

CHESTNUT RIDGE SCHOOL DISTRICT  
BEDFORD COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2012



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

Mr. William Pataki, Board President  
Chestnut Ridge School District  
3281 Valley Road  
Fishertown, Pennsylvania 15539

Dear Governor Corbett and Mr. Pataki:

We conducted a performance audit of the Chestnut Ridge School District (CRSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 15, 2009 through April 9, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the CRSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendation has been discussed with CRSD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve CRSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CRSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

August 13, 2012

cc: **CHESTNUT RIDGE SCHOOL DISTRICT** Board Members

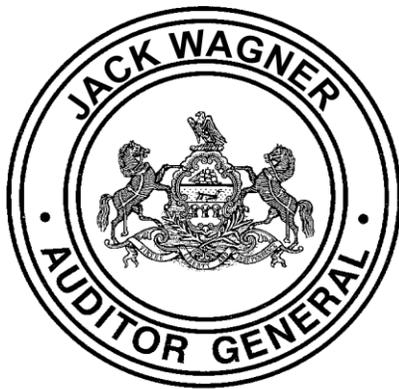


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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period May 15, 2009 through April 9, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10, 2008-09, 2007-08 and 2006-07.

### **District Background**

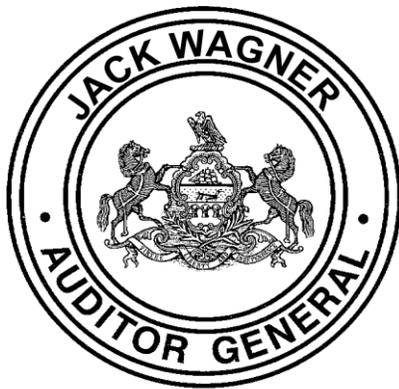
The CRSD encompasses approximately 225 square miles. According to 2010 federal census data, it serves a resident population of 10,688. According to District officials, in school year 2009-10 the CRSD provided basic educational services to 1,592 pupils through the employment of 129 teachers, 86 full-time and part-time support personnel, and 10 administrators. Lastly, the CRSD received more than \$12 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the CRSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

**Finding: Errors in Reporting Pupil Membership Data Resulted in Reimbursement Overpayments Totaling \$9,638.** Our audit of pupil membership reports found errors in reporting nonresident membership (see page 7).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the CRSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CRSD had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 9). CRSD had also taken appropriate corrective action in implementing our recommendations pertaining to the two observations regarding unmonitored vendor system access and logical access control weaknesses and a Memorandum of Understanding that was not updated timely (see page 10).



## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

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

Our audit covered the period May 15, 2009 through April 9, 2012, except for the verification of professional employee certification which was performed for the period April 23, 2009 through February 27, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 2007-08 and 2006-07.

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

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, contract, policy, 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

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 CRSD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

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

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District and any contracted vendors ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## Methodology

*What are internal controls?*

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

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

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

CRSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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

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

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, 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 CRSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 11, 2009, we reviewed the CRSD's response to PDE dated June 30, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding →

### **Errors in Reporting Pupil Membership Data Resulted in Reimbursement Overpayments Totaling \$9,638**

*Criteria relevant to the finding:*

Section 2503 of the Public School Code provides for reimbursement on behalf of children placed in private homes.

Membership data must be reported in accordance with DE guidelines and instructions to ensure that the correct subsidies and reimbursements are received.

DE provides guidelines governing the classification of nonresident children placed in private homes by the court.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors. These errors resulted in overpayments in Commonwealth-paid tuition for nonresident children placed in private homes of \$6,048 and \$3,590 for the 2009-10 and 2008-09 school years, respectively.

The auditors found that in both the 2009-10 and 2008-09 school years District personnel classified one resident student as a nonresident child placed in a private home within the District. The errors resulted in nonresident elementary membership days being overstated by 177 days in the 2009-10 school year, and kindergarten nonresident membership days being overstated by 98 days in the 2008-09 school year.

The membership errors resulted from improperly reporting a pre-adoptive resident student's membership days as nonresident days for the 2009-10 and 2008-09 school years. The District corrected the error for the 2010-11 school year.

We have provided PDE with reports detailing the errors for use in recalculating the District's tuition for nonresident children placed in private homes reimbursement.

### **Recommendations**

The *Chestnut Ridge School District* should:

1. Strengthen internal controls to ensure accurate reporting of pupils.
2. Thoroughly review all child accounting data for accuracy prior to submission to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust future District allocations to correct the overpayments of \$9,638.

**Management Response**

Management stated the following:

“The student was a pre-adoptive child. The school district did not receive notice from the agency that the child was in a pre-adoptive setting; this letter was not received until March 2011. He was adopted in October, 2010. The school district was not notified properly by [the placing agency], causing the district to have an error.

“Corrective Action:

“District will implement a plan asking whether the student is in a foster, pre-adoptive, or in an adoptive setting. This question will be asked during enrollment period of the child. Yearly follow-up will be conducted at this time with the placement agencies.”

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

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Our prior audit of the Chestnut Ridge School District (CRSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two reported observations. The finding pertained to certification deficiencies, and the two observations pertained to unmonitored vendor system access and logical access control weaknesses and a Memorandum of Understanding that was not updated timely. 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 CRSD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the CRSD implemented recommendations related to the finding and observations as noted in the chart below.

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

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**Finding:**                      **Certification Deficiencies**

Finding Summary:      Our prior audit of the professional employees' certificates and assignments for the period July 1, 2005 through April 23, 2009, found three individuals were teaching with lapsed certificates during the 2007-08 school year, resulting in a subsidy forfeiture of \$4,346.

Recommendations:      Our audit finding recommended that the CRSD:

Put procedures in place to track teaching years on a certificate and make sure permanent certification is received before a certificate lapses.

We also recommended that PDE:

Adjust the District's allocations to recover any subsidy forfeiture resulting from BSTLQ's review.

Current Status:              During our current audit procedures we found that the CRSD did implement the recommendations by creating a separate list of all employees who hold level I certificates, and then using this file to track teaching years on the temporary certificates.

PDE recovered \$4,346 from the CRSD by deducting it from the District's June 1, 2010 basic education funding payment.

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

Observation

Summary:

The CRSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations:

Our audit observation recommended that the CRSD:

1. Ensure it is maintaining evidence that it was reviewing monitoring reports of user remote access and activity on the system.
2. Require the vendor to sign the District's Acceptable Use Policy.
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., approximately ten passwords) and to lock out users after three unsuccessful access attempts.

Current Status:

During our current audit procedures we found that the CRSD has implemented recommendations 2 and 3, but has not yet implemented recommendation 1. We again recommend that they do so.

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**Observation No. 2: Memorandum of Understanding Not Updated Timely**

Observation

Summary:

Our prior audit found that the Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police was signed February 15, 2007, and had not been updated.

Recommendations:

Our audit observation recommended that the CRSD:

1. In consultation with the District's solicitor, review, update and re-execute the current MOU between the District and the Pennsylvania State Police.

2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit procedures we found that the CRSD reviewed and re-executed the MOU on July 20, 2009. The current MOU is signed and dated June 6, 2010. CRSD did not adopt a written policy, but the business manager monitors the date of the MOU closely to be sure the MOU is renewed in a timely manner.



## **Distribution List**

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

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  
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Harrisburg, PA 17120

Ms. Nichole Duffy  
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Dr. David Davare  
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