

SHARON CITY SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Mr. Melvin Bandzak, Board President
Sharon City School District
215 Forker Boulevard
Sharon, Pennsylvania 16146

Dear Governor Rendell and Mr. Bandzak:

We conducted a performance audit of the Sharon City School District (SCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 1, 2009 through July 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 SCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the SCSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 23, 2010

cc: **SHARON CITY SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	13



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Sharon City School District (SCSD). 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 SCSD in response to our prior audit recommendations.

Our audit scope covered the period May 1, 2009 through July 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 SCSD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 16,328. According to District officials, in school year 2007-08 the SCSD provided basic educational services to 2,277 pupils through the employment of 170 teachers, 125 full-time and part-time support personnel, and 11 administrators. Lastly, the SCSD received more than \$16.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SCSD 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 SCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SCSD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting Social Security and Medicare wages (see page 7), continued internal control weaknesses in the improper management of student activity funds (see page 8), and internal control weaknesses and lack of documentation supporting reimbursement for pupil transportation (see page 9).

Our recommendations pertaining to the two observations regarding the failure to update the Memorandum of Understanding (see page 10) and the control weaknesses in vendor access (see page 11) were also implemented.



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 May 1, 2009 through July 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 Department of Education 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 SCSD'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?

- ✓ 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

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 administrative procedures.

SCSD 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, and financial stability.
- Items such as Board meeting minutes, pupil membership records, student activity fund operations and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2010, we performed audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Sharon City School District (SCSD) for the school years 2005-06 and 2004-05 resulted in three reported findings and two reported observations, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the SCSD did implement recommendations related to the findings and observations in our prior audit report.

<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 No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments Totaling \$45,445</i></u></p> <ol style="list-style-type: none"> 1. Ensure District personnel comply with the Department of Education (DE) instructions when reporting wages paid by federal funds. 2. Perform an internal review of reports submitted in subsequent school years inclusion of federal wages and resubmit to DE, if necessary. 3. DE should adjust the District's allocations to resolve the reimbursement overpayments totaling \$45,445. 	<p>Background:</p> <p>Our prior audit of the District's records found that Social Security and Medicare wages for the 2005-06 and 2004-05 school years were incorrectly reported to DE, resulting in reimbursement overpayments of \$22,700 and \$22,745, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that the District correctly revised its subsequent years' Reconciliation of Social Security and Medicare Wages forms to include the appropriate federal wages.</p> <p>Based on the results of our current audit, we concluded that the District did take corrective actions to address this finding.</p> <p>As of July 16, 2010, the overpayments of \$45,445 were still pending final adjustment by DE.</p>

<p><u>II. Finding No. 2: Continued Improper Management of Student Activity Funds and Misappropriation of Funds</u></p> <ol style="list-style-type: none"> 1. Develop and implement administrative procedures governing student activity funds. 2. Ensure the custodian of the student activity funds is properly bonded and all accounts are board approved. 3. Require all organizations to maintain constitutions/by-laws and written minutes for all activity accounts. 4. Discontinue the practice of allowing accounts to operate with negative balances. 5. Abolish all inactive accounts. 6. Ensure financial records are maintained on file at the District for all accounts. 7. Abolish convenience accounts. 8. Require the use of purchase orders. 9. Require all graduating classes to assign all remaining funds in writing according to board policy. 10. Ensure payments due to the District that were disallowed by the banks for non-sufficient funds or account closings are collected. 	<p>Background:</p> <p>Our prior audit of the District’s student activity funds for the 2007-08 school year found continued weaknesses in the management and internal control of the student activity funds.</p>	<p>Current Status:</p> <p>Our current audit of the 2009-10 student activity funds found that the District took or is taking corrective action on all of our recommendations.</p> <p>In addition, the District received full restitution of the monies taken by the former student activity fund custodian. (This issue was referred to in our prior audit recommendation No. 13.)</p> <p>Based on the results of our current audit, the District did take the necessary corrective action to address this finding.</p>
---	--	---

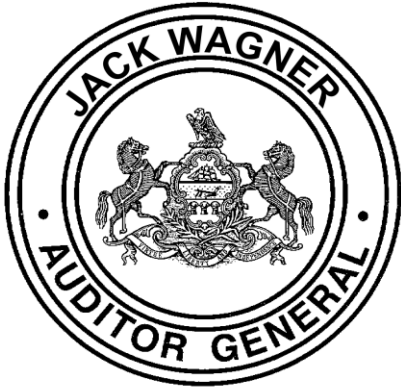
<p>11. Require interest income to be prorated timely to each student activity fund account.</p> <p>12. Ensure proper student authorization is obtained on all payment authorization forms, including attached invoices and/or receipts, and discontinue the practice of making cash advances.</p> <p>13. Continue to cooperate with the local law enforcement agency in the investigation of the unauthorized payments.</p>		
---	--	--

<p><u>III. Finding No 3: Internal Control Weaknesses and Lack of Documentation Supporting Reimbursements of \$130,315 for Pupil Transportation</u></p> <p>1. Conduct an internal review to ensure pupil counts, daily mileage, and the amount paid contractors are accurately recorded and reported to DE.</p> <p>2. Prepare and retain complete daily mileage rosters identifying miles with and without pupils for each bus run.</p> <p>3. Prepare detailed route descriptions and perform a yearly verification of all bus routes and mileage to ensure all buses follow board approved bus routes.</p>	<p>Background:</p> <p>Our prior audit of the District’s pupil transportation records and reports submitted to DE found internal control weaknesses and a lack of documentation supporting reimbursements for the 2005-06 and 2004-05 school years of \$68,224 and \$62,091, respectively.</p>	<p>Current Status:</p> <p>Our current audit of the transportation records for the 2007-08 school year found that the District maintained all necessary supporting documentation.</p> <p>Based on the results of our current audit, we concluded that the District did take corrective action to address this finding.</p>
--	--	--

<p>4. Prepare weighted average pupil rosters for all students assigned to each bus, including all students that entered, withdrew, or relocated within the District, in accordance with DE guidelines and instructions.</p> <p>5. Maintain on file the source data used to report pupil transportation data to DE.</p>		
--	--	--

<p><i><u>IV. Observation No. 1: Memorandum of Understanding Not Timely Updated</u></i></p> <p>1. In consultation with the solicitor, continue to review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the local law enforcement agency every two years.</p>	<p>Background:</p> <p>Our prior audit of the District’s records found that the MOU between the District and its local law enforcement agency was last signed on October 2, 2002 and was not updated until March 15, 2009.</p>	<p>Current Status:</p> <p>During the course of our prior audit, the District and the local law enforcement agency re-executed the MOU on March 15, 2009; therefore, the next update will not be required until March 15, 2011.</p> <p>Based on the results of our current audit, we concluded that the District did take corrective action to address this observation.</p>
---	--	--

<p><i>V. Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses</i></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of Midwestern Intermediate Unit #4 (MIU) and employee access and activity on the 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. 2. Allow access to the system only when the MIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the MIU has completed its work. This procedure would also enable the monitoring of MIU changes. 3. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have vendors sign this policy, or require the MIU to sign the District's Acceptable Use Policy. 	<p>Background:</p> <p>The SCSD uses software purchased from the MIU for its critical student accounting applications (membership and attendance). The District's entire computer system, including all its data and the above software are maintained on the MIU's servers which are physically located at the MIU. The District has remote access into the MIU's network servers, with the MIU providing system maintenance and support.</p> <p>During our prior audit we determined that a risk existed that unauthorized changes to the District's data and not be detected because the District was unable to provide evidence that it was adequately monitoring all MIU activity in its system.</p>	<p>Current Status:</p> <p>On September 21, 2009 the District sent a copy of the District's Acceptable Use Policy to the MIU. On September 29, 2009, the District received a signed MOU from the MIU noting the responsibility of the MIU to follow the District's policy.</p> <p>Additionally, monitoring logs of vendor access were available for audit.</p> <p>Lastly, supporting documentation received from the MIU confirmed that controls are in place over access to the software located at the MIU.</p> <p>Based on the results of our current audit we concluded that the District did take corrective actions to address this observation.</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, 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

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

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.

