

MILTON AREA SCHOOL DISTRICT
NORTHUMBERLAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2011

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

Mrs. Christine Rantz, Board President
Milton Area School District
700 Mahoning Street
Milton, Pennsylvania 17847

Dear Governor Corbett and Mrs. Rantz:

We conducted a performance audit of the Milton Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 31, 2008 through February 23, 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, 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 MASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the MASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

June 15, 2011

cc: **MILTON 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 Milton Area School District (MASD). 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 MASD in response to our prior audit recommendations.

Our audit scope covered the period October 31, 2008 through February 23, 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 2007-08 and 2006-07.

District Background

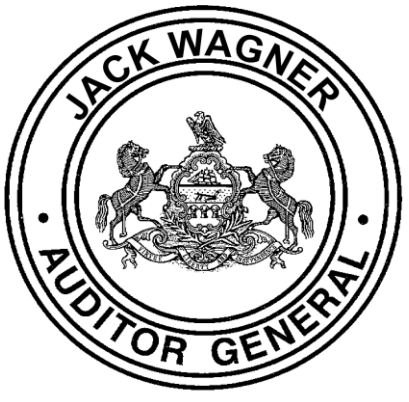
The MASD encompasses approximately 85 square miles. According to 2000 federal census data, it serves a resident population of 15,510. According to District officials, in school year 2007-08 the MASD provided basic educational services to 2,334 pupils through the employment of 198 teachers, 138 full-time and part-time support personnel, and 16 administrators. Lastly, the MASD received more than \$12.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the MASD 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 MASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to nonpublic transportation (see page 7), Memorandum of Understanding and unmonitored intermediate unit system access and logical access control weaknesses (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 October 31, 2008 through February 23, 2011.

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 MASD'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?
- ✓ 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, 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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, 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, and professional employee certification.
- Items such as Board meeting minutes.

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 September 2, 2009, we reviewed the MASD's response to DE dated October 19, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Milton Area School District (MASD) for the school years 2005-06 and 2004-05 resulted in two reported findings and one observation. The first finding pertained to nonpublic transportation, and the second finding to the lack of a Memorandum of Understanding. The observation pertained to unmonitored intermediate unit (IU) system 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 MASD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the MASD did implement recommendations related to nonpublic transportation, Memorandum of Understanding and unmonitored IU system access and logical access control weaknesses.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Continued Errors in Reporting the Number of Nonpublic Pupils Transported

Finding Summary: Our prior audit found continued errors in data the District reported to DE for nonpublic pupils transported in the 2004-05 school year, resulting in a reimbursement overpayment of \$6,160.

Recommendations: Our audit finding recommended that the MASD:

1. Strengthen controls to ensure accurate reporting of the number of nonpublic pupils transported.
2. Review reports submitted subsequent to our audit period and, if similar errors are found, submit revised reports to DE.
3. DE should adjust the District's allocations to recover the reimbursement overpayment of \$6,160 for the 2004-05 school year and the reimbursement underpayment of \$9,240 for the 2003-04 and 2002-03 school years.

Current Status: During our current audit procedures we found that the MASD did implement our recommendations. DE reimbursed the District the underpayment of \$9,240 for the 2003-04 and 2002-03 school years in February of 2010. We again recommend that DE adjust the District's allocations to recover the overpayment of \$6,160 for the 2004-05 school year.

Finding No. 2: Lack of Memorandum of Understanding

Finding Summary: Our prior audit of the District's records found that the District did not have a signed Memorandum of Understanding (MOU) available for audit.

Recommendations: Our audit finding recommended that the MASD:

1. Develop MOU(s) with local law enforcement and/or State Police who have jurisdiction where the District's buildings are located.
2. Review and re-execute the MOU every two years.

Current Status: During our current audit procedures we found that the MASD did implement our recommendations.

Observation: Unmonitored IU System Access and Logical Access Control Weaknesses

Observation Summary: The MASD uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the District's network servers.

Recommendations: Our audit observation recommended that the MASD:

1. Develop an agreement with the CSIU 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.
2. The District's Acceptable Use Policy (AUP) should include provisions for authentication (password security and syntax requirements).

3. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the CSIU sign this policy, or the District should require the CSIU to sign the District's AUP.
4. Develop policies and procedures to require written authorization before adding, deleting, or changing a userID.
5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters, include alpha, numeric and special characters and to maintain a password history (i.e., approximately ten passwords).
7. Develop and maintain a list of users with "change" access to membership/attendance data.
8. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
9. Only allow access to their system when the CSIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CSIU has completed its work. This procedure would also enable the monitoring of CSIU changes.
10. Generate monitoring reports (including firewall logs) of CSIU 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.
11. Upgrade the remote access software to the most current version.
12. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.

Current Status: During our current audit procedures we found that the MASD did implement our recommendations with the exception of one recommendation which resulted in a verbal comment.

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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