

FERNDALE AREA SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Ridley Banks, Board President
Ferndale Area School District
100 Dartmouth Avenue
Johnstown, Pennsylvania 15905

Dear Governor Corbett and Mr. Banks:

We conducted a performance audit of the Ferndale Area School District (FASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 20, 2009 through June 23, 2011, 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 and June 30, 2009. 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 FASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the 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 recommendations have been discussed with FASD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve FASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the FASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 23, 2012

cc: **FERNDAL AREA 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 Ferndale Area School District (FASD). 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 FASD in response to our prior audit recommendations.

Our audit scope covered the period May 20, 2009 through June 23, 2011, 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 and 2008-09.

District Background

The FASD encompasses approximately 6 square miles. According to 2010 federal census data, it serves a resident population of 5,100. According to District officials, in school year 2009-10 the FASD provided basic educational services to 798 pupils through the employment of 67 teachers, 36 full-time and part-time support personnel, and 8 administrators. Lastly, the FASD received more than \$6.9 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the FASD 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: Failure to Have All School Bus Drivers' Qualifications on File. Our audit of the FASD's school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit. Additionally, the documentation was not provided to the FASD by the contractor as specified in the transportation contract (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the FASD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the FASD did take appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access (see page 9).



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 May 20, 2009 through June 23, 2011, except for the verification of professional employee certification which was performed for the period August 1, 2010 through April 30, 2011.

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

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 statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the FASD'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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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

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.

FASD 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.

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 bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 1, 2009, we reviewed the FASD's response to DE dated February 17, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Failure to Have All School Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's license and passing a physical examination.

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

Section 111 also requires an FBI fingerprint record check for all employees hired on or after April 1, 2007.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit 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 a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the Ferndale Area School District's (FASD) school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit. Additionally, the documentation was not provided to the District by the contractor as specified in the board's policy.

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

We reviewed the personnel records of all 19 bus drivers who are currently employed by the FASD's pupil transportation contractor. Our review found that the District did not have on file, at the time of the audit, a current valid driver's license and valid 'S' endorsement card for one driver, a current physical examination form for one driver, and clearances for six drivers. Subsequently, some of these deficiencies were resolved. However, FBI fingerprint record checks for three drivers and a child abuse clearance statement for one driver had not been obtained as of completion of fieldwork.

The audit also found the board of directors failed to approve all the 2010-11 school year bus drivers utilized by the contractor as required by State Board of Education Regulations. The board did not approve the bus routes, which includes the identification of the bus route driver.

The contractor also failed to provide the District with copies of all drivers' licenses and clearances prior to the commencement of the school year as required by the Board's policy.

By not having required bus drivers' qualification documents on file at the District, the District was not able to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers

transport students, there is an increased risk to the safety and welfare of students.

On May 23, 2011, we informed District management of the missing documentation and instructed them to obtain the necessary documents so that they can ensure the drivers' are properly qualified to continue to have direct contact with children. As of the end of our fieldwork, June 23, 2011, FASD management had not yet provided us with all of the necessary documentation for four drivers, as noted previously. Therefore, we were unable to verify that drivers' were properly qualified to have direct contact with children.

Recommendations

The *Ferndale Area School District* should:

1. Immediately obtain from the transportation contractor 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 manager 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.
4. Obtain the board of director's approval of bus routes and bus drivers prior to transporting students.

Management Response

Management stated the following:

The District should have, on file in the District office, a list of all school bus drivers serving our schools as well as Act 34, Act 151, and Act 114 clearances [Pennsylvania criminal history record, child abuse clearance statement, and federal criminal history record, respectively] on file for each driver. Prior to the August board meeting each year, the bus contractor will be required to submit a list of all drivers for the upcoming school year, and present all required clearances for any new drivers or drivers with a break in service. If any new drivers are added during the school year, the District must be notified immediately, and

be in receipt of all required clearances prior to that driver beginning service. If any driver leaves service, the District must also be notified immediately.

A formal letter will be presented to [the transportation contractor] outlining these expectations. FASD Business Manager (who is the District Transportation Manager) and the Superintendent will meet with the management of [the transportation contractor] to explain these expectations and requirements. The letter and meeting will also detail consequences for failure to comply with our request and Pennsylvania Code. Failure to comply with the expectations will be viewed as a breach of contract, and could result in a termination of contract.

Status of Prior Audit Findings and Observations

Our prior audit of the Ferndale Area School District (FASD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported observation. This observation pertained to unmonitored vendor system access. 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 FASD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the FASD did implement recommendations related to unmonitored vendor system access and logical access control weaknesses.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

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

Observation Summary:

Our prior audit found 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 FASD:

1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the 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.
2. 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 remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Allow access to its system only when the vendor needs to access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.

4. Include in the contract with the vendor a non-disclosure agreement for the District's proprietary information.
5. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
6. Include in the District's Acceptable Use Policy provisions for authentication (password security and syntax requirements).
7. 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. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and lock out users after three unsuccessful attempts.

Current Status:

During our current audit procedures we found that the FASD did take appropriate corrective action in implementing our recommendations.

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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