

SHENANGO AREA SCHOOL DISTRICT  
LAWRENCE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2010



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

Mr. Albert Burick, Jr., Board President  
Shenango Area School District  
2501 Old Pittsburgh Road  
New Castle, Pennsylvania 16101

Dear Governor Rendell and Mr. Burick:

We conducted a performance audit of the Shenango Area School District (SASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 1, 2008 through November 13, 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 SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

June 25, 2010

cc: **SHENANGO AREA SCHOOL DISTRICT** Board Members

## **Table of Contents**

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding – Possible Conflict of Interest Transaction .....	6
Status of Prior Audit Findings and Observations .....	9
Distribution List .....	13



## **Executive Summary**

---

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Shenango Area School District (SASD). 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 SASD in response to our prior audit recommendations.

Our audit scope covered the period February 1, 2008 through November 13, 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 SASD encompasses approximately 25 square miles. According to 2000 federal census data, it serves a resident population of 8,441. According to District officials, in school year 2007-08 the SASD provided basic educational services to 1,379 pupils through the employment of 97 teachers, 50 full-time and part-time support personnel, and 9 administrators. Lastly, the SASD received more than \$9.1 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

**Finding: Possible Conflict of Interest Transaction.** Our audit of the SASD's 2007-08 board of directors' actions to determine compliance with the Public School Code, Board Policy and the Public Official and Employee Ethics Act found that the SASD purchased a model year 2007 van for \$13,595, through a board members' place of business, without the board of directors documented pre-approval, no prepared bid specification and no public notice for the solicitation of competitive bids. This purchase is a possible conflict of interest transaction (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the SASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SASD had taken appropriate corrective action in implementing our recommendations pertaining to the overpayment of \$6,151 for Social Security and Medicare Wages (see page 9), and the unmonitored vendor system access and logical access control weaknesses (see page 10).





## 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 February 1, 2008 through November 13, 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

*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 SASD'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?

- ✓ 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?
- ✓ 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 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

SASD 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 SASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 22, 2009, we reviewed the SASD's response to DE dated April 20, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

---

---

### Finding

---

*Criteria relevant to the finding:*

Section 508 of the Public School Code (PSC) provides, in part:

The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following:

. . . Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100). . . .

Section 807.1 of the PSC provides in part:

- (a) All furniture, equipment, textbooks, school supplies and other appliances for the use of the public schools, costing ten thousand dollars (\$10,000) or more **shall** be purchased by the board of school directors **only after** hereinafter provided . . . after public notice has been given by advertisement once a week for three (3) weeks in not less than two (2) newspapers of general circulation. . . .  
**(emphases added)**

### Possible Conflict of Interest Transaction

Our audit of the District's 2007-08 school year board of directors' actions found a possible conflict of interest transaction. A board member, through his business, purchased for the District a 2007 van at an automobile auction. The District paid the board member's business for the vehicle.

Our review of the board minutes failed to find that the board of directors pre-approved the purchase of a van. We did find that the board member voted to reimburse his place of business for the vehicle.

The audit found the board member did not publicly announce or disclose the nature of his interest as a matter of public record, nor did the board member file a written memorandum with the District's board secretary.

Additionally, our audit found that the District paid \$13,595 for the van without providing public notice for the solicitation of competitive bids. Bid specifications were not prepared for the purchase of the van.

As a result, the board member's action and/or lack of disclosure were in violation of the PSC, District board policy, and possibly the Ethics Act.

The violations and possible violations uncovered during the audit were the result of a lack of board of directors and administrative enforcement of board policy and the failure of the board of directors and the board member to adhere to provisions of the PSC and Ethics Act.

Ethics Act violations cannot always be determined from records retained in the District's administrative offices. A copy of this audit finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems appropriate.

## Recommendations

Board Policy Manual Section 610  
“Purchases Subject to Bid”–  
provides in part:

It is the policy of the Board to obtain competitive bids for the products and services where such bids **are required by law** or where such bids may be believed to bring about a cost saving to the school district. . . Bid specifications shall be prepared by the superintendent of his/her designee. **(Emphases added)**

Section 1103 of the Public Official and Employee Ethics Act (Ethics Act) provides in part:

(f) No public official or public employee or his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract valued at \$500 or more with the governmental body with which the public official or public employee is associated . . . unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. . . .

(j) Voting conflict . . . Any public official or public employee who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall abstain from voting and, prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible for recording the minutes of the meeting at which the vote is taken. . . .

The *Shenango Area School District* should:

1. Adhere to provisions of the PSC regarding doing business with school directors.
2. Require District administrators to follow the PSC bidding requirements and the District’s bidding policies when making purchases for the District.
3. Ensure that all contracts over \$100 are approved by formal vote of the board.
4. In conjunction with its solicitor and the State Ethics Commission determination, require the District administrative personnel to put procedures in place to ensure that board member actions are in compliance with the Ethics Act.

The *State Ethics Commission* should:

5. Review and investigate this possible conflict of interest as it deems appropriate.

**Management Response**

Management stated the following:

The district admits to an error in the process of purchasing a van. A school board member has access to purchasing vehicles through auction at a substantial savings to the district. The board member agreed to do this in the best interest of the district and taxpayers. The board member made absolutely no money in this process and in fact lost time and mileage in the process of obtaining the van. All board members were aware of the purchase prior to the member proceeding and were proud of the fact that it was saving the district thousands of dollars. Unfortunately, the process used was flawed. Looking for records to verify the process is impeded by the change in administration since the purchase.

In the future, the district is pursuing methods to abide by the necessary elements of purchasing vehicles through this process including: proper board actions, application for a waiver through the Department of Education, and independent recommendations to the full board by the transportation committee.

## Status of Prior Audit Findings and Observations

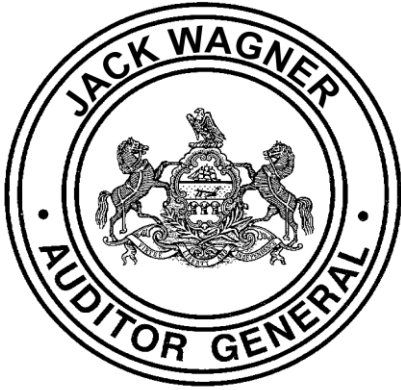
Our prior audit of the Shenango Area School District (SASD) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to an error in reporting Social Security and Medicare Wages, and the observation pertained to unmonitored vendor system access 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 SASD 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 SASD did implement recommendations related to an error in reporting Social Security and Medicare Wages, and the observation pertaining to unmonitored vendor system access and logical access control weaknesses.

<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: Error in Reporting Social Security and Medicare Wages Resulted in a Reimbursement Overpayment of \$6,151</i></u></p> <p>The SASD should:</p> <ol style="list-style-type: none"> <li>1. Comply with DE instructions for form PDE-2105 when reporting wages paid.</li> <li>2. Review PDE-2105 reports submitted subsequent to our audit period for errors, and resubmits reports to DE, if necessary.</li> </ol> <p>DE should:</p> <ol style="list-style-type: none"> <li>3. Adjust the District’s allocations to correct the reimbursement overpayment of \$6,151.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of Social Security and Medicare wages for the 2005-06 school year found District personnel incorrectly reported federal wages twice in the total wages reported to DE, resulting in a reimbursement overpayment of \$6,151.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the 2007-08 and 2006-07 school years Social Security and Medicare wages reported to DE found no reporting errors. We concluded the District did take appropriate action to address this finding. DE personnel stated at the time of the audit the overpayment was pending DE resolution.</p>

<p><u>II. Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.</u></p> <ol style="list-style-type: none"> <li>1. Generate monitoring reports (including firewall logs) of the Midwestern Intermediate Unit #4 (IU) and employee remote 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.</li> <li>2. Require the IU to assign unique userIDs and passwords to IU employees authorized to access the District system. Further, the District should obtain a list of IU employees with access to its data and ensure that changes to the data are made only by authorized IU representatives.</li> <li>3. Only allow access to their system when the IU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of IU changes.</li> <li>4. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the IU sign this policy,</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found the District uses software purchased from the IU for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the IU’s servers which are physically located at the IU. The District has remote access into the IU’s network servers, with the IU providing system maintenance and support.</p>	<p><b>Current Status:</b></p> <p>Our current audit followed up on the observation recommendations and found that the District did take appropriate corrective action.</p>
---	---	---



<p>or the District should require the IU to sign the District's Acceptable Use Policy.</p> <p>5. Include provisions for Authentication (e.g., syntax requirements).</p> <p>6. Implement a security policy and system parameter settings to require all users, including the IU, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).</p>		
--	--	--



## **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](http://www.auditorgen.state.pa.us), and the following:

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

The Honorable Thomas E. Gluck  
Acting 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

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

Representative James Roebuck  
Chair  
House Education Committee  
208 Irvis Office Building  
Harrisburg, PA 17120

Representative Paul Clymer  
Republican Chair  
House Education Committee  
216 Ryan Office Building  
Harrisburg, PA 17120

Ms. Barbara Nelson  
Director, Bureau of Budget and  
Fiscal Management  
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

Mr. John J. Contino  
Executive Director  
State Ethics Commission  
309 Finance Building  
P.O. Box 11470  
Harrisburg, PA 17108



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](http://www.auditorgen.state.pa.us).

