

PENN HILLS SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2010

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

Mr. Joseph Bailey, Sr., Board President
Penn Hills School District
309 Collins Drive
Pittsburgh, Pennsylvania 15235

Dear Governor Rendell and Mr. Bailey:

We conducted a performance audit of the Penn Hills School District (PHSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 12, 2006 through June 25, 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, 2007, 2006 and 2005. 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 PHSD 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 PHSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PHSD's operations and facilitate compliance with legal and administrative requirements. We appreciate PHSD'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: **PENN HILLS SCHOOL DISTRICT** Board Members

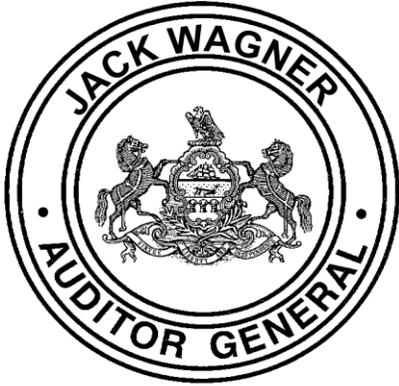
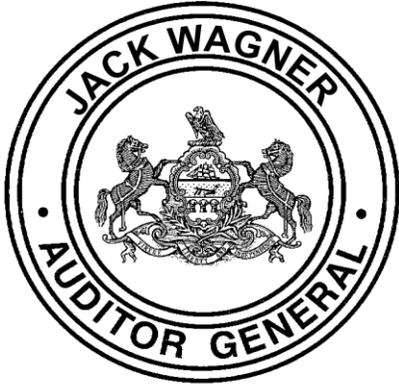


Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Observation – Logical Access Control Weaknesses	6
Status of Prior Audit Findings and Observations	8
Distribution List	11



Executive Summary

Audit Work

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

Our audit scope covered the period May 12, 2006 through June 25, 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, 2006-07, 2005-06 and 2004-05.

District Background

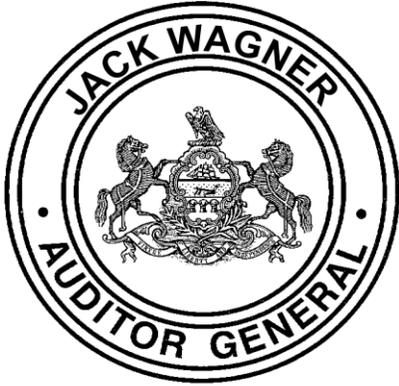
PHSD encompasses approximately 19 square miles. According to the 2000 federal census data, it serves a resident population of 46,809. According to District officials, in school year 2007-08 PHSD provided basic educational services to 5,490 pupils through the employment of 467 teachers, 798 full-time and part-time support personnel, and 26 administrators. Lastly, PHSD received more than \$27.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Observation: Logical Access Control Weaknesses. Our audit found logical access control weaknesses over PHSD's membership data, which present a risk that unauthorized changes to PHSD's critical student accounting applications (membership and attendance) could occur (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to PHSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found PHSD had taken appropriate corrective action in implementing our recommendations pertaining to membership reporting errors and internal control weaknesses in bus drivers' qualifications (see page 8).



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 May 12, 2006 through June 25, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 PHSD'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:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ 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.

PHSD 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 financial stability.

- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 12, 2007, we reviewed PHSD's response to DE dated December 4, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

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.

Logical Access Control Weaknesses

The Penn Hills School District (PHSD) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The District’s computer system, including all its data and the above vendor’s software, is maintained on PHSD’s servers which are physically located at PHSD’s administration building. However, the vendor has remote access into PHSD’s network servers. The vendor also provides PHSD with system maintenance and support.

Based on our current year procedures, we determined that due to logical access control weaknesses at PHSD a risk exists that unauthorized changes to PHSD’s data could occur and not be detected. The PHSD does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the district does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, the risk of unauthorized and undetected changes is increased. This could result in PHSD not receiving the funds to which it is entitled from the state.

During our audit, we found PHSD had the following logical access weaknesses:

1. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
2. The PHSD does not have any compensating controls that would mitigate information technology (IT) weaknesses and/or alert the PHSD to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.

Recommendations

The *Penn Hills School District* should:

1. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the PHSD system. Further, the PHSD 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.
2. To mitigate IT control weaknesses, implement compensating controls that would allow the PHSD to detect unauthorized changes to the membership database in a timely manner.

Management Response

Management stated the following:

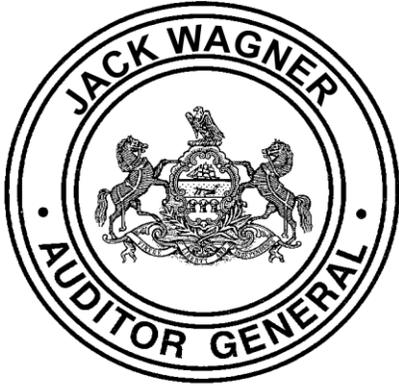
The District is pursuing the vendor having unique UserID's for access to the Student Management System. Currently, the vendor does not make changes to any data on the system. When data is required to be changed they instruct a PHSD employee to make the change. The vendor only has access to the system when we enable the system to allow remote access. We have started a procedure that defines how to turn system access on and off. Work tickets, Technicians, and Membership are monitored using this procedure.

Status of Prior Audit Findings and Observations

Our prior audit of the Penn Hills School District (PHSD) for the school years 2003-04 and 2002-03 resulted in one reported finding and one reported observation. The finding pertained to pupil membership reporting, and the observation pertained to internal control weaknesses in 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 PHSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that PHSD did implement recommendations related to both pupil membership reporting and weaknesses in bus drivers' qualifications.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Pupil Membership Reporting Errors Resulted in a Net Reimbursement Overpayment of \$25,410</i></u></p> <ol style="list-style-type: none"> 1. Require the administration to implement a system of review to ensure the accuracy of resident and nonresident membership reports prior to submission to DE. 2. DE should adjust the District's allocations to recover the net overpayment of \$25,410. 	<p>Background:</p> <p>Our prior audit of pupil membership records for the 2003-04 and 2002-03 school years found errors in resident and nonresident membership reported to DE for both years. The errors resulted in a net overpayment of reimbursements to the District of \$25,410.</p>	<p>Current Status:</p> <p>Our current audit found that the District has implemented our recommendations pertaining to reviewing and revising membership reports.</p> <p>Therefore we concluded that the District did take appropriate corrective action.</p> <p>DE had not yet adjusted the District's allocation to recover the net overpayment of \$25,410 as of June 25, 2009. We again recommend that DE do so.</p>
<p><u><i>Observation: Internal Control Weaknesses in Bus Drivers' Qualifications Administrative</i></u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees have been charged with or convicted of crimes that, even though not disqualifying under state 	<p>Background:</p> <p>Our prior audit found that the District had not yet implemented the recommendations from our audit covering the 2001-02 and 2000-01 school years. These recommendations indicated the District should adopt policies or procedures that would 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.</p>	<p>Current Status:</p> <p>Our current audit found that the District revised its board policy in November 2007 to address our concerns.</p> <p>Therefore, we concluded that the District did take appropriate corrective action.</p>

<p>law, affect their suitability to have direct contact with children.</p> <p>2. Implement written policies and procedures to ensure that the District and contractors are notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.</p>		
--	--	--



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 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

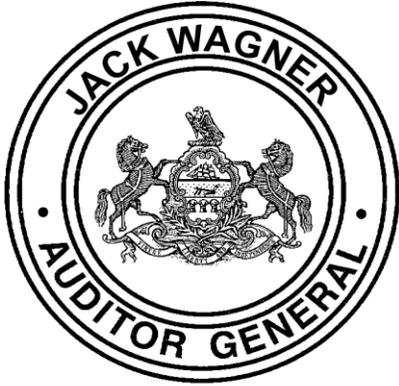
Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

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



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.

