

NORTH MONTCO TECHNICAL CAREER CENTER
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. William Brong
Joint Operating Committee Chairperson
North Montco Technical Career Center
1265 Sumneytown Pike
Lansdale, Pennsylvania 19446

Dear Governor Corbett and Mr. Brong:

We conducted a performance audit of the North Montco Technical Career Center (NMTCC) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period April 16, 2010 through October 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, 2010 and June 30, 2009. 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 NMTCC complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified a 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 NMTCC's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NMTCC's operations and facilitate compliance with legal and administrative requirements. We appreciate the NMTCC's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 31, 2012

cc: **NORTH MONTCO TECHNICAL CAREER CENTER** Joint Operating Committee
Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the North Montco Technical career Center (NMTCC). Our audit sought to answer certain questions regarding the NMTCC's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the NMTCC's in response to our prior audit recommendations.

Our audit scope covered the period April 16, 2010 through October 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 2008-09 and 2009-10.

School Background

According to School officials, in school year 2009-10 the NMTCC provided educational services to 1,075 secondary pupils and 757 post-secondary pupils through the employment of 50 teachers, 50 full-time and part-time support personnel, and 4 administrators. The operation, administration and management of the school are directed by a joint operating committee (JOC) which comprises 11 members from the following school districts:

Methacton
North Penn
Perkiomen Valley
Souderton Area
Wissahickon

The JOC members are appointed by the individual school boards at the December meeting, each to serve a four year term.

Lastly, the NMTCC received more than \$930,000 in state funding in school year 2009-10.

Audit Conclusion and Results

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

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

NMTCC uses software purchased from an outside vendor for its critical student accounting applications. The NMTCC'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 data center. We determined that a risk exists that unauthorized changes to NMTCC's data could occur and not be detected (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the NMTCC from an audit we conducted of the 2007-08 and 2006-07 school years, we found the NMTCC had taken appropriate corrective action in implementing our

recommendations pertaining to a Memorandum of Understanding that was not updated timely (see page 9).

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 April 16, 2010 through October 28, 2011, except for verification of professional employee certification which was performed for the period March 17, 2010 through September 22, 2011.

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

While all LEAs 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 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 NMTCC'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 objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the School?
- ✓ Did the School 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 School taking appropriate steps to ensure school safety?
- ✓ Did the School use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the School 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, 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.

NMTCC management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the School is in compliance with applicable laws, 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.

Our audit examined the following:

- Records pertaining to professional employee certification, financial stability.
- Items such as meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 13, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The North Montco Technical Career Center (NMTCC) uses software purchased from an outside vendor for its critical student accounting applications. The NMTCC'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 data center. The NMTCC has remote access into the vendor's network servers.

We determined that a risk exists that unauthorized changes to the NMTCC's data could occur and not be detected because the NMTCC was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. However, since the NMTCC has some 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 NMTCC would ever move into an entirely paperless future with decentralized direct entry of data into their systems. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the NMTCC's membership information and result in the NMTCC not receiving the funds to which it was entitled from the state.

We found the NMTCC to have the following weaknesses over the vendor access to the NMTCC's system:

1. The NMTCC 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 NMTCC's Acceptable Use Policy.

2. The NMTCC's software vendor refused to provide evidence that the NMTCC's system parameter settings require all users, including the vendor, to change 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).
3. The vendor has unlimited access (24 hours a day/7 days a week) into the NMTCC's system.
4. The NMTCC does not have evidence that it is reviewing monitoring reports of user access and activity on the system (including vendor and NMTCC employees). There is no evidence that the NMTCC is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
5. The NMTCC does not require written authorization prior to the updating/upgrading of key applications or changing user data.
6. The NMTCC could not provide evidence that the vendor is backing up the application(s) before placing program changes into production.

Recommendations

The *North Montco Technical Career Center* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the NMTCC's Acceptable Use Policy.
2. Implement a security policy and system parameter settings to require all users, including the vendor, to change 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 NMTCC 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 maximum).

3. Allow access to the system only 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.
4. Ensure it is maintaining evidence to support this monitoring and review.
5. Allow upgrades/updates to the NMTCC's system to be made only after receipt of written authorization from appropriate NMTCC officials.
6. Ensure that the vendor backs up the application(s) before placing program changes into production to ensure it could recover if problems are encountered.

Management Response

Management chose not to respond to our observation at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the North Montco Technical Career Center (NMTCC) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to the Memorandum of Understanding not being updated timely. As part of our current audit, we determined the status of corrective action taken by the NMTCC to implement our prior recommendations. We performed audit procedures and questioned NMTCC personnel regarding the prior observation. As shown below, we found that the NMTCC did implement recommendations related to our observation

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Memorandum of Understanding Not Updated Timely**

Observation Summary: Our prior audit of the NMTCC's records found that the Memoranda of Understanding (MOU) between the school and the local law enforcement agency was last updated on February 21, 2007; however, as a result of our audit, it was updated on March 22, 2010.

Recommendations: Our audit observation recommended the NMTCC:

1. In consultation with the school's solicitor, review, update and re-execute the current MOU between the school and the local police department every two years.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status: During our current audit procedures we found that the NMTCC implemented the recommendations.



Distribution List

This report was initially distributed to the technical career center superintendent of record, the joint operating committee, our website address at www.auditorgen.state.pa.us, and the following:

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