



UPPER ADAMS SCHOOL DISTRICT
ADAMS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

SEPTEMBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Ms. Janet M. Schroeder, Board President
Upper Adams School District
161 North Main Street
Biglerville, Pennsylvania 17307

Dear Governor Corbett and Ms. Schroeder:

We conducted a performance audit of the Upper Adams School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 29, 2009 through January 3, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 District 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 the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the District's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with legal and administrative requirements.

On October 24, 2012, we initiated a special audit of the District's decision to accept the resignation of its former Superintendent on July 31, 2012. Specifically, we sought to determine whether the former Superintendent was paid out only what he was entitled to under his employment contract. This performance audit covered the period July 1, 2009 through July 31, 2012, and was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. This performance audit was separate and distinct from the District's cyclical performance audit, which was conducted simultaneously and the results of which are described in the following pages of the audit report. We conduct cyclical performance audits approximately every two years.

Our special audit of the former Superintendent's retirement found that the District complied, in all significant respects, with the applicable state laws, contracts, and administrative procedures related to our specific audit objectives.

We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

September 16, 2013

cc: **UPPER ADAMS SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	2
Findings and Observations	5
Finding – Certification Deficiencies	5
Status of Prior Audit Findings and Observations	7
Distribution List	11

Executive Summary

Audit Work

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

Our audit scope covered the period July 29, 2009 through January 3, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 90 square miles. According to 2010 federal census data, it serves a resident population of 10,828. According to District officials, the District provided basic educational services to 1,706 pupils through the employment of 141 teachers, 100 full-time and part-time support personnel, and 12 administrators during the 2009-10 school year. Lastly, the District received \$9.6 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District 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 review of the Upper Adams School District's (District) professional employees' certification found that two individuals were serving in locally titled positions for which the District had not obtained a review from the Bureau of School Leadership and Teacher Quality (BSLTQ) to determine whether the individuals' certificates were appropriate for these positions. Subsequent review by BSLTQ determined that the two individuals were not properly certified for their positions (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the District from an audit released on June 17, 2010, we found that the District had taken steps to implement our recommendations pertaining to professional employees' certification, but that further improvements were required (see page 7). We found that the District had taken appropriate corrective action to implement our recommendations pertaining to its Memoranda of Understanding (see page 8). However, we found that the District took partial corrective action regarding the unmonitored vendor system access and logical control access weaknesses (see page 8).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 July 29, 2009 through January 3, 2013, except for the verification of professional employee certification which was performed for the period July 29, 2009 through December 7, 2012.

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

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 District'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?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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

The District's 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. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as

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.

they relate to the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, 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 policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 17, 2010, we reviewed the District's response to PDE dated March 4, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Section 1202 of the Public School Code (PSC) states:

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

Section 2518 of the PSC mandates that any intermediate unit that:

“. . . has in its employ any person in a position that is subject to the certification requirements of the Pennsylvania Department of Education but who has not been certificated for his position by the Pennsylvania 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 review of the Upper Adams School District’s (District) professional employees’ certification for the period July 29, 2009 through December 7, 2012, found that the District had not obtained a certificate review from the Pennsylvania Department of Education’s Bureau (PDE) of School Leadership and Teacher Quality (BSLTQ) for two individuals serving in locally titled positions. Locally titled positions are those that fall outside of PDE’s Certification and Staffing Policy Guidelines. BSLTQ must review the job descriptions for these positions in order to determine the proper certification requirements.

One individual with Elementary Certification was assigned to the position of Middle School Dean of Students. The job description stated that the individual must possess a valid Pennsylvania certification as a secondary teacher, principal, or guidance counselor.

The second individual with Earth and Space Science and General Science certification was assigned to the position of High School Dean of Students.

Information pertaining to the assignments and certificates was submitted to BSLTQ for its review. On February 11, 2013, BSLTQ confirmed the certification deficiencies. Therefore, the District is subject to the following subsidy forfeitures:

<u>School Year</u>	<u>Subsidy Forfeitures</u>
2012-13	\$ 4,712
2011-12	4,618
2010-11	4,718
<u>2009-10</u>	<u>2,340</u>
Total	<u>\$ 16,388</u>

It is the responsibility of District management to have internal policies and procedures in place to ensure that employees are properly certified for the positions they are assigned. Failure to confirm that professional employees maintain proper certifications jeopardizes the District’s

ability to ensure that students receive instruction from qualified employees.

Recommendations

The Upper Adams School District should:

1. Submit all locally titled positions to BSLTQ to determine the appropriate certificate(s) for the assignment.
2. Upon receipt of BSLTQ’s determination, take necessary action to ensure compliance with certification regulations.

The *Pennsylvania Department of Education* should:

3. Take action to recover any subsidy forfeitures that may be levied.

Management Response

Management stated the following:

“The Upper Adams School District is currently investigating this finding with PDE to verify that this is or is not a certification issue.”

Auditor Conclusion

We agree that the District should discuss any additional concerns regarding this finding with BSLTQ. However, based on the BSTLQ’s previous review of the certification for these locally titled positions, we are confident in our finding and it will stand as written.

Status of Prior Audit Findings and Observations

Our prior audit of the Upper Adams School District (District) released on June 17, 2010, resulted in two reported findings and one observation. The first finding pertained to a certification deficiency, the second finding pertained to the Memoranda of Understanding not being updated timely, and the observation pertained to unmonitored vendor system access and logical control access 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 District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings and observation. As shown below, we found that the District had taken steps to implement our recommendations pertaining to certification deficiencies, but that further improvements were required. We found that the District had taken appropriate corrective action to implement our recommendations pertaining to its Memoranda of Understanding. However, the District partially implemented our recommendations related to unmonitored vendor system access and logical control access weaknesses.

Auditor General Performance Audit Report Released on June 17, 2010

Finding No. 1: Certification Deficiency

Finding Summary: Our prior audit found that PDE Bureau of School Leadership and Teacher Quality determined that an individual holding an elementary certificate was assigned as an elementary English as a Secondary Language (ESL) teacher without holding the required Program Specialist - ESL certificate for this assignment. The District was subject to a subsidy forfeiture of \$2,194 for the 2006-07 school year.

Recommendations: Our audit finding recommended that the District should:

Take necessary action to ensure compliance with certification regulations.

We also recommended that PDE should:

Recover the subsidy forfeiture of \$2,194.

Current Status: During our current audit, we found that the District had taken steps to ensure compliance with certification regulations. However, we also found that these efforts were not effective, since we again noted certification deficiencies as detailed in the finding of the current report. While this new finding is unrelated to the prior deficiency, it demonstrates that the District's process for verifying proper certification requires additional improvements. We also found that PDE had recovered the subsidy forfeiture of \$2,194 on December 30, 2010.

Finding No. 2: Memoranda of Understanding Not Updated Timely

Finding Summary: Our prior audit of the District’s records found that one of its Memoranda of Understanding (MOU) with a local law enforcement agency had not been updated since June 19, 2007. Likewise we found that another of the District’s MOUs had not been updated since August 13, 2001.

Recommendations: Our audit finding recommended that the District should:

Adopt a policy requiring the administration to review and re-execute the MOUs at least every two years.

Current Status: During our current audit, we found that the District had implemented our recommendation. Board Policy No. 805 requires the MOUs to be updated every two years. We also verified the District’s most current MOUs were signed June 1, 2011.

Observation Unmonitored Vendor System Access and Logical Control Access Weaknesses.

Observation Summary: Our prior audit 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 is adequately monitoring vendor activity in its system. The District’s software vendor had remote access into the District’s network server for its student accounting applications.

Recommendations: Our audit observation recommended that the District should:

1. Develop a contract with the vendor to provide student accounting applications and related services. The contract should cover legal, financial, organization, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses).
2. Keep a copy of the fully executed maintenance agreement, signed by both parties, on file.
3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District’s proprietary information.

4. Ensure that the contract with the vendor is reviewed by the District's solicitor.
5. Ensure that the District's Acceptable Use Policy (AUP) includes provisions for authentication (password security and syntax requirements).
6. Ensure that the District's AUP includes provisions for handling deliberate violations/incidents (what is to be reported and to whom), not just accidental access to inappropriate information. Further, all District employees should be required to sign this policy.
7. Establish separate information technology (IT) policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District's AUP.
8. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
9. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
10. 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). Require passwords to 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).
11. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the District's 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.
12. 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 suppression equipment in the computer room.
13. Ensure that system back-ups are stored in a secure, off-site location.

14. To mitigate IT control weaknesses, have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

During our current audit, we found that the District implemented recommendations 1, 2, 3, 4, 7, 8, 9, and 14. The District did not implement recommendations 5, 6, 10, 11, 12, and 13.

Therefore, we again recommend that the District review previous recommendations 5, 6, 10, 11, 12, and 13 and take corrective action to resolve these outstanding issues.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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The Honorable Carolyn Dumaesq
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

