

NORTHWESTERN LEHIGH SCHOOL DISTRICT  
LEHIGH COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2010



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Gregory W. Snyder, Board President  
Northwestern Lehigh School District  
6493 Route 309  
New Tripoli, Pennsylvania 18066

Dear Governor Rendell and Mr. Snyder:

We conducted a performance audit of the Northwestern Lehigh School District (NLSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period January 25, 2008 through October 6, 2009, 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 NLSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that is reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

June 17, 2010

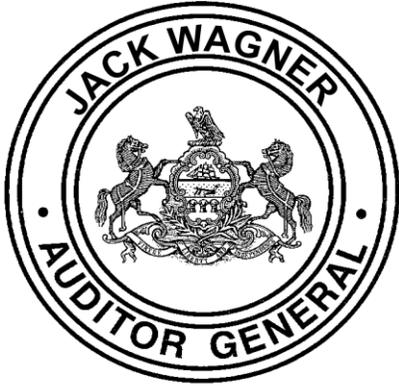
cc: **NORTHWESTERN LEHIGH SCHOOL DISTRICT** Board Members

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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period January 25, 2008 through October 6, 2009, 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 NLSD encompasses approximately 110 square miles. According to 2009 local census data, it serves a resident population of 14,928. According to District officials, in school year 2007-08 the NLSD provided basic educational services to 2,441 pupils through the employment of 178 teachers, 183 full-time and part-time support personnel, and 19 administrators. Lastly, the NLSD received more than \$9.8 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

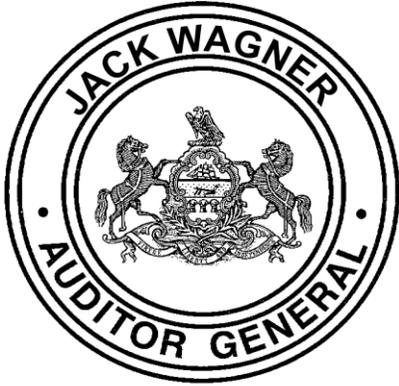
Our audit found that the NLSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

#### **Observation 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

The NLSD does not have written policies or procedures in place 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 (see page 6).

**Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses.** We noted that NLSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 9).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the NLSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the NLSD had taken appropriate corrective action in implementing our recommendations pertaining to their Memorandum of Understanding not updated timely (see page 12).



## Audit Scope, Objectives, and Methodology

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### 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 25, 2008 through October 6, 2009.

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 NLSLSD'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:

- ✓ 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?
- ✓ 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 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

NLSD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications and financial stability.
- Board meeting minutes.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 28, 2009, we then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation No. 1

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### Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

*Criteria relevant to the observation:*

Section 111 of the Public School Code, as amended, 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 for 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) requires prospective school employees to provide an official child abuse clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our audit of the personnel records of bus drivers employed by Northwestern Lehigh School District (NLSD) found that individuals possessed the minimum requirements to be employed as bus drivers and that the NLSD had on file the required report of criminal history record information and the official child abuse clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited NLSD from hiring any of the drivers. Therefore, we concluded that the NLSD has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. Additionally, there were no serious crimes identified or other information that called into question the applicants' suitability to have direct contact with children.

The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, 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 reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

However, the District does not have written policies or procedures in place 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 *Northwestern Lehigh School District* should:

1. Developing a process to determine, on a case-by-case basis, whether prospective and current drivers have been charged or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.
2. Implementing 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.

## **Management Response**

Management stated the following:

The Northwestern Lehigh School District supports the recommendation to embrace policies and procedures that protect students. However, the Department of Auditor General – Bureau of School Audits is recommending a policy that reaches beyond the current statutory requirements that do not prevent employment under the Public School Code.

The DAG recommendation would require the employee to notify the employer of a charge or conviction of a serious crime; which could infringe upon the employee's employment and due process rights. The employer could face discrimination charges and claims if the pending charge(s) are later dropped or results in a less serious conviction as the charges are processed in the judicial system. The employer also faces increased exposure to unemployment compensation costs and undue legal defense expenses.

The Northwestern Lehigh School District will work with our Solicitor to implement a policy that protects our student's safety and preserves the rights of our employees as well as maintaining management discretion.

**Auditor Conclusion**

We encourage the District's intention to review its policies with its solicitor. We continue to recommend that the District adhere to our recommendations. We will revisit this issue in our next audit of the District.

**Observation No. 2**

*What is logical access control?*

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

**Unmonitored Vendor System Access and Logical Access Control Weaknesses**

The NLSD 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 vendor’s software are maintained on the vendor’s servers which are physically located at the vendor’s location. The District has remote access into the vendor’s network servers. The vendor also provides the District with system maintenance and support.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over vendor access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.

3. The District does not require users to have their own unique userIDs and passwords.
4. The District's software vendor refused to provide evidence that the District's system parameter settings require all users, including the vendor, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
5. The vendor uses a group userID rather than requiring that each vendor employee has a unique userID and password.
6. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
7. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

## **Recommendations**

The *Northwestern Lehigh School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
3. Require and assign a unique userID for each vendor employee accessing the system.

4. Provide documentation, e.g. screen shots, that evidence that the system parameter settings require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days); to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history that will prevent the use of a repetitive password (i.e., the last ten passwords); to lock out users after three unsuccessful attempts; and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
5. 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 access to its data and ensure that changes to the data are made only by authorized vendor representatives.
6. Only allow access to their system 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.
7. Generate monitoring reports (including firewall logs) 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.

**Management Response**

Management stated the following:

The District is very appreciative of the observations and recommendations from the auditors. The District will take the necessary steps to address the recommendations.  
Thank you!

## Status of Prior Audit Findings and Observations

Our prior audit of the Northwestern Lehigh School District (NLSD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to their Memorandum of Understanding not being updated timely. 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 observation. As shown below, we found that the NLSD did implement recommendations related to their Memorandum of Understanding.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u>I. Observation :</u> <u>Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"> <li>Continue to review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police.</li> <li>Adopt a policy requiring the administration to review and re-execute the MOU every two years.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police (PSP) was executed January 31, 2005, and not re-executed until December 10, 2007, more than two years from the date of its original execution.</p>	<p><b>Current Status:</b></p> <p>We followed up the NLSD's memorandum of understanding for the 2009-2010 school year and found that NLSD did take corrective action to address our prior audit recommendations. The District has included the MOU as a standing agenda item for the Public Safety Committee meetings that are scheduled in the fall and spring of each school year.</p>

## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Thomas E. Gluck  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

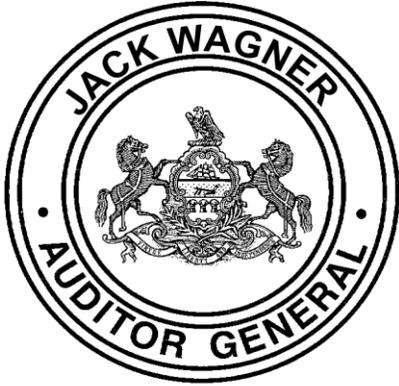
Representative James Roebuck  
Chair  
House Education Committee  
208 Irvis Office Building  
Harrisburg, PA 17120

Representative Paul Clymer  
Republican Chair  
House Education Committee  
216 Ryan Office Building  
Harrisburg, PA 17120

Ms. Barbara Nelson  
Director, Bureau of Budget and  
Fiscal Management  
Department of Education  
4th Floor, 333 Market Street  
Harrisburg, PA 17126

Dr. David Wazeter  
Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

Dr. David Davare  
Director of Research Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055



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