use passwords that are a minimum length of eight characters; and maintain a password history that will prevent the use of repetitive passwords (i.e., last ten passwords).

Current Status: During our current audit procedures we found that the MBSD did implement the recommendations. The District added provisions for authentication to its Acceptable Use Policy and added the requirements to its settings.



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
Pennsylvania 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.

