

SAUCON VALLEY SCHOOL DISTRICT
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Lachlan Peeke, Board President
Saucon Valley School District
2097 Polk Valley Road
Hellertown, Pennsylvania 18055

Dear Governor Rendell and Mr. Peeke:

We conducted a performance audit of the Saucon Valley School District (SVSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 23, 2008 through September 18, 2009, 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 SVSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/
JACK WAGNER
Auditor General

January 26, 2010

cc: SAUCON VALLEY 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 Saucon Valley School District (SVSD). 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 SVSD in response to our prior audit recommendations.

Our audit scope covered the period October 23, 2008 through September 18, 2009, 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 SVSD encompasses approximately 20 square miles. According to 2000 federal census data, it serves a resident population of 15,490. According to District officials, in school year 2007-08 the SVSD provided basic educational services to 2,447 pupils through the employment of 174 teachers, 116 full-time and part-time support personnel, and 13 administrators. Lastly, the SVSD received more than \$5.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SVSD 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 SVSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SVSD had taken appropriate corrective action in implementing our recommendations pertaining to its critical student accounting applications (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 October 23, 2008 through September 18, 2009.

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

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 SVSD'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:

- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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?

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.

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.

- ✓ 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 take appropriate corrective action to address recommendations made in our prior audits?

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.

SVSD 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 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on May 14, 2009, we reviewed the SVSD's response to DE dated July 30, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Saucon Valley School District (SVSD) for the school years 2005-06 and 2004-05 resulted in one reported observation, which pertained to its critical student accounting applications. 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 SVSD superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the SVSD did implement our recommendations related to its critical student accounting applications.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><i><u>I. 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. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the Carbon Lehigh Intermediate Unit #21 (CLIU) sign this policy, or the District should require the CLIU to sign the District's Acceptable Use Policy. 2. 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). Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords). 	<p>Background:</p> <p>Our prior audit found that the SVSD used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District utilized CLIU to provide them with system maintenance and support. Both the vendor and the CLIU have remote access into the District's network servers.</p>	<p>Current Status:</p> <p>We followed up on SVSD's critical student accounting applications and found that the SVSD <u>did</u> take corrective action to address our prior audit recommendations.</p>

<p>3. Generate monitoring reports (including firewall logs) of the CLIU 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.</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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