

NORTH PENN SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**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. Vincent Sherpinsky, Board President
North Penn School District
401 East Hancock Street
Lansdale, Pennsylvania 19446

Dear Governor Corbett and Mr. Sherpinsky:

We conducted a performance audit of the North Penn School District (NPSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 21, 2008 through April 27, 2010, 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, 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 NPSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in four findings 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 findings, observations and recommendations have been discussed with NPSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NPSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NPSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**JACK WAGNER
Auditor General**

January 3, 2012

cc: **NORTH PENN 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 North Penn School District (NPSD). 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 NPSD in response to our prior audit recommendations.

Our audit scope covered the period April 21, 2008 through April 27, 2010, 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 NPSD encompasses approximately 43 square miles. According to 2000 federal census data, it serves a resident population of 92,585. According to District officials, in school year 2007-08 the NPSD provided basic educational services to 12,941 pupils through the employment of 1,004 teachers, 2,028 full-time and part-time support personnel, and 58 administrators. Lastly, the NPSD received more than \$28 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the NPSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified four compliance-related matters reported as findings and two matters unrelated to compliance that are reported as observations.

Finding No. 1: Nonresident Membership Reporting Errors Resulted in a Reimbursement Overpayment of \$68,036.

Our audit of pupil membership for the 2007-08 and 2006-07 school years found misclassification of resident and nonresident students and clerical errors resulting in a reimbursement overpayment (see page 6).

Finding No. 2: Health Services Reimbursement Net Overpayment of \$22,781.

NPSD personnel incorrectly reported average daily membership to the Department of Health (DH) for health services provided. By not adhering to the Public School Code and proper DH procedures, the NPSD received a net overpayment of \$22,781 in its health services reimbursement subsidy for the 2007-08 and 2006-07 school years. We made several recommendations to improve this process (see page 8).

Finding No. 3: The School Board Entered into a Costly Pay-out with the Director of Business Administration, Resulting in Additional Costs to the School District Totaling \$22,370.

On October 16, 2009, after the Director of Business Administration had served only two years and three-and-one-half months of the term of his contract, the Board accepted the resignation from the Director of Business Administration as he accepted new employment with the Baltimore City School District. The NPSD agreed to continue paying the former Director of Business Administration through December 31, 2009. In return, he would come back as necessary to help with any transitions and negotiations with the Collective Bargaining Process (Act 88). However, there was not sufficient documentation to support his help (see page 10).

Finding No. 4: Possible Inaccurate Reporting of Retirement Wages. NPSD personnel reported wages of one individual to the Pennsylvania State Employees' Retirement System that may have been ineligible as qualified wages to be included for retirement purposes (see page 14).

Observation No. 1: Memorandum of Understanding Not Updated Timely. Our audit of the NPSD's records shows that the current Memorandums of Understanding between the NPSD and six police departments were not reviewed and re-executed in the two year time period as required by the Pennsylvania Department of Education (see page 18).

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

We noted that NPSD personnel 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 20).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the NPSD from an audit we conducted of the 2005-06, 2004-05, 2003-04, and 2002-03 school years, we found the NPSD had not taken appropriate corrective action in implementing our recommendations pertaining to the nonresident students (see page 23) and health services reimbursement (see page 25). However, we found the NPSD had taken appropriate corrective action in implementing our recommendations pertaining to strengthen internal controls to collect tuition (see page 23) and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 26).

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 April 21, 2008 through April 27, 2010.

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 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 NPSD'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?
- ✓ 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 buy-out 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.

NPSD 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 pupil transportation, 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 NPSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 3, 2009, we reviewed the NPSD's response to PDE dated June 19, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Nonresident Membership Reporting Errors Resulted in a Reimbursement Overpayment of \$68,036

Criteria relevant to the finding:

DE's child accounting guidelines and instructions require the accurate reporting of pupil membership days and student classifications, since these are major factors used by DE to calculate various subsidies and reimbursements, including but not limited to basic education funding and tuition for children placed in private or group homes.

Our audit of the North Penn School District's (District) pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2007-08 and 2006-07 school years found errors in the reporting of nonresident membership data. For the 2007-08 school year, we found that elementary membership days for nonresident students placed in private homes were overstated by 543 days, resulting in a reimbursement overpayment of \$31,299. For the 2006-07 school year, we found that membership days for nonresident students placed in private homes were overstated by 20 half time kindergarten days, 241 elementary days, and 401 secondary days, resulting in a reimbursement overpayment of \$36,737.

The errors were caused by District personnel's misclassification of resident and nonresident students and data entry errors. The basic education funding was not affected by the nonresident error since the District was paid on a guaranteed rate based on the prior year's funding.

PDE has been provided a report detailing the errors for use in recalculating the District's reimbursement for children placed in private homes.

Recommendations

The *North Penn School District* should:

1. Improve understanding of PDE regulations and strengthen controls to ensure adherence to those regulations when reporting nonresident students attending the District's educational programs.
2. Compare letters for children placed in private homes with District reports to ensure that student membership is properly classified.
3. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.

4. Review subsequent years reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to recover the reimbursement overpayment of \$68,036.

Management Response

Management stated the following:

NPSD was provided with specific names of students on August 26, 2010. Additional time is required to investigate records from the 2006-07 and 2007-08 school years. We are reviewing the internal processes for determining 1305 students and must verify if all students listed are in fact correctly or incorrectly reported.

Finding No. 2 →

Health Services Reimbursement Net Overpayment of \$22,781

Public School Code section relevant to the finding:

Section 2505.1 provides for a reimbursement of actual costs for health services, with a maximum reimbursement of \$1.60 for medical services and \$7 for nurse services for each child enrolled in a school for the entire term, and a proportionate share for each child enrolled for a part of the school term. In addition, Act 25 of 1991 established that school districts would receive an additional uncategorized reimbursement for health services of \$9.70 multiplied by the district's ADM.

Our audit of data supporting the North Penn School District's (District) health services reimbursement applications submitted to the Pennsylvania Department of Health (PDH) for the 2007-08 and 2006-07 school years found inaccurate reporting of average daily membership (ADM). The clerical errors were caused by District personnel reporting ADM from a source other than final year-end child accounting reports that were submitted to DE.

Errors resulted in a net reimbursement overpayment of \$22,781, detailed as follows:

<u>School Year</u>	<u>ADM</u>		<u>Under/(Over)stated</u>	<u>(Overpayments)/Underpayments</u>			<u>Totals</u>
	<u>Reported</u>	<u>Audited</u>		<u>Medical</u>	<u>Nurse</u>	<u>Act 25</u>	
2007-08	17236.815	15680.627	(1556.188)	(\$2,490)	(\$10,893)	(\$15,095)	(\$28,478)
2006-07	15473.822	15785.174	311.352	\$ 498	\$ 2,179	\$ 3,020	<u>\$ 5,697</u>
						Total	<u>(\$22,781)</u>

PDH will be provided a copy of this finding by Pennsylvania Department of Education for use in making the necessary reimbursement adjustments.

Recommendations

The *North Penn School District* should:

1. Report ADM for all students for whom comprehensive health records are maintained.
2. Perform an internal review of the membership and health services data prior to submitting reports to PDH.

3. Review reports for school years subsequent to our audit period and, if similar errors are found, submit revised reports to PDH.

The *Pennsylvania Department of Health* should:

4. Adjust the District's allocations to resolve the net reimbursement overpayment of \$22,781 for the 2007-08 and 2006-07 school years.

Management Response

Management stated the following:

A clerical error resulted in reporting the incorrect number of students that were eligible to be reimbursed for the audit years. In the future, an administrator will review the number of students prior to submission to the state.

Finding No. 3 →

The School Board Entered into a Costly Pay-out with the Director of Business Administration, Resulting in Additional Costs to the School District Totaling \$22,370

Public School Code section and Criteria relevant to the finding:

Section 518 requires that records be retained for a period of not less than six years.

The Department of Education (DE) guidelines and instructions require the maintenance and retention of adequate documentation to verify the district's entitlement to state payments. Failure to maintain and retain this documentation could result in the loss of state funding.

On July 1, 2007, the Board of School Directors (Board) of the North Penn School District (District) entered into an employment contract (Contract) with an individual to serve as the District's Director of Business Administration (DBA). The Contract had a term of five years, from July 1, 2007 to June 30, 2012. The Contract stated that the DBA would receive annual compensation of \$162,077, as well as a variety of other benefits. The Contract further provided that the Board would determine the DBA's salary in future contract years based on the schedule of salary payments in effect for its full-time administrative employees. Thereafter, the DBA's annual salary "shall be increased by a rate which will not exceed the 'index' as defined in Section 302 of Act 1, Special Session 206 (Taxpayer Relief Act) and as calculated by the Department of Education of the Commonwealth."

The Contract Agreement included the following provisions with regard to the termination of the DBA's employment with the District:

- The DBA shall be subject to discharge for valid and just cause, pursuant to the Public School Code of the Commonwealth of Pennsylvania.¹
- The DBA may resign at any time, provided that he gives the Board at least 120 days notice prior to the effective date of the resignation.
- The District is under no obligation to provide severance pay or to continue any other payments under the Agreement with the exception of accrued vacation time.

¹ The Contract did not reference a specific section of the Public School Code, but presumably it referred to Section 1080, 24 P.S. § 10-1080 (removal "for neglect of duty, incompetency, intemperance, or immorality" following a hearing with due process).

On October 16, 2009, after the DBA had served only two years and three and a half months of the term of his contract, he tendered his resignation to the Board in order to accept a new position with an out of state school district. The Board agreed to continue paying the former DBA through December 31, 2009. In return, he would return as necessary to assist with any transitions and negotiations with the collective bargaining process (Act 88). In addition, they would pay him for 25.72 days of accrued unused vacation, which was allowed under his contract.

The District continued to make bi-monthly salary payments to the former DBA from October 19, 2009 through December 31, 2009, the value of which we calculated to be \$39,045. These payments included the following:

- 25.72 unused vacation days at the daily rate of \$648.31 (\$16,675). The daily rate is the annual salary of \$169,209 divided by 261 work days. This payment was allowable per contract.
- benefits for the period from October 19, 2009 through December 31, 2009, (calculated to be \$4,117).
- payout for assistance with transitions and negotiations related to the collective bargaining process (Act 88) (calculated to be \$18,253).

Although the District's total payment to the former DBA was \$39,045, the contract did permit him to receive a payout for accrued vacation days. Therefore, we are only questioning the DBA's additional \$22,370 lump sum payout.

Moreover, while the District stated that it paid the former DBA a lump sum of \$18,253 in exchange for his assistance with its collective bargaining process, the District could not provide sufficient documentation to demonstrate that the former DBA had actually provided this service. Therefore, it is questionable whether or not the District's taxpayers received anything in return for this payment. Moreover, the District's failure to properly document the purported activities of the former DBA in association with its contract negotiation process, and the resulting expense, represents an internal control weakness. Specifically, without a requirement that such documentation be retained, it might

be easier for a member of management to approve unnecessary expenditures that would be a waste of taxpayer funding.

In the future, the District should ensure that it follows the terms of its employment contracts, and that it ensures that it does not expend taxpayer money unnecessarily. In addition, the District should retain the documentation necessary to sufficiently justify its expenditures.

Recommendations

The *North Penn School District* should:

1. Upon the separation of any employee, follow the provisions of the original employment contract and pay only what is due to the employee prorated for the term of services provided.
2. If additional services are provided, by an employee, maintain the documentation necessary to justify the expense of taxpayer dollars.

Management Response

Management stated the following:

Management reiterated their response from Finding No. 4 *Possible Inaccurate Reporting of Retirement Wages* and added the following:

As evidence of the continued efforts of [the Director of Business Administration] on behalf of the ongoing negotiations, the District is attaching to this response copies of various documents. What is contained in the attachment is by no means exhaustive as to provide all of the various alternative salary schedules which [the Director of Business Administration] prepared would run the attachments to a number of inches. All of those documents can be provided should the Auditor General wish to review them. Even a cursory review of the attachments demonstrates the significance and volume of the work which took place leading up to and following the arbitration on the teachers' contract. Throughout this process, [the Director of Business Administration,] with his business acumen, was leading team member on behalf of the District. He remained in this role through March/early April of 2010 when [the new Business Manager] at the District, was fully up to speed and was able to assume these duties with regard to the negotiations.

The North Penn School District strongly disputes that the payments made to the Director of Business Administration were in any way improper.

Auditor Conclusion

The conclusions in this finding are based on the documentation the District provided at the time of audit. The information provided by the District to justify its payments to the former DBA for the services he provided during the District's collective bargaining process were not shared with the Department until well after the end of our fieldwork. In addition, the information did not sufficiently demonstrate the extent of the services the former DBA provided to the District. Therefore, the finding remains as presented.

Finding No. 4 →

Criteria relevant to the finding:

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, 22 Pa Code 211.2, reported compensation . . . excludes payments for unused vacation.

Furthermore, the PSERS Reference Manual for reporting includes unqualified earnings:

[P]ayment to a member in lieu of a benefit the member is eligible to receive, or any reimbursement received by the member. These payments do not become part of the member's standard pay schedule.

Possible Inaccurate Reporting of Retirement Wages

Our review of the employment contract for North Penn School District's (District) former Director of Business Administration's (DBA), his payroll records, and his retirement records found that the District may have overstated the former DBA's retirement wages to the Public School Employees' Retirement System (PSERS) for the 2009-10 school year. These possible ineligible payments totaled \$34,928.

The former DBA's last day of full time employment with the District was on October 16, 2009, and at that time he had already accepted a position with an out of state district. As part of the DBA's separation, the Board agreed to continue paying him through December 31, 2009 in exchange for his assistance with the District's collective bargaining negotiations. Consequently, the District reported those wages paid after his last day of employment to PSERS for inclusion in his retirement.

Therefore, the District continued payroll payments after October 16, 2009, which amounted to \$34,928, including \$18,253 for assistance with collective bargaining negotiations and \$16,675 for unused vacation days.

Retirement regulations specify that certain types of payments made to employees other than their standard salary do not qualify for retirement calculations, such as payments for unused vacation days. In addition the District's payments to the former DBA for additional work performed after he was no longer officially employed by the District would be ineligible for inclusion in his retirement wages. The District provided documentation indicating that the former DBA attended two meetings following his final day of employment. However, this information was insufficient to demonstrate that the former DBA had provided services warranting an \$18,253 payout.

PSERS has been provided reports detailing the questionable retirement wages for determination of eligibility and possible adjustments to individual retirement calculations.

Recommendations

The *North Penn School District*, in conjunction with PSERS' determination, should:

1. Ensure that District personnel only report those wages allowable for retirement purposes, as stated in PSERS regulations and guidelines.

PSERS should:

2. Review the compensation reported for the former DBA for the 2009-10 school year and render an opinion on the propriety of the wages reported by the District.
3. Make the necessary correction to the pension benefits and contributions if any part of the payment is determined to be ineligible for retirement.

Management Response

Management stated the following:

[The individual in question] had been the [Director of Business Administration] for the North Penn School District ("District") since September 5, 2000 and, in such position had been the District employee with primary responsibility for all financial matters.

The Collective Bargaining Agreement existing between the District and the North Penn Education Association (the Teachers' Bargaining Unit) expired on August 31, 2009. Since at least December 2008, the district and the Union had engaged in negotiations for a new contract and [the Director of Business Administration] was indispensable in those efforts. Those negotiations did not result in a contract but the parties did agree to proceed to non-binding arbitration and the first of those hearings was scheduled to be held on October 29, 2009. In September 2009 [the Director of Business Administration] received an opportunity for new employment with [an out of state school district] and he advised the School Board that he would be leaving his position at North Penn. While [the Director of Business Administration] had every right to accept this new opportunity, the overriding concern of the School Board was the continuity and support necessary to continue the efforts to secure a new contract with the Teachers' Union. At that point, it was critically necessary to assure that all of the support would be in place to enable the District to present its strongest possible case during the

arbitration. As a result, the Board, through its Personnel Committee, negotiated and secured from [the Director of Business Administration] the assurance that he would provide the equivalent of 20 additional days of service to the District following his last official day of work.

Since late October 2009, [the Director of Business Administration] monitored emails on a daily basis and forwarded some as necessary to others within the North Penn School District. [The Director of Business Administration] had frequent contact with the Benefits Department to address various issues and questions and had several calls with the Superintendent, Assistant Superintendent, the interim and new [Director of Business Administration.] [The Director of Business Administration] also worked extensively on the NPEA contract negotiations which included frequent telephone conferences and emails with the school board President and the Chief Negotiator in order to prepare various financial scenarios and evaluate NPEA responses. [The Director of Business Administration] spent almost his entire Christmas break preparing new scenarios to address the NPEA request for the change of the employee base. He spent a full day in early January 2010 at the District to meet with various staff and the negotiations team to prepare for an arbitration hearing which was scheduled for January 21, 2010. Prior to and after that hearing [the Director of Business Administration] prepared many documents for the Chief Negotiator to submit to the Arbitration Panel and spent a full day attending and testifying at the hearing on January 21, 2010. After that hearing, [the Director of Business Administration] again spent many hours analyzing the NPEA presentation submittal. As the arbitration panel met in the ensuing weeks, [the Director of Business Administration] provided the Chief Negotiator and the board President continuing analysis of many different scenarios.

Both the District and [the Director of Business Administration] conservatively estimate that he spent more than 200 hours in his work and that the compensation paid to him related thereto is fully justified.

Auditor Conclusion

District personnel could not provide sufficient documentation during our fieldwork to justify the director of business administration's continued salary. On March 28, 2011, well after our fieldwork completion date, District personnel submitted information regarding the director of business administration's duties during the time after he resigned. However, the information does not provide any kind of measurement to determine the value of service. Therefore, the finding remains as presented.

Observation No. 1



Public School Code section and criteria relevant to the observation: Section 13-1303-A(c) of the Public School Code, as amended November 17, 2010, provides, in part:

“ . . . each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis. . . . ”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Department of Education. The term “biennially” means “an event that occurs every two years.”

Memorandum of Understanding Not Updated Timely

Our audit of the North Penn School District’s (District) records found that the current Memorandums of Understanding (MOU) between the District and six police departments were signed but, were not reviewed and re-executed in the required two year time period.

The failure to update the 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.

Subsequent to the period under review, on March 30, 2010, the District reviewed and re-executed their MOUs with the six police departments.

Recommendations

The *North Penn School District* should:

1. In consultation with the District’s solicitor, review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
2. Adopt an official board policy requiring District administration to biennially update and re-execute all MOUS with police departments having jurisdiction over school property and file a copy with the Department of Education’s Office of Safe Schools on a biennial basis as required by law.

Management Response

Management stated the following:

The state auditor believes that MOUs are required to be updated every two years. The state does not have a mandate of frequency of MOUs. North Penn's has been updated and is current with all six of our municipalities.

Auditor Conclusion

We are pleased that following the end of our fieldwork the District chose to update their MOUs. We will evaluate this new information during our next audit, In addition, we would like to note that effective July 1, 2011, an amendment to the Public School Code now requires MOUs to be updated every two years.

Observation No. 2 →

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 North Penn School District (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.

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.

We found the District had the following weaknesses over vendor access to the District’s system:

1. Does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.
2. 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 and to maintain a password history (i.e., approximately ten passwords).

Recommendations

The *North Penn School District* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
2. 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). The District 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:

1. Remote Access for Vendors: Vendors are provided remote access to NPSD servers on an as needed basis. A unique login and password is assigned to each vendor representative. Remote access is logged on the server that is being accessed. NPSD Administrative Technology staff provides access to vendors for a specific period of time, after a need has been determined. Remote access is terminated once the specified period of time has passed. Beginning immediately, all vendors who are granted remote access will be required to sign the district acceptable use policy form. The form is attached.

AUP Signature Form: The attached AUP signature form has been prepared and is ready for implementation. Currently all new employees are required to attend an orientation session conducted by staff from the Human Resources and Technology Departments. All staff will be required to sign the acceptable use policy during the orientation session.

2. Password Changes: A plan has been developed to change passwords twice during each school year. This plan will be implemented for the 2010/2011 school year. Passwords will be changed in October and March of each school year. The system will be configured for 10 unique passwords before a password can be reused.

Password History: The NPSD utilizes the Microsoft Exchange e-mail software. The software has a password history option. The option will be activated for the 2010/2011 school year and will be configured to maintain a history of 10 passwords for each NPSD account.

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.

Status of Prior Audit Findings and Observations

Our prior audit of the North Penn School District (NPSD) for the school years 2005-06, 2004-05, 2003-04, and 2002-03 resulted in two reported findings and one observation. The first finding pertained to internal control weaknesses resulting in uncollected tuition and incorrect subsidy and reimbursement and the second pertained to health services reimbursement. The observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. 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 NPSD Superintendent's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the NPSD did not implement all recommendations related to internal control weaknesses resulting in uncollected tuition and incorrect subsidy and reimbursement and health services reimbursement. We found that the NPSD did implement recommendations related to the observation pertaining to bus drivers' qualifications.

School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report

Finding No. 1: Internal Control Weaknesses Resulted in Uncollected Tuition of \$94,656 and a Net Subsidy and Reimbursement Underpayment of \$4,695

Finding Summary: Our prior audit of pupil membership for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found the following:

- Errors in tuition billed for the 2005-06 and 2003-04 school years;
- Errors in resident and nonresident data reported for the 2005-06 and 2003- 04 school years; and
- Failure to retain the District's attendance detail report for the 2004-05 school year.

Recommendations: Our audit finding recommended that the NPSD:

1. Send revised tuition bills to Philadelphia City and Norristown Area school districts to collect the amounts due.
2. Attempt to collect underbilled and uncollected tuition from parents by sending revised tuition bills.
3. Establish procedures to reconcile tuition billing data with membership records.
4. Ensure the correct annual tuition rate is used in tuition billing.

5. Review tuition bills for subsequent years, and if similar errors are found, submit revised billings to the affected districts or parents.
6. Establish reconciliation procedures between District membership data and data reported to PDE to ensure all membership is reported.
7. Establish reconciliation procedures between District membership data and North Montco Technical Career Center data to ensure the correct reporting of vocational student.
8. Ensure the accurate reporting of children attending intermediate unit classes.
9. Ensure the accurate reporting of children placed in private homes, institutionalized wards of the state and nonwards, as well as district-paid, parent-paid and tuition waiver students.
10. Review child accounting reports for years subsequent to the audit, and if errors are noted, submit revisions to PDE.
11. Retain all documentation necessary for audit.

The *Pennsylvania Department of Education* should:

12. Adjust the District's allocations to resolve the net subsidy and reimbursement underpayment of \$4,695.

Current Status:

During our current audit procedures we found that the NPSD did implement the recommendations to strengthen internal controls to collect tuition. However, we found that the District did not take appropriate corrective action to address the reporting of its nonresident students (see Finding No. 1, page 6).

Revised bills were sent to all outstanding parties.

Attempt to collect underbilled tuition was executed by sending revised bills.

Procedures to reconcile tuition billing data with membership records were established.

Correct annual tuition rate was used in tuition billing.

Tuition bills for subsequent years were reviewed.

Reconciliation procedures between District membership data and data reported to PDE to ensure all membership is reported were established.

Established reconciliation procedures between District membership data and North Montco Technical Career Center data to ensure the correct reporting of vocational student.

Ensured the accurate reporting of children attending intermediate unit classes.

Retained all documentation necessary for audit.

PDE has not adjusted the District's allocations to resolve the reimbursement underpayment of \$4,695.

Finding No. 2: Health Services Reimbursement Underpayment of \$4,374

Finding Summary: Our prior audit of the District's health services reimbursement applications submitted to the Pennsylvania Department of Health (PDH) for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found errors in the average daily membership (ADM) reported for the 2005-06 school year only. These errors resulted in a reimbursement underpayment of \$4,374.

Recommendations: Our audit finding recommended that the NPSD:

1. Reconcile the ADM reported on the health services reimbursement application to final membership summary reports to ensure that all eligible membership is included on these applications.
2. Reconcile reports subsequent to the years of this audit and, if errors are found, file revised reports with PDH.

The *Pennsylvania Department of Health* should:

3. Adjust the District's allocations to resolve the reimbursement underpayment of \$4,374.

Current Status: During our current audit procedures we found that the District did not take appropriate corrective action to address this finding (see Finding No. 2, page 8).

PDE has not adjusted the District's allocations to resolve the reimbursement underpayment of \$4,374.

Observation **Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

Observation

Summary:

Our prior audit found that none of the District's transportation contractors have a written policy or procedure in place to inform the District if one of their drivers is arrested or convicted of a crime that would call into question the driver's suitability to continue to have direct contact with children.

Recommendations

Our audit observation recommended that the NPSD:

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

Current Status:

During our current audit procedures we found that the District did take appropriate corrective action to address this observation.

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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