

NEW CASTLE AREA SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2010

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

Mr. Allan Joseph, Board President
New Castle Area School District
420 Fern Street
New Castle, Pennsylvania 16101

Dear Governor Rendell and Mr. Joseph:

We conducted a performance audit of the New Castle Area School District (NCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 28, 2008 through February 2, 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 NCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

August 4, 2010

cc: **NEW CASTLE 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 New Castle Area School District (NCASD). 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 NCASD in response to our prior audit recommendations.

Our audit scope covered the period July 28, 2008 through February 2, 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 NCASD encompasses approximately 13 square miles. According to 2007 local census data, it serves a resident population of 26,464. According to District officials, in school year 2007-08 the NCASD provided basic educational services to 3,430 pupils through the employment of 263 teachers, 234 full-time and part-time support personnel, and 17 administrators. Lastly, the NCASD received more than \$27.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the NCASD 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 NCASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the NCASD had taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare Wages (see page 7), pupil transportation reimbursement, school bus drivers' qualifications (see page 8) and unmonitored vendor system access and logical access control weaknesses (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 July 28, 2008 through February 2, 2010, except for the verification of professional employee certification which was performed for the period March 12, 2008 through January 5, 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.

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 NCASD'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?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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.

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.

NCASD 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 23, 2009, we reviewed the NCASD's response to DE dated July 23, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the New Castle Area School District (NCASD) for the school years 2005-06 and 2004-05 resulted in three reported findings and an observation, 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 NCASD 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 NCASD did implement our recommendations related to the three findings and the observation.

<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 Reimbursement Overpayments Totaling \$54,784</i></u></p> <ol style="list-style-type: none"> 1. Ensure District personnel comply with DE instructions for PDE Form 2105 when reporting wages paid by federal funds. 2. Review reports submitted after our audit period for inclusion of federal wages and resubmit to DE, if necessary. 3. DE should adjust the District's allocations to resolve the reimbursement overpayments totaling \$54,784. 	<p>Background:</p> <p>Our prior audit of the District's Social Security and Medicare wage tax reimbursement records found that reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate, resulting in reimbursement overpayments of \$28,713 and \$26,071 respectively, totaling \$54,784.</p> <p>The errors were a result of District personnel failing to properly report wages paid with federal funds.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years' Social Security and Medicare wage reimbursement applications found the federal wages were properly reported.</p> <p>We concluded that the NCASD did take appropriate corrective action to address this finding.</p> <p>As of our fieldwork completion date of February 2, 2010, the overpayments were still pending final adjustment by DE.</p>

<p><u>II. Finding No. 2: Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Overpayments Totaling \$18,982</u></p> <ol style="list-style-type: none"> 1. Thoroughly review all transportation data for accuracy before submitting reports to DE for reimbursement. 2. Review subsequent applications submitted to DE for accuracy and revise reports, if necessary. 3. DE should adjust the District's future allocations to correct the overpayments totaling \$18,982. 	<p>Background:</p> <p>Our prior audit of the District's pupil transportation records found that the reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate, resulting in overpayments of \$11,433 and \$7,549 respectively, totaling \$18,982.</p> <p>We found that the District incorrectly reported the greatest number of pupils transported for 29 vehicles for the 2005-06 school year, and again for the 2004-05 school year. Both school years' reporting errors were the result of clerical errors.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years' pupil transportation data and reimbursement applications found that the District accurately reported the greatest number of pupils transported.</p> <p>We concluded that the NCASD did take appropriate corrective action to address this finding.</p> <p>As of our fieldwork completion date of February 2, 2010, the overpayments were still pending final adjustment by DE.</p>
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<p><u>III. Finding No.3: Failure to Have All School Bus Drivers' Qualifications On File</u></p> <ol style="list-style-type: none"> 1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students. 2. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete. 	<p>Background:</p> <p>Our prior audit of the 2007-08 school years' personnel files of bus drivers employed by the District's transportation contractors found no records were on file at the District for three bus drivers, no valid driver's licenses for 13 other bus drivers, and no current physical forms for 12 bus drivers. Additionally, it was noted that six of the contractor's drivers were not approved by the school board of directors to transport the District's pupils.</p>	<p>Current Status:</p> <p>Our current audit of the 2009-10 school years' bus drivers' qualifications and school board approvals found that all the District's bus drivers' qualifications were on file at the District and all bus drivers were school-board approved.</p> <p>We concluded that NCASD did take appropriate corrective action to address this finding.</p>
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<p><i><u>IV. Observation:</u></i> <i><u>Unmonitored Vendor</u></i> <i><u>System Access and Logical</u></i> <i><u>Access Control Weaknesses</u></i></p> <ol style="list-style-type: none"> 1. Generate and maintain reports to support the District is monitoring the system for unauthorized access (i.e., hackers) by reviewing firewall logs, changes to the network configuration or by some other means. 2. Implement a security policy and system parameter setting 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. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), and lock out users after three unsuccessful attempts. 3. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy in agreement, or require the vendor to sign the District's own Acceptable Use Policy. 	<p>Background:</p> <p>Our prior audit found the District used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor had remote access into the District's network servers.</p> <p>We determined that a risk existed 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 was adequately monitoring all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current review confirmed that all four of the recommendations were addressed fully.</p> <p>We concluded that NCASD did take appropriate corrective action to address this observation.</p>
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<p>4. Document procedures used by District personnel to support the District's reconciliation procedures performed that would allow the District to detect significant changes in membership/attendance data.</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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