

DERRY TOWNSHIP SCHOOL DISTRICT
DAUPHIN COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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

Dr. William Parrish, Board President
Derry Township School District
30 East Granada Avenue
Hershey, Pennsylvania 17033

Dear Governor Corbett and Dr. Parrish:

We conducted a performance audit of the Derry Township School District (DTSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 17, 2008 through October 13, 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. 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 DTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 21, 2011

cc: **DERRY TOWNSHIP 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 Derry Township School District (DTSD). 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 DTSD in response to our prior audit recommendations.

Our audit scope covered the period January 17, 2008 through October 13, 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 DTSD encompasses approximately 27 square miles. According to 2000 federal census data, it serves a resident population of 21,273. According to District officials, in school year 2007-08 the DTSD provided basic educational services to 3,492 pupils through the employment of 267 teachers, 216 full-time and part-time support personnel, and 21 administrators. Lastly, the DTSD received more than \$6.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the DTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: Certification Deficiency.

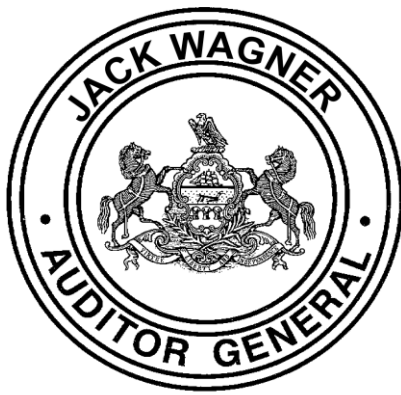
Our audit of certification for the period of December 25, 2007 through October 7, 2010, found one continuing certification deficiency (see page 6).

Finding No. 2: School Bus Driver

Qualification Deficiencies. Our audit of records for current bus drivers found the DTSD did not obtain and review the federal criminal history record information for seven individuals (see page 9).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the DTSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the DTSD had taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare (see page 12) and Statements of Financial Interests (see page 13). We also found the DTSD took partial corrective action in implementing our recommendations pertaining to certification deficiencies (see page 13) and unmonitored vendor system access and logical access control weaknesses (see page 14).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period January 17, 2008 through October 13, 2010, except for the verification of professional employee certification which was performed for the period December 25, 2007 through October 7, 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 Department of Education 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 DTSD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on 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?

- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

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

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

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

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

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

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

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2010, we performed audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

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:

[A]ny 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 to 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 Deficiency

Our audit of professional employees' certification for the period December 25, 2007 through October 7, 2010, found one continuing deficiency resulting from the District's failure to submit locally titled positions to the Bureau of School Leadership and Teacher Quality (BSLTQ) for review and determination of the proper certification for each position.

One individual whose assignment was also cited in our prior audit (see page 13) continued in the locally titled position of mental health/intervention specialist without holding any certification. The Department of Education (DE) in its previous final audit review dated February 15, 2008, determined that certification is required for this position.

Information pertaining to the certificate and assignment was again submitted to BSLTQ for its review. BSLTQ subsequently confirmed the deficiency. The District is therefore subject to the following subsidy forfeitures:

<u>School Year</u>	<u>Subsidy Forfeitures</u>
2010-11	*
2009-10	\$ 4,265
2008-09	<u>4,262</u>
Total Subsidy Forfeitures	<u>\$ 8,527</u>
*Data necessary to complete this calculation is not yet available from DE.	

Recommendations

The *Derry Township School District* should:

1. Require the individual cited in this finding to immediately obtain proper certification for the position assigned.

2. Submit all locally titled positions to BSLTQ for review to determine the required certification for each position.

The *Department of Education* should:

3. Recover the appropriate subsidy forfeitures resulting from the deficiency.

Management Response

Management stated the following:

The position of Mental Health Intervention Specialist is not one for which a current certification exists and the Department of Education has provided no clear direction on certification for positions providing mental health services within a school system. The job duties of the Mental Health Intervention Specialist include preventive, supportive, and treatment interventions for students in the general and special education populations. These interventions may include promotion of mental health wellness, early intervention for at-risk students, and the provision crisis intervention services. The job duties for this position also include coordinating incident response and safe school efforts for the district, contributing to the district wide strategic plans related to student services, coordinating the Student Assistance Program and the Employee Assistance Program for the school district, and acting as the liaison between outside providers and the school for the purpose of coordinating services and providing a continuum of care. The duties as stated in the . . . job description do not in any way overlap with any duties for which a certification exists such as a school psychologist, school counselor, or home and school visitor. The Mental Health Intervention Specialist acts in a supportive role to these current certified positions in an effort to support the child and family and remove barriers to the child's learning and school success, and does so through the obtainment of advanced degrees in clinical psychology.

The Derry Township School District is aware that the Bureau of School Leadership and Teacher Quality has/had been conducting work on a new CSPG that would provide clear direction on the certification required for positions of this nature. The district believes this model of service delivery is not only appropriate in today's school setting, but also falls in line with current research and best

practices. According to UCLA researchers Adelman and Taylor, “school-based and school-linked mental health programs and supports have been developed for purposes of early intervention, crisis intervention and prevention, treatment, and promotion of positive social and emotional development. It has become increasingly crucial that interventions and supports are developed and function as part of a comprehensive approach to addressing behavior, emotional, and learning problems and promoting healthy development.” The Derry Township School District appeals the staffing audit on the basis that the Pennsylvania Department of Education has not yet established and distributed a staffing policy guideline applicable to positions such as the Mental Health Intervention Specialist.

Auditor Conclusion

As previously stated, the job description was forwarded to BSLTQ for its review. Subsequent to the preparation of management’s response, BSLTQ upheld our citation, as it had our citation in the prior audit. Any further disagreement on the part of the District must be addressed to DE. We note again that the District should submit such locally titled positions to BSLTQ for guidance on proper certification.

Finding No. 2 →

School Bus Driver Qualification Deficiencies

Criteria relevant to the finding:

Public School Code (PSC) Section 111 (24 P.S. § 1-111) 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 of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired. This section of the PSC goes on to say:

[A]dministrators shall maintain on file with the application for employment a copy of the Federal criminal history record in a manner prescribed by the Department of Education . . .

Our audit of personnel records for current bus drivers found seven individuals for whom the District did not possess the federal criminal history record information (known as the FBI clearance) required by PSC Section 111 on file.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. We reviewed the following five requirements:

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses; and
5. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained further in the box to the left, the fourth requirement was set by the PSC. The fifth requirement was set by the Child Protective Services Law.

We initially reviewed the personnel records of a random sample of 5 of the 85 drivers currently employed by the Derry Township School District (DTSD) and its transportation contractor. Our review found the District did not have FBI clearances on file for three drivers employed by the contractor. Testing was expanded to include another 25 bus drivers for a total of 30 drivers. As a result of our review, we found a total of 7 drivers who did not have their FBI clearances on file at the time of audit.

On September 22, 2010 we informed DTSD management of the missing documentation and instructed them to immediately obtain the necessary documents. On September 30, 2010, District personnel provided us with the necessary documentation, which confirmed the drivers' have proper qualifications to continue to have direct contact with children.

District personnel in the transportation office were unaware of the process for reviewing FBI clearances. The District obtained the receipt for the payment required to have the fingerprinting process done; however, District personnel never reviewed the criminal history records for contracted bus drivers. As a result the District did not know of all potential criminal records for contracted bus drivers. It should be noted the District's human resource office did obtain and review the FBI clearances for bus drivers employed directly by the District.

Recommendations

The *Derry Township School District* should:

1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Establish procedures to obtain and retain the required qualifications for all drivers who transport students. This procedure should also ensure that the District's files are up-to-date and complete.

Management Response

Management stated the following:

Prior to September 22, 2010, the Derry Township School District maintained clearances for contracted bus drivers in the transportation office. The Act 151 [child abuse] and Act 34 [Pennsylvania criminal history record] clearances were maintained in a manner that met all requirements. The transportation office maintained the documents detailing each contracted bus drivers registration number for their FBI Cogent clearance; however, they did not enter the Cogent system and print a verified copy of the FBI clearance of these drivers. On September 22, 2010, the personnel office within the Derry Township School District did log into the Cogent system and print verified clearances

for these drivers. The district has responded by having the clearances of all employees, contracted or directly employed, maintained in the personnel office in order to maintain greater consistency in the procedures.

Status of Prior Audit Findings and Observations

Our prior audit of the Derry Township School District (DTSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in three reported findings and one observation, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior findings and observation. As shown below, we found that the DTSD did implement recommendations related to two of the findings. DTSD partially implemented recommendations related to the third finding and the observation, as noted in the following table.

<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>I. Finding No. 1: Social Security and Medicare Reimbursement Net Underpayment of \$7,709</i></u></p> <ol style="list-style-type: none"> 1. Reconcile total taxable wages for Social Security and Medicare to federal Form 941. 2. Ensure all wages paid by federal funds are properly reported when requesting state reimbursement. 3. Review reports submitted for subsequent years and, if errors are noted, revise reports. 4. The Department of Education (DE) should adjust the District's allocations to pay the additional \$7,709 in Social Security and Medicare reimbursement. 	<p>Background:</p> <p>Our prior audit of the District's 2005-06, 2004-05, 2003-04 and 2002-03 Reconciliation of Social Security and Medicare Tax Contributions (PDE-2105) applications found errors in total wages reported to DE for reimbursement.</p> <p>District personnel failed to reconcile the PDE-2105 to federal Form 941, Employer's Quarterly Federal Tax Return, when reporting total taxable wages. This lack of reconciliation resulted in inaccurate reporting of total taxable wages.</p>	<p>Current Status:</p> <p>Our current audit found that DTSD personnel had taken proper corrective action to address our prior recommendations.</p> <p>As of November 9, 2010, DE had not taken corrective action to pay the additional \$7,709 in Social Security and Medicare reimbursement. We again recommend DE adjust the District's allocations.</p>

<p><u>II. Finding No. 2:</u> <u>Members of the School Board Failed to File Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act</u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District’s solicitor in regard to its responsibility when an elected board member fails to file a Statement of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of school board members’ Statements of Financial Interests for the years ended December 31, 2006, 2005, 2004 and 2003 found that one board member failed to file a statement for 2006, three board members failed to file statements for 2005 and three board members failed to file statements for 2003. District personnel were unaware of the requirement to obtain Statements of Financial Interests for board members who had left the board, and they indicated that all members who failed to file were no longer serving on the board when the forms were available for distribution. After our audit brought this problem to light, the District was able to obtain completed forms from the seven board members who failed to file.</p>	<p>Current Status:</p> <p>Our current audit found that DTSD had taken proper corrective action to address our prior recommendations.</p>
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<p><u>III. Finding No. 3:</u> <u>Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Require the individuals cited in this finding to immediately obtain proper certification for the positions assigned. 2. Submit all locally titled positions to the Bureau of School Leadership and Teacher Qualification (BSLTQ) for review to determine if certification is required for all positions. 3. DE should recover the subsidy forfeitures of \$22,048 resulting from the deficiencies. 	<p>Background:</p> <p>Our prior audit of professional employees’ certifications for the period of January 5, 2005 through December 24, 2007 found two individuals in locally titled positions were not properly certified.</p>	<p>Current Status:</p> <p>Our current audit found that DTSD had taken partial corrective action to address our prior recommendations.</p> <p>In July 2008 one previously cited individual obtained proper certification for her assignment. However, the other individual remains in her position without certification, as addressed in Finding No. 1 of this report (see page 6).</p> <p>Although the District submitted locally titled positions to BSLTQ for review in August 2010, the District failed to submit the locally titled position that resulted in the deficiency addressed in Finding No. 1 of this report.</p> <p>As of November 9, 2010, DE had not recovered the subsidy forfeitures of \$22,048</p>
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		<p>resulting from the deficiencies. We again recommend that DE recover the subsidy forfeitures.</p>
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<p><u>IV. Observation:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review. 2. Implement compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner, to mitigate information technology (IT) control weaknesses. 3. Require vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives. 	<p>Background:</p> <p>Our prior audit found that DTSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the above software, are maintained on the vendor's servers, which are physically located at the vendor. The District has remote access into the vendor's network servers, with the vendor providing system maintenance. We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit found the DTSD had taken corrective action to address our prior recommendations except for numbers 3, 4, 7 and 8, and part of number 9.</p> <p>Therefore we again recommend that the DTSD:</p> <ol style="list-style-type: none"> 1. Require vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives. 2. Allow access to the 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. 3. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy. 4. Include provisions for
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<p>4. Allow access to the 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.</p> <p>5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>7. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>8. Include provisions for authentication (password security and syntax requirements) in the District's Acceptable Use Policy.</p> <p>9. Implement a security policy and system parameter settings to require all users, including vendor, to change their passwords on a regular basis (i.e., every 30 days).</p>		<p>authentication (password security and syntax requirements) in the District's Acceptable Use Policy.</p> <p>5. Implement a security policy and system parameter settings to require all users, including vendor, to change their passwords on a regular basis (i.e., every 30 days); maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); lock out users after three unsuccessful attempts; and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p>
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<p>Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); lock out users after three unsuccessful attempts; and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p>		
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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
Governor
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Harrisburg, PA 17120

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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.

