

NORTHEASTERN SCHOOL DISTRICT
YORK COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Ms. Margaret Walker, Board President
Northeastern School District
41 Harding Street
Manchester, Pennsylvania 17345

Dear Governor Corbett and Ms. Walker:

We conducted a performance audit of the Northeastern School District (NSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 21, 2009 through August 24, 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 NSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one 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 NSD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve NSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **NORTHEASTERN 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 Northeastern School District (NSD). 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 NSD in response to our prior audit recommendations.

Our audit scope covered the period August 21, 2009 through August 24, 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 NSD encompasses approximately 50 square miles. According to 2000 federal census data, it serves a resident population of 18,282. According to District officials, in school year 2009-10 the NSD provided basic educational services to 3,947 pupils through the employment of 302 teachers, 205 full-time and part-time support personnel, and 21 administrators. Lastly, the NSD received more than \$17.5 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the NSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance related matter reported as a finding.

Finding: Certification Deficiencies. Our audit of professional employees' certification found ten certification deficiencies (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NSD from an audit we conducted of the 2007-08, 2006-07, 2005-06, and 2004-05 school years, we found the NSD had taken appropriate corrective action pertaining to the Memoranda of Understanding (see page 8). We found that NSD had not implemented all of our recommendations pertaining to the unmonitored vendor system access and logical access control weaknesses (see page 9).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period August 21, 2009 through August 24, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2009 through June 30, 2011.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the NSD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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?

- ✓ Is the District’s pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

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

NSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2010, we reviewed the NSD's response to DE dated August 16, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC) provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 of the PSC provides, in part:

Any school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject of the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Certification Deficiencies

Our audit of professional employees' certification for the period July 1, 2009 through June 30, 2011, found the following certification deficiencies:

- Seven individuals served on lapsed certificates: three elementary teachers, one math teacher, one middle school guidance counselor, one school psychologist, and one health and physical education teacher.
- One individual certified in Earth and Space Science was assigned to teach Chemistry I. Based on Certification Staffing Policies and Guidelines (CSPG) No. 40, Earth and Space Science, this individual's Earth and Space Science certificate is not the appropriate certificate to teach Chemistry.
- One individual certified in Social Studies and Citizenship was assigned to teach Diversified Occupations and its related work experience. Based on CSPG No. 37 Cooperative Education, these certificates are not the appropriate certificates to teach Diversified Occupations and its related work experience.
- One individual certified in Elementary and who held a certificate as a Boating and Water Safety Awareness Instructor co-taught Canoeing, Boating and Aquatic Fitness, Snorkeling and Aquatic Games, Lifeguarding, and Elementary Swimming under the guidance of an individual certified in Health and Physical Education. However, that individual's Health and Physical Education certificate lapsed during our period of audit.

Information pertaining to the deficiencies was submitted to Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education, for its review. BSLTQ confirmed the deficiencies; therefore, the District is subject to subsidies forfeitures of \$15,543 and \$4,792 for the 2010-11 and 2009-10 school years, respectively.

Recommendations

The *Northeastern School District* should:

1. Take the necessary action required to ensure compliance with certification deficiencies.
2. Ensure only properly certified individuals holding current and valid certificates are allowed to teach District students.

The *Department of Education* should:

3. Adjust the District's allocations to recover the \$20,335 in subsidy forfeitures.

Management Response

Management stated the following:

Cause

We have identified two causes to the possible certification deficiencies.

1. Inadequate certification tracking system.
2. No knowledge of the requirement to have a locally titled job description reviewed by PDE.

Corrective Action Plan

1. We are developing an adequate electronic certification tracking system with several internal controls built within the system.
2. Change in practice in our human resources department that will include PDE review of locally titled positions.

Status of Prior Audit Findings and Observations

Our prior audit of the Northeastern School District (NSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in two reported observations. The first observation pertained to Memoranda of Understanding that were not updated timely, and the second observation pertained to unmonitored vendor 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 NSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observations. As shown below, we found that the NSD implemented our recommendations related to the Memoranda of Understanding. The District partially implemented our recommendations regarding unmonitored vendor system access and logical access control weaknesses.

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

Observation No. 1: Memoranda of Understanding Not Updated Timely

Observation Summary: Our prior audit of the NSD's records found that the NSD's Memoranda of Understanding (MOU) with its local police departments had not been updated within the last two years.

Recommendations: Our audit observation recommended that the NSD:

1. Review, update and re-execute the current MOUs between the District and the local police departments.
2. Adopt a policy requiring the administration to review and re-execute all MOUs every two years.

Current Status: Our current audit found that the NSD partially implemented our recommendations.

NSD reviewed, updated and re-executed the MOUs between the NSD and its local police departments; the MOUs are valid through December 31, 2011.

NSD revised its procedures and implemented procedures to ensure that beginning in November 2011, the District will begin the process to update its MOUs on an annual basis.

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

Observation Summary: Our prior audit found that the NSD used software purchased from an outside vendor for its critical student accounting applications of membership and attendance. The software vendor had remote access into NSD's network server for its student accounting applications. We found the NSD had weaknesses in controls over vendor access to the NSD's system.

Recommendations: Our audit observation recommended that the NSD:

1. Have the contract with the vendor reviewed by legal counsel.
2. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e. every 30 days).
3. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters, including alpha, numeric and special characters.
4. Implement a security policy and system parameter settings to maintain a password history with a blocking function that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Allow access to its system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

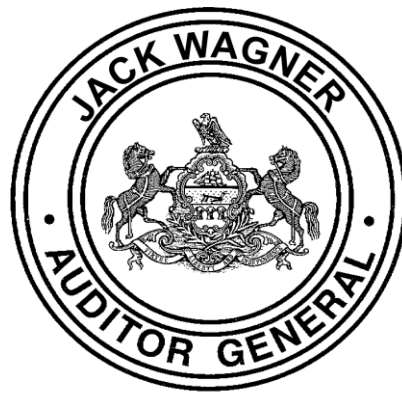
7. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the server room.
8. To mitigate information technology control weaknesses, adopt written manual reconciliation procedures for membership and attendance data that are consistently applied by all buildings.

Current Status:

Our current audit found that the NSD implemented only recommendation number 8. NSD personnel indicated that the remaining seven recommendations had not yet been implemented. Therefore, we again recommend that the NSD:

1. Have the contract with the vendor reviewed by legal counsel.
2. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e. every 30 days).
3. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters, including alpha, numeric and special characters.
4. Implement a security policy and system parameter settings to maintain a password history with a blocking function that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Allow access to its system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

7. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the server room.



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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