

GENERAL MCLANE SCHOOL DISTRICT
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2011

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

Ms. Melodee Kushner, Board President
General McLane School District
11771 Edinboro Road
Edinboro, Pennsylvania 16412

Dear Governor Corbett and Ms. Kushner:

We conducted a performance audit of the General McLane School District (GMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 16, 2009 through July 14, 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 GMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

November 14, 2011

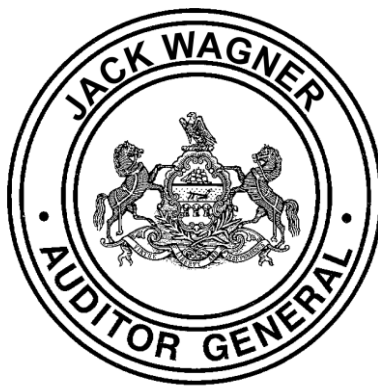
JACK WAGNER
Auditor General

cc: **GENERAL MCLANE 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 General McLane School District (GMSD). 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 GMSD in response to our prior audit recommendations.

Our audit scope covered the period September 16, 2009 through July 14, 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 GMSD encompasses approximately 114 square miles. According to 2010 federal census data it serves a resident population of 17,300. According to District officials, in school year 2009-10 the GMSD provided basic educational services to 2,192 pupils through the employment of 172 teachers, 154 full-time and part-time support personnel, and 11 administrators. Lastly, the GMSD received more than \$14 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the GMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

Finding No. 1: Errors in Reporting Pupil Membership for Nonresident Children Placed in Private Homes Resulted in Reimbursement Overpayments of \$16,991. Our audit of pupil membership reports submitted to the Department of Education for the 2009-10 and 2008-09 school years found errors in the reporting of membership days for children placed in private homes (see page 6).

Finding No. 2: School Bus Drivers' Qualifications Deficiencies. Our audit of the GMSD's school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit (see page 8).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. Our audit found that the GMSD 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 10).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the GMSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the GMSD had taken appropriate corrective action in implementing one of our two recommendations pertaining to pupil membership (see page 14).

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 September 16, 2009 through July 14, 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 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 GMSD'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?
- ✓ 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, 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, observations and conclusions based on our audit objectives.

GMSD 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 bus driver qualifications, professional employee certification, state ethics compliance, bidding, 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 GMSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 12, 2010, we reviewed the GMSD's response to DE dated March 16, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Errors in Reporting Pupil Membership for Nonresident Children Placed in Private Homes Resulted in Reimbursement Overpayments of \$16,991

Criteria relevant to the finding:

Section 1305 of the Public School Code provides the criteria for identifying a nonresident child placed in the home of a resident.

Section 2503 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found errors in the reporting of pupil membership days for children placed in private homes. The errors resulted in overpayments of \$8,739 and \$8,252 for the 2009-10 and 2008-09 school years, respectively.

In the 2009-10 school year the District reported three resident students as nonresident foster students, resulting in an overstatement of 9 days of membership for elementary students and 179 days for secondary students.

In the 2008-09 school year the District reported three resident students as nonresident foster students, resulting in an overstatement of 127 elementary days and 65 secondary days.

The errors were caused by District personnel's failure to review all source documentation available in their files thoroughly.

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

Recommendations

The *General McLane School District* should:

1. Carefully perform an internal audit of pupil membership records prior to submitting them to DE, to ensure all students are classified correctly.
2. Review reports for school years subsequent to our audit years for pupil classification accuracy, and revise them if necessary.

The *Department of Education* should:

3. Amend the District's membership reports and adjust the District's allocations to recover the overpayments of \$16,991.

Management Response

Management stated the following:

We concur with the finding and agree errors were made in reporting nonresident children placed in private homes. We have implemented new procedures since the prior audit including an annual request of support documentation from the Office of Children and Youth for all pupils placed in private homes, additional training for administrators and clerical staff and implemented a central registration process. Unfortunately, the Office of Children and Youth has not been cooperative with our annual requests since after the 2008-09 school year. We will continue to review pupil membership reports for proper student classification prior to submission to DE. We will review membership data for subsequent years to verify nonresident pupils placed by the courts are properly classified.

Finding No. 2 →

School Bus Drivers' Qualifications Deficiencies

Criteria relevant to the finding:

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's license, the completion of school bus driver skills and safety training, and passing a physical examination.

Section 111 (c.1) of the Public School Code requires an FBI fingerprint record check for all employees hired on or after April 1, 2007, and further provides that administrators must maintain a copy of the required information.

Our audit of the District's school bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit.

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 32 of 61 bus drivers currently employed by the District. The drivers were selected at random.

Our audit found that the District did not have on file, at the time of the audit, current valid driver's licenses and/or valid 'S' endorsement cards (showing completion of skills and safety training) for four drivers, and one driver did not have the official federal criminal history clearance form on file.

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.

The failure to obtain the qualification documents could result in a driver who is not properly licensed, or drivers who are potentially unsuitable to have direct contact with children, transporting students.

On July 12, 2011, we informed General McLane School District (GMSD) management of the missing documentation and instructed them to immediately obtain the necessary documents.

Prior to the date of completion of fieldwork for the audit, District personnel provided copies of current valid driver's licenses and/or valid 'S' endorsement cards for 3 out of the 4 drivers lacking them. The District had not obtained the remaining "S" endorsement card and the missing official federal criminal history clearance form as of fieldwork completion.

Recommendations

The *General McLane School District* should:

1. Immediately obtain the documentation referred to in our finding that is still missing to ensure drivers have proper qualifications.
2. Ensure all bus drivers' qualifications documents are on file prior to hiring them to transport students.
3. Ensure that all the bus driver's personnel files are kept up-to-date.

Management Response

Management stated the following:

We concur with the finding and agree the District did not have on file, at the time of audit, current valid driver's licenses and/or valid 'S' endorsement cards for four drivers and one driver did not have the Act 114 federal criminal history clearance form on file. The District obtained copies of valid 'S' endorsement cards for three of the four drivers prior to the end of field work. The fourth driver, a substitute, will not be re-hired at the August 17, 2011 Board Meeting unless we are provided with valid qualification documents. The District will have the one driver obtain an official Act 114 federal criminal history clearance form to replace the unofficial "employee" federal criminal history clearance form on file. The District will modify its process for obtaining driver licenses and 'S' endorsement cards copies to ensure that all of the bus driver's personnel files are kept up to date and will further review that all bus driver's qualifications are on file prior to hiring them.

Observation →

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 GMSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). 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. 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.

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.

Best practices in information technology (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 audit, we found the District had the following weaknesses over vendor access to the District’s system:

1. The District does not have a formal contract with the vendor to provide student accounting applications and related IT services.

2. The District's Acceptable Use Policy does not include provisions for authentication (e.g., password security and syntax requirements) and violations/incidents (what is to be reported and to whom). Further, the employees are not required to sign the policy.
3. The District does not require written authorization before deleting or changing a userID.
4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users to change passwords every 30 days or the maintenance of a password history (i.e., approximately ten passwords). In addition, users are not locked out after three unsuccessful attempts.
6. The District does not have evidence it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees).

Recommendations

The *General McLane School District* should:

1. Develop an agreement with the vendor to provide student accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. The Acceptable Use Policy should include provisions for authentication (e.g., password security and syntax requirements) and violations/incidents (what is to be reported to and to whom). Further, the employees should be required to sign the policy.
3. Develop policies and procedures to require written authorization when deleting or changing a userID.

4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Implement a security policy and system parameter settings to require all users to change their passwords on a regular basis (i.e., every 30 days). Also, maintain a password history that will prevent the use of repetitive passwords (i.e., last ten passwords), and lock out users after three unsuccessful attempts.
6. 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 the data was not improperly altered. The District should also ensure it is maintaining evidence to support the monitoring and review.

Management Response

Management stated the following:

We concur with the observation that we have unmonitored vendor system access and logical access control weaknesses with our student information system.

1. The District will obtain an agreement/contract with the vendor that provides student accounting applications.
2. The District will revise the Acceptable Use Policy or create Administrative Regulations to include provisions for authentication (e.g., password security and syntax requirements) and violations/incidents (what is to be reported to and to whom). The District will require employees to sign the policy.
3. The District will create Administrative Regulations to require written authorization when deleting or changing a user id.
4. The District will maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

5. The District will implement a security policy and system parameter settings to require all users to change their passwords on a regular basis, maintain a password history that will prevent the use of repetitive passwords and lock out users after 3 unsuccessful attempts.
6. The District will generate, review and document monitoring reports of vendor and employee access and activity on their system to determine that access was appropriate and the data was not improperly altered.

Status of Prior Audit Findings and Observations

Our prior audit of the General McLane School District (GMSD) for the school years 2007-08 and 2006-07 resulted in one reported finding. The finding pertained to the area of pupil membership. 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 GMSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the GMSD implemented one of our two recommendations related to pupil membership but failed to implement the other.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding: **Internal Control Weaknesses and Lack of Documentation Supporting Pupil Membership for Nonresident Children Placed in Private Homes**

Finding Summary: Our prior audit of pupil membership records and reports submitted to DE for the 2007-08 and 2006-07 school years found internal control weaknesses and lack of documentation supporting pupil membership reported for nonresident children placed in private homes.

The District did not have on file the proper documentation to determine appropriate residency for nonresident children placed in private homes.

The documentation and clerical errors did not result in significant effects on any of the District's subsidies or reimbursements.

Recommendations: Our audit finding recommended that the GMSD:

1. Obtain supporting documentation from the Office of Children and Youth for all pupils currently placed in private homes within the District.
2. Review membership data for subsequent years to verify nonresident pupils placed by the courts are properly classified and submit revised reports, if necessary.

Current Status: During our current audit procedures we found that the GMSD implemented the first recommendation. However, they did not follow the second recommendation to review membership data for subsequent years to verify that nonresident pupils placed by the courts were properly classified, as evidenced by Finding No. 1 in this report (see page 6).

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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