

MONTGOMERY AREA SCHOOL DISTRICT
LYCOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2012



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

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

Mr. Adam Diggan, Board President
Montgomery Area School District
120 Penn Street
Montgomery, Pennsylvania 17752

Dear Governor Corbett and Mr. Diggan:

We conducted a performance audit of the Montgomery Area School District (MASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 15, 2009 through April 27, 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 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 MASD 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 MASD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve MASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 20, 2012

cc: **MONTGOMERY AREA SCHOOL DISTRICT** Board Members

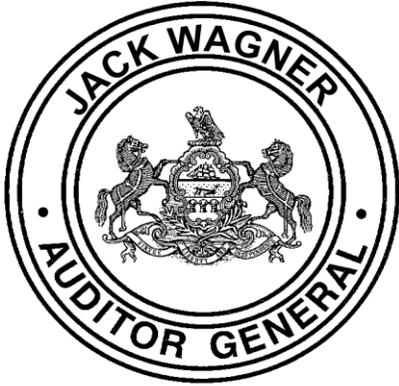
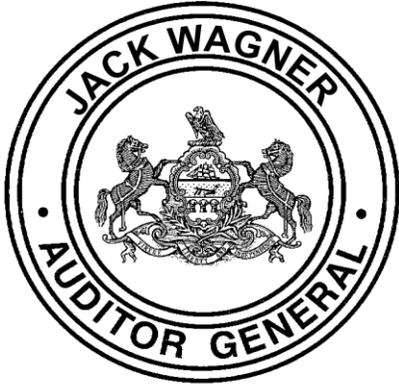


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Montgomery Area School District (MASD). 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 MASD in response to our prior audit recommendations.

Our audit scope covered the period May 15, 2009 through April 27, 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 insert 2009-10 and 2008-09.

District Background

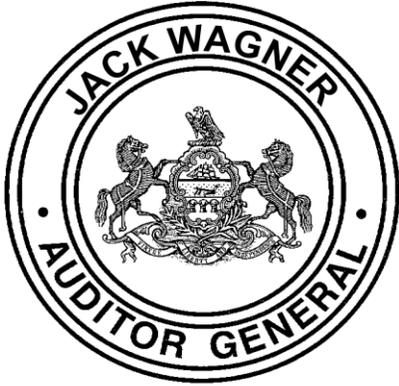
The MASD encompasses approximately 87 square miles. According to 2010 federal census data, it serves a resident population of 7,429. According to District officials, in school year 2009-10 the MASD provided basic educational services to 902 pupils through the employment of 77 teachers, 55 full-time and part-time support personnel, and 7 administrators. Lastly, the MASD received more than \$7 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the MASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. As noted below, we identified one compliance-related matter reported as a finding.

Finding: Failure to Obtain and Retain All School Bus Drivers' Qualifications on File. Our audit of the MASD bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of the audit (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the MASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored information technology system access and logical access control weaknesses (see page 8).



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 15, 2009 through April 27, 2012.

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 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, 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 MASD'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:

- ✓ 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?

- ✓ Did the District, and any contracted vendors ensure that its current bus drivers are properly qualified, and does it 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

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

MASD 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

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.

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 bus driver qualifications, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 3, 2009 we reviewed the MASD's response to PDE dated December 7, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Failure to Obtain and Retain All School Bus Drivers' Qualifications on File

Public School Code section and criteria relevant to the finding:

Act 114 of 2006, outlines background check requirements for employees of public and private schools and their contractors.

The Act requires that all prospective employees of public and private schools, intermediate units and area vocational-technical schools, including independent contractors and their employees and bus drivers who have direct contact with children must provide to their employer a copy of their Federal Criminal History Record that cannot be more than one (1) year old. This applies to employees hired on or after April 1, 2007.

Our audit of the Montgomery Area School District's (MASD) bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of the 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 vehicles.

We reviewed the personnel records of five new bus drivers approved since our prior audit. Our review found that the MASD did not have on file, at the time of the audit, the updated "S" endorsement and Federal Criminal History Record for one driver. The contractor did have the receipt of registration on file but the error occurred because the contractor failed to print the rap sheet.

On March 16, 2012, we informed MASD management of the missing documentation and instructed them to obtain the necessary documents so that they can prove the driver is properly qualified to have direct contact with the children. As of our fieldwork completion date of April 27, 2012, MASD management was unable to provide us with the necessary documentation because the driver needed to get a new "S" endorsement card and redo fingerprint test since the dates on the receipts were over one year old and access to the drivers' rap sheet was denied. Therefore, we were unable to verify that the driver was properly qualified to have direct contact with children.

Recommendations

The *Montgomery Area School District* should:

1. Immediately obtain, from the transportation contractor, the missing documentation referred to in our finding in order to ensure that the driver transporting students in the District possesses proper qualifications.

2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.

Management Response

Management stated the following:

Management continues to be in the process of obtaining the updated information. Management has created an efficient mechanism to quickly determine, on a monthly basis, any updated information needed. Bus contractors will be notified of required information. Any driver failing to cooperate and not providing updated information will be removed from the bus.

Status of Prior Audit Findings and Observations

Our prior audit of the Montgomery Area School District (MASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to unmonitored intermediate unit (IU) system access and logical access control weaknesses. 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 MASD Board's written response provided to the Pennsylvania Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the MASD did implement recommendations related to unmonitored IU system access and logical access control weaknesses.

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

Observation: **Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses**

Observation

Summary:

Our prior audit found that the MASD uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) and BLaST Intermediate Unit #17 (BIU) for its critical student accounting applications (membership and attendance). The CSIU and BIU have remote access into the network servers.

Recommendations:

Our audit observation recommended that the MASD:

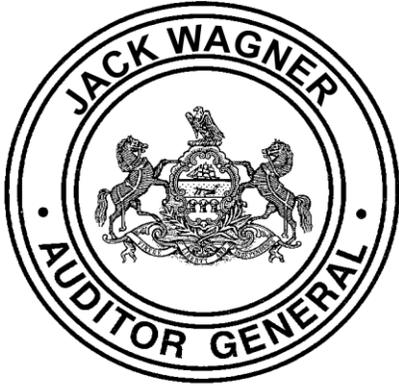
1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Ensure that the District's Acceptable use Policy includes provisions that the employees should be required to sign the policy.
3. Establish separate information technology policies and procedures for controlling the activities of the CSIU/BIU and have the CSIU/BIU sign this policy, or the District should require the CSIU/BIU to sign the District's Acceptable Use Policy.
4. Implement a security policy and system parameter settings to require all users, including the CSIU/BIU, to change their passwords on a regular basis (every 30 days). Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

5. Monitor reports that 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.

Current Status:

During our current audit procedures we found that the MASD did implement the recommendations by taking the following actions:

1. CSIU and BIU are both required to sign the District's Acceptable Use Policy beginning July 2009.
2. All staff and students of the MASD are required to sign the District's Acceptable Use Policy beginning August 2009.
3. All vendors, including CSIU and BIU are required to receive prior authorization to the District's system before access can be attained. The District's Network Administration is the only individual that can provide access to the system.
4. On May 21, 2009, the District immediately instituted procedures into its security procedures and system parameter settings to require all users, including vendors, to change their passwords every 90 days. The District maintains four password histories that will prevent the use of repetitive passwords.
5. The only access allowed into District systems by vendors is that which can be monitored and only for shadowing purposes. This access is monitored by the District Network Administrator or the Pennsylvania Information Management System Data managers (High School Administrative Assistant or Superintendent's Administrative Assistant). Other access to payroll or accounting software is monitored by the Network Administrator, District Business Manager or Administrative Assistant to the Business Manager.
6. The District's Acceptable Use Policy, #815.1 was reviewed and updated on August 17, 2010, to include all of the recommendations from the prior audit.



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:

The Honorable Tom Corbett
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