

GLENDAL SCHOOL DISTRICT
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2012

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

Dr. Andy Mulhollen, Board President
Glendale School District
1466 Beaver Valley Road
Flinton, Pennsylvania 16640

Dear Governor Corbett and Dr. Mulhollen:

We conducted a performance audit of the Glendale School District (GSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 25, 2008 through March 2, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 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 GSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

Sincerely,

/s/

JACK WAGNER
Auditor General

July 26, 2012

cc: **GLENDAL 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 Glendale School District (GSD). 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 GSD in response to our prior audit recommendations.

Our audit scope covered the period July 25, 2008 through March 2, 2012, 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 2009-10, 2008-09, 2007-08 and 2006-07.

District Background

The GSD encompasses approximately 60 square miles. According to 2000 federal census data, it serves a resident population of 5,582. According to District officials, in school year 2009-10 the GSD provided basic educational services to 822 pupils through the employment of 72 teachers, 44 full-time and part-time support personnel, and 6 administrators. Lastly, the GSD received more than \$7.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the GSD complied, in all significant respects, with applicable state laws, 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 GSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the GSD had taken appropriate corrective action in implementing our recommendations pertaining to eight findings and two observations included in our prior audit report (see pages 7 through 15).



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 July 25, 2008 through March 2, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through December 28, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 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 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 GSD'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:

- ✓ 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?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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?
- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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, observations and conclusions based on our audit objectives.

GSD 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. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 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, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 31, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Glendale School District (GSD) for the school years 2005-06 and 2004-05 resulted in eight reported findings and two observations, as shown below. 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 and observations. As shown below, we found that the GSD did implement recommendations related to all prior findings and observations.

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

Finding No. 1: Failure to Comply with Grant Guidelines

Finding Summary: Our prior audit of the Carol M. White Physical Education Program Grant (PEP Grant) found deficiencies in the disbursement of grant funds and adherence to grant guidelines.

Recommendations: Our audit finding recommended that the GSD:

1. Consult with the District's solicitor to determine if stipends should be refunded to the District.
2. Adhere to the approved program narrative/budget in order to fulfill the grant objectives, goals and obligations.
3. Include required "in kind" matches as part of their general fund budget.
4. Abide by the Public School Code (PSC) and board policy bidding requirements.

We also recommended the United States Department of Education (USDE):

5. Conduct a detailed review to determine if the GSD fulfilled their goals, objectives and activities as outlined in the program narrative submitted to the USDE, and if not, detail what remedies the GSD can implement to satisfy the PEP Grant requirements, if possible.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. PEP grant program narrative, budget, goals, expenses, etc., were all resubmitted for years two and three of the grant and approved by USDE on August 24, 2010. As of March 2, 2012, USDE had not yet conducted a detailed review of the grant.

Finding No. 2: Errors in Reporting Dual Enrollment Data Resulted in a Reimbursement Overpayment

Finding Summary: Our prior audit of the dual enrollment data found that the program costs reported to the Pennsylvania Department of Education (PDE) for the 2005-06 school year were incorrect, resulting in a reimbursement overpayment of \$4,622.

Recommendations: Our audit finding recommended that the GSD:

1. Review subsequent final expenditure reports to ensure accurate data was reported, and submit revisions if necessary.
2. Reconcile with Saint Francis University the possible overcharges by the university.

We also recommended the PDE:

3. Recover the \$4,622 overpayment.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. The District performed a detailed review of the subsequent years and has placed tighter controls over the expenditures regarding the Dual Enrollment program. Our audit found no significant ongoing concerns. As of March 2, 2012, PDE had not yet recovered the overpayment of \$4,622.

Finding No. 3: Failure to Bid Equipment Purchases

Finding Summary: Our prior audit of District records from the period July 1, 2004 through June 30, 2008, found that the District failed to abide by the PSC and board policy bidding requirements for several equipment purchases.

Recommendations: Our audit finding recommended that the GSD:

1. Abide by Sections 807.1 and 751(a) of the PSC and District Board Policy #610.

2. Strengthen controls to ensure compliance with the PSC and board policy.
3. Review all purchases to ensure that purchases requiring bidding have been bid and that Pennsylvania Education Purchasing Program waiver purchases are properly noted and adequately documented.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. In May 2010, and again on July 27, 2010, the District instituted a new requisition program and provided all staff in the District's central office with training on the bidding requirements and procedures.

Finding No. 4: Errors in Reporting Social Security and Medicare Wages Resulted in a Net Reimbursement Overpayment of \$15,178

Finding Summary: Our prior audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that federally funded wages were inaccurately reported to PDE, resulting in a net reimbursement overpayment of \$15,178.

Recommendations: Our audit finding recommended that the GSD:

1. Ensure that all employees' wages paid with federal funds are properly coded in the payroll system.
2. Perform a reconciliation of the final federal expenditure reports to the payroll reports to ensure accuracy.
3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to PDE.

We also recommended the PDE:

4. Adjust the District's allocations to resolve the net reimbursement overpayment.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. Beginning in March 2010, the District purchased a new payroll software system for more control over the payroll processing. In addition, in March 2009, the District discontinued the practice of shifting salaries from one funding source to another. Finally, in December 7, 2011, the District established an annual district-wide procedure to manage and place tighter internal controls on grants. As of March 2, 2012, PDE had not yet adjusted the District's allocations to resolve the net reimbursement overpayment.

Finding No. 5: Possible Inaccurate Reporting of Retirement Wages Totaling \$54,052

Finding Summary: Our prior audit of the administrative employment contracts, payroll, and retirement records found that retirement wages may have been overstated for the superintendent for the 2004-05, 2005-06, 2006-07 and 2007-08 school years and for two other administrators for the 2007-08 school year, in reports submitted to the Public School Employees' Retirement System (PSERS).

Recommendations: Our audit finding recommended that the GSD:

1. Review the PSERS reference manual for determination of wages eligible for retirement, and contact PSERS for determination of any payments that the payroll clerk is unsure how to report.

We further recommended the PSERS:

2. Review the compensation reported for the former superintendent for the 2004-05, 2005-06, 2006-07 and 2007-08 school years, and wages reported for the two additional administrators for the 2007-08 school year, and render an opinion on the propriety of the retirement wages reported by the District for the individuals.
3. If any parts of the payments are determined to be ineligible for retirement, make the necessary corrections to pension benefits and contributions.

We also recommended PDE, in conjunction with PSERS's determination of the propriety of wages reported for retirement:

4. Determine if the District was overpaid retirement subsidy, and make any necessary adjustment.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. The District and PSERS were in communication on February 14, 2011. The District provided payroll documents to PSERS and no further comment has been provided by PSERS regarding any further action. As of March 2, 2012, PSERS had not rendered an opinion on the propriety of the retirement wages, and PDE had consequently not adjusted the District's subsidy.

Finding No. 6: Certification Deficiencies

Finding Summary: Our prior audit of the professional employees' certificates and assignments for the period January 31, 2006 through March 31, 2008, found one individual was assigned to teach business computer information technology from the beginning of the 2006-07 school year until March 31, 2007 without possessing proper certification. The individual then received proper certification for the position on April 1, 2007. Additionally, another individual began teaching Mandarin Chinese in the 2007-08 school year with no certification until October 31, 2007. This individual received an emergency certificate for the position on November 1, 2007.

Recommendations: Our audit finding recommended that the GSD:

Ensure that all personnel are properly certified for their assignments.

We also recommended the PDE:

Adjust the District's allocations to recover the subsidy forfeitures resulting from the deficiencies.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. On June 1, 2011, PDE withheld subsidy forfeitures of \$1,265 from the District's allocations.

Finding No. 7: District Entered Into Contracts and Agreements Without Approval From School District Board of Directors

Finding Summary: Beginning in the 2004-05 school year, the GSD superintendent entered the District into several contracts and agreements without approval of the GSD board of directors.

Recommendations: Our audit finding recommended that the GSD:

1. Obtain approval from the board of directors prior to entering into written and verbal contracts, in compliance with PSC Section 508.
2. Familiarize themselves with Internal Revenue Service (IRS) Form 1099 and Department of Revenue (DR) reporting guidelines and instructions.
3. Contact IRS to determine if a revised Form 1099 is necessary.
4. Remit the proper sales tax for computer rentals to DR.
5. Deposit proceeds from the lease of District equipment into the general fund, not a separate account.

We also recommended the GSD school board:

6. Ensure that all written and verbal contracts are approved by the board prior to approving payments.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. It was determined that no contracts have been entered into without approval of the GSD board.

Finding No. 8: Continued Internal Control Weaknesses Noted in Student Activity Fund Operations

Finding Summary: Our prior audit of the District's high school student activity fund for the 2006-07 school year found weaknesses in the management and control of student activity funds.

Recommendations: Our audit finding recommended that the GSD:

1. Ensure that students are involved in the process of determining how activity funds are disbursed and in the approval of all disbursements by requiring proper documentation of expenditures and receipts to and from the activity accounts.
2. Ensure that minutes are being kept, and that bylaws and a listing of club officers are present.
3. Follow board policy and require that all inactive account be terminated and that their balances be transferred to Student Council.

4. Prohibit the practice of using other accounts' monies to offset shortfalls in accounts with negative balances.
5. Develop policies and procedures in addition to the PSC and board policy governing the management of student activity funds.
6. Provide training sessions to club advisors reviewing the PSC, board policy, administrative policies and procedures governing the management of the student activity fund.

Current Status: During our current audit procedures we found that the GSD did implement the recommendations. The District presented all of the concerns to the advisors of the activity clubs on March 24, 2011. In addition, District personnel performed an internal audit of all clubs in the months March through June 2011 to determine that all audit concerns were corrected. No ongoing issues were noted.

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation
Summary:

Weaknesses were noted in the GSD's information technology controls over the vendor's and the Greater Altoona Career and Technology Center's (GACTC) access to the GSD's system.

Recommendations: Our audit observation recommended that the GSD:

1. Generate monitoring reports (including firewall logs) of GACTC 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 GACTC needs to make pre-approved changes/updates or requested assistance. This access should be removed when the GACTC has completed its work. This procedure would also enable the monitoring of GACTC changes.
3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
6. Ensure that upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
7. Establish separate information technology policies and procedures for controlling the activities of the GACTC and have the GACTC sign this policy, or require the GACTC to sign the District's Acceptable Use Policy.
8. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security requirements). Furthermore, employees should be required to sign the policy.
9. 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. The District should also maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
10. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
11. 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 fire extinguishers in the computer room.

Current Status:

During our current audit procedures we found that the GSD did implement the recommendations. The District implemented new software in March 2010, and as a result many of the weaknesses were corrected. Password concerns were corrected with the installation of a software platform that was installed in the summer of 2009. Environmental controls were appropriately installed around the servers. Lastly, on June 29, 2009, the District passed a new Acceptable Use Policy.

Observation No. 2: Memorandum of Understanding Not Updated Timely

Observation

Summary:

Our prior audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the local law enforcement agency was signed January 26, 1999, and had not been updated. The District was made aware of the issue by the auditors during the review of school safety and subsequently updated their MOU on August 26, 2008.

Recommendations:

Our audit observation recommended that the GSD:

1. Continue to review, update and re-execute the current 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:

During our current audit procedures we found that the GSD did implement the recommendations. A new MOU was executed on February 16, 2011. In addition, a new policy was approved on April 19, 2011, which requires the administration to review and re-execute the MOU every two years.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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