

NEW KENSINGTON-ARNOLD SCHOOL DISTRICT
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Robert Pallone, Board President
New Kensington-Arnold School District
701 Stevenson Boulevard
New Kensington, Pennsylvania 15068

Dear Governor Rendell and Mr. Pallone:

We conducted a performance audit of the New Kensington-Arnold School District (NKASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 14, 2006 through July 22, 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 the NKASD 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 this result is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 22, 2010

cc: **NEW KENSINGTON-ARNOLD 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 New Kensington-Arnold School District (NKASD). 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 NKASD in response to our prior audit recommendations.

Our audit scope covered the period July 14, 2006 through July 22, 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

The NKASD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 20,400. According to District officials, in school year 2007-08 the NKASD provided basic educational services to 2,142 pupils through the employment of 204 teachers, 88 full-time and part-time support personnel, and 13 administrators. Lastly, the NKASD received more than \$15.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the NKASD 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: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the NKASD's data could occur and not be detected because the NKASD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NKASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the NKASD had taken appropriate corrective action in implementing our recommendations pertaining to errors in health services data (see page 9), and internal control weaknesses in bus drivers' qualifications (see page 11).

We found the NKASD had not taken appropriate corrective action in implementing our recommendations for providing adequate documentation of nonresident membership data reported to the Department of Education finding (see page 10).



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 July 14, 2006 through July 22, 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

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 NKASD'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?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?

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.

- ✓ 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 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.

NKASD 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 items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 3, 2007, we reviewed the NKASD's response to DE dated March 26, 2008. 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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The New Kensington-Arnold School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

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 it is adequately monitoring all vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Membership reconciliations are performed between manual records and reports generated from the student accounting system.

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 following weaknesses over vendor access to the District’s system:

1. 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.

2. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; use passwords that are a minimum length of eight characters; and maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
3. The vendor uses a group userID rather than requiring each employee to have a unique userID and password.

Recommendations

The *New Kensington-Arnold School District* should:

1. 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.
2. 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); use passwords that are a minimum length of eight characters; and maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
3. 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.

Management Response

Management stated the following:

1. The district is in the process of completing [the Acceptable Use Policy] with [the vendor].
2. The district will implement with the vendor the logical access settings when the district establishes our new software application.

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3. The district will implement vendor logical monitoring program to record details of vendor login to the District's system.

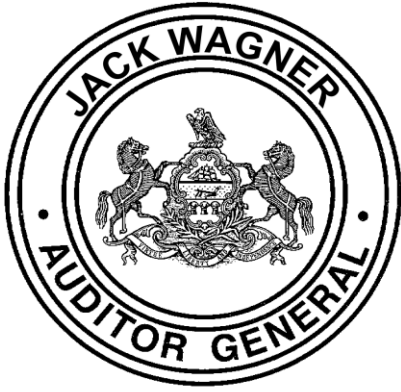
Status of Prior Audit Findings and Observations

Our prior audit of the New Kensington-Arnold School District (NKASD) for the school years 2003-04 and 2002-03 resulted in two reported findings and one observation. The first finding pertained to errors in health services data, and the second finding pertained to inadequate documentation to support tuition for orphans and children placed in private homes. The observation pertained to weaknesses in administrative policies 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 NKASD 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 the NKASD did implement recommendations related to errors in health services and bus driver qualifications. The NKASD did not implement recommendations related to documentation to support tuition for orphans and children placed in private homes; however, the specific errors noted in our current audit were not significant.

<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 1: Errors in Health Services Data Resulted in Reimbursement Underpayments of \$1,507</i></u></p> <ol style="list-style-type: none"> Review health services reimbursement applications prior to submission to the Department of Health (DH) to ensure accurate average daily membership (ADM) is reported. Review applications submitted subsequent to our current audit and, if errors are found, send revised reports to DH. DH should adjust the District's allocations to correct the reimbursement underpayments of \$1,507. 	<p>Background:</p> <p>Our prior audit of the NKASD health services reimbursement data for the 2003-04 and 2002-03 school years found that District personnel incorrectly reported ADM to DH. The errors resulted in health services reimbursement underpayments of \$1,507.</p>	<p>Current Status:</p> <p>Only insignificant discrepancies were noted between the reported ADM and the audited ADM during our current audit.</p> <p>Based on the results of our current audit, we concluded that the District <u>did</u> take appropriate corrective action to address this finding.</p> <p>DH issued a voucher on July 2, 2008, to correct the reimbursement underpayments of \$1,507.</p>

<p><u>II. Finding 2: Inadequate Documentation to Support \$99,429 in Tuition for Orphans and Children Placed in Private Homes</u></p> <ol style="list-style-type: none"> 1. Strengthen internal control procedures to ensure that documentation is maintained by the District to support all nonresident membership data reported to DE. 2. Provide regular in-service training to staff responsible for recording and reporting membership. The training should emphasize the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements. 3. DE should require the District to maintain sufficient, competent and relevant evidence to ensure proper justification of the receipt of state funds. 	<p>Background:</p> <p>Our prior audit of the District’s nonresident membership records for orphans and children placed in private homes for the 2003-04 and 2002-03 school years found that the District failed to maintain adequate records for the 2002-03 school year.</p>	<p>Current Status:</p> <p>Based on the results of our current audit, we concluded that the District <u>did not</u> take appropriate corrective action to address the recommendations contained in this finding.</p> <p>Documentation was not maintained for two students to support their nonresident classification. The exceptions found were not significant and therefore no finding has been issued in this report; however, we again recommend that the District maintain all documentation supporting nonresident membership.</p>
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<p><u>III. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</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 of the District's transportation contractor 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 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. 	<p>Background:</p> <p>Our prior audit found that neither the District nor the District's transportation contractor had 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 continue to have direct contact with children.</p>	<p>Current Status:</p> <p>Based on the results of our current audit, we concluded that the District has taken appropriate corrective action to address this observation. The transportation contractor is now required to notify the District if current employees have been charged with or convicted of serious criminal offenses which would call into question an individual's continued suitability to be in direct contact with children.</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:

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