

JIM THORPE AREA SCHOOL DISTRICT
CARBON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2010

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

Mr. Daniel McGinley, Board President
Jim Thorpe Area School District
410 Center Avenue
Jim Thorpe, Pennsylvania 18229

Dear Governor Rendell and Mr. McGinley:

We conducted a performance audit of the Jim Thorpe Area School District (JTASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period February 9, 2007 through October 28, 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, 2008 and June 30, 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 JTASD 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 and observations and recommendations have been discussed with JTASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve JTASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the JTASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

March 25, 2010

cc: **JIM THORPE 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 Jim Thorpe Area School District (JTASD). 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 JTASD in response to our prior audit recommendations.

Our audit scope covered the period February 9, 2007 through October 28, 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 2007-08 and 2006-07.

District Background

The JTASD encompasses approximately 137 square miles. According to 2000 federal census data, it serves a resident population of 11,428. According to District officials, in school year 2007-08 the JTASD provided basic educational services to 2,364 pupils through the employment of 161 teachers, 59 full-time and part-time support personnel, and 7 administrators. Lastly, the JTASD received more than \$4.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the JTASD 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: Ethics Act and Hiring Violations. Our audit of District records for the calendar year ended December 31, 2007, found that a board member resigned from the board on May 21, 2007, and was employed as the assistant director of transportation and coordinator of district security effective June 30, 2007 in violation of the Public School Code (see page 6).

Observation No. 1: Unmonitored IU System Access and Logical Access Control Weaknesses. We noted that JTASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit access to the student accounting applications (see page 7).

Observation No. 2: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.

Our audit found that the JTASD did not 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 which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children (see page 10).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the JTASD from an audit we conducted of the 2005-06, 2004-05, 2003-04, and 2002-03 school years, we found the JTASD had taken appropriate corrective action in implementing our recommendations pertaining to nonpublic pupils transported (see page 12).

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 February 9, 2007 through October 28, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 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 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 JTASD'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:

- ✓ 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 finding, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observations and conclusions based on our audit objectives.

JTASD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 17, 2007, we reviewed the JTASD's response to DE dated September 29, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 324(a) of the Public School Code (PSC) which provides, in part:

No school director shall, during the term for which he was elected or appointed, as a private person engaged in any business transaction with the school district in which he is elected or appointed, be employed in any capacity by the school district in which he is elected or appointed, or receive from such school district any pay for services rendered to the district. (Emphasis added)

Ethics Act and Hiring Violations

Our audit of District records for the calendar year ended December 31, 2007, found that a board member resigned from the board on May 21, 2007, and was employed as the assistant director of transportation and coordinator of District security effective June 30, 2007. The former board member was elected to serve in his public position until December 3, 2007.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees.

By hiring the board member prior to the expiration of his term, the District was in violation of Section 324 of the Public School Code (PSC).

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation as it deems necessary.

Recommendations

The *Jim Thorpe Area School District* should:

1. Refer to Section 324 of the PSC to ensure that they are aware of its provisions.
2. Seek the advice of its solicitor in regard to the board's responsibility when hiring a former board member as an employee of the District.

Management Response

Management stated the following:

Not having been superintendent at the time of this issue, my response as of this time would be: The District will continue to consult with the school's solicitor and the PA School Code concerning any and all issues that may be in question. Additionally, the school board will be provided with copies of the Code of Ethics.

Observation No. 1

Unmonitored IU System Access and Logical Access Control Weaknesses

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.

The Jim Thorpe Area School District (JTASD) uses software purchased from Carbon Lehigh Intermediate Unit (CLIU) for its critical student accounting applications (membership and attendance). Additionally, the JTASD’s entire computer system, including all its data and the above CLIU’s software are maintained on the CLIU’s servers which are physically located at the CLIU’s location. The JTASD has remote access into the CLIU’s network servers. The CLIU also provides the District with system maintenance and support.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the JTASD’s data could occur and not be detected because the JTASD was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. However, since the JTASD 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 JTASD would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored CLIU system access and logical access control weaknesses could lead to unauthorized changes to the JTASD’s membership information and result in the JTASD not receiving the funds to which it was entitled from the state.

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

1. The JTASD does not have current information technology (IT) policies and procedures for controlling the activities of the CLIU, nor does it require the CLIU to sign the JTASD’s Acceptable Use Policy.

2. The JTASD has certain weaknesses in logical access controls. We noted that the JTASD's system parameter settings do not require all users, including the CLIU, 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; and to maintain a password history (i.e., approximately ten passwords).

Recommendations

The *Jim Thorpe Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of the CLIU and have the CLIU sign this policy, or the JTASD should require the CLIU to sign the JTASD's Acceptable Use Policy.
2. Implement a security policy and system parameter settings to require all users, including the CLIU, 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 JTASD should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

Management Response

Management stated the following:

Access to our system by the Carbon-Lehigh Intermediate Unit #21, who serves as our application service provider (ASP), is monitored. They are the only outside vendor/agency currently allowed in our system. As tech support, they will access our system only when contacted by myself and with explicit permission. Logs are monitored that show logins.

The system has no password revision or history structure that allows a password history log or syntax restrictions to be put into place. Internally, requests are made to users to change their passwords on a periodic basis, but the district has not previously required syntax restrictions. Upon review of the recommendations, the district will pursue implementing a password policy requiring more regular password changes with syntax restrictions in order to maintain a more secure environment.

The district has a signed contract in regards to access and monitoring of our system but has not required them to sign an Acceptable Use Policy, as it really did not pertain to it in its scope. Upon review of the recommendations, we will request that the IU's employees with access to our data sign the district's AUP, which has been recently revised.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit. The observation will stand as presented.

Observation No. 2

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Criteria relative to the observation:

Section 111 of the Public School Code as amended, 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.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) 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.

Our review of the personnel records of the bus drivers who are currently employed by the JTASD and the District's transportation contractor found that these individuals possessed the minimum requirements to be employed as drivers and that the JTASD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files. There was no information contained in these reports that would have prohibited the JTASD from hiring any of the drivers. Therefore, we concluded that the JTASD has satisfied the minimum legal requirements set forth in both the PSC and the child protective services law. Additionally, there were no serious crimes identified or other information that called into question the applicant's suitability to have direct contact with children.

However, we found that the District did not 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 which 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.

The ultimate purpose of these requirements 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.

Recommendations

The *Jim Thorpe Area School District* should consider, in consultation with the District's solicitor:

1. Developing a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractor 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. Implementing written policies and procedures to ensure the District is notified when current employees of the District or the District's transportation contractor are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

Management Response

Management stated the following:

The Jim Thorpe Area School District had a verbal policy in place of informing bus drivers that they must notify the district if charged with certain crimes or child abuse incidents that would impact clearances. Upon notification that a verbal policy was deemed a weakness, we began instituting a written policy that requires bus drivers and bus contractors to sign a form stating that they agree to notify the district if an event occurs that would impact their clearances.

Status of Prior Audit Findings and Observations

Our prior audit of the Jim Thorpe Area School District (JTASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported finding pertaining to nonpublic pupils transported. 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 JTASD Superintendent'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 JTASD did implement recommendations related to nonpublic pupils transported.

<i>School Years 2005-06, 2004-05, 2003-04, and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u>I. Finding: Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in a Reimbursement Net Underpayment of \$3,080</u></p> <p>1. Strengthen controls to ensure that all data is accurately reported to DE.</p> <p>2. Review reports for subsequent years and submit revised reports, if errors are found.</p> <p>3. DE should adjust the District's allocations to resolve the net underpayment of \$3,080.</p>	<p>Background:</p> <p>Our prior audit of pupil rosters and pupil transportation reports for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found errors in data submitted to DE for the 2004-05 and 2003-04 school years.</p> <p>Our prior audit found District personnel incorrectly reported the number of nonpublic pupils transported which resulted in a net underpayment of \$3,080.</p>	<p>Current Status:</p> <p>We followed up on the JTASD nonpublic pupils transported and found that the JTASD <u>did</u> take appropriate corrective action through implementation of our prior audit recommendations.</p> <p>As of our fieldwork completion date of October 28, 2009, DE had not adjusted the JTASD's allocations to resolve the net underpayment.</p>

Distribution List

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, and the following:

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

