

NORTHEASTERN SCHOOL DISTRICT
YORK COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. William Gingerich, Board President
Northeastern School District
41 Harding Street
Manchester, Pennsylvania 17345

Dear Governor Rendell and Mr. Gingerich:

We conducted a performance audit of the Northeastern School District (NSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 21, 2005 through August 21, 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 NSD 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 are 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 NSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 29, 2010

cc: **NORTHEASTERN 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 Northeastern School District (NSD). 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 NSD in response to our prior audit recommendations.

Our audit scope covered the period November 21, 2005 through August 21, 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 NSD encompasses approximately 50 square miles. According to 2000 federal census data, it serves a resident population of 18,282. According to District officials, in school year 2007-08 the NSD provided basic educational services to 3,320 pupils through the employment of 269 teachers, 172 full-time and part-time support personnel, and 21 administrators. Lastly, the NSD received more than \$15.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the NSD 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 No. 1: Memoranda of Understanding Not Updated Timely. Our audit of the NSD's records found that the NSD's Memoranda of Understanding (MOU) with the Northern Regional, Northeastern Regional and Newberry Township police departments have not been updated within the last two years (see page 5).

Observation No. 2: Unmonitored System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the NSD's data could occur and not be detected because the NSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 7).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NSD from an audit we conducted of the 2003-04, 2002-03, 2001-02 and 2000-01 school years, we found the NSD had taken appropriate corrective action in implementing our recommendations pertaining to pupil membership errors (see page 11), inadequate documentation for transportation mileage data (see page 12), and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 12).



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 November 21, 2005 through August 21, 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 the NSD'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:

- ✓ 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.

NSD 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.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on February 10, 2006, we reviewed the NSD's response to DE dated October 27, 2006. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Memoranda of Understanding Not Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides, in part:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property.

Additionally, a Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons contains a sample MOU format to be used by school entities. Section VI, General Provisions, item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Our audit of the Northeastern School District's (NSD) records found that the NSD's Memoranda of Understanding (MOU) with the Northern Regional, Northeastern Regional and Newberry Township police departments have not been updated within the last two years.

The failure to review, update and re-execute the MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Northeastern School District* should:

1. Review, update and re-execute the current MOUs between the District and the Northern Regional, Northeastern Regional and Newberry Township police departments.
2. Adopt a policy requiring the administration to review and re-execute all MOUs every two years.

Management Response

Management stated the following:

Northeastern School District's management agrees with this observation. A district-wide Safe School action plan including Memorandum of Understanding between Northeastern School District and local law enforcement agencies will be completed by the end of the 2009-2010 school year. These Memorand[a] of Understanding will be updated every two years.

Observation No. 2 →

Unmonitored Vendor System Access and Logical Access Control Weaknesses

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.

The NSD uses software purchased from an outside vendor for its critical student accounting applications membership and attendance. The software vendor has remote access into NSD’s network server for its student accounting applications.

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

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 NSD would ever move into an entirely paperless future with decentralized direct entry of data into its systems. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the NSD’s membership information and result in the NSD not receiving the funds to which it was entitled from the state.

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

1. The contract with the vendor was not reviewed by the District’s legal counsel.
2. The District’s system parameter settings do not require all users, including the vendor, to change their passwords every 30 days.
3. The District’s system parameter settings do not require all users, including the vendor, to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters.

4. The District's system parameter settings do maintain a password history, but do not have any blocking function to prevent the use of a repetitive password (i.e., approximately last ten passwords).
5. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
6. The District does not have evidence that it is 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 to determine which data the vendor may have altered or which vendor employees accessed its system.
7. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire detection or fire suppression equipment.
8. Although individual building secretaries do perform manual reconciliations procedures, these procedures are not consistent throughout the District and they are not in writing. This information technology weakness could allow unauthorized changes to the membership database to go undetected.

Recommendations

The *Northeastern School District* should:

1. Have the contract with the vendor reviewed by legal counsel.
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).
3. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters, including alpha, numeric and special characters.

4. Implement a security policy and system parameter settings to maintain a password history with a blocking function that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Allow access to its 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.
6. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its 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.
7. 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 detectors and fire extinguishers in the server room.
8. To mitigate information technology control weaknesses, adopt written manual reconciliation procedures for membership and attendance data that are consistently applied by all buildings.

Management Response

Management provided a written response which included restatements of the points in our observation. The portions responding to our recommendations were as follows:

1. We agree that contracts should be reviewed by legal counsel. However, this is now after the fact.
- 2, 3, and 4. We agree with the observations. We will work with our vendors on password control.

5. We agree with the observation. We will start to limit access.
6. We agree with observation. We have turned on the audit feature of the server.
7. We agree with the observation. The room is planned for renovations and will have these features added at that time.
8. We agree with the observation. We are creating a policy.

Status of Prior Audit Findings and Observations

Our prior audit of the Northeastern School District (NSD) for the school years 2003-04, 2002-03, 2001-02 and 2000-01 resulted in two reported findings and one reported observation. The first finding pertained to pupil membership errors, the second finding pertained to inadequate documentation for transportation mileage data, and the observation pertained to internal control 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 NSD superintendent'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 NSD did implement our recommendations related to the pupil membership errors, inadequate documentation for transportation mileage data, and internal control weaknesses in administrative policies regarding bus drivers' qualifications.

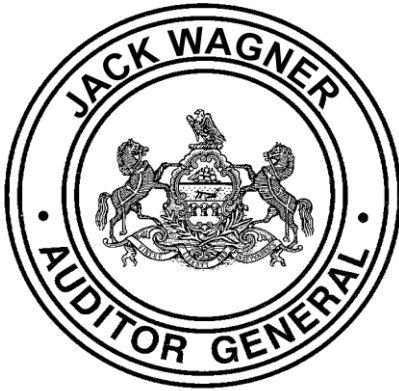
<i>School Years 2003-04, 2002-03, 2001-02 and 2000-01 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Pupil Membership Errors Resulted in a Net Subsidies and Reimbursement Underpayment of \$10,998</i></u></p> <ol style="list-style-type: none"> 1. Establish reconciliation procedures to ensure data reported on the membership reports submitted to DE is accurate. 2. Ensure the accurate reporting of Lincoln Intermediate Unit #12 and York County High School membership data. 3. Ensure children placed in private homes membership data are accurately reported. 4. Review reports for years subsequent to the audit and, if errors are noted, submit revisions to DE. 	<p>Background:</p> <p>Our prior audit of documentation supporting pupil membership reports submitted to DE for the 2003-04, 2002-03, 2001-02 and 2000-01 school years found errors in resident, nonresident and instructional days data. The errors resulted in over and underpayments in subsidies and reimbursements.</p>	<p>Current Status:</p> <p>Our current audit of membership data found that District personnel complied with our recommendations and the 2004-05 membership data was accurately reported to DE.</p> <p>Since DE personnel failed to resolve this finding in a timely manner, additional overpayments of basic education funding (BEF) and an additional underpayment of special education funding occurred in 2004-05, 2005-06 and 2006-07, since these were based in part on the payments received for prior years. DE paid the District \$9,476 on May 30, 2008 to resolve the BEF portion of this finding. Additionally, DE paid the District \$2,228 on December 24, 2008 to resolve the special education portion of this finding. Finally, DE recovered \$9,699</p>

		<p>from the District's May 30, 2008 BEF payment to resolve the overpayments in tuition for children placed in private homes for the 2001-02 and 2003-04 school years. DE paid the District \$6,602 on May 30, 2008, to resolve the 2002-03 underpayment portion of this finding.</p>
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<p><u>II. Finding No. 2:</u> <u>Inadequate Documentation for Transportation Mileage Data Resulted in Questionable Reimbursement of \$812,050</u></p> <ol style="list-style-type: none"> 1. Obtain and retain a minimum of eight monthly odometer readings to compute the average mileage data reported to DE for reimbursement. 2. Review mileage averages reported for years subsequent to the current audit period; if errors are noted, submit revised reports to DE. 	<p>Background:</p> <p>Our prior audit of transportation reimbursement for the school years 2003-04, 2002-03, 2001-02 and 2000-01 found a lack of supporting documentation to verify reimbursement of \$812,050, for the 2003-04 school year only.</p>	<p>Current Status:</p> <p>Our current audit of transportation data found that school personnel complied with our recommendations and, beginning with the 2005-06 school year, the District has been obtaining eight monthly odometer readings for use in computing the average mileage data reported to DE. No errors were noted in the averages reported to DE.</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 or the District's transportation contractor have been charged with or convicted of crimes that, even though not disqualifying under 	<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 had been charged with or convicted of serious criminal offenses which should have been 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>Our current audit of administrative policies regarding bus drivers' qualifications found the District complied with our recommendations by requiring the transportation contractor to notify the District if any existing drivers have criminal or child abuse violations. The transportation contractor issued a letter agreeing to provide this information.</p>
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<p>state law, affect their suitability to have direct contact with children.</p> <p>2. Implement 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.</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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