



CHESTER UPLAND SCHOOL DISTRICT  
DELAWARE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

DEPARTMENT OF THE AUDITOR GENERAL





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AUDITOR GENERAL

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

Ms. Wanda J. Mann, Board President  
Chester Upland School District  
1720 Melrose Avenue  
Chester, Pennsylvania 19013

Dear Governor Corbett and Ms. Mann:

We conducted a performance audit of the Chester Upland School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 4, 2010 through February 26, 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, 2009-10, 2008-09, 2007-08, and 2006-07. 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 significant noncompliance with state laws and administrative procedures, as detailed in the 12 audit findings and 1 observation within the report. A summary of these results is presented in the Executive Summary section of the audit report. These findings and observation include recommendations aimed at the District and its chief recovery officer, as well as a number of different government entities, including the Pennsylvania Department of Education and the State Ethics Commission.

Our audit findings, observation, 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.

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

June 5, 2013

cc: **CHESTER UPLAND SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period May 4, 2010 through February 26, 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 2009-10, 2008-09, 2007-08, and 2006-07 school years.

### **District Background**

The District encompasses approximately five square miles. According to 2010 federal census data it serves a resident population of 41,151. According to District officials, the District provided basic educational services to 4,505 pupils through the employment of 343 teachers, 212 full-time and part-time support personnel, and 23 administrators during the 2009-10 school year. Lastly, the District received \$73.4 million in state funding in the 2009-10 school year.

In 1994, the Pennsylvania Department of Education (PDE) declared the District financially distressed. PDE placed this designation on the District because it had maintained an accumulated General Fund deficit in excess of two percent of its assessed value of taxable property for two consecutive years. As a result of the financially distressed designation, a Special Board of Control was appointed to operate the District. The Special Board of Control took control of the District's financial affairs on July 1, 1994, and operated the District in the place of its elected Board of School Directors.

Subsequent to the District's designation as financially distressed, Governor Ridge signed the Education Empowerment Act on May 3, 2000. As a result, PDE certified the District as an Education Empowerment District on July 3, 2000. Under the provisions of the Empowerment Act, PDE appointed a three-member Empowerment Board of Control to replace the Board of Control that had been appointed in 1994. The Empowerment Board of Control then assumed the day-to-day operations of the District. The Empowerment Board of Control subsequently appointed an eleven-member empowerment team charged with developing a plan to improve the academic performance of the students within the District.

On March 8, 2007, then Secretary of Education, Gerald Zahorchak, issued a declaration concerning the reestablishment of a sound financial structure within the District. This declaration stated that the District's Empowerment Board of Control had operated the District for a sufficient

period of time to reestablish a sound financial structure, notwithstanding the District's many serious and continuing educational performance problems. As a result of this declaration, the Empowerment Board of Control established in 2000 was replaced by a new three-member Empowerment Board of Control. The focus of the new Empowerment Board of Control was to improve the District's poor educational performance, while continuing to manage its fiscal condition.

The Education Empowerment Act expired on June 30, 2010. Consequently, the District's operations reverted back to its elected Board of School Directors (Board).

On August 14, 2012, Secretary of Education Ronald J. Tomalis (Secretary) declared the District in Financial Recovery Status pursuant to Section 621-A of the Public School Code (PSC), also known as Act 141. As a result of this declaration, on August 17, 2012, PDE appointed a Chief Recovery Officer to the District. As established in the Public School Code, the Chief Recovery Officer was charged with developing, implementing and administering a financial recovery plan for the District, which he publicly presented on November 13, 2012.

However, shortly thereafter, on November 26, 2012, the District's elected Board rejected the Chief Recovery Officer's presented plan. The Secretary then petitioned the Delaware County Court (Court) to appoint a receiver to force the District to implement the proposed plan. On December 13, 2012, the Court granted the petition to place the District in receivership and accepted the Secretary's recommendation to appoint the Chief Recovery Officer as the receiver for the

period December 13, 2012 through December 15, 2015.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the 12 audit findings and 1 observation within this report.

### **GOVERNANCE**

**Finding 1: The Chester Upland School District's Ineffective Governance Has Prevented It from Meeting Its Primary Mission of Effectively Educating Its Students through the Judicious Use of Citizen Tax Dollars.** The Commonwealth of Pennsylvania established its public education system to effectively educate its students through the judicious spending of citizen tax dollars. Therefore, each school district within that educational system is tasked with those two goals as its primary mission. Our audit of the District found that for the last several years, it lacked the governance necessary to achieve its educational and operational objectives (see page 9).

**Finding 2: The District Graduated Students Who Did Not Meet the Necessary Requirements.** Our audit found that the District failed to ensure that it graduated only those students who met the established requirements. For example, our review determined that 6 of the 130 students who graduated from the District in 2010-11 had failed to earn enough total credits. In addition, we found that 32 other students who graduated from the District in 2010-11 failed to earn enough credits in required areas such as language arts and mathematics. Finally, we also identified

multiple examples of inconsistencies between, and within, reports generated by the District's Student Information System, including 54 transcript discrepancies and 38 instances of students with excessive absences (see page 17).

**Finding 3: Memoranda of Understanding With Local Law Enforcement Not Updated Timely.**

Our prior audit released on January 31, 2011, found that Chester Upland School District (District) had not updated its Memoranda of Understanding (MOU) with three local law enforcement agencies since they were originally signed in 1999. Our current audit found that the MOUs were updated in July 2011, but were not submitted to the Department of Education before June 30, 2011, as required by an amendment to the Public School Code. The auditors could not determine why the District had not complied with this requirement. In addition, our current audit found that the District still did not have a policy for updating its MOUs biennially (see page 20).

**Finding 4: Board Members Failed to File Statements of Financial Interest in Violation of the Public Official and Employee Ethics Act.**

Our audit of the Chester Upland School District's 2011, 2010, 2009, 2008, and 2007 calendar year's Statements of Financial Interest (SFI) found that the Empowerment Board of Control and the elected Board of School Directors failed to file their SFIs as required by the State Ethics Act (see page 22).

**Finding 5: School Board Meeting Minutes Incomplete.**

Our review of the minutes documenting the Empowerment Board of Control and the Chester Upland School District's (District) elected board meetings from July 19, 2007 through December 4, 2012, found inadequacies in

the recording of board actions during the period July 19, 2007 through May 19, 2011. The District's failure to keep a complete and accurate record of board proceedings is a violation of the Public School Code. Such minutes are necessary to document the board's actions and to serve as the permanent record of the board's activities. In addition, without such documentation, the public does not have access to information regarding the actions taken at each public meeting, reducing the overall transparency of the District's operations. This transparency is vitally important since the District is ultimately accountable to its taxpayers (see page 24).

**FINANCIAL OVERSIGHT**

**Finding 6: The District Violated the Public School Code and Sound Business Practices by Over Expending Its Budgets and Engaging in Deficit Spending.**

The Chester Upland School District's (District) independent financial audits illustrate that the District has repeatedly over-expended its budget and engaged in deficit spending. Such spending decisions violate the public school code and sound business practices, which suggest that Districts, including management and Board of School Directors, should develop accurate budgets so that they can prepare sound fiscal plans and make operational decisions that are within the parameters of the approved budget. In addition, deficit spending prevents the District from developing and maintaining a positive fund balance, which makes it more difficult for it to survive unexpected financial challenges (see page 27).

**Finding 7: The District Lacked Sufficient Documentation to Support Certain Expenditures.**

Our audit of the Chester Upland School District (District) found that the District could not provide sufficient

documentation to support certain expenditures. This deficiency prevented the District from demonstrating that these expenditures were appropriate, and that they were a prudent use of taxpayer funds (see page 30).

**Finding 8: Failure to File District Annual Financial Report in a Timely Manner.**

The Chester Upland School District's annual financial report for the school year ending June 30, 2011, was not filed with PDE until July 13, 2012. However, PDE's due date for this report was October 31, 2011 (see page 34).

**STATE SUBSIDIES AND REIMBURSEMENTS**

**Finding 9: Inaccurate Reporting of Child Accounting Data to the Pennsylvania Information Management System.**

Our review of the Chester Upland School District's child accounting data submissions to the Pennsylvania Department of Education for the 2010-11 and 2009-10 school years found significant errors, demonstrating that internal controls need to be improved (see page 36).

**Finding 10: The District Continues to Lack Adequate Documentation to Support That It Received the Correct State Subsidies and Reimbursements.**

Our audit of the Chester Upland School District (District) found that the District failed to obtain or retain sufficient documentation to verify the District's entitlement to state subsidies and reimbursements (see page 39). This issue was also noted in the prior audit.

**CERTIFICATION AND CLEARANCES**

**Finding 11: The District Lacked the Documentation Necessary to Verify Bus Drivers' Qualifications.**

Our current audit of 38 bus drivers who were Chester Upland School District employees as of September 16, 2011, found that 6 bus drivers were transporting students without the required documentation on file (see page 41).

**Finding 12: Certification Deficiencies.**

Our audit of professional employees' certification for the period July 1, 2010 through February 6, 2012, found that 30 professional employees might have been assigned to positions without holding proper certification (see page 44).

**Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

Our current audit found that the Chester Upland School District had not implemented our prior audit recommendations regarding bus drivers' qualifications (see page 41). Our recommendations were made in the interest of protecting students, and we reiterate those recommendations (see page 47).

**Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the District from an audit released on January 31, 2011, we found that the District failed to implement nearly all of our recommendations including those related to poor record retention (see page 49), weak internal controls involving bus drivers' qualifications (see page 50), and Memoranda of Understanding (see page 51).

## Audit Scope, Objectives, and Methodology

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### 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 72 P.S. § 403, is not a substitute for the independent 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 4, 2010 through February 26, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2010 through February 6, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10, 2008-09, 2007-08, and 2006-07 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 law, 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 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 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, was 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 were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances which may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did 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 local auditors, citizens, or other interested parties?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, were 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 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 applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 control 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.

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

## GOVERNANCE

### Finding No. 1



### The Chester Upland School District's Ineffective Governance Has Prevented It from Meeting Its Primary Mission of Effectively Educating Its Students through the Judicious Use of Citizen Tax Dollars

#### How to Meet Adequate Yearly Progress (AYP)

Based on a structure developed by the Pennsylvania Department of Education, for districts and individual schools to meet AYP measures, students must meet goals or targets in three areas: (1) Attendance (for schools that do not have a graduating class) or Graduation (for schools that have a high school graduating class), (2) Academic Performance, which is based on tested students' performance on the Pennsylvania System of School Assessment (PSSA), and (3) Test Participation, which is based on the number of students that participate in the PSSA. A district needs to meet the goals or targets in both Reading and Math in one grade span only to satisfy goals for Academic Performance and Test Participation, and it must meet both measures in Attendance and Graduation to meet AYP. Currently, test results from Grades 3, 4, 5, 6, 7, 8, and 11 determine AYP results.

The Commonwealth of Pennsylvania established its public education system to effectively educate its students through the judicious spending of citizen tax dollars. Therefore, each school district within that educational system is tasked with those two goals as its primary mission. Our audit of the Chester Upland School District (District) found that for the last several years, the District lacked the governance necessary to achieve its educational and operational objectives.

#### Inability to Achieve Academic Mission

As discussed above, the District's primary purpose is to effectively educate its students. However, our audit found that the District has not been meeting that goal. The issues are as follows:

- ***Continued Failure to Make Adequate Yearly Progress (AYP):*** AYP is a key measure of school performance established by the federal No Child Left Behind Act of 2001, requiring that all students reach proficiency in reading and math by 2014. (Please see the text box to the left regarding the specific AYP measurements.) The District did not achieve AYP targets for graduation and academic performance in reading and math. In fact, the District's graduation rate<sup>1</sup> was 43 percentage points lower than the state goal (42 percent vs. 85 percent). In addition, the District scored 29 percent in reading proficiency and 34 percent in math proficiency, while the statewide goals were 81 percent and 78 percent, respectively. In addition, of the District's nine individual schools, students in only one met AYP targets in the 2011-12 school year.

<sup>1</sup> Refer to Finding No. 2, page 17.

- ***Continued Corrective Action II Status:*** The District has failed to make AYP since 2003. As a result of its repeated inability to achieve those performance goals, the District is in its 10<sup>th</sup> year of Corrective Action II status. Corrective Action II is the lowest AYP status level. According to the Pennsylvania Department of Education (PDE), this status level requires the District to continue to submit corrective action plans and to provide additional tutoring services at its own expense. In addition, the District is subject to increasing consequences such as changes in curriculum, governance, and leadership. Currently, the District is one of three Pennsylvania school districts in its 10<sup>th</sup> year of Corrective Action II status.

### **Inability to Achieve Operational Mission**

As previously discussed, the Commonwealth provides the District with tax dollars for the sole purpose of effectively educating its students. Our audit found that the District's failure to meet its educational mission has been accompanied by a severe breakdown in the management of its fiscal operations. Consequently, the District cannot demonstrate that it is prudently spending its tax dollars for the education of its students. The issues are as follows:

- ***Repeat Findings in Its Independent Financial Audits and Department of the Auditor General's Performance Audits:*** The District has had several repeat findings in its last five independent financial reports (fiscal years 2007-08, 2008-09, 2009-10, 2010-11, and 2011-12). The District does not appear to have taken any corrective action to address the financial auditors' issues. Instead, our audit found that the problems brought up in the previous audits still exist. By failing to implement the repeated recommendations of its financial audits, the District's management appears to be avoiding changes that would ensure that they are appropriately using taxpayer dollars. (Please see Appendix A on page 56 for details on these repeated findings.)

In addition, the District has had several repeat findings in the Department of the Auditor General's last five performance audits spanning the period July 1, 1992 through June 30, 2010. Although we found in our

current audit that the District did address the recommendations in some of these repeat findings, several of the issues still existed. As with the District's independent financial audits, failing to address the repeat recommendations in these performance audits causes management to appear to be ineffectively operating the District. (Please see Appendix B on page 57 for details on these repeat findings.)

- ***Lack of Documentation:*** Over the course of our last two audits, we found that the District's management could not provide documentation to support that it received the correct amount of state revenue. This revenue amounted to \$277,788,074 over the 2009-10, 2008-09, 2007-08, and 2006-07 school years. Without this documentation, we cannot verify that the District received the correct level of state funding or, subsequently, that these funds were used appropriately. (Refer to Finding No. 10, page 39.)
- ***Incomplete Minutes:*** Our review found the District had incomplete board meeting minutes for the period July 19, 2007 through December 4, 2012. In addition, the auditors found that some board meeting minutes inadequately recorded the actions of the District's Board of School Director's (Board) during the period August 28, 2007 through May 19, 2011. Both the Public School Code (PSC)<sup>2</sup> and the Pennsylvania Sunshine Act require that meeting minutes record the substance of all official actions and votes taken. In addition, such minutes serve as the permanent record of the Board's activities. Without this documentation, the public cannot assess the Board's process for making decisions, reducing the overall transparency of the District's operations. (Refer to Finding No. 5, page 24.)
- ***Expenditures Exceeded Budgeted Amounts and Deficit Spending:*** Our review of budgeted expenditures compared to actual expenditures for the last 10 years found that the District over-expended its approved budgets by more than \$44.4 million, violating Section 609 of the PSC. Additionally, the District's actual expenditures exceeded its actual revenues by

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<sup>2</sup> 24 PS Sect. 433 of the Public School Code and Pennsylvania Sunshine Act 65 Pa.C.S.A. § 706.

more than \$19 million for the 2009-10, 2010-11, and 2011-12 school years. By spending over its budget, the District not only violated the PSC, but also prevented its budgets from being used as a financial planning tool, since they were not an accurate reflection of the District's fiscal position. Moreover, deficit spending prevents the District from maintaining a financial cushion, or fund balance, which it can use to withstand unexpected financial challenges. (Refer to Finding No. 6, page 27.)

### **District Unable to Meet Mission Due to Poor Governance**

The District's failure to meet its educational and operational missions is ultimately the result of its poor governance resulting from ineffective administrative management and the Empowerment Board of Control/Board of School Director's (Boards) oversight. The District's management failed to establish a strong accountability system for ensuring that the District was effectively implementing the Boards' strategies for meeting its overall mission. Likewise, the District's Boards failed to establish similar measures for monitoring whether management was accomplishing its goals.

The District's governance was also made worse by the near constant turnover in its senior management. Since 2005, the District has had seven superintendents (including acting and interim). It has also had six assistant superintendents (including acting) and seven business managers (including acting). Without a strong system of internal controls for maintaining consistent operations and accountability, this level of turnover in key management positions contributed to the District's inability to meet its academic and operational missions. Particularly, the constant yielding of authority to a new set of administrators allowed important issues such as addressing the repeat findings in both the District's performance and financial audits to be ignored. The District's Boards should have ensured that each new administrative staff member addressed the appropriate operational priorities.

### **Serious Short-Term and Long-Term Ramifications**

The District's poor governance has resulted in both short-term and long-term problems. In the short-term, it has contributed to the District's continued failure to achieve important educational goals, such as AYP. In the long-term, anticipated and realized funding reductions may intensify the impact of the District's years of poor governance, resulting in even larger ramifications on its operational effectiveness.

The District faces an increasingly tenuous financial situation, including: (1) Beginning with the Fiscal Year 2010-11 state budget, the District's overall state funding has decreased by approximately five percent, or nearly \$3 million. (2) Our current audit found that the District's independent auditors reported that for the 2011-2012, 2010-2011, and 2009-2010 school years, District spending exceeded the approved budgets in total by \$19,315,893. And (3), the Fiscal Year 2011-12 state budget ended the General Fund appropriation funding to school districts of reimbursements for their charter school costs. This change cost the District as much as \$11 million in future state funding annually, since more than 40 percent of the District's students attend charter schools.

In our opinion, based upon our review and the audit reports of the outside accounting firm, future operational and fiscal challenges may be more difficult to address due to poor management and Board decisions, which were made in the absence of accurate and complete financial information.

More importantly, in both the long and the short-term, the clear losers, as a result of the District's ineffective governance, are its students. The children who have made their way through the District's educational system over the last several years have not benefited from the spending of these state tax dollars. Furthermore, those students may never recover from the loss of an effective education, and in the long run, the District's failure could ultimately prevent them from realizing their true potential.

## **Improving the District's Governance**

To improve its governance, the District must create a more stable operational environment that can withstand changes to its senior management. This objective requires the District's management to create a strong system of accountability that it can use to maintain consistency and meet organizational goals. The elements of this system are commonly referred to as internal controls. In addition, the District's Board must develop mechanisms for determining whether management is being effective and for assessing whether its members are receiving the information needed to make sound operational decisions.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."<sup>3</sup> In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis."<sup>4</sup> With this approach in mind, the District's current management must identify the District's key activities and then ensure that there are written policies and procedures to govern them. In addition, the District's current management must develop a process for monitoring whether staff regularly follow these established protocols regularly.

According to the GAO, this system of accountability should include:

1. Establishing an organizational reporting structure that clearly defines areas of responsibility and authority and appropriate lines of reporting.
2. Identifying risks, analyzing their potential consequences, and determining actions to mitigate them.

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<sup>3</sup> U.S. General Accounting Office. *Standards For Internal Control In the Federal Government*. (November 1999), pg 1.

<sup>4</sup> Ibid, pgs 5-6.

3. Developing policies and procedures, techniques, and mechanisms that ensure goals are met and the risk of error is reduced.
4. Keeping proper documentation to show the execution of important activities.

To address the District's urgent need for strong internal controls, its management must immediately: (1) implement the recommendations of the independent financial auditors, and the Department of the Auditor General's performance audit reports, (2) ensure that it maintains all the documentation required to verify that it received the correct amount of state revenue, (3) prepare accurate and complete board meeting minutes, and (4) develop accurate general fund budgets.

As discussed in the background section of this audit, on November 13, 2012, the District's Chief Recovery Officer prepared a financial recovery plan for the District, which was later required to be implemented as a condition of the District's court established receivership. As this recovery plan is implemented, the District's Chief Recovery Officer/Receiver and the current Board of School Directors should hold management accountable for properly implementing the plan's requirements and consistently monitor management's performance to ensure that the District has a sound operational structure.

## **Recommendations**

The *Chester Upland School District* should:

1. Immediately implement the recommendations in the District's last five independent financial audits and the Department of the Auditor General's Performance audit reports.
2. Determine what must be done to ensure that the District maintains all the documentation required to verify that it received the correct amount of state revenue.
3. Identify all of the District's key activities and then ensure that there are written policies and procedures to govern them. In addition, the District's management should develop a process for monitoring whether staff regularly follows these established protocols. The

District's strategy for implementing a system of accountability should include:

- i. Keeping proper documentation, including complete and accurate board meeting minutes.
- ii. Developing policies and procedures to address the immediate implementation of all audit recommendations within a year of receiving the audit.
- iii. Identifying risks that might prevent the District from properly implementing its recovery plan, and establish a mitigation plan.

*The Chester Upland School District's Chief Recovery Officer and Current Board of School Directors should:*

4. Hold management accountable for properly implementing the recovery plan's requirements and consistently monitor management's performance to ensure that the District has a sound operational structure

## **Management Response**

Management stated the following:

During this time the District was under state control. Administration had changed control many times creating the problem. We have taken steps to stabilize the management and administration of the District in order to have effective Governance.

## Finding No. 2

### The District Graduated Students Who Did Not Meet the Necessary Requirements

*Criteria relevant to the finding:*

According to the Chester Upland School District High School Course Descriptions Manual for the 2010-11 school year, students must earn 23 total credits to graduate. These credits must be earned in the following areas:

- 4 credits in language arts
- 3 credits in mathematics
- 3 credits in science
- 3 credits in social studies
- 2 credits in arts/humanities
- 2 credits in health/physical education
- 2 credits in world languages
- 4 credits of electives

Our audit found that the Chester Upland School District (District) failed to ensure that it graduated only those students who met the established requirements. For example, our review determined that 6 of the 130 students who graduated from the District in 2010-11 had failed to earn enough total credits. In addition, we found that 32 other students who graduated from the District in 2010-11 failed to earn enough credits in required areas such as language arts and mathematics. Finally, we also identified multiple examples of inconsistencies between and within reports generated by the District's Student Information System (SIS), including 54 transcript discrepancies and 38 instances of students with excessive absences.

To assess the validity, reliability, and accuracy of the District's student data, we reviewed student transcripts and the District's Graduate Student Verification Report for the 2010-11 school year. In addition, we examined student report cards and excessive absence reports for the 2007-08 through 2010-11 school years, as well as student data uploaded to the Pennsylvania Management Information System (PIMS) in 2009-10 and 2010-11. (PIMS did not exist prior to 2009-10.)

In evaluating information for 50 of the 130 students who graduated in 2010-11, we found the following data discrepancies:

- Six of the students that the District reported to the Pennsylvania Department of Education (PDE) as having graduated, did not actually graduate in 2010-11, according to their transcripts.
- Six students who graduated from the District in 2010-11 did not appear to have earned enough credits to graduate, according to their transcripts.
- Thirty-two students did not earn enough credits by category (i.e. language arts, mathematics, etc.) to graduate. The most common deficiency was in world languages.

- Sixteen transcripts listed courses and/or grades that were inconsistent with student quarterly report cards. Also, report cards were not provided for two students.
- Twenty-seven students were absent for 45 days or more but achieved passing grades in at least one class in at least one of the years reviewed.
- Five transcripts listed attendance data that is inconsistent with the data uploaded to PDE.
- Four transcripts listed membership (enrollment) data that is inconsistent with the data reported to PDE.
- One student's name was assigned to two separate PA Secure IDs. The PA Secure ID is designed to be a unique identifier within the PIMS system, which tracks student information across the Commonwealth.
- Nine transcripts listed attendance data or membership (enrollment) data that was inconsistent with data uploaded or reported to PDE.

When we requested copies of policies and procedures outlining graduation requirements, the District provided us with the Chester Upland School District High School Course Descriptions Manual as the only document detailing the requirements for graduation. The current Acting Superintendent stated that it is the responsibility of the building principal to approve/certify that a student met the requirements.

Graduating students who do not meet requirements inflates the District's graduation rate and creates a public perception that the District is performing better than it actually is.

Given that District management could provide no explanation of these inconsistencies, we have deemed reports generated from the District's SIS to be an unreliable source of data for reporting to PDE and calculating state subsidy allocations. Moreover, it is clear that the District's internal controls over data integrity must be strengthened.

**Recommendations**

The *Chester Upland School District* should:

1. Develop procedures to ensure that only students who meet requirements are graduated.
2. Develop procedures to ensure consistency between and within reports generated by the District's SIS (transcripts and report cards).
3. Develop procedures to reconcile data in the SIS with data uploaded to PIMS to ensure that accurate data is reported to PDE through PIMS.
4. Review internal controls related to student data integrity, and make improvements as necessary.

**Management Response**

Management stated the following:

This has been addressed and will be monitored closely. The district did not offer the required courses (language). The district should have amended the requirements.

### Finding No. 3

### Memoranda of Understanding with Local Law Enforcement Not Updated Timely

*Criteria relevant to this observation:*

Section 13-1303-A(c) of the Public School Code, as amended November 17, 2010, provides, in part:

“ . . . each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis. . . . ”

The effective date of this amended provision was February 15, 2011. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means an event that occurs every two years.

Our prior audit released on January 31, 2011, found that Chester Upland School District (District) had not updated its Memoranda of Understanding (MOU) with three local law enforcement agencies since they were originally signed in 1999. Our current audit found that the MOUs were updated in July 2011, but were not submitted to the Department of Education (PDE) before June 30, 2011, in compliance with an amendment to the Public School Code (PSC). The auditors could not determine why the District had not complied with this requirement. In addition, our current audit found that the District still did not have a policy for updating its MOUs biennially.

The failure to update MOUs with all pertinent police departments could result in a lack of cooperation, direction, and guidance between District employees and the police departments if an incident occurs on school grounds, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to biennially update and re-execute a MOU could have an impact on police department notification and response, and ultimately, the resolution of a problem situation.

### Recommendations

The *Chester Upland School District* should:

1. In consultation with the District’s solicitor, review the new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended safe schools provisions enacted November 17, 2010.
2. Adopt an official board policy requiring District administration to biennially update and re-execute all MOUs with law enforcement agencies.

**Management Response**

Management stated the following:

Management of the School District was under the Education Empowerment Board at the referenced time of the Audit Period. The current Board of School Directors and Administration of the School District do not have sufficient information to respond to the inquiry; however, current Management of the School District entered into the Memoranda of Understanding with Local Law Enforcement Agencies in July 2011.

**Auditor Conclusion**

As stated in the background section of this audit report, on June 30, 2010, the Education Empowerment Act expired and the elected board assumed leadership of the District. We acknowledged that a new MOU was obtained with all local enforcement agencies in July 2011. However the MOU was to be submitted to the Office of Safe Schools by June 30, 2011. The finding will remain as written.

**Finding No. 4**

**Board Members Failed to File Statements of Financial Interest in Violation of the Public Official and Employee Ethics Act**

*Criteria relevant to the finding:*

The Public Official and Employee Ethics Act, Act 93 of 1998, was established to resolve conflicts of interest involving certain public officials serving in state agencies and local political subdivisions and to prohibit certain public employees from engaging in conflict of interest activities. The Act requires public officials to file statements of financial interest with their local political subdivision for the preceding calendar year no later than May 1 of each year they hold such position and the year after they leave such position. (65 Pa C.S.A. § 1101 *et seq*)

Our audit of the Chester Upland School District’s (District) 2011, 2010, 2009, 2008, and 2007 calendar year’s Statements of Financial Interest (SFI) found that the Empowerment Board of Control and the elected Board of School Director’s failed to file their SFIs as required by the State Ethics Act. The missing SFIs were as follows:

<b>Missing SFIs</b>					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Empowerment Board of Control	*	3	2	2	3
School Board of Directors	5	7	*	*	*

\*As previously noted, the District had been governed by an Empowerment Board of Control until June 30, 2010, when the Education Empowerment Act expired. At that time, the District’s elected Board of School Directors assumed leadership of the District.

Both the Empowerment Board of Control and the Board of School Directors violated the Public Official and Employee Ethics Act (Ethics Act), 65 Pa C.S.A. § 1101 *et seq*, by failing to file their Statements of Financial Interest. Moreover, without such statements, it is difficult to determine if any potential conflicts of interest existed between the board members’ personal activities and their responsibilities at the Chester Upland School District. Individuals violating the Ethics Act are subject to a possible fine of not more than \$1,000 and imprisonment of not more than one year.

According to District personnel, the board members in question received a copy of the form and the directions for its completion. However, they did not return the completed forms to the District’s Board Secretary.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

**Recommendations**

The *Chester Upland School District* should:

1. Seek the advice of its solicitor in regard to the District’s responsibility when a board member fails to file Statements of Financial Interest.

2. Develop procedures to ensure all individuals required to file Statements of Financial Interest do so in compliance with the State Ethics Commission Act.

**Management Response**

Management stated the following:

Management of the School District was under the Education Empowerment Board at the referenced time of the Audit Period. The current members of the Board of School Directors, which assumed governance of the District on July 1, 2010, have filed statements of financial interest.

**Auditor Conclusion**

As noted in the chart on the previous page, the auditors found that members of the elected Board of School Directors also failed to file their Statements of Financial Interest. Specifically, five failed to file in calendar years 2011 and seven failed to file in 2010.

## Finding No. 5

## School Board Meeting Minutes Incomplete

### *Criteria relevant to the finding:*

Section 433 of the Public School Code provides, in part:

“The secretary of the board of school directors shall perform the following duties:

(1) He shall keep a correct and proper record of all the proceedings of the board, and shall prepare such reports and keep such accounts as are required by the provisions of this act. . . .”

Section 518 of the Public School Code provides, in part:

“Every board of directors shall retain as a permanent record of the district, the minute book . . .”

Relevant sections of the Pennsylvania Sunshine Act:

“705. In all meetings of agencies, the vote of each member who actually votes on any resolution, rule, order, regulation, ordinance or the setting of official policy must be publicly cast and, in the case of roll call votes, recorded.

706. Written minutes shall be kept of all open meetings of agencies. The minutes shall include:

(1) The date, time and place of the meeting.

(2) The names of members present.

(3) The substance of all official actions and a record by individual member of the roll call votes taken.”

Our review of the minutes documenting the Empowerment Board of Control and the Chester Upland School District’s (District) elected board meetings from July 19, 2007 through December 4, 2012, found inadequacies in the recording of board actions during the period July 19, 2007 through May 19, 2011. The District’s failure to keep a complete and accurate record of board proceedings is a violation of the Public School Code. Such minutes are necessary to document the board’s actions and to serve as the permanent record of the board’s activities. In addition, without such documentation, the public does not have access to information regarding the actions taken at each public meeting, reducing the overall transparency of the District’s operations. This transparency is vitally important since the District is ultimately accountable to its taxpayers.

Specifically, our audit found that minutes were completely missing for 37 monthly board meetings held between July 19, 2007 and July 1, 2010. In addition, we found numerous problems with those District meeting minutes that were available for review, including meeting minutes that:

1. Had not officially been approved.
2. Were not signed.
3. Were not permanently bound.
4. Did not indicate the names of the individuals on the Empowerment Board of Control (Board).
5. Lacked notations regarding the Board members’ attendance, non-attendance, or lateness to meetings.
6. Did not record the number of votes on each item brought before the Board for approval.
7. Did not include the monthly treasurer’s reports for review.
8. Did not contain details about the bill payments, bid awards, general fund budgets, budgetary transfers, and capital projects approved by the Board.

9. Did not record the Board's approval of the District's school calendar each school year.
10. Did not record Board officer elections, the Board's appointment of the solicitor, or the Board's annual designation of a treasurer.

According to current District personnel, previous Board secretaries had not prepared or recorded the minutes properly or had them permanently bound.

## **Recommendations**

The *Chester Upland School District* should:

1. Ratify prior meeting minutes for approval only upon assuring that actions of the Board are properly recorded.
2. Require its Board Secretary to refer to the School Board Secretary's Handbook published by the Pennsylvania School Board Secretaries to understand how the meeting minutes should be compiled.
3. Require its Board Secretary to sign all board meeting minutes in a timely manner.
4. Require its Board Secretary to keep a complete, correct, and proper record of the minutes including, but not limited to a(n):
  - a. Listing Board members' and their attendance.
  - b. Recording of Board members' votes.
  - c. Monthly treasurer's report.
  - d. Detailed list of the bill payments, bid awards, general fund budgets, budgetary transfers, and capital projects approved by the Board.
  - e. Recording of the approved school calendar.
  - f. Explanation of the Board's reorganization, election of officers, and appointment of the District's solicitor and the treasurer.
5. Ensure that the Board meeting minutes are complete, permanently bound, and kept in a secure place.

**Management Response**

Management stated the following:

Management of the School District was under the Education Empowerment Board at the referenced time of the Audit Period. Since the Board of School Directors has assumed governance of the District on July 1, 2010, minutes of the School Board Meetings have been kept and the Board believes that they are currently maintained in the appropriate form with the necessary information.

**Auditor Conclusion**

As stated in the body of the finding, we found inadequacies in the recording and documenting of Boards' (Empowerment Board of Control/Board of School Directors) actions during the period August 28, 2007 through May 19, 2011. The finding will remain as written.

# FINANCIAL OVERSIGHT

## Finding No. 6

### The District Violated the Public School Code and Sound Business Practices by Over Expending Its Budgets and Engaging in Deficit Spending

*Criteria relevant to the finding:*

Public School Code Section 609 provides, in part:

“No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

The Chester Upland School District’s (District) independent financial audits illustrate that the District has repeatedly over-expended its budget and engaged in deficit spending. Such spending decisions violate the Public School Code and sound business practices, which suggest that Districts, including management and Boards of School Directors, should develop accurate budgets so that they can prepare sound fiscal plans and make realistic operational decisions. In addition, deficit spending prevents the District from developing and maintaining a healthy fund balance, which makes it more difficult for it to survive unexpected financial challenges.

For example, as discussed in our prior audit report, the District’s independent auditors indicated that it had exceeded its budgets for the 2003-04 through 2008-09 school years by a total of \$25,159,350. Likewise, the District’s independent auditors also reported that it had over-expended its budget again for the 2009-10, 2010-11, and 2011-12 school years by a total of \$19,315,893. In fact, some of the District’s individual accounts were exceeded by very large percentages, as shown in the table below:

	Budgeted Expenditures	Actual Expenditures	Over- Expenditure	% Over- Expended
<u>2011-12</u>				
Pupil Transportation	\$1,749,174	\$3,426,906	\$1,677,732	96%
<u>2010-11</u>				
Adult Education Programs	74,049	105,813	31,764	43%
Business	1,080,166	1,564,758	484,592	45%
Operation & Maintenance of Plant Services	9,122,243	14,784,024	5,661,781	62%
Pupil Transportation	2,208,635	3,851,657	1,643,022	74%
Community Services	121,372	316,632	195,260	161%
<u>2009-10</u>				
Vocational Ed Programs	1,566,367	2,936,013	1,369,646	87%
Business	683,003	1,125,950	442,947	65%

Neither the District's administration, nor its boards (Empowerment Board of Control/Board of School Directors) provided the auditors with an explanation for why the budgets were exceeded. However, the District appears to lack effective policies and procedures for establishing sound budgets and a proper system of internal controls for ensuring that these policies are enforced, so that accurate budgets can be created. By over-expending its budget, the District not only violated the Public School Code (PSC), but also prevented its budgets from being used as a financial planning tool, since they were not an accurate reflection of the District's fiscal position. Inaccurate budgets are particularly problematic for school districts because they do not have the ability to quickly offset any sudden reductions in expected revenue. This issue is especially relevant to the District because it does not have a sustainable local tax base, one of the few options available to school districts for increasing revenues.

In addition, our audit of the District's actual revenues and expenditures found that it had engaged in deficit spending for the 2009-10 and 2010-11 school years. Specifically, for those two years, the District's actual expenditures exceeded its actual revenues by a total of \$21,398,946. In the 2010-11 school year, the District's actual expenditures totaled \$122,235,858 compared to \$104,036,358 in actual revenues. Likewise, in the 2009-10 school year, the District's actual expenditures totaled \$112,854,634 compared to \$109,655,188 in actual revenues.

Again, neither the District's administration, nor its boards (Empowerment Board of Control/Board of School Directors) provided the auditors with an explanation for why its actual expenditures exceeded its actual revenues. Deficit spending can occur when a school district fails to accurately budget and particularly when revenues are overestimated. Moreover, it prevents the District from maintaining a financial cushion, or fund balance, which it can use to withstand unexpected financial challenges.

## **Recommendations**

The *Chester Upland School District* should:

1. Ensure adequate controls are in place to comply with PSC Section 609 and not approve expenditures that exceed budget limits.

2. Prepare accurate and balanced budgets using historical data as a guide to estimate available revenues.
3. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues received and the amounts appropriated.

**Management Response**

Management stated the following:

This has been addressed and corrected. New procedures have been implemented and continual monitoring will ensure it will not happen again.

**Finding No. 7**

**The District Lacked Sufficient Documentation to Support Certain Expenditures**

Our audit of the Chester Upland School District (District) found that the District could not provide sufficient documentation to justify certain expenditures. This deficiency prevented the District from demonstrating that these expenditures were appropriate and that they were a prudent use of taxpayer funds.

Payments Made to Top Administrators

As discussed in Finding No. 1, the District experienced constant turnovers in its top administrator positions from 2005 to 2012. For example, just over our current audit period, the District lost one superintendent, two acting superintendents, one acting assistant superintendent, and two business managers.

Each of the individuals listed above received a payout at the time they left the District’s employment. These payments are indicated in the chart below.

<b>Employee</b>	<b>Vacation</b>	<b>Sick</b>	<b>Personal</b>	<b>Bonus</b>	<b>Total</b>
Superintendent	\$32,464	\$50,778	\$8,324	\$21,643	\$113,209
Acting Superintendent	23,385	12,600	n/a	n/a	\$35,985
Acting Assistant Superintendent	18,415	1,800	n/a	n/a	\$20,215
Business Manager	11,986	2,350	n/a	n/a	\$14,336
<b>Total</b>	<b>\$86,250</b>	<b>\$67,528</b>	<b>\$8,324</b>	<b>\$21,643</b>	<b>\$183,745</b>

In an attempt to determine whether these payments were appropriate, we tried to review all of the employment contracts and other documentation supporting these expenditures. However, we found that in every instance, even though they appear to have been approved by the District’s controlling board, the District was unable to provide key documentation supporting the payments made to these former employees.

For example, in the case of the former Superintendent, the District could not provide adequate and reliable documentation demonstrating his unused leave balances or that the bonus he was paid was approved by the

Empowerment Board of Control. Additionally, the bonus the former Superintendent received was based on the academic improvement of the District's students, the District's fiscal management, the performance of District personnel, and the individual performance of the former Superintendent. As discussed in Finding No. 1, the achievement of at least three of these factors (academic improvement of the students, fiscal management, and the performance of District personnel), is not supported by data from the Pennsylvania Department of Education, or the District's previous financial and performance audits. Without additional documentation, we could not conclude whether the District's payment of a bonus to the former Superintendent was appropriate.

Moreover, the District could not provide signed contracts for either the former Acting Superintendent or the former Acting Assistant Superintendent. Furthermore, the District could not provide documentation supporting the basis for the following payments to these individuals at the time of their separation from the District:

- Unused sick leave (Former Acting Superintendent).
- Unused sick and vacation leave (Former Acting Assistant Superintendent).
- The continuation of insurance benefits until June 30, 2012.
- Annual payments of \$8,000 to the individuals' Health Reimbursement Account for two years, or until they began to receive Medicare, whichever came first.

Finally, we were told that the District's former Business Manager was employed under an Act 93 agreement, which covered other non-teaching administrative staff at the District. However, the District was not able to provide us with the entire Act 93 agreement. Instead, we only received one page delineating the payment of unused sick leave. We were told the entire Act 93 agreement was not available. Additionally, the District could not provide documentation supporting the basis for the payment of the former Business Manager's unused vacation and sick days.

Section 751 of the Public School Code provides, in part:

“All construction, reconstruction, repairs, maintenance or work of any nature . . . made by any school district, where the entire cost, value, or amount . . . including labor and material, shall exceed ten thousand dollars (\$10,000), shall be done under separate contracts to be entered into by such school district with the lowest responsible bidder . . . after due public notice has been given asking for competitive bids. . . .”

Public School Code Section 807.1 states:

“(a) All furniture, equipment, textbooks, school supplies and other appliances for the use of the public schools, costing . . . a base amount of ten thousand dollars (\$10,000) or more shall be purchased by the board of school directors only after due advertisement as hereinafter provided. Supplies costing . . . a base amount of ten thousand dollars (\$10,000) or more shall be purchased by the board of school directors only after public notice has been given by advertisement once a week for three (3) weeks in not less than two (2) newspapers of general circulation.

(a.1) Written or telephonic price quotations from at least three qualified and responsible vendors shall be requested by the board of school directors for all purchases of supplies that exceed a base amount of four thousand dollars (\$4,000).”

Without this documentation, the District cannot justify the expenditures that it made to these former employees. Furthermore, it can not demonstrate that they were a prudent use of taxpayer funds.

#### Validity of Expenditures

Our audit found that the District was unable to provide a contract between the District and its public relations vendor for payments made to the vendor during the period January 1, 2011 through November 30, 2011. A review of contracts for the periods July 1, 2010 through December 31, 2010, and December 1, 2011 through December 1, 2012, found that the consultant was performing in accordance with the contracts, and payments made by the District were in accordance with the contract. The District should however evaluate whether or not spending money for public relations is a good use of taxpayer funds.

#### Bidding Practices

Our objective was to determine that bids were solicited and awarded in accordance with Sections 751 and 807.1 of the Public School Code (PSC), and that non-bid items were purchased in accordance with board policy. As such, we attempted to verify the following:

- Expenditures were properly authorized and incurred.
- Expenditures were charged to the proper account.
- Expenditures were supported by purchase orders, contracts, itemized invoices, receiving reports or other supporting documents.
- Supporting documents were effectively canceled to prevent subsequent use.

To satisfy our objective, we requested the files for five transactions. Typically each file should consist of advertisements in not less than two newspapers, evidencing that a biddable project or item was put out to bid, the resulting bids and who was awarded the bid, purchase orders, itemized invoices, receiving reports, and payment documentation such as cancelled checks.

The District did not provide us with any of the requested documents. Therefore, we were not able to determine if the District properly bid for items that required bidding, and more importantly, if the District was properly expending its resources in accordance with the PSC.

This lack of documentation occurred because of the District failed to ensure that the necessary policies and procedures were in place to retain this required documentation.

**Recommendations**

The *Chester Upland School District* should:

1. Put procedures in place to ensure that all documentation necessary to justify expenditures to administrators is properly retained.
2. Maintain files for each bid containing the evidence of advertisement in at least two newspapers, the results of the bid, who was awarded the bid, itemized invoices, purchase orders, and payment documentation.

**Management Response**

Management stated the following:

During this time the District did not have effective oversight and organization. The District now has policies and procedures in place. All expenditures are approved and documentation is kept.

## Finding No. 8

### Failure to File District Annual Financial Report in a Timely Manner

#### *Criteria relevant to the finding:*

Section 2552 of the Public School Code (PSC) provides, in part:

“It shall be the duty of the Superintendent of Public Instruction to withhold the payment of all money due any school district . . . until all reports required by law and due at such time have been filed . . .”

Section 2552.1 of the PSC provides for the following:

- Forfeiture of \$300 per day from any and all state payments for reports not submitted within 30 days of the submittal date established by the Pennsylvania Department of Education (PDE),
- Disciplinary action against the chief school administrator in accordance with the provisions and procedures set forth in the “Professional Education Discipline Act” for reports not submitted within 60 days of the submittal date established by PDE, and
- Allows the Secretary of Education to waive the forfeiture requirements based upon extenuating circumstances.

The Chester Upland School District’s (District) annual financial report (AFR) for the school year ending June 30, 2011, was not filed with Pennsylvania Department of Education (PDE) until July 13, 2012. However, PDE’s due date for this report was October 31, 2011.

Failure to file the AFR in a timely manner could result in a withholding of state subsidies. Although the Secretary of Education did not withhold the District’s state appropriations, AFRs should be filed in a timely manner to avoid any negative financial impact to the District. In addition, the late filing of this report can be a warning sign of financial or operational issues or inefficiencies, which could negatively impact the District’s overall financial position.

In addition, as a result of the late filing of the AFR, we could not timely audit the District’s entitlement to the state subsidies received for the 2010-11 school year.

The District did not offer any reason for the late filing.

District management is ultimately responsible for ensuring that all required financial reporting is completed and submitted in a timely manner. The District lacked policies and procedures to make sure that the AFR was filed properly and promptly, and it also lacked the necessary internal controls to prevent such financial reporting from being filed past its due date, risking the withholding of state subsidies.

## Recommendations

The *Chester Upland School District* should direct its personnel responsible for the compiling and filing the AFR to do so prior to PDE’s established due date for any fiscal year.

The *Pennsylvania Department of Education* should continue to be cognizant of the untimely transmittal of the district’s AFR and, if future submissions are late, take appropriate action.

**Management Response**

Management stated the following:

This has been addressed and corrected. New procedures have been implemented and continual monitoring will ensure it will not happen again.

# STATE SUBSIDIES AND REIMBURSEMENTS

## Finding No. 9

### Inaccurate Reporting of Child Accounting Data to the Pennsylvania Information Management System

#### *Criteria relevant to the finding:*

According to the Pennsylvania Department of Education's (PDE) annual *PIMS User Manuals*, all Pennsylvania LEAs must submit data templates as part of the year end child accounting data collection. Pennsylvania Information Management System (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, LEP 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 Audit Manual (FISCAM)*, 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.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now 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 and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

Because PDE uses the data in PIMS to determine each LEA's state subsidy, 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. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Chester Upland School District's (District) data submissions for the 2010-11 and 2009-10 school years found significant errors, demonstrating that internal controls need to be improved. Those errors are as follows:

#### 2010-11 School Year

- 592 student records appearing on the District's printout from its student information system (SIS) were not uploaded to PIMS because the child accounting coordinator did not create a calendar within PIMS to accept those records. Specifically, every student record in the District's SIS is assigned a calendar code, which should correspond to a calendar created by the child accounting coordinator within PIMS. If the calendar does not exist or if the calendar code in the SIS does not match a calendar within PIMS, the student record will not upload.

- Of the 592 records that did not upload into PIMS, 189 records also did not have a PA Secure ID listed. The PA Secure ID is the student record's key field under which all other data is accessible. Student records without a PA Secure ID cannot be uploaded. Consequently, even if the District's personnel had properly established a calendar within PIMS, these records still would not have uploaded.
- An additional 76 student records were not uploaded to PIMS. However, the auditors could not determine why.

#### 2009-10 School Year

- 168 student records appearing on the printout from the SIS were not uploaded because the students were not assigned a PA Secure ID in the SIS. As noted before, student records without a PA Secure ID cannot be uploaded to PIMS.
- The SIS printout for 1 student's data did not match the data recorded by PIMS. The auditors could not determine a cause.
- 139 records appearing on the SIS printout were not uploaded to PIMS. The auditors could not determine the cause.

As previously noted, it is vitally important that child accounting data entered into PIMS be accurate, complete, and valid because this information is used to calculate certain state subsidies.

The District's failure to reconcile its membership data submitted to PDE through PIMS caused these errors to go undetected and resulted in the District possibly receiving an improper state subsidy.

In addition, the data in the District's SIS must also be accurate, complete, and valid, since that data is uploaded directly to the PIMS system. The auditors' testing of several SIS reports found numerous inconsistencies between them. Consequently, the District also needs to improve the internal control and accountability procedures over its SIS data to ensure that it is also accurate, valid, and complete. The extent of the inaccuracies that the auditors

identified in both the District's SIS and PIMS reports prevented them from being able to recalculate the District's subsidies. As a result, they did not send any allocation adjustments to PDE for processing.

## **Recommendations**

The *Chester Upland School District* should:

1. Develop procedures to ensure that all necessary calendars have been created within PIMS.
2. Develop procedures to ensure that all students educated by the District have been assigned a PA Secure ID in the District's SIS.
3. Reconcile the printouts from the SIS with the printouts from PIMS to ensure that all student records have been properly uploaded.
4. Develop procedures to ensure consistency between reports generated by the SIS.

## **Management Response**

Management stated the following:

The District's Child Accounting system is undergoing significant changes to correct this problem. We have implemented training on use and procedures. We will continue to upgrade and monitor this and make sure we have an accurate accounting.

**Finding No. 10**

**The District Continues to Lack Adequate Documentation to Support That It Received the Correct State Subsidies and Reimbursements**

*Criteria relevant to the finding:*

Section 518 of the Public School Code requires that records be retained for a period of not less than six years. Pennsylvania Department of Education guidelines and instructions require the maintenance and retention of adequate documentation to verify the district's entitlement to state payments.

Our audit of the Chester Upland School District (District) found that the District failed to obtain or retain sufficient documentation to verify the District's entitlement to state subsidies and reimbursements. This issue was also noted in the prior audit. (Refer to Status of Prior Audit Findings and Observations, Finding No. 2.)

In all, our audit identified 21 categories of state subsidies or reimbursements between the 2006-07 and 2009-10 school years for which the District lacked sufficient documentation to support its receipt of a total of \$277,788,074 in state funding. The categories of state subsidies or reimbursements included basic education funding, charter school reimbursement, special education subsidy, and Social Security and Medicare taxes, and state retirement funding.

The missing documentation included award letters, budget or expenditure reports, reconciliation reports or letters, grant applications, and other necessary support documentation that was either incomplete or unreliable.

The auditors determined that this lack of documentation was due to the frequent turnover of personnel in the District's business office and a lack of adequate record retention policies. Consequently, the District could not demonstrate that it had received the accurate amount of state subsidies and reimbursements. This failure places the District in jeopardy of having to repay state funding it previously received, or a loss of future state funding.

Internal controls are the responsibility of management, and provide assurance that state funds have been correctly received and expended in accordance with Pennsylvania Department of Education guidelines and instructions.

## Recommendations

The *Chester Upland School District* should:

1. Retain all documentation, applications, notification letters, and expenditure reports for all state subsidies received.
2. Ensure that a listing of the students, vocational courses completed, and membership days reported is maintained to support data reported for the Vocational Education Subsidy.
3. Maintain files for each grant containing the application, approval, budget and any revisions filed, documentation of receipt (such as a copy of the check transmittal and/or check), expenditure reports, invoices, purchase orders, and documentation to support other requirements of the grant.
4. Upon receipt of state funds, reconcile the amounts received to amounts applied for, and check all calculations to ensure that the District receives the funds for which it is entitled.

The *Pennsylvania Department of Education* should:

5. Review the propriety of the payments it made to the District and determine if any adjustments should be made.
6. Require the District to maintain sufficient, competent, and relevant evidence to ensure proper justification for the receipt of state funds.

## Management Response

Management stated the following:

This has been addressed and corrected. New procedures have been implemented and continual monitoring will ensure it will not happen again.

# CERTIFICATION AND CLEARANCES

## Finding No. 11

### The District Lacked the Documentation Necessary to Verify Bus Drivers' Qualifications

*Criteria relevant to the finding:*

Section 111 of the Public School Code, 24 P.S. § 1-111 (Act 34 of 1985, as amended) requires prospective school employees who 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. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended (see 24 P.S. §1-111(c.1), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by PDE. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

Our current audit of 38 bus drivers who were Chester Upland School District (District) employees as of September 16, 2011, found that 6 bus drivers were transporting students without the required documentation on file as follows:

- One driver lacked the Pennsylvania State Police criminal background check (Act 34 clearance).
- One driver lacked the Federal criminal background check (Act 114 clearance).
- Three drivers lacked the Pennsylvania Child Abuse History Clearance (Act 151 clearance).
- One driver lacked both the Act 114 and Act 151 clearances.

This issue was also noted in the prior audit. Our prior audit of bus drivers' qualifications found that 9 District employed bus drivers did not possess the required documentation to transport students.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following six requirements:

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses;
5. Federal Criminal History Record; and

*Criteria relevant to the finding:*

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 PaC.S. §6355, known as Act 151, requires prospective school employees to submit an official clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation (PennDOT). As explained further under criteria, the fourth and fifth requirements were set by the Public School Code of 1949, as amended. The sixth requirement was set by the Child Protective Services Law. In addition, when bus drivers change employers, they must obtain new clearances.

District personnel stated that because of employee turnover, there was an oversight in ensuring that all drivers had the proper clearances.

On September 16, 2011, we informed Chester Upland School District (District) management of the missing documentation and instructed them to immediately obtain the necessary documents for current drivers so that they could ensure the drivers are properly qualified to continue to have direct contact with children. Subsequently, we followed up to see if the District obtained the missing documentation and were told that we received all that was available. Therefore, we were unable to verify that drivers were properly qualified to have direct contact with children.

**Recommendations**

The *Chester Upland School District* should:

1. Immediately obtain the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files for all District drivers to ensure that the files are up-to-date and complete.

**Management Response**

Management stated the following:

This has been addressed and corrected. New procedures have been implemented and continual monitoring will ensure it will not happen again.

## Finding No. 12

*Criteria relevant to this finding:*

Section 1202 of the Public School Code (PSC) provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

Section 2518 of the PSC provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

## Certification Deficiencies

Our audit of the Chester Upland School District’s (District) professional employees’ certification for the period July 1, 2010 through February 6, 2012, found that 30 professional employees were assigned to positions without holding proper certification.

The certification deficiencies involved 2 administrators, 6 behavioral Health Liaisons, 21 teachers, and 1 school nurse.

District management is ultimately responsible for ensuring that all of its employees are properly certified for the positions to which they are assigned. The District lacked policies and procedures to ensure that employees were certified, and also lacked the necessary internal controls to prevent uncertified employees to be assigned to positions that required that certification.

Information pertaining to the deficiencies was submitted to the Pennsylvania Department of Education’s Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. BSLTQ determined that the professional employees were not properly certified, therefore the District is subject to the following subsidy forfeitures:

<b>Possible Subsidy Forfeitures</b>	
<u>School Year</u>	<u>Amount</u>
2011-12	\$ 9,854
<u>2010-11</u>	<u>22,916</u>
<b>Total</b>	<b><u><u>\$32,770</u></u></b>

## Recommendations

The *Chester Upland School District* should:

1. Put procedures in place to compare teachers’ certifications to the certification requirements of the assignments the district intends to give the teacher.
2. Require the teachers to obtain proper certification as required for their positions or reassign them to areas in which they are properly certified.

3. Require District personnel to submit job descriptions to BSLTQ for locally titled positions and adhere to BSLTQ's determination for properly certified staffing positions.
4. Require District personnel to create and maintain a complete school district directory of all teachers and administrators, which would be updated annually.
5. Require District personnel to maintain complete and accurate teachers' schedules in all buildings, and make them available for audit.

The *Pennsylvania Department of Education* should recover the subsidy forfeiture levied as a result of BSLTQ's determination.

### **Management Response**

Management stated the following:

We are currently implementing procedures at time of new hire intake to ensure all employees' certificates and/or clearances are collected and placed in their respective personnel files.

## Observation

## Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

*Criteria relevant to the observation:*

Public School Code (PSC) Section 111 (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. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

This section of the PSC goes on to say:

“[A]dministrators shall require the applicant to submit with the application for employment a copy of the Federal criminal history record in a manner prescribed by the Pennsylvania Department of Education . . .”

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa. C.S. § 6355, requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our current audit found that the District had not implemented our prior audit recommendations regarding bus drivers' qualifications (see page 41). We made our recommendations in the interest of the protection of students, and here reiterate those recommendations.

The ultimate purpose of the requirements detailed in the box to the left is to ensure the protection, safety, and welfare of the students transported in school buses. To that end, there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in PSC Section 111, but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not in Section 111. School districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Due to the missing documentation discussed in the Finding No. 11 beginning on page 41 of this report, we could not determine whether any serious crimes occurred that would call into question some of the applicants' suitability to have direct contact with children. However, there were no serious crimes identified in the documentation that was available that called into question the applicants' suitability to have direct contact with children.

However, the District does not have written policies or procedures in place to ensure that they are notified if current employees have been charged with, or convicted of, serious criminal offenses that should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

**Recommendations**

The *Chester Upland School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District, and/or the District's transportation contractors, have been charged with, or convicted of, crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with, or convicted of, crimes that call into question their suitability to continue to have direct contact with children.

**Management Response**

Management stated the following:

The transportation department meets all federal and state requirements (federal motor carrier safety regulations and Pennsylvania School Bus Drivers Manual, Pub 117).

**Auditor Conclusion**

As stated in the body of the observation, we recognize that the District and its transportation contractors complied with minimum legal requirements. For that reason, we address this not as a finding but rather as an observation. The department considers the lack of written policies and procedures addressing criminal convictions subsequent to the date of hire, although not legally required, to be an internal control weakness that could result in the continued employment of individuals who may nonetheless pose a risk if allowed to continue to have direct contact with children. Therefore, this observation will stand as presented.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Chester Upland School District (District) released on January 31, 2011, resulted in four findings and three 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 analyzed the District's written responses provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District only implemented eight of the twenty-nine total recommendations, as detailed below.

### Auditor General Performance Audit Report Released on January 31, 2011

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**Finding No. 1:**                    **Lack of Documentation Necessary to Verify Bus Drivers' Qualifications**

Finding Summary:            We audited the personnel files of 49 bus drivers and found that 15 bus drivers were transporting students without the required documentation on file.

Recommendations:        Our audit finding recommended that the District:

1. Immediately obtain the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete.

Current Status:              Our current audit found that the District did not implement our recommendations (see Finding No. 11, page 41).

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**Finding No. 2:**                    **Inadequate Documentation Resulted in Our Inability to Verify the District's Entitlement to State Funding**

Finding Summary:            Our audit of the District's files and records for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found inadequate documentation to support state funding of \$79,141,304.

Recommendations:

Our audit finding recommended that the District:

1. Retain all documentation, applications, notification letters and expenditure reports for all state subsidies received.
2. Ensure that a listing of students, vocational courses completed, and membership days reported is maintained to support data reported for VES.
3. Maintain files for each grant containing the application, approval, budget and any revisions filed, documentation of receipt (such as a copy of the check transmittal and/or check), expenditure reports, invoices, purchase orders and documentation to support other requirements of the grant.

The Pennsylvania Department of Education should:

4. Review the propriety of the payments it made to the District and determine if any adjustments should be made.
5. Require the District to maintain sufficient, competent, and relevant evidence to ensure proper justification for the receipt of state funds.

Current Status:

Our current audit found that District did not implement our recommendations (see Finding No. 10, page 39).

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**Finding No. 3:**

**Internal Control Weaknesses for Record Retention**

Finding Summary:

As a result of citizen inquiries received by this department we audited the Safe Schools Grant for the 2001-02, 2000-01, and 1999-2000 school years and other operational areas of the alternative school program.

Additionally, we followed up on the findings from the independent auditor's report for the year ended June 30, 2004. We found that the District failed to retain records necessary to audit these areas.

Recommendations:

Our audit finding recommended that the District:

1. Ensure that all documentation related to the operation of the District is maintained.
2. Develop and implement procedures to ensure supporting documentation for child accounting data reported to PDE is available for audit.

3. Files should contain all relevant information and support documentation with financial transactions.
4. Ensure PDE's instructions for maintaining grant and financial records are followed.

Current Status: Our current audit found that District did not implement our recommendations (see Finding No. 7, page 30).

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**Finding No. 4: Budgets Exceeded in Total**

Finding Summary: Our audit found that the District's independent auditors reported that for the school years ended June 30, 2009, 2007, 2005, 2004, and 2003 the budgets were exceeded in total by \$25,159,350. Furthermore, the District had a deficit fund balance of \$6,746,829 as of June 30, 2004; however, the other years had a positive fund balance.

Recommendations: Our audit finding recommended that the District:

1. Ensure adequate controls are in place to comply with Public School Code Section 609 and not approve expenditures that exceed budget limits.
2. Prepare balanced budgets using historical data as a guide to estimate available revenues.
3. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues received and the amounts appropriated.

Current Status: Our current audit found that the District did not implement our recommendations (see Finding No. 6, page 27).

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**Observation No. 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

Observation Summary: Due to the missing documentation discussed in Finding No. 1 on page 48, we could not determine whether any serious crimes occurred that would call into question some of the applicants' suitability to have direct contact with children. There were no serious crimes identified in the independent criminal background checks that were available that called into question the applicants' suitability to have direct contact with children.

However, neither the District nor the transportation contractor have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses that should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations:

Our audit finding recommended that the District:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District and/or the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Current Status:

Our current audit found that District did not implement our recommendations (see Observation, page 46).

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**Observation No. 2:**

**Memoranda of Understanding Not Updated Timely**

Observation Summary:

Our audit of the District's records found that the current Memoranda of Understanding (MOU) between the District and its three local law enforcement agencies were signed in 1999 and have not been updated. Furthermore, the MOUs were signed only by the respective chiefs of police, not by the superintendent of the District.

Recommendations:

Our audit finding recommended that District:

1. Review, update, and re-execute the current MOUs between the District and its three local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Current Status:

Our current audit found that District did not implement our recommendations (see Finding No. 3, page 20).

**Observation No. 3: Logical Access Control Weaknesses and Unmonitored Vendor System Access**

Observation Summary: Our prior audits 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 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 they are adequately monitoring all vendor activity in their system.

Recommendations: Our audit finding recommended that the District:

1. Except for a select few authorized users with a functional need, set the system value LMTCPB to “YES,” restricting command line access, which allows them, at a minimum, to define initial programs, menus, current libraries or attention-key handling values.
2. Disable the powerful default profiler QSECOFR.
3. Upgrades/updates to the District’s system should be made only after receipt of written authorization from appropriate District officials.
4. 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 extinguishers in the computer room.
5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their 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. To mitigate IT control weaknesses, have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

7. Require the vendor to assign unique user IDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
8. Include in the contract with the vendor a non-disclosure agreement for the District's proprietary information.
9. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
10. 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.
11. Include in the District's Acceptable Use Policy provisions for authentication (password security and syntax requirements). Further, all employees should be required to sign this policy.
12. Implement a security policy and system parameter settings to require all users, including the vendor, to change their 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.

Current Status:

Our current audit found that the District:

1. Set the system value LMTCPB to "YES".
2. Disabled the powerful default profile QSECOFR.
3. Upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
4. The District did not implement additional environmental controls nor have they installed fire extinguishers in the computer room.
5. The District generates monitoring reports of vendor and employee access and activity on their system. The reports include the date, time, and reason for access, change(s). The District reviews the reports to determine that the access was appropriate and that data was not improperly altered. The District maintains evidence supporting this review.

6. The District has compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.
7. The District requires vendors to assign unique user IDs and passwords to vendor employees authorized to access the District's system. The District has a list of vendor employees with access to its data and ensured that changes to the data are only made by authorized representatives.
8. The contract with the vendor includes a non-disclosure agreement for the District's proprietary information.
9. The District maintains documentation to evidence that terminated employees are properly removed from the system in a timely manner.
10. The District has not established separate IT policies and procedures for controlling the activities of vendors, nor has the District required the vendor to sign the District's Acceptable Use Policy.
11. The District has included in its Acceptable Use Policy provisions for authentication, however all employees are not required to sign said policy.
12. The District has implemented a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis. However, passwords are not required to be a minimum length of eight characters or include alpha, numeric, and special characters.

We again recommend that *Chester Upland School District* implement additional environmental controls including fire extinguishers in the computer room, 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, require all employees to sign the Acceptable Use Policy, and require passwords to be a minimum length of eight characters and include alpha, numeric and special characters.

# **APPENDICES**

## APPENDIX A

<u>Independent Auditor's Report Findings</u>					
<u>Finding Title and Condition</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Accounts Payable Reconciled to the General Ledger</u> – Monthly reconciliations between the accounts payable balance in the general ledger and the open invoices are not being performed.	✓	✓	✓	✓	✓
<u>Accounts Payable Cutoff</u> – The School District does not record open invoices for goods received or services performed prior to the year-end date as payables in the proper period.	✓	✓	✓	✓	✓
<u>Maintain Fixed Asset Records</u> – The School District does not maintain a detailed listing of fixed assets and does not reconcile these records to the general ledger on a timely basis.	✓	✓	✓	✓	✓
<u>Bank Statement Reconciliation</u> - Bank statements are not reconciled on a timely basis or are not reconciled to the General Ledger.	✓	✓		✓	✓
<u>Maintain Records of Approved Salary</u> – The School District does not maintain a detailed listing of salary, listed by employee that is approved by the Board as part of the minutes and maintained as part of the official record.	✓	✓	✓		
<u>Recording of Revenue</u> – The School District only records revenues on a monthly basis.	✓	✓	✓		
<u>Appropriate Recording of Revenues</u> – Revenues are not being recorded to the appropriate accounts.	✓	✓	✓		
<u>Operations Manual and Policies</u> – The School District does not have a written operations manual.	✓	✓			
<u>Board Minutes</u> – The School District did not maintain minutes of its Board of Directors meetings during the year.		✓			
<u>Maintain Personnel Files</u> – The School District does not maintain personnel files for all employees.		✓	✓		
<u>Journal Entry Authorization</u> – Journal entries are recorded in the system without being reviewed and approved by an individual who is independent of the person making the entry. In addition, supporting documentation for journal entries is not maintained in a central location.					✓

**APPENDIX B**

Department of the Auditor General’s Audit Report Findings

Audit Period as of June 30

<u>Subject Area</u>	<i>(1)</i> <u>2010,</u> <u>2009,</u> <u>2008,</u> <u>2007</u>	<u>2006,</u> <u>2005,</u> <u>2004,</u> <u>2003</u>	<u>2002,</u> <u>2001,</u> <u>2000,</u> <u>1999</u>	<u>1998,</u> <u>1997,</u> <u>1996,</u> <u>1995</u>	<u>1994,</u> <u>1993</u>
Bus Driver Qualifications	✓	✓			
Inadequate Documentation	✓	✓			
Budgets Exceeded	✓	✓	✓		
Memorandum of Understanding	✓	✓			
Information Technology/Logical Access Control/ Unmonitored Vendor System Access		✓	✓	✓	
Certification Deficiencies (2)	✓	✓	✓	✓	✓
Subsidies/Reimbursements		✓	✓		
Membership	✓				✓
Graduation	✓				
Statements of Financial Interests	✓	✓			
Minutes	✓				
Annual Financial Reports	✓				

(1) These findings are reported in our current audit.

(2) Although the audit report for the years ended June 30, 2006, 2005, 2004, and 2003 did not contain a certification finding, we did find certification deficiencies. The District was governed until June 30, 2010, by the Education Empowerment Act which permitted empowerment districts to employ professional staff in accordance with Section 1724-A(a) of the Charter School Law, as it pertains to certification. The Charter School Law allows schools to operate with 75 percent of their professional staff members holding appropriate certification. The District’s certification deficiencies fell within the allowable 25 percent.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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

The Honorable Ronald J. Tomalis  
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. Nichole Duffy  
Director, Bureau of Budget and  
Fiscal Management  
Pennsylvania Department of Education  
4th Floor, 333 Market Street  
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Dr. David Wazeter  
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Mr. Tom Templeton  
Assistant Executive Director  
School Board and Management Services  
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P.O. Box 2042  
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://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](mailto:news@auditorgen.state.pa.us).

