

PALISADES SCHOOL DISTRICT  
BUCKS COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2010



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

Mr. Stephen Kunkel, Board President  
Palisades School District  
39 Thomas Free Drive  
Kintnersville, Pennsylvania 18930

Dear Governor Rendell and Mr. Kunkel:

We conducted a performance audit of the Palisades School District (PSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 18, 2008 through November 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 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 PSD 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 PSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

June 25, 2010

cc: **PALISADES 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 Palisades School District PSD. 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 PSD in response to our prior audit recommendations.

Our audit scope covered the period June 18, 2008 through November 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 and 2006-07.

### **District Background**

The PSD encompasses approximately 102 square miles. According to 2000 federal census data, it serves a resident population of 15,652. According to District officials, in school year 2007-08 the PSD provided basic educational services to 2,065 pupils through the employment of 162 teachers, 130 full-time and part-time support personnel, and 20 administrators. Lastly, the PSD received more than \$6.3 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

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

#### **Observation: Continued Logical Access Control Weakness.**

We noted that PSD personnel should improve controls over logical access controls to its server. In particular, control should be strengthened over the access to the server with student accounting applications (see page 6).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the PSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PSD had not taken appropriate corrective action in implementing our recommendations pertaining to its student accounting applications (see page 8).





## 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 June 18, 2008 through November 25, 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 (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 PSD'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ 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 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

PSD 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, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2009, we reviewed the PSD's response to DE dated May 6, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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*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.

### Continued Logical Access Control Weakness

Our audit found that the Palisades School District used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The vendor had remote access into the District’s network servers.

Based on our current year procedures, we determined that a continued 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 there are logical access controls preventing unauthorized physical access to the server with membership/attendance data. 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. 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 continued weakness over vendor access to the District’s system:

The District does not maintain the servers with membership/attendance data in a restricted/secure area. The servers are located in the administration office copy room which is open during the normal working hours.

Our prior audit found the same weakness as well as other weaknesses. District personnel addressed all prior audit recommendations except the one regarding the location of the servers.

**Recommendations**

The *Palisades School District* should:

Maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.

**Management Response**

Management stated the following:

Palisades School District is in the planning stages to relocate a data center to provide a secure location for all the district's servers. Pending school board approval and appropriate funding this data center will be relocated and all servers including those directly related to membership and attendance data will be housed in a secure environment.

**Auditor Conclusion**

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

## Status of Prior Audit Findings and Observations

Our prior audit of the Palisades School District (PSD) for the school years 2005-06 and 2004-05 resulted in one observation. The observation pertained to student accounting applications. 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 PSD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the PSD did not implement recommendations related to its student accounting applications.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<b>Implementation Status</b>	
<p><u>I. Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> <li>1. Ensure that the contract with the vendor contains a non-disclosure agreement for the District’s proprietary information.</li> <li>2. Ensure that the District’s Acceptable Use Policy should include provisions for authentication (password security and syntax requirements).</li> <li>3. Establish separate information technology 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.</li> <li>4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the PSD used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor had remote access into the District’s network servers.</p>	<p><b>Current Status:</b></p> <p>We followed up on the PSD software vendor which has remote access into the District’s network servers and found that PSD did not take corrective action to address the recommendation to maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data. However, all other prior audit recommendations were implemented.</p> <p>Continued logical access control weakness was found (see observation page 6).</p>

<p>5. 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). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters.</p> <p>6. Review 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.</p> <p>7. Maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.</p>		
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## **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:

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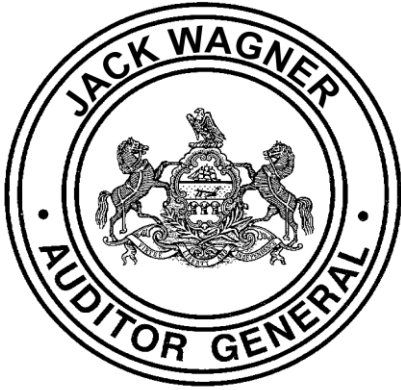
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