

SOUTHEAST DELCO SCHOOL DISTRICT
DELAWARE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2011

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

Mr. Donald Young, Board President
Southeast Delco School District
1560 Delmar Drive
Folcroft, Pennsylvania 19032

Dear Governor Corbett and Mr. Young:

We conducted a performance audit of the Southeast Delco School District (SESDS) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 20, 2009 through January 21, 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 SEDSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of this result is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

July 5, 2011

cc: **SOUTHEAST DELCO SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Social Security and Medicare Reimbursement Net Overpayment of \$480,106	6
Status of Prior Audit Findings and Observations	8
Distribution List	13



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Southeast Delco School District (SESDS). 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 SEDSD in response to our prior audit recommendations.

Our audit scope covered the period February 20, 2009 through January 21, 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 SEDSD encompasses approximately 4 square miles. According to 2000 federal census data, it serves a resident population of 30,732. According to District officials, in school year 2007-08 the SEDSD provided basic educational services to 4,123 pupils through the employment of 317 teachers, 279 full-time and part-time support personnel, and 28 administrators. Lastly, the SEDSD received more than \$20.6 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SEDSD 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.

Finding: Social Security and Medicare Reimbursement Net Overpayment of

\$480,106. Our audit of the SEDSD's 2007-08 and 2006-07 school years' Reconciliation of Social Security and Medicare tax contributions found errors in total taxable Social Security and Medicare wages, and the reporting of the total reimbursement received for the 2007-08 school year (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the SEDSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SEDSD has taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in retaining documentation (see page 8), the Memorandum of Understanding (see page 9), and the 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 February 20, 2009 through January 21, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2006-07 and 2007-08.

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 SEDSD'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:

- ✓ In areas where the District receives state subsidy and reimbursements based on grants, 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

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 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.

SEDSD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 29, 2009, we reviewed the SEDSD's response to DE dated January 28, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Social Security and Medicare Reimbursement Net Overpayment of \$480,106

Criteria relevant to the finding:

Instructions for the completion of the PDE-2105 were provided to local education agencies due to the revisions required by Act 29 of 1994. Those instructions state total taxable Social Security and Medicare wages for “existing” and “new” employees paid during each quarter of the fiscal year are to be reported for reimbursement.

Our audit of the District’s 2007-08 and 2006-07 school years’ Reconciliation of Social Security and Medicare Tax Contributions (PDE-2105) found errors in total taxable Social Security and Medicare wages reported to the Department of Education (DE) for both years, as well as an overstatement of the reimbursement received for the 2007-08 school year reported to DE. These errors resulted in a net reimbursement overpayment of \$480,106, as follows:

School Year		Audited Wages	Reported Wages	(Over)/Understated	Rate	(Over)/Under Reimbursement
2007-08	(SE)	\$ 8,681,241	\$ 9,329,041	\$ (647,800)	.03100	\$(20,082)
	(ME)	8,720,475	9,329,041	(608,566)	.00725	(4,412)
	(SN)	15,714,655	16,967,243	(1,252,588)	.04289	(53,724)
	(MN)	15,786,241	16,967,243	(1,181,002)	.01000	<u>(11,810)</u>
Overpayment for 2007-08						(90,028)
2006-07	(SE)	9,735,430	9,650,000	85,430	.03100	2,648
	(ME)	9,769,818	9,650,000	119,818	.00725	869
	(SN)	13,376,569	23,646,784	(10,270,215)	.04150	(426,214)
	(MN)	13,435,331	23,646,784	(10,211,453)	.00970	<u>(99,051)</u>
Net overpayment for 2006-07						(521,748)
Net Overpayment Due to Wage Errors						<u>\$(611,776)</u>
*Error in Reimbursement Received Reported to DE for 2007-08						131,670
Net Overpayment						<u>\$(480,106)</u>

(SE) = Social Security Wages for Existing Employees
 (ME) = Medicare Wages for Existing Employees
 (SN) = Social Security Wages for New Employees
 (MN) = Medicare Wages for New Employees

*Districts receive payments based on estimates throughout each school year. Because the District reported those payments incorrectly on the PDE-2105, the calculation of actual payment due was incorrect.

The current business manager stated that she did not know the cause of the errors. The employee that was responsible for reporting Social Security and Medicare reimbursement is not currently employed by the District.

Recommendations

The *Southeast Delco School District* should:

1. Reconcile total taxable Social Security and Medicare wages with wages reported on the federal 941 form.
2. Review reports submitted subsequent to the audit period and submit revised reports to DE, if errors are found.

The *Department of Education* should:

3. Adjust the District's allocations to recover the net overpayment of \$480,106.

Management Response

Management stated the following:

Incorrect numbers were used for the new employee calculation, resulting in possible Social Security and Medicare reporting errors. In the future, the reports will be prepared by the district accountant and reviewed by the business manager for errors, prior to submission.

Status of Prior Audit Findings and Observations

Our prior audit of the Southeast Delco School District for the school years 2005-06 and 2004-05 resulted in one finding and two observations. The finding pertained to internal control weaknesses resulting in our inability to verify state funding. The observations pertained to a Memorandum of Understanding that was not updated and 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 SEDSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the SEDSD did implement recommendations related to the finding and the two observations.

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

Finding: **Internal Control Weaknesses Resulted in Our Inability to Verify \$3,289,773**

Finding Summary: Our prior audit of the District's files and records for the 2005-06 and 2004-05 school years found inadequate documentation to support state funding of \$3,289,773 in the areas of Social Security and Medicare, Education Assistance Program, and extra grants.

Recommendations: Our audit finding recommended that the SEDSD:

1. Retain Internal Revenue Service federal forms to support the Social Security and Medicare reimbursements.
2. Maintain files for each program and grant containing the application, approval, budget and any revisions filed, documentation of receipt (such as a copy of the check transmittal and/or check), expenditure reports, invoices, purchases orders and documentation to support other requirements of the program.

We also recommended that DE:

3. Require the District to maintain sufficient, competent, and relevant evidence to ensure proper justification for the receipt of state funds.

Current Status: Our current audit found that SEDSD implemented corrective action to address our recommendations. However, the District failed to accurately report eligible wages for Social Security and Medicare for

the 2007-08 and 2006-07 school years, as noted in the finding of our current report (see page 6).

Observation No. 1: Memorandum of Understanding Not Updated Timely

Observation Summary: Our prior audit of the District's records found the Memorandum of Understanding (MOU) between the District and one of the four local law enforcement agencies was last signed and updated October 19, 2005.

Recommendations: Our audit observation recommended that the SEDSD:

1. Review, update and re-execute the 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: Our current audit found that SEDSD implemented appropriate corrective action to address our recommendations.

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

Observation Summary: Our prior audit 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 activity in its system.

Recommendations: Our audit observation recommended that the SEDSD:

1. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change 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).

4. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Allow access to its system only when the vendor needs to make pre-approved changes/updates or provide requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, changes(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.
7. Determine if the vendor is using the most current version of the remote access software.
8. Ensure that the vendor encrypts the remote connections.
9. Obtain documentation, e.g. screen shots, that evidence the remote access software security features are enabled.
10. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
11. Establish a process for defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process.
12. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
13. Determine if application(s) are being backed up before placing program changes into production to ensure they could be recovered if problems are encountered.
14. Ensure that the servers with the membership/attendance data are

maintained in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.

15. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
16. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should ensure that fire detectors and fire extinguishers are installed in the computer room. The District should also insure servers are kept in a temperature controlled room.
17. Ensure the vendor performs regular backups of the system.
18. Ensure the vendor stores back-up tapes in a secure, off-site location.
19. To mitigate information technology control weaknesses, have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

Our current audit found that SEDSD implemented appropriate corrective action to address our recommendations.



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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