



**CHELTENHAM TOWNSHIP SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

APRIL 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Mary Russell, Board President
Cheltenham Township School District
2000 Ashbourne Road
Elkins Park, Pennsylvania 19027

Dear Governor Corbett and Ms. Russell:

We conducted a performance audit of the Cheltenham Township School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period July 14, 2010 through May 20, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2009, 2010, 2011, and 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District complied, in all significant respects, with relevant requirements, except as detailed in the two (2) findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

On February 25, 2013, we initiated a special audit of the details surrounding the retirement of the District's former Superintendent on June 30, 2013. This performance audit covered the period July 14, 2010 through May 20, 2013, and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. This performance audit was separate and distinct from the District's cyclical performance audit, which was conducted simultaneously and the results of which are described in the following pages of the audit report. We conduct cyclical performance audits approximately every two (2) years.

Our special audit of the former Superintendent's retirement found that the District complied, in all significant respects, with relevant requirements related to our specific audit objectives.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

April 10, 2014

cc: **CHELTENHAM TOWNSHIP 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 Cheltenham Township School District (District) in Montgomery County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period July 14, 2010 through May 20, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately thirteen (13) square miles. According to 2010 federal census data, it serves a resident population of 36,793. According to District officials, in the District provided basic educational services to 4,434 pupils through the employment of 347 teachers, 240 full-time and part-time support personnel, and 22 administrators during the 2011-12 school year. The District received \$15.2 million in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two (2) compliance related matters reported as findings.

Finding No. 1: The District Lacks Sufficient Internal Controls Over Its Student Record Data. Our review of the Cheltenham Township School District's (District) controls over data integrity found that internal controls need to be improved. Specifically, our audit found that the District did not reconcile the membership data in its student information system with the Pennsylvania Information Management System reports (see page 5).

Finding No. 2: Failure to Have All School Bus Drivers' Qualifications on File. Our audit of bus drivers' qualifications on file at the Cheltenham Township School District (District) for the 2012-13 school year found that the District did not have all of the required documentation on file (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Cheltenham Township District (District) from an audit released on December 13, 2010, we found the District had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses and lack of documentation supporting pupil transportation data (see page 11) and unmonitored vendor system access and logical access control weaknesses (see page 12).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 14, 2010 through May 20, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2008 through April 10, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

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 District's compliance with certain relevant 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 received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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?
- ✓ Did the District take 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 of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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 certain relevant state 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

To determine the status of our audit recommendations made in a prior audit report released on December 13, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

The District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the finding:

According to the Pennsylvania Department of Education's (PDE) *2009-10 Pennsylvania Information Management System (PIMS) User Manual*, all Pennsylvania local education agencies must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code.

In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using data that the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Moreover, with a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Cheltenham Township School District (District) found errors in the data reported to the Pennsylvania Department of Education (PDE) resulting from insufficient internal controls. Specifically, our review found that during the 2009-10 school year, the District incorrectly reported the residency category or the district of residence for 40 students, detailed as follows;

- Twenty-seven (27) students were correctly categorized as children placed by court (foster children), but incorrectly reported as residents of the District.
- Nine (9) students were reported as resident or non-resident foster students who should have been reported as regular residents.
- Four (4) students who should have been reported as non-resident wards of the state were incorrectly

reported as either regular residents or resident foster students.

Our audit found that the errors occurred because District personnel did not reconcile the membership data in its student information system (SIS) with the PIMS reports to ensure the data in PIMS was correct. As a result of our audit, the District filed reports with PDE to correct these errors on May 14, 2013.

It is the responsibility of District management to have in place proper internal policies and procedures to ensure that student data is accurately collected and timely reported. Without these internal controls, the District is assured that it is reporting its data correctly to PDE or that it is receiving the proper subsidy reimbursement.

Recommendations

The *Cheltenham Township School District* should:

1. Reconcile the printouts from the District's SIS with the reports from PIMS to ensure PDE has the correct data.
2. Develop documented procedures (e.g. procedure manuals, policies, or written instructions) to ensure that PIMS data submission to PDE is accurate, standardized, and verified.

Management Response

Management stated the following:

“During the period referenced there were numerous changes from the Department of Education for which the district's Child Accounting Clerk was responsible. Additionally, only one year was noted as inaccurate and in that year the district recognized the error. Attached is an email exchange between the Director of Business Affairs and Director of Special Education on the matter, which confirms that the district was aware that subsidy was not being received [attachment not included here]. The Director of Business Affairs became aware of the issue in the year it happened and the Director of Special Education researched it. The district did adjust the submittal of information when recognized by the Auditor General and is

taking appropriate action to ensure that the staff does not make the mistake in the future.”

Auditor Conclusion

We are encouraged that the District is taking action to address this deficiency. We will follow up on the issue during our next cyclical audit of the District.

Finding No. 2 →

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Section 111 of the Public School Code (24 P.S. § 1-111) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police, as well as a federal criminal history record. Section 111 lists convictions for certain criminal offenses that would prohibit individuals from being hired and provides that convictions for other felonies and misdemeanors would disqualify individuals for employment if they occurred within ten or five years, respectively.

Amendments to Section 111 required all current school employees to submit an "Arrest/Conviction Report and Certification" form (PDE-6004) to local education agencies indicating whether or not they have ever been arrested or convicted of any Section 111 offense by December 27, 2011. Furthermore, all employees subsequently arrested or convicted of a Section 111 offense must complete the form within 72 hours of the arrest or conviction.

Additionally, Chapter 23 of the State Board of Education Regulations indicates the Board of School Directors is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Cheltenham Township School District's (District) bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of the audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to ensure the safety and welfare of the students transported in school vehicles.

We reviewed the personnel records of the five (5) new drivers approved since the prior audit. Our review found that at the time of our audit the District did not have the federal criminal history record on file for one (1) driver. We expanded our audit to review records for 25 additional drivers and found one (1) other driver's federal criminal history record was lacking. All of the required documentation for the other drivers examined was on file.

It is the responsibility of District management to have internal policies and procedures in place to ensure that all employees or contracted employees who have contact with children have the proper qualifications documents. By not having the required bus drivers' qualifications documents on file, the District was not able to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

On April 4, 2013, we informed District management of the missing documentation and instructed them to obtain the necessary documents so that they could ensure that the drivers were properly qualified to have direct contact with children. As of the end of our fieldwork, District management had not yet provided us with the missing federal criminal history records.

Recommendations

The *Cheltenham Township School District* should:

1. Ensure all bus drivers' qualifications documents are on file prior to hiring them to transport students.
2. Ensure the bus drivers' personnel files are kept up-to-date and the proper clearances are obtained.
3. Establish procedures to ensure that contractor recommended bus drivers' credentials are reviewed prior to Board of School Directors (Board) approval to ensure completeness and appropriateness and that the contractor does not allow any bus driver to transport students prior to the review.
4. Review its current bus driver listing and work with its contractor to obtain all required clearances based on when the District's Board approved the driver, not when the contractor hired the driver.

Management Response

Management stated the following:

“The school district agrees with the finding.

Under the current contract with [the transportation contractor], the district chose not to employ a transportation supervisor but rather to pay a management service fee to [the contractor] for oversight functions. [The contractor] had complete responsibility for management of the routes, drivers, parent inquiries and reporting. Aware of the previous auditor general findings, since 2010, the school district has taken the following measures to improve the accountability and efficiency of [the contractor] which has led to a change of vendor effective July 1, 2013:

The district had a study completed by the Pennsylvania Association of School Business Officials in 2010 which provided recommendations to the board of school directors.

In 2011-12, oversight of the contractual arrangement with [the transportation contractor] was migrated from

the office of support service to the office of business affairs.

In 2012, the district, dissatisfied with the incumbent vendor prepared and received requests for proposals for transportation services beginning in 2013-14. The board of school directors and [the contractor] agreed to the termination of the contract . . . on June 30, 2013.”

Auditor Conclusion

We are encouraged that the District has been responsive to our audit recommendations in the past. However, we must stress that although the District has contracted out oversight functions to its transportation contractor, it is unable to contract out its responsibility. It is the responsibility of the Board to have the necessary background documentation on file for its employees—contracted or not. The finding will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Cheltenham Township School District (District) released on December 13, 2010, resulted in one (1) finding and one (1) observation. The finding pertained to internal control weaknesses and lack of documentation supporting reported transportation data, and the observation pertained to unmonitored vendor 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 performed audit procedures and interviewed District personnel regarding the prior finding and observation. As shown below, we found that the District did implement our recommendations related to internal control weaknesses and lack of documentation supporting reported transportation data and unmonitored vendor access and logical access control weaknesses.

Auditor General Performance Audit Report Released on December 13, 2010

Finding: **Internal Control Weaknesses and Lack of Documentation Supporting Data Reported to the Pennsylvania Department of Education for Pupil Transportation**

Finding Summary: Our prior audit of pupil transportation records and reports submitted to the Pennsylvania Department of Education (PDE) for the 2006-07 and 2007-08 school years found internal control weaknesses and a lack of documentation supporting reimbursements of \$991,915 and \$1,074,170, respectively.

Recommendations: Our audit finding recommended that the *District* should:

1. Implement procedures to ensure complete and accurate documentation for all pupils transported is retained and reported to PDE.
2. Ensure pupil transportation data worksheet summaries are prepared and contain complete information for all school years.
3. Ensure all reports are reviewed and verified for accuracy prior to submission to PDE.
4. Implement written policies and procedures relating to the collection, retention, and processing of transportation documentation.

Current Status: During our current audit, we found that the District did implement our recommendations.

Observation: **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation Summary: Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications. The software vendor has remote access into the District's network servers.

We 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 vendor activity in its system.

Recommendations: Our audit observation recommended that the District should:

1. Generate monitoring reports, available from vendor (including firewall logs), of vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, changes made and who made the changes. 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. Establish separate information technology 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.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (e.g., every 30 days). Passwords should be a minimum length of eight (8) characters and include alpha, numeric, and special characters. In addition, the District should maintain a password history that will prevent the use of a repetitive password (e.g., last ten (10) passwords).
4. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.

Current Status: During our current audit, we found that the District did implement our recommendations.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.