

WEST MIFFLIN AREA SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2012

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

Mr. Ted Cale, Board President
West Mifflin Area School District
3000 Lebanon Church Road, Suite 300
West Mifflin, Pennsylvania 15122

Dear Governor Corbett and Mr. Cale:

We conducted a performance audit of the West Mifflin Area School District (WMASD) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period October 9, 2008 through June 16, 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 WMASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, 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.

Subsequent to our fieldwork completion date, the District disclosed a general fund deficit of \$3.1 million for the 2009-10 school year and learned that as a result of an assessment appeal the District will be required to refund \$751,000 in real estate taxes during the 2010-11 school year. These events occurred outside of our audit scope; therefore we will review them in our subsequent audit.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

July 26, 2012

cc: **WEST MIFFLIN AREA SCHOOL DISTRICT** Board Members

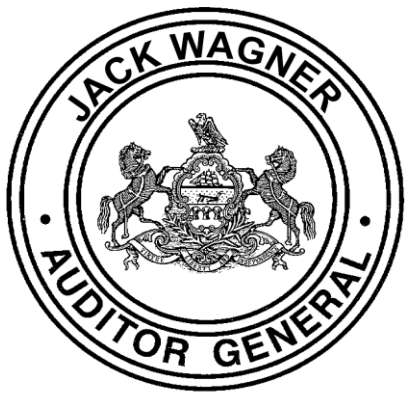


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the West Mifflin Area School District (WMASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the WMASD in response to our prior audit recommendations.

Our audit scope covered the period October 9, 2008 through June 16, 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 WMASD encompasses approximately 15 square miles. According to 2000 federal census data, it serves a resident population of 22,802. According to District officials, in school year 2007-08 the WMASD provided basic educational services to 3,223 pupils through the employment of 243 teachers, 178 full-time and part-time support personnel, and 26 administrators. Lastly, the WMASD received more than \$12.3 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the WMASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

Finding No. 1: The District Incurred Additional Costs Totaling \$33,543 as a Result of the Superintendent's Resignation From the District. Our audit of WMASD records found that on November 20, 2009, the Superintendent retired. The Board approved a lump sum payment to the Superintendent of \$30,000 that was not required by the Superintendent's contract. The audit also found overpayments for unused leave in the amount of \$3,543 (see page 6).

Finding No. 2: Pupil Transportation Discrepancies. Our audit of the WMASD's pupil transportation data submitted to the Pennsylvania Department of Education for the 2007-08 and 2006-07 school years found errors in reporting the number of nonpublic and charter school pupils transported (see page 9).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the WMASD's data could occur and not be detected because the WMASD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the WMASD, we found the WMASD had not taken appropriate corrective action in implementing our recommendations pertaining to the reporting of nonpublic pupils transported by the WMASD (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 October 9, 2008 through June 16, 2010.

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 Pennsylvania Department of Education (PDE) 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the WMASD'S compliance with applicable state laws, 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 pupil membership (e.g. basic education, special education, and vocational education), 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 buy-out 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, 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.

WMASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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, and financial stability.
- Items such as Board meeting minutes, pupil membership records.

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

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

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

Section 1073 of the Public School Code, 24 P.S. § 10-1073(a), requires school districts to enter into three-to-five-year employment contracts with their superintendents.

The District Incurred Additional Costs Totaling \$33,543 as a Result of the Superintendent's Resignation from the District

On September 14, 2006, the board of school directors (Board) of West Mifflin Area School District entered into an employment contract (Contract) with an individual (Superintendent) to serve as the District's superintendent. The District granted him an employment contract of five years, to commence on October 2, 2006 and end on October 1, 2011.

On November 1, 2009, with one year and 11 months remaining on the Contract, the Superintendent notified the District that he would be retiring. His actual retirement date was November 20, 2009. The District stated that this was a voluntary retirement by the Superintendent.

In his November 1, 2009 letter to the Board, the Superintendent stated:

As part of my current Superintendent contract, I am entitled to any retirement incentive that has been put forth to the Administrators or to the Professional Employees, as well as a lump sum of \$30,000 as additional benefits based on Article 6.10 of the Superintendent's contract. Also, I should receive the per diem rate for vacation days, [and] sick day pay at the rate of \$80.00 per day. . . .

Our audit found that the Superintendent was paid \$33,543 in excess of what was required by the Contract. The excess payments included the \$30,000 lump sum payment and \$3,543 for unused vacation days.

Lump Sum Payment

Section 6.09 of the Superintendent's Contract states:

The District Superintendent shall be entitled to participate in any retirement incentive program for Administrators or an Early Retirement Incentive Program for Professional Employees that may be

adopted by the Board of School Directors of the West Mifflin Area School District during the term of or at the conclusion of this Agreement. In addition to the benefits of either of the above programs, the District shall pay to the District Superintendent a lump sum of \$30,000 if the District Superintendent is terminated without cause at the end of either the third or fourth year of the Contract.

This section clearly states that the \$30,000 lump sum is to be paid to the Superintendent if he is terminated without cause. Furthermore, this payment was to occur at the end of either the third or fourth year of the Contract. Since the Superintendent *voluntarily* retired at the *beginning* of the third year of his Contract, the District was not legally obligated to pay this lump sum.

Vacation Days

The Superintendent also received payment for his unused vacation time at retirement. Section 6.01 of the Superintendent's Contract states:

The District Superintendent shall be eligible for twenty (20) days of vacation during each year of this Contract to be earned on a monthly basis. Vacation shall not be accumulated but must be taken in the calendar year immediately following the year in which it is earned unless otherwise agreed by the District in writing. . . .

- c) The District Superintendent shall be eligible for unused cumulative vacation pay upon retirement, at which time said payment shall be based on the per diem rate of the total compensation as certified by the Business Manager. Upon retirement or the expiration of this contract, the maximum cumulative vacation days to be paid shall not exceed twenty two (22) days.

The District paid the Superintendent for a total of 28.5 vacation days at a per diem rate of \$545, for a total of \$15,533. Per the contract he was entitled only to a maximum of 22 unused vacation days, or \$11,990; therefore, the District paid the Superintendent \$3,543 in excess of what was required by the Contract for vacation days.

Recommendations

The *West Mifflin Area School District* should:

Adhere to the provision of the contract when a person retires or is terminated by the District.

Management Response

Management stated the following:

Based on the West Mifflin Area School District's past practices for employees resigning and retiring as well as Article 6.10 Other Benefits as stated in the Superintendent's Contract, the management disagrees with the finding. . . .

Auditor Conclusion

The payments required by the Superintendent's Contract at his retirement are detailed in the finding, which will stand as written.

Finding No. 2 →

Pupil Transportation Discrepancies

Criteria relevant to the finding:

Section 2509.3 of the Public School Code provides, in part:

For the school years 2001-02 and each school year thereafter, each school district shall be paid the sum of three hundred eighty-five dollars (\$385) for each nonpublic school pupil transported.

Section 1728-A(a) of the Public School Code provides, in part:

District's providing transportation to a charter school outside the district and, for the 2007-2008 school year and each school year thereafter, districts providing transportation to a charter school within the district, shall be eligible for payments under section 2509.3 for each public school student transported.

Our audit of the West Mifflin Area School District's pupil transportation data submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found errors in reporting the number of nonpublic and charter school pupils transported, resulting in a reimbursement underpayment of \$19,635 in the 2007-08 school year and an overpayment of \$17,710, for the 2006-07 school year, resulting in a net underpayment of \$1,925.

District personnel understated the number of nonpublic and charter school students transported by 51 for the 2007-08 school year and overstated them by 46 for the 2006-07 school year.

This is a continuation of a finding in our prior audit report (see page 14).

We have provided PDE with a report detailing the transportation errors to use in recalculating the District's nonpublic school transportation subsidy.

Recommendations

The *West Mifflin Area School District* should:

1. Require District personnel responsible for pupil transportation reports to adopt procedures to properly count all nonpublic school pupils transported.
2. Require District personnel to perform an internal review to ensure accuracy of data prior to submission of reports to PDE.

The *Department of Education* should:

3. Adjust the District's allocations to reimburse the District for the \$1,925 underpayment of nonpublic school transportation subsidy.

Management Response

Management stated the following:

The issue over the definition of “Non Public Schools” was raised in a previous audit. While the district adopted the PDE’s definition and has since corrected the problem, the 2007 and 2008 PDE-2089 reports reflected the incorrect methodology and definition.

Observation

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The West Mifflin Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s servers.

Based on our current year procedures, we determined that a risk exists 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 is adequately monitoring all vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance data in its database, that risk is mitigated. Membership reconciliations are performed between manual records and reports generated from the student accounting system.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over access to the District’s system:

1. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.
2. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.

3. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change passwords every 30 days, to use passwords that are a minimum length of eight characters, and to use passwords that include alpha, numeric and special characters. Furthermore, the District's system parameter settings do not lock out users after three unsuccessful access attempts and do not maintain a password history to prevent the use of a repetitive password.
4. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
5. The District does not have evidence it is reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed its system.
6. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
7. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire detection or fire suppression equipment.

Recommendations

The *West Mifflin Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

3. Require all users, including the vendor, to change their passwords every 30 days, to use passwords that are a minimum length of eight characters, and to use passwords that include alpha, numeric and special characters. The District's system parameter settings should lock out users after three unsuccessful access attempts and maintain a password history to prevent the use of a repetitive password.
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 remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its 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.
6. Ensure that upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
7. 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 install fire detectors and install fire extinguishers in the computer room.

Management Response

Management stated the following:

The school district will develop a plan to address the issues raised in the audit. The district will also adopt the recommendations given in the observation.

Status of Prior Audit Findings and Observations

Our prior audit of the West Mifflin Area School District (WMASD) for the school years 2005-06 and 2004-05 resulted in one reported finding pertaining to errors in reporting the number of nonpublic pupils transported. 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 WMASD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the WMASD did not implement recommendations related to errors in reporting the number of nonpublic pupils transported.

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

Finding: **Pupil Transportation Discrepancies**

Finding Summary: Our prior audit of the District's pupil transportation data submitted to PDE for the 2005-06 school year found errors in reporting the number of nonpublic pupils transported, resulting in a reimbursement underpayment of \$3,465. For the 2004-05 school year, we found a lack of documentation supporting the nonpublic transportation subsidy of \$142,835.

Recommendations: Our audit finding recommended that WMASD:

1. Require District personnel responsible for pupil transportation to adopt procedures to retain supporting documentation for nonpublic pupils transported.
2. Require District personnel to perform an internal review to ensure accuracy of data prior to submission of reports to PDE.

We also recommended that PDE:

3. PDE should adjust the District's allocations to recover the \$3,465 underpayment of nonpublic transportation subsidy.

Current Status: While adequate documentation was available for our current audit years, based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address the data reporting errors noted in our prior audit finding (see Finding No. 2, page 9).

As of June 16, 2010, PDE had not corrected the 2005-06 underpayment. We again recommend that PDE adjust the District's allocations to correct the \$3,465 underpayment.

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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