

CHESTNUT RIDGE SCHOOL DISTRICT
BEDFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2009

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Robert Mickle, Board President
Chestnut Ridge School District
3281 Valley Road
Fishertown, Pennsylvania 15539

Dear Governor Rendell and Mr. Mickle:

We conducted a performance audit of the Chestnut Ridge School District (CRSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 10, 2005 through May 15, 2009, 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, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified two 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 finding, observations and recommendations have been discussed with CRSD's management and their responses are 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 and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 11, 2009

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

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Finding – Certification Deficiencies	6
Observation No. 1 – Unmonitored Vendor System Access and Logical Access Control Weaknesses	8
Observation No. 2 – Memorandum of Understanding Not Updated Timely	10
Status of Prior Audit Findings and Observations	12
Distribution List	13



Executive Summary

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, regulations, 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 November 10, 2005 through May 15, 2009, 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 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The CRSD encompasses approximately 225 square miles. According to 2000 federal census data, it serves a resident population of 10,727. According to District officials, in school year 2005-06 the CRSD provided basic educational services to 1,779 pupils through the employment of 122 teachers, 78 full-time and part-time support personnel, and 10 administrators. Lastly, the CRSD received more than \$10 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the CRSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding and two matters unrelated to compliance that are reported as observations.

Finding: Certification Deficiencies. Three CRSD employees were teaching with lapsed certificates (see page 6).

Observation 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses. Weaknesses were noted in the review of the CRSD's information technology controls (see page 8).

Observation 2: Memorandum of Understanding Not Updated Timely. The CRSD did not update their Memorandum of Understanding with local law enforcement (see page 10).

Status of Prior Audit Findings and Observations. Our prior audit found no findings or observations for the school years 2003-04 and 2002-03.



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 November 10, 2005 through May 15, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2005 through April 23, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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

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 CRSD'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?

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.

- ✓ 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?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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 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, regulations, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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.

CRSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with 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.
- Tuition receipts and deposited state funds.

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

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1202 of the Public School Code 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 Public School Code 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 Department of Education but who has not been certificated for his position by the 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 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 possible subsidy forfeiture of \$4,346. The individuals received permanent certification in their subject areas prior to teaching the 2008-09 school year.

Certification deficiencies are not determined by this department. Information pertaining to the assignment in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), the Department of Education for its review. On June 13, 2009, BSTLQ determined the teachers were not properly certified.

Recommendations

The *Chestnut Ridge School District* should:

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

The *Department of Education* should:

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

Management Response

Management stated the following:

The District discovered the certification error prior to the audit. The errors were self reported to the Department of Education for a determination. The Superintendent had addressed the issue with the teachers in violation. The Superintendent also has begun a tracking procedure to monitor teachers who are working towards a level II certification and when they need to be completed. The Superintendent has met with union representation and teacher mentors to explain the importance of such violations.

Observation No. 1

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Chestnut Ridge School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The 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 they are adequately monitoring all vendor activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the district would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses 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.

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

- The District does not have evidence they are reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees).
- The District does not require the vendor to sign the District’s Acceptable Use Policy.

- 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 their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords) and to lock out users after three unsuccessful access attempts.

Recommendations

The *Chestnut Ridge School District* should:

1. Ensure it is maintaining evidence that they are 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 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. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and to lock out users after three unsuccessful access attempts.

Management Response

Management stated the following:

The District will work to create and review reports that monitor usage by remote users and other activity on the system. The District will require [the vendor] to sign the District's Acceptable Use Policy. The District will work with all software and network providers to implement logical access controls consistent with the observation recommended. We will develop changes in passwords every 30 days, eight character passwords that are alpha, numeric and special characters. We will maintain a password history and lock out users after three unsuccessful access attempts.

Observation No. 2 →

Memorandum of Understanding Not Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement that 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. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Educational Circular (BEC) issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU 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. (Emphasis added).

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police was signed February 15, 2007, and has not been updated.

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 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 *Chestnut Ridge School District* should:

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.

Management Response

Management stated the following:

The District will update the Memorandum of Understanding with the local law enforcement agencies. The two year deadline had expired and the District representative responsible for maintaining the agreement has been out on medical sabbatical. The District will renew the agreement every two years as outlined in the agreement.

Status of Prior Audit Findings and Observations

Our prior audit of the Chestnut Ridge School District for the school years 2003-04 and 2002-03 resulted in no findings or observations.

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:

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