

LOWER MERION SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2011

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

Mr. David A. Ebby, Board President
Lower Merion School District
301 West Ardmore Avenue
Ardmore, Pennsylvania 19003

Dear Governor Corbett and Mr. Ebby:

We conducted a performance audit of the Lower Merion School District (LMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period through August 17, 2007 through January 28, 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, 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 LMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

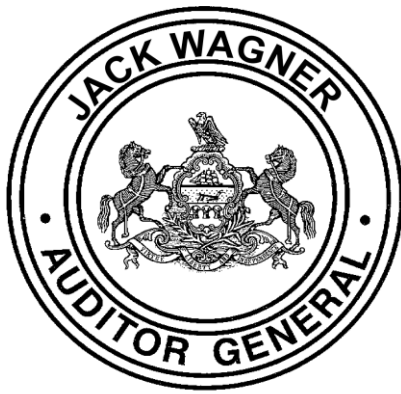
August 29, 2011

cc: **LOWER MERION 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 Lower Merion School District (LMSD). 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 LMSD in response to our prior audit recommendations.

Our audit scope covered the period August 17, 2007 through January 28, 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 2007-08 and 2006-07.

District Background

The LMSD encompasses approximately 24 square miles. According to 2000 federal census data, it serves a resident population of 64,083. According to District officials, in school year 2007-08 the KCSD provided basic educational services to 6,920 pupils through the employment of 695 teachers, 560 full-time and part-time support personnel, and 70 administrators. Lastly, the LMSD received more than \$15.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, as noted below, one matter unrelated to compliance is reported as an observation.

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

Our current audit found that the LMSD had not implemented our prior audit recommendations regarding bus drivers' qualifications (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the LMSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LMSD had taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation reporting errors (see page 9) and largely implemented our recommendations pertaining to vendor system access and logical access control weaknesses (see page 10). However, LMSD did not take appropriate corrective action pertaining to bus driver qualifications (see page 11).



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 17, 2007 through January 28, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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

Objectives

What is the difference between a finding and an observation?

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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the LMSD'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:

- ✓ 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, 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.

LMSD's 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 and pupil transportation.

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 19, 2008, we reviewed the LMSD's response to DE dated November 17, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Criteria relevant to the observation:

Public School Code, Section 111 (24 P.S. § 1-111) provides:

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.

Similarly, Section 6355 of the Child Protective Services Law, (CPSL), 23 Pa. C.S. § 6355, requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our current audit found that the District had not implemented our prior audit recommendations regarding bus drivers' qualifications (see page 11). We made our recommendations in the interest of the protection of students, and here reiterate those recommendations.

The ultimate purpose of the requirements of the Public School Code and CPSL cited in the box to the left is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, we believe there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider implementing written policies and procedures to ensure that the District is immediately informed of any charges and convictions that may have occurred after the commencement of employment.

The District had not adopted written policies or procedures, as we recommended in the prior audit, to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations

The *Lower Merion School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District 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 that the District is notified when current employees of the District's transportation contractors are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Management Response

Management stated the following:

At this time, the District remains in compliance with all laws and regulations pertaining to Criminal Background Checks (Act 34) and Child Abuse Reports (Act 151). Indeed, the audit report merely indicates in its observation that school districts generally "*should* also consider reviewing" the criminal history and child abuse reports for current bus drivers. While not in any way diminishing the District's continuing commitment to the safety and security of all students, there is no current legal requirement or authority to enable the District to unilaterally review criminal record[s] of bus drivers after they are hired by the school district. In fact, it is inconsistent and, arguably discriminatory, to do so for only one group of employees. That having been said, the District has initiated discussions with its bargaining unit to discuss potential changes to the procedures currently in place for bus drivers to address this issue.

Auditor Conclusion

Management is correct that the District is in compliance with laws and regulations; for that reason our recommendations are presented in an observation rather than a finding.

Our audit procedures focused on bus drivers qualifications, but as management's response suggests our recommendations could be extended to include any individuals who have direct contact with children.

Status of Prior Audit Findings and Observations

Our prior audit of the Lower Merion School District (LMSD) for the school years 2005-06 and 2004-05 resulted in one finding and two observations. The finding pertained to pupil transportation reporting errors; the observations pertained to unmonitored vendor system access and logical access control weaknesses and internal control weaknesses in 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 LMSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the LMSD did implement recommendations related to the finding, largely implemented our recommendations pertaining to the unmonitored vendor system access and logical access control weaknesses observation, and did not implement our recommendations pertaining to the bus driver qualifications observation.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding:	Pupil Transportation Reporting Errors Resulting in Net Subsidy Underpayment of \$176,029
<u>Finding Summary:</u>	Our prior audit found errors in the reporting of the number of nonpublic pupils transported by the District to DE for the 2005-06 and 2004-05 school years, resulting in the net underpayment of \$176,029.
<u>Recommendations:</u>	<p>Our audit finding recommended that the LMSD:</p> <ol style="list-style-type: none">1. Review controls to ensure the accurate reporting of nonpublic pupils transported2. Reconcile all transportation data for accuracy prior to submission of reports to DE. <p>We also recommend that DE:</p> <p>Adjust the District's allocations to resolve the net underpayment of \$176,026.</p>
<u>Current Status:</u>	Our current audit found that the District implemented our recommendations. Additionally, DE made adjustments to the District's allocations to resolve the net underpayment in February and April 2010.

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: Our prior audit found that the LMSD uses software purchased from an outside vendor for its critical student accounting applications. The software vendor has remote access into the District's network servers. 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.

Recommendations: Our audit observation recommended that the LMSD:

1. Generate monitoring reports (including firewall logs) of the vendor and employee remote 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. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the district system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Store back-up tapes in a secure, off site location.
5. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
6. The District's Acceptable Use Policy should include provisions for authentication (e.g., password security and syntax requirements) and violations (what is to be reported and to whom).

7. 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). 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 max).

Current Status:

Our current audit found that the LMSD implemented our recommendations; however, the maximum password age is 120 days, users are locked out after ten unsuccessful attempts and there is no automatic log off settings. We again recommend that the District consider the more stringent logical access controls.

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

Observation Summary:

Our prior audit found that the District did not have written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. We considered this lack of written policies and procedures to be an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to have direct contact with children.

Recommendations:

Our audit observation recommended that the LMSD:

1. 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.
2. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District 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.

Current Status: Our current audit found that LMSD has not complied with our recommendations. As of our fieldwork completion date, the District had not adopted any policies or procedures to address our concerns (see observation, page 6).

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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