

OLD FORGE SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Ms. Debra DeSando, Board President
Old Forge School District
300 Marion Street
Old Forge, Pennsylvania 18518

Dear Governor Corbett and Ms. DeSando:

We conducted a performance audit of the Old Forge School District (OFSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 4, 2009 through June 1, 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 OFSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in the audit report. Additionally, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding, observation and recommendations have been discussed with OFSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve OFSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the OFSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 25, 2011

cc: **OLD FORGE 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 Old Forge School District (OFSD). 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 OFSD in response to our prior audit recommendations.

Our audit scope covered the period March 4, 2009 through June 1, 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 OFSD encompasses approximately 3 square miles. According to 2000 federal census data, it serves a resident population of 8,509. According to District officials, in school year 2009-10 the OFSD provided basic educational services to 933 pupils through the employment of 70 teachers, 38 full-time and part-time support personnel, and 7 administrators. Lastly, the OFSD received more than \$4.4 million in state funding in school year 2009-10.

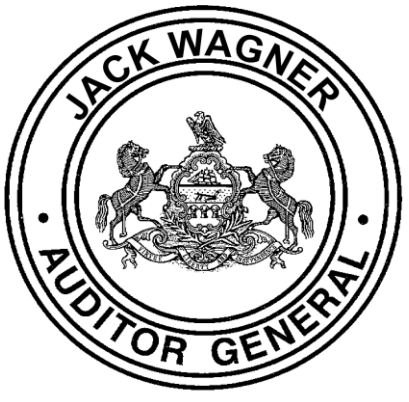
Audit Conclusion and Results

Our audit found that the OFSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding and one matter unrelated to compliance that is reported as an observation.

Finding: Lack of Internal Controls Over Student Activity Funds. Our audit of the OFSD student activity fund (SAF) records for the 2009-10 school year found that OFSD personnel failed to adhere to the SAF policy established by the board (see page 6).

Observation: Memorandum of Understanding Continued to Not be Updated Timely. Our audit of the OFSD records again found that the current Memorandum of Understanding (MOU) between the OFSD and the local police department was signed February 18, 2009, and was not updated until May 24, 2011, after they were notified during our audit (see page 12).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the OFSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the OFSD did implement recommendations related to their student accounting applications (see page 15) and did not implement recommendations related to their MOU (see page 14).



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 March 4, 2009 through June 1, 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 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 OFSD'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 payroll (e.g. 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, 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

OFSD 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 bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 2, 2009, we reviewed the OFSD's response to DE dated January 21, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observation

Finding

Public School Code (PSC) section and criteria relevant to the finding:

Section 511 (a) and (d) provides, in part:

The board of school directors in every school district shall prescribe, adopt, and enforce such reasonable rules and regulations as it may deem proper, regarding the management, supervision, control, or prohibition of . . . organizations, . . . clubs, societies and groups of the members of any class or school. . . .

Additionally, Section 511 requires that quarterly reports submitted to the board be in a format, which satisfies the board's needs, but the reports should also conform to Generally Accepted Accounting Principles.

Furthermore, the treasurer or custodian of such funds shall furnish to the school district a proper bond, in such amount and with such surety or sureties as the board shall approve, conditioned upon the faithful performance of his duties as treasurer or custodian.

Lack of Internal Controls over Student Activity Funds

Our audit of the Old Forge School District's (OFSD) student activity fund (SAF) records for the 2009-10 school year found that OFSD personnel failed to adhere to the SAF policy established by the board. The lack of internal controls resulted in the following deficiencies:

- Lack of student participation;
- Non-student related activities;
- Lack of SAF bylaws and board meeting minutes;
- Lack of fund balances;
- Lack of post-fundraising reconciliations;
- Interest not prorated;
- Lack of internal board approval and oversight; and
- SAF custodian not bonded.

Lack of Student Participation

Several Request for Payment (RFP) vouchers did not include all of the required signatures; and there was insufficient documentation to show students' approval of expenses.

In some cases, the club monitor signed for the student treasurer. One of these transactions was for an advance payment where there was no receipt returned after purchase was made.

We found three instances where the club monitor signed the RFP to approve a check in their name.

Pennsylvania Association of School Business Officials (PASBO) Activity Fund Guidelines state, in part:

SAF should be used for student activity purposes and for those students currently in school, particularly when those students have contributed to the accumulation of the funds.

Purchases should be initiated by a purchase order. The purchase order is a pre-printed and pre-numbered form. The treasurer or other officer of the student organization, faculty advisor and school principal should approve all purchase orders.

SAF should be collected and disbursed under the general direction of the building principal; however, the principal should involve the decision-making process those student groups and faculty members who are responsible for generating revenue for approved projects. **Participation by students should be supported by minutes, student signatures on purchase orders, requisitions and check requests whenever possible.**

Student accounts that are primarily controlled by the district (as opposed to the students) should be accounted for within the General Fund, rather than the SAF.

Generally, SAF should be used to finance a program of activities not part of the regular curriculum. They should not be used to circumvent management or purchasing decisions made for the school district by the board or administration.

Non-Student Related Activities

The SAF was used for the following non-student related activities:

Activity Fund

This is not an approved student activity club and there is no student participation concerning the distribution of funds. Funds are derived from District-wide dress down days and according to District personnel, proceeds are to go to eleven different clubs. However, in some instances, proceeds went to the 7th and 8th grade history club which is not a board approved club. Charitable contributions were then made to local charities from this 7th and 8th grade history club.

Charitable Causes

This is not an approved student activity club and there is no student participation concerning the distribution of funds. Monies are raised from 7th and 8th grade dress-down days and donated to local charities. This money is only raised for special circumstances for people within the community. This money should be accounted for within the General Fund, rather than the SAF.

Discipline Committee

District personnel solicit local businesses and the community for money which is used to reward students for good behavior. Although the money raised benefits certain students, there is no student participation and funds are not used for the majority of the student population. This money should be accounted for within the General Fund, rather than the SAF.

Even Exchange

District personnel purchase student activity related items or services from the District's general fund and then use the SAF to reimburse the general fund. Although the general fund purchases benefit the students, reimbursements from the student activity account must be approved in advance by the students and monitors.

Monies that individuals, parent groups or faculty groups collect and disburse should not be included in the SAF. Outside groups should operate independently of the school district and its SAF.

It is important for the faculty advisor of each fund raising activity to be accountable for that fundraiser.

Likewise, controls and procedures should be developed around the two most important features of fundraisers: inventories and cash.

Prorating interest is clearly the preferred procedure, but the board may adopt a policy allowing the various organizations to waive prorating and assign their right to interest earnings to the Student Body Activities Account or other proper student activity.

A balance sheet that lists assets, liabilities and fund equity for the accounts in each school should be prepared monthly.

General Income and Expense

Funds received from the sewer authority were erroneously deposited in this account. The money was transferred to the correct account when district personnel found the error. However, according to the profit and loss statement the general income and expense account had a loss. We found the loss was due to a donation made from this account to the holocaust symposium. There was no student participation evidenced in this account.

Lack of Student Activity Fund Bylaws and Board Meeting Minutes

Our review of the District's SAF found that the student organizations lacked bylaws, as well as, board meeting minutes. This lack of documentation prevented us from verifying whether the expenditures from each activity fund were appropriate.

Lack of Fund Balances

A lack of internal controls led to District personnel's inability to adequately account for club balances to students. Monthly reports were profit and loss statements only and showed net transactions for each club. They did not include club balances. No carry-over balances were shown for each club. Statements did not show if any clubs carried negative balances.

The profit and loss statement for the 2009-10 school year showed seven clubs operated at a loss. The lack of documentation for individual club balances prevented us from determining if funds were available to cover individual club deficits.

Also, the lack of documentation prevented new custodians from knowing if a balance existed in their club account.

This lack of documentation can increase the risk for fraud or misappropriation.

Properly identifying account balances helps to ensure that the students who raised the money and participated in the activity got to use the revenue.

Lack of Post-Fundraising Reconciliations

Inadequate control over fundraising resulted in the lack of:

- detailed documentation of collections from students; and
- documentation needed to determine the financial success of student fund raising activities.

Pennsylvania Association of School Business Officials (PASBO) Activity Guidelines suggest that faculty advisors keep detailed documentation that holds them accountable for fundraising activities.

Interest Not Prorated

District personnel maintain interest in the student activity fund under an 'interest' account. PSC and PASBO guidelines suggest that interest be prorated between clubs or to a club designated by the school board.

Lack of Internal Board Approval and Oversight

District personnel do not submit reports of the financial position of the SAF to the board. The PSC requires SAF reports be submitted to the board quarterly.

SAF Custodian Not Bonded

The SAF custodian does not have adequate bonding as required by Section 5-511(d) of the PSC.

Recommendations

The *Old Forge School District* should:

1. Enforce the written policies and procedures for the accountability of student activity accounts in accordance with the provisions of the PASBO Activity Fund Guidelines and Section 511 of the PSC.
2. Ensure all club monitors receive training on policies, acceptable procedures and record-keeping.
3. Require that all purchases be initiated by purchase orders with required signatures including student signatures evidencing participation.
4. Cease the practice of club monitors signing for students.
5. Ensure that all receipts are obtained and maintained for audit.
6. Ensure general fund transactions are operated through the general fund.
7. Ensure only student related accounts are included in the student activity fund. Non-student related accounts should not be co-mingled with SAF.
8. Ensure current balances in non-student related accounts are transferred to an authorized SAF club to be designated by the board.
9. Require the SAF organizations to adopt by-laws to maintain accountability and require students and monitors to maintain meeting minutes that document student participation in fundraiser and disbursement decisions.
10. Require adequate reports be maintained to evidence ongoing club balances and submit these reports to the board at least quarterly.
11. Require that adequate control be maintained to ensure clubs do not have deficit balances.

12. Establish procedures to ensure fund-raising activities and post-fundraising reconciliations are adequately documented and maintained for audit.
13. Establish procedures to prorate interest to various clubs or transfer interest to a board designated club.
14. Obtain adequate bonding for the activity fund custodian in accordance with the PSC.

Management Response

Management stated the following:

We will implement the corrective action as per Auditor General's report.

Observation →

Memorandum of Understanding Continued to Not be Updated Timely

Public School Code and criteria relevant to the observation:

Section 1303-A(c) provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, a Basic Educational Circular (BEC) issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample of MOU to be used by school entities.

Section VI, general Provisions item B of the sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Our audit of the OFSD records found that the current Memorandum of Understanding (MOU) between the OFSD and the local police department continued to not be updated timely. The MOU was signed February 18, 2009 and was not updated until May 24, 2011 after the District was notified during our audit.

The failure to update the MOU with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Old Forge School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the local law enforcement agency to ensure that the MOU remains current.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

We have renewed and will continue renewing every two years.

Status of Prior Audit Findings and Observations

Our prior audit of the Old Forge School District (OFSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in two reported observations. The first observation pertained to their Memorandum of Understanding (MOU), and the second observation pertained to unmonitored vendor 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 OFSD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior observations. As shown below, we found that the OFSD did implement recommendations related to unmonitored vendor system access and logical access control weaknesses and did not implement recommendations related to their MOU as reported in the observation in this report.

School Years 2007-08, 2006-07, 2005-04 and 2004-05 Auditor General Performance Audit Report

Observation No. 1: Memorandum of Understanding Not Updated Timely

Observation

Summary:

Our audit of the OFSD's records found that the prior MOU between the OFSD and the local police department was signed February 16, 2006 and had not been updated.

Recommendations:

Our audit observation recommended that the OFSD:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit procedures we found that the OFSD did not implement the recommendations. The OFSD did update the MOU on February 18, 2009; however, that MOU was not updated until May 24, 2011, after they were notified during our audit. Refer to follow-up observation in the current report.

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: The OFSD uses software purchased from Modular Management System (MMS) for Schools, for its critical student accounting applications (membership and attendance). MMS has remote access into the District's network servers.

Recommendations: Our audit observation recommended that the OFSD:

1. Ensure that the District's Acceptable Use Policy includes provisions for access (acceptable use guidelines for users). The District's Acceptable Use Policy should include provisions for privacy (e.g., monitoring of electronic mail, access to files); access (acceptable use guidelines for users); accountability (responsibilities of users, auditing, incident handling); authentication (password security and syntax requirements); and violations/incidents (what is to be reported and to whom).
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. 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).
5. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that include alpha, numeric and special characters.
6. Implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
7. Generate monitoring reports (including firewall logs) of vendor 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.

8. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
9. Store back-up tapes in a secure, off-site location.

Current Status:

During our current audit procedures, we found that the OFSD did implement seven of the nine recommendations. Recommendations numbered four and six have not been corrected and have been addressed in a verbal comment to OFSD administration.

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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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.

