

CHESTER UPLAND SCHOOL DISTRICT
DELAWARE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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 (CUSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 7, 2003 through May 4, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, 2005, 2004 and 2003. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the CUSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the four findings noted in this report. In addition, we identified three matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

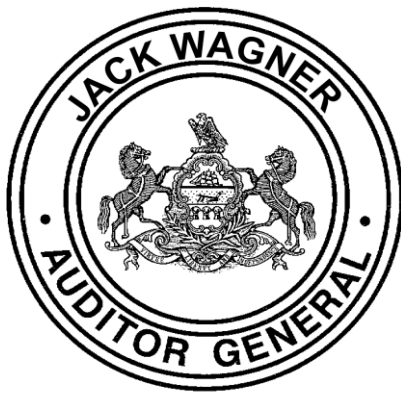
JACK WAGNER
Auditor General

January 31, 2011

cc: **CHESTER UPLAND SCHOOL DISTRICT** Board Members

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Executive Summary

Audit Work

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

Our audit scope covered the period August 7, 2003 through May 4, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2005-06, 2004-05, 2003-04 and 2002-03.

District Background

The CUSD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 44,435. According to District officials, in school year 2005-06 the CUSD provided basic educational services to 5,003 pupils through the employment of 300 teachers, 290 full-time and part-time support personnel, and 20 administrators. Lastly, the CUSD received more than \$51.1 million in state funding in school year 2005-06.

The CUSD was declared financially distressed by the Pennsylvania Department of Education (DE), resulting in the appointment of a Special Board of Control. The District had maintained an accumulated

General Fund deficit in excess of 2 percent of its assessed value of taxable property for two consecutive years. Accordingly, on July 1, 1994, the Special Board of Control assumed control of the financial affairs of the CUSD and operated the District in the place of the school directors.

On May 3, 2000, Governor Ridge signed the Education Empowerment Act. Pursuant to Section 1705-B(H) of the Act, DE certified the CUSD as an Education Empowerment District on July 3, 2000. Under the provisions of the Act, DE appointed a three-member Empowerment Board of Control replacing the existing Board of Control and assumed the day-to-day operations of the District. The board appointed an eleven member empowerment team charged with developing a plan to improve the academic performance of students within the District.

On March 8, 2007, former Secretary of Education Gerald Zahorchak issued a Declaration Concerning Reestablishment of Sound Financial Structure in CUSD, stating that the Special Board of Control of the CUSD had operated the District for a period sufficient to reestablish a sound financial structure, and, notwithstanding the District's many serious and continuing educational performance and other problems, a sound financial structure had been reestablished in the District. 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 to address the District's poor educational performance while managing its fiscal condition.

On June 30, 2010, the Education Empowerment Act expired and the elected board assumed leadership of the District.

Audit Conclusion and Results

Our audit found that the CUSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for four compliance-related matters reported as findings. In addition, three matters unrelated to compliance are reported as observations.

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

Our audit of the personnel files for bus drivers found that 15 of the 49 bus drivers were transporting students without having all of the required documentation on file (see page 8).

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

Our audit of the CUSD's files and records found that CUSD did not retain adequate documentation to support state funding of \$79,156,133 (see page 11).

Finding No. 3: Internal Control Weaknesses for Record Retention.

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, as well as operational areas of the alternative school program. Additionally, we followed up on the findings from the local auditor's report for the year ended June 30, 2004. We found that the CUSD failed to retain records necessary to audit these areas (see page 16).

Finding No. 4: Budgets Exceeded in Total. Our audit found 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, CUSD had a deficit fund balance of \$6,746,829 as of June 30, 2004; however, the other years had a positive fund balance (see page 18).

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

Our audit found that neither CUSD nor the transportation contractor have written policies or procedures in place to ensure that they are notified if current bus drivers have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children (see page 21).

Observation No. 2: Memoranda of Understanding Not Updated Timely.

Our audit found that the current Memoranda of Understanding between the CUSD and its three local law enforcement agencies were signed in 1999 and have not been updated (see page 23).

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

Our audit noted logical access control weaknesses on CUSD's server. We noted that security-related settings are not always set for adequate security and control, and that CUSD should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 25).

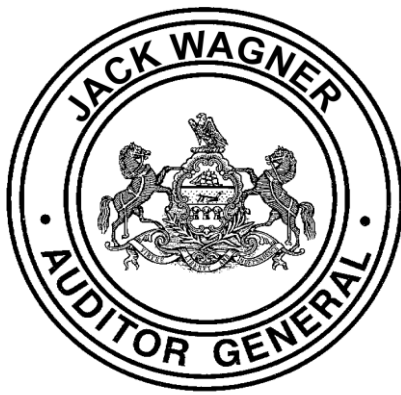
Status of Prior Audit Findings and Observations.

With regard to the status of

our prior audit recommendations to the CUSD, we found the CUSD had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 31).

pertaining to the budgets being exceeded in total (see page 30), health services reporting errors (see page 31), and had not fully taken appropriate corrective action in implementing our recommendations for the inadequate information technology controls (see page 32).

However, we found the CUSD had not taken appropriate corrective action in implementing our recommendations



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period August 7, 2003 through May 4, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2003 through June 6, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06, 2004-05, 2003-04 and 2002-03.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the CUSD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CUSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 23, 2003, we reviewed the CUSD's response to DE dated March 16, 2004. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Lack of Documentation Necessary to Verify Bus Drivers' Qualifications

We audited the personnel files of the 49 bus drivers who were District employees and employees of the District's transportation contractors to determine whether they were properly qualified to transport the students of the District. Our audit found that 15 bus drivers were transporting students without the required documentation on file, as follows:

	Lack of Valid Driver's License/"S" Endorsement	Lack of Valid Physical	Lack of Criminal History Record Information	Lack of Child Abuse Clearance Statement	Total
District employees	1	1	2	8	12
Contractor A	-	-	-	-	-
Contractor B	-	-	1	1	2
Contractor C	<u>1</u>	<u>1</u>	<u>5</u>	-	<u>7</u>
Totals	<u>2</u>	<u>2</u>	<u>8</u>	<u>9</u>	<u>21</u>

Criteria relevant to the finding:

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.

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 five 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; and
5. Official child abuse clearance statement.

Criteria relevant to the finding:

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.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. The fourth and fifth requirements were set by the PSC and the CPSL, respectively.

District personnel stated that because of employee turnover, there was an oversight in ensuring all drivers had the proper clearances. Additionally, District personnel noted that Contractor “C” utilizes the services of a private company to conduct criminal background checks of their drivers.

Our review of the independent criminal background checks that were available found that there were no serious crimes identified or other information found that called into question applicants’ suitability to have direct contact with children.

On May 13, 2008, we informed Chester Upland School District (CUSD) management of the missing documentation and instructed them to immediately obtain the necessary documents so that they could ensure the drivers are properly qualified to continue to have direct contact with children. As of the end of our fieldwork, May 4, 2010, CUSD management had not provided us with the necessary documentation. 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, 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.

Management Response

Management provided a response indicating agreement with the finding but made no further comment at the time of our audit.

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

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, as follows:

<u>Description</u>	<u>Years Ended June 30:</u>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Basic Education Funding (BEF)	\$ -	\$30,818,495	\$ -	\$ -
Read to Succeed Grant	-	-	74,115	50,001
Charter Schools	3,906,919	4,328,980	-	-
School Performance Incentives	-	-	-	134,444
Tuition for Orphans and Children Placed in Private Homes	367,170	415,333	-	-
Educational Empowerment/School Improvement	990,807	4,997,871	3,013,971	3,031,778
Staff and Program Development Grant	500,000	-	-	-
Vocational Education Subsidy (VES)	222,605	210,833	-	-
Alternative Education	-	-	-	115,035
Special Education Subsidy	4,601,307	4,567,526	-	-
Transportation Subsidy	-	-	1,503,592	1,503,724
Rental and Sinking Fund Payments	104,895	195,411	-	-
Health Services Reimbursement	120,393	96,386	-	-
PA Accountability Grant	1,778,418	1,778,418	-	-
Social Security and Medicare Taxes	1,246,124	1,496,543	-	-
Retirement	1,059,583	799,940	-	-
Other Program Subsidies/Grants:				
Educational Assistance Program	997,060	900,560	-	-
Demonstration Grant	-	-	-	3,000,000
Miscellaneous	213,067	-	-	-
Totals	\$16,108,348	\$50,606,296	\$4,591,678	\$7,834,982

Basic Education Funding and Special Education Subsidy

District personnel were not able to provide the Department of Education's (DE) BEF formula report for 2004-05 school year or the special education funding formula reports for the 2005-06 and 2004-05 school years. Without

Criteria relevant to the finding:

Section 518 of the PSC requires that records be retained for a period of not less than six years. DE guidelines and instructions require the maintenance and retention of adequate documentation to verify the District's entitlement to state payments.

the reports, we were unable to verify the District's entitlement to these subsidies.

Read to Succeed/School Performance
Incentives/Educational Empowerment/School Improvement

District personnel were not able to provide DE's grant notification letters or expenditure reports for the 2003-04 and 2002-03 payments received. Additionally, for the Educational Empowerment/School Improvement grant, the District was not able to provide the school improvement plan. Without the grant notification letters or the school improvement plan, we were unable to determine on what basis the grant was paid and were therefore unable to verify the District's entitlement to the grant. Additionally, without the final expenditure reports, we were unable to verify if the District had complied with the various limitations set forth in the grant awards.

Charter School

The District was unable to provide charter school reports to us. Without these reports, we were unable to determine how many students attended local charter schools. Additionally, the District was unable to provide DE reconciliation and payment reports. Lacking this documentation, we were unable to determine if the District received the correct amount of charter school reimbursement to which it was entitled.

Vocational Education Subsidy

District personnel could not provide supporting documentation for the students who had been included in the district-operated vocational membership data reported to DE for the 2005-06 and 2004-05 school years. Without this documentation, we were not able to verify if the students had completed the required vocational courses and were enrolled in vocational classes for the membership days reported. Therefore, we were unable to verify the amount of VES the District was entitled to receive during the 2004-05 and 2005-06 school years.

Alternative Education /Demonstration Grant

District personnel could not provide grant applications, receipt documentation, budget, expenditure reports filed with DE, or detail expenditure reports for the 2003-04 and 2002-03 school years. Additionally, District personnel could not provide any detail regarding the number of alternative education students for whom services were provided in the 2003-04 and 2002-03 school years. As a result, we were unable to verify the funds received were used as intended.

Transportation

District personnel did not retain the summary of pupil transportation subsidy for the 2003-04 and 2002-03 school years; however, we were able to acquire this report from DE. District personnel were not able to provide documentation to support the bus mileage data reported to DE for the 2003-04 and 2002-03 school years. Mileage and pupil count data are the major components used in calculating the District's transportation reimbursement. Since the odometer readings were not adequate to verify the data reported by District personnel, we were unable to verify the amount of transportation reimbursement the District was entitled to receive for the 2003-04 and 2002-03 school years.

Rental and Sinking Funds

The District failed to provide backup documentation for bond issues, construction project costs and other costs related to rental subsidies. Without backup documentation, it is impossible to determine if the District submitted the correct data to DE. Thus, we were unable to verify if rental applications were actually submitted and if the District received the proper reimbursement.

Social Security and Medicare Tax and Retirement Contributions

The District was unable to provide DE reports of reimbursement of Social Security and Medicare tax and retirement contributions. Without these reports, we were unable to determine if the District received the correct amount of state reimbursement.

Other Program Subsidies/Grants

The local auditor's report for the school year ended June 30, 2004, contained a finding addressing the lack of information necessary to establish compliance with grant requirements. The local auditor's report for the school year ended June 30, 2005 cleared the finding. However, we found that District personnel could not provide applications, receipt documentation, budget or expenditure reports for the 2005-2006 and 2004-2005 school year for the Educational Assistance Program, PA Accountability Grant, and Staff and Program Development Grant. Additionally, District personnel were unable to identify miscellaneous grants totaling \$213,067 reported for the 2005-06 school year. As a result, we were unable to verify that the funds the District received were used for their intended purposes.

Internal controls are the responsibility of management. Good internal controls provide management with assurance that state funds have been correctly received and expended in accordance with DE guidelines and instructions. Weaknesses in internal controls do not provide management with those assurances. As a result of frequent personnel turnover in the District's business office and lack of adequate record retention policies, documentation supporting state payments of \$79,141,304 was not available for audit. Failure to maintain and retain adequate documentation places the District in jeopardy of having to repay state funding it previously received.

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 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 *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.

Management Response

Management stated the following:

There have been a number of changes with the Administrative staff in the business affairs department. As a result of this, the current administration was able to locate reports substantiating the State Funding Entitlements, however, they were not the specific required documents requested by the audit team.

The current administration is in the process of redesigning the filing system so that required and requested information is readily available for future audits.

Finding No. 3 →

Criteria relevant to the finding:

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

Chapter 11 of the Regulations of the State Board of Education, Section 11.24, provides:

Students whose names are on the active membership roll, who are at any time in the school year absent from school for 10 consecutive school days, shall thereafter be removed from the active membership roll unless one of the following occurs:

- (i) The district has been provided with evidence that the absences may be legally excused.
- (ii) Compulsory attendance prosecution has been or is being pursued.

Section 807.1(a) of the PSC provides, in part:

All furniture, equipment, textbooks, school supplies and other appliances for the use of the public schools, costing ten thousand dollars (\$10,000) or more shall be purchased by the board of school directors only after due advertisement. . . .

Internal Control Weaknesses for Record Retention

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 local auditor's report for the year ended June 30, 2004. We found that the CUSD failed to retain records necessary to audit these areas as follows:

Safe Schools Grant

We requested the grant applications, approval letters and expenditure reports to determine if the safe schools monies received (\$15,000, \$50,000 and \$79,172 for the 2001-02, 2000-01 and 1999-2000 school years respectively) were properly expended in accordance with grant requirements. District personnel were unable to produce the requested documents.

Alternative School Program

CUSD management stated that District policies are followed when placing students in the alternative program, and also for the assignment of teachers. However copies of these policies were not provided to us upon request.

To determine if membership was reported correctly, we requested the students' permanent files in order to examine attendance records, correspondence such as court orders, letters to parents after three consecutive days of absence (required by District policy), and documentary evidence that students were removed from the rolls after ten consecutive days of unexcused absences. District personnel were unable to produce the requested documents. Therefore we were unable to determine if membership was reported correctly for the alternative school program.

Local Auditor's Report for the Year Ended June 30, 2004

The local auditor's report for the year ended June 30, 2004, contained findings addressing the lack of information necessary to establish compliance with grant requirements (addressed in our Finding No. 2, beginning on page 11) and

the failure of the District to follow its procurement policy. The local auditor's report for the year ended June 30, 2005, cleared the findings. However, when we requested an expenditure report of items purchased over \$10,000 sorted by vendor, the District personnel could not provide one, stating that the District changed computer software and could no longer retrieve the reports. We also requested the District's procurement policy and bid files that would contain bid advertisements, bid extension contracts, invoices, receipts and purchase orders; however, the District could not locate the requested documentation.

District stated that the cause of the weaknesses was the frequent personnel turnover.

Recommendations

The *Chester Upland School District* should:

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

Management Response

Management provided a response indicating agreement with the finding but providing no further comment.

Finding No. 4 →

Budgets Exceeded in Total

Criteria relevant to the finding:

PSC 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.

Our audit found that the District’s local 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, CUSD had a deficit fund balance of \$6,746,829 as of June 30, 2004; however, the other years had a positive fund balance.

The school district over-expended its budget, as follows:

<u>School Year</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Over Expended</u>
2008-09	\$100,234,810	\$109,550,336	\$ 9,315,526
2006-07	84,227,048	86,749,041	2,521,993
2004-05	81,857,508	88,138,109	6,280,601
2003-04	77,986,512	82,573,399	4,586,887
2002-03	75,019,959	77,474,302	2,454,343
		Total	<u>\$25,159,350</u>

The board of control violated PSC Section 609 when it authorized expenditures that exceeded budgeted amounts.

In addition, our review of the actual expenditures and the actual revenues for the period found a practice of deficit spending for the years ended June 30, 2009, 2005 and 2004, as follows:

<u>School Year</u>	<u>Actual Expenditures</u>	<u>Actual Revenue</u>	<u>Deficit Spending</u>
2008-09	\$109,550,336	\$105,691,056	\$3,859,280
2004-05	88,138,109	82,708,202	5,429,907
2003-04	82,573,399	75,546,172	7,027,227

The major areas of over-expenditure that resulted from inadequate allowances in the budget were as follows:

		Budgeted	Actual	Over-
		<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditure</u>
<u>2008-09</u>				
Instruction:	Special Programs	21,483,236	22,814,169	1,330,933
	Other Instructional Programs	2,415,364	3,722,122	1,306,758
	Pre-K Instructional Programs	117,677	845,198	727,521
Support Services:	Instructional Staff	1,663,036	2,760,641	1,097,605
	Operation & Maintenance of Plant Services	10,328,864	12,014,565	1,685,701
<u>2006-07</u>				
Instruction:	Regular Programs	36,240,515	38,904,628	2,664,113
Support Services:	Administration	4,208,296	5,041,054	832,758
<u>2004-05</u>				
Instruction:	Regular Programs	30,149,018	34,502,215	4,353,197
	Special Programs	16,519,903	17,739,945	1,220,042
Support Services:	Instructional Staff	1,308,235	1,974,838	666,603
	Administration	6,703,777	7,441,819	738,042
	Student Transportation Services	2,577,188	3,436,488	859,300
<u>2003-04</u>				
Instruction:	Regular Programs	31,620,471	34,230,031	2,609,560
	Special Programs	15,064,249	17,010,016	1,945,767
Support Services:	Instructional Staff	1,082,013	2,079,501	997,488
	Operation & Maintenance of Plant Services	7,438,204	8,035,118	596,914
	Student Transportation Services	2,445,347	3,556,354	1,111,007
<u>2002-03</u>				
Instruction:	Regular Programs	31,852,045	33,986,248	2,134,203
	Special Programs	15,615,731	16,394,902	779,171
Support Services:	Administration	4,880,751	5,878,686	997,935
	Student Transportation Services	2,300,266	3,053,666	753,400
	Central	999,020	1,708,926	709,906

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 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:

During the above reference[d] years, it appears that appropriate amounts were not allocated to budget accounts. This allocation would have covered anticipated expenditures associated with collective bargaining unit agreements and other various expenditures.

Observation No. 1

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Criteria relevant to the finding:

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.

Similarly, Section 6355 of the 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.

The ultimate purpose of the requirements detailed in the box to the left is to ensure the protection of the 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 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 on the list at all. 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. 1 beginning on page 8 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. 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

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 provided a response indicating agreement with the observation but making no further comment.

Observation No. 2

Criteria relevant to the observation:

Section 1303-A(c) of the PSC provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property.

Additionally, a Basic Education Circular issued by DE entitled Safe Schools and Possession of Weapons, as well as the Complete All-Hazards School Safety Planning Toolkit disseminated by the Pennsylvania Emergency Management Association, contain a sample MOU format to be used by school entities. Section VI, General Provisions, item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memoranda of Understanding Not Updated Timely

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.

The failure to update MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Chester Upland School District* should:

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.

Response of Management

Management provided a response indicating agreement with the observation but providing no further comment.

Observation No. 3

What is logical access control?

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

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

Logical Access Control Weaknesses and Unmonitored Vendor System Access

Our prior audit found that the CUSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). These applications run on an IBM AS/400 server. Security-related system values in an AS/400 environment are designated with a “Q” followed by a specific name for each system value. These default settings are not always set for adequate security and control and therefore certain settings should be changed immediately after installation. Furthermore, all system settings should be reviewed periodically to determine if changes are necessary due to upgrades/changes to the network or applications. We reviewed the information technology (IT) controls over this system. Our review found the following weakness continued, as reported in our prior audit report:

1. All users have access to the command line, which provides the ability to perform powerful system functions that exceed their normal system authority as defined within their individual user profiles.
2. One of the six powerful IBM supplied user profiles was enabled.
3. There is no formal authorization to document the approval of application changes to the production environment.
4. The computer room contains fire detection, but not water detection. Furthermore, the temperature and humidity controls are not monitored and there was no fire suppression equipment.

Additionally, our current audit found that the software vendor has remote access into the District’s network servers. Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. Further, the District does not perform formal, documented reconciliations between manual records and computerized

records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, the risk of unauthorized changes is increased.

Logical access control weaknesses and unmonitored vendor system access could lead to unauthorized changes to the District's membership information and result in the District not receiving the funds to which it was entitled from the state.

Best practices in IT security include: limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring the system to ensure integrity of key databases and applications; regulating changes to software; restricting physical access; implementing and maintaining minimum environmental controls; and planning for contingencies.

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

1. The District does not have evidence it is generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
2. The District does not have any compensating controls that would mitigate the IT weaknesses and alert the District to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.
3. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
4. The contract with the vendor did not contain a non-disclosure agreement for the District's proprietary information.

5. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
6. The District does not have current IT policies and procedures for controlling the activities of vendor/consultants, nor does it require vendor to sign the District's Acceptable Use Policy.
7. The District's Acceptable Use Policy does not include provisions for authentication (password and syntax requirements). Further, the employees are not required to sign the policy.
8. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change passwords every 30 days and to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters.

As data elements supporting District reports and applications are maintained and processed on the District's IBM AS/400, the integrity of the control environment surrounding the computer system is critical to ensure the accuracy of membership/attendance data that supports state subsidy calculations and to provide a reliable audit trail. Further, as more reliance is placed on networked computers, appropriate controls are essential for ensuring a secured environment.

Recommendations

The *Chester Upland School District* should:

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 profile 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 userIDs 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.

Management Response

Management waived the opportunity to respond to the observation at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Chester Upland School District (CUSD) for the school years 2001-02, 2000-01, 1999-2000 and 1998-99 resulted in four reported findings, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the CUSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the CUSD did implement recommendations related to Finding No. 2, did not implement recommendations related to Findings No. 1 and No. 3, and did not fully implement recommendations related to Finding No. 4.

<i>School Years 2001-02, 2000-01, 1999-2000 and 1998-99</i>		
<i>Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Budgets Exceeded in Total by \$11,206,172</i></u></p> <ol style="list-style-type: none"> 1. Ensure adequate controls are in place to comply with Section 609 of the Public School Code and do 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. 4. Develop and approve a plan that provides for the systematic reduction of the general fund deficit. 	<p>Background:</p> <p>Our prior audit of the District's annual financial reports found that for the school years ended June 30, 2002, 2001 and 2000, the budgets were exceeded in total by \$11,206,172. Furthermore, the fund balance decreased from a surplus of \$10,150,482 as of July 1, 1998, to a deficit of \$7,131,297 as of June 30, 2002.</p> <p>In addition, our review of the actual revenues versus the actual expenditures for the period found a practice of deficit spending for the years ended June 30, 2002, 2001 and 1999 in the amounts of \$6,902,730, \$6,843,569 and \$4,631,933, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that for the school years ended June 30, 2009, 2007, 2005, 2004 and 2003 the budgets were exceeded in total by \$25,159,350 (see Finding No. 4, page 18).</p>

<p><u>II. Finding No. 2: Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Put procedures in place to compare teachers' and administrators' certifications to the certification requirements of the assignments the District intends to give them. 2. Prior to the beginning of each school year, submit job descriptions to DE's Bureau of School Leadership and Teacher Quality (BSLTQ) for review of all new locally titled professional positions, to ensure that assigned individuals hold the appropriate certification. 3. Put procedures in place so that they will not hire any individuals prior to the issuance of their professional certification, and to ensure individuals with provisional certificates receive permanent certification before they expire. 4. Reassign the improperly assigned individuals cited to areas for which they are properly certified. 	<p><u>Background:</u></p> <p>Our prior audit found a total of 58 positions were cited for certification deficiencies. Seventeen of the deficiencies were a continuation of deficiencies cited in the prior report.</p> <p>Information pertaining to the assignments considered questionable was submitted to BSLTQ for its review. BSLTQ subsequently confirmed the individuals were not properly certified. Consequently, the District was subject to subsidy forfeitures of \$75,035.</p>	<p><u>Current Status:</u></p> <p>Our current audit found that the District and DE executed a Settlement and Release Agreement dated July 28, 2004 reducing the subsidy forfeitures to \$988. DE recovered the subsidy forfeitures in the District's December 2004 payment of the basic education funding allocations.</p> <p>As noted in the background section of this report, the District was declared an empowerment district. The Education Empowerment Act allows 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.</p> <p>Our current audit found that although 100 percent of the professional staff did not hold appropriate certification, more than 75 percent of the staff did, as required by applicable law. The District is reviewing teacher personnel folders, checking certifications on-line at DE, and assisting teachers to obtain required certification.</p>
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<p><u>III. Finding No. 3: Errors in Reporting Health Services Data Resulted in Reimbursement Underpayments of \$22,890</u></p> <ol style="list-style-type: none"> 1. Ensure that average daily membership (ADM) is properly reported for all eligible students. 	<p><u>Background:</u></p> <p>Our prior audit found that the District's health services reimbursement applications submitted to the Department of Health (DH) for the 2001-02, 2000-01, 1999-2000 and 1998-99 school years incorrectly reported ADM for students who received health services during all four years. These errors resulted in underpayments of \$22,890.</p>	<p><u>Current Status:</u></p> <p>Our current audit found that the District's health services reimbursement applications submitted to DH again understated ADM; however, the effect on reimbursement was not significant. We again recommend that the CUSD</p>
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<p>2. Reconcile health services ADM to year-end membership summary reports.</p> <p>3. DH should adjust the District's allocations to resolve the underpayments of \$22,890.</p>		<p>ensure that ADM is properly reported for all eligible students and to reconcile health services ADM to year-end membership summary reports.</p> <p>Our current audit also found that the CUSD did not retain sufficient documentation for audit for the 2005-06 and 2004-05 school years as reported in Finding No. 2 (see page 11).</p> <p>On August 3, 2006, DH paid \$22,890 to resolve the prior underpayments.</p>
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<p><u>IV. Finding No. 4:</u> <u>Inadequate Information</u> <u>Technology Controls</u></p> <p>1. Except for a select few authorized users with a functional need, the system value LMTCPB should be set to "YES," restricting command line access, which allows them, at a minimum, to define initial programs, menus, current libraries or attention-key handling values.</p> <p>2. The six powerful default profiles (QPGMR, QSYSOPR, QUSER, QSRV, QSRVBAS, and QSECOFR) should be disabled. If the District does not disable these profiles, then the District should at least set the "NONE" parameter to "YES," (i.e. no one can sign-on to the profile).</p> <p>3. The system value</p>	<p>Background:</p> <p>Our prior audit found that CUSD uses software purchased from an outside vendor for its critical student accounting (membership and attendance) applications. These applications run on an IBM AS/400 server. Security-related system values in an AS/400 environment are designated with a "Q" followed by a specific name for each system value. These default settings are not always set for adequate security and control and therefore certain settings should have been changed immediately after installation.</p>	<p>Current Status:</p> <p>In February 2008, we reviewed the status of these corrective actions and found that the District was able to provide evidence to support corrective action for all prior year recommendations except for items 1, 11, 13 and part of item 2, as reported in our current Observation No. 3 (see page 25).</p>
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<p>QLMTSECOFR should be set to one, allowing users with the special authorities of *ALLOBJ and/or *SERVICE to be limited to only one, secure terminal.</p> <p>4. The system value QLMTDEVSSN should be set to one, allowing users to log on to only one terminal at a time.</p> <p>5. The system value QAUTOVRT should be set to zero, allowing the System Administrator to explicitly control the number and use of virtual devices on the system.</p> <p>6. The system value QPWDEXPITV should be set to at least 60 days with 30 days being preferred, requiring users to change their passwords every 60 or 30 days.</p> <p>7. The system value QPWDRQDDIF should be set to five so the new password cannot be the same as the last ten passwords.</p> <p>8. The system value QPWDMINLEN should be set to a minimum of six with eight or more being preferred, requiring users' passwords to be at least six characters in length.</p> <p>9. The system value QDSPSGNINF should be set to one, which would log the previously successful</p>		
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<p>sign-on information and password violations for user profiles up their signing on.</p> <p>10. Additional system values that could enhance password control should be considered. Consideration should be given to the activation of the following system values; QPWDPOSDIF, QPWDLMTAJC, QPWDLMTCHR, QPWDLMTREP, and QPWDRQDDGT.</p> <p>11. The District should require written authorization from someone above the person implementing an application change to the production environment.</p> <p>12. The District should develop and implement information technology security policies and procedures.</p> <p>13. Because the computer room is in the basement, it should contain water detection and temperature/humidity controls. The computer room should also include fire suppression equipment.</p>		
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Distribution List

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

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

The Honorable Ronald D. Tomalis
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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