

PENN DELCO SCHOOL DISTRICT
DELAWARE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mrs. Kim Robinson, Board President
Penn Delco School District
2821 Concord Road
Aston, Pennsylvania 19014

Dear Governor Corbett and Mrs. Robinson:

We conducted a performance audit of the Penn Delco School District (PDSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirement and administrative procedures. Our audit covered the period June 27, 2008 through July 19, 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, 2009, 2008 and 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 PDSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 11, 2012

cc: **PENN DELCO 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 Penn Delco School District (PDS). 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 PDS in response to our prior audit recommendations.

Our audit scope covered the period June 27, 2008 through July 19, 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 2009-10, 2008-09, 2007-08 and 2006-07.

District Background

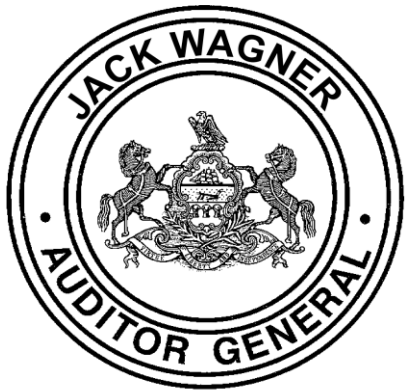
The PDS encompasses approximately 9 square miles. According to 2010 local census data it serves a resident population of 26,455. According to District officials, in school year 2009-10 the PSD provided basic educational services to 3,319 pupils through the employment of 226 teachers, 346 full-time and part-time support personnel, and 22 administrators. Lastly, the PDS received more than \$12.1 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PDS complied, in all significant respects, with applicable state laws regulations, contracts, grant requirements, and administrative procedures. We report no finding or observations in our report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the PDS from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the PDS did not have an opportunity to take appropriate corrective action in implementing our recommendation pertaining to the early administrator contract termination (see page 7) and had taken partial corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (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 June 27, 2008 through July 19, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 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 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 PDSD'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?
- ✓ 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 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, observations and conclusions based on our audit objectives.

PDSB 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 bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 23, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Penn Delco School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Penn Delco School District (PDS D) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in two observations. The first observation pertained to an early administrator contract termination, and the second observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior observations. As shown below, we found that the PDS D did not have the opportunity to implement our recommendation related to the first observation and partially implemented our recommendations to the second observation.

School Years 2005-06, 2004-05, 2002-03, 2002-03 Auditor General Performance Audit Report

Observation No. 1: The District Should Have Made the Reasons for an Early Administrator Contract Termination More Transparent to Taxpayers

Observation Summary: Our prior audit found that on November 18, 2008, the District and the District's Chief Administrative Officer (CAO) executed a Release and Settlement Agreement, which terminated the CAO's contract prior to its end date of June 30, 2011. Regardless of whether this course of action was appropriate, the District did not clearly enumerate the reasons for its actions to the taxpayers who were ultimately impacted by it.

Recommendations: While the Department of the Auditor General does not encourage the early termination of administrator contracts, our audit observation recommended that if such an action takes place, the PDS D take steps to ensure that as much information as possible is made available to the taxpayers, including the reasons for termination.

Current Status: Our current audit found that an early termination of an administrator's contract did not occur during our current period of review. Therefore, PDS D did not have the opportunity to implement our recommendations.

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: Our prior audit determined that a risk existed 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 was adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the PDSD:

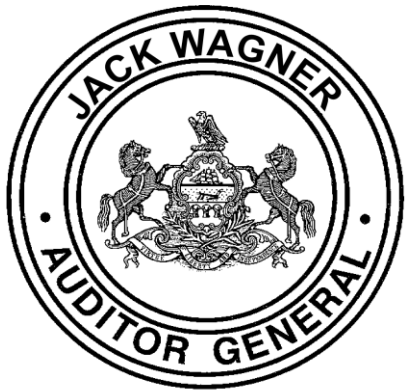
1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
2. Have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.
3. Either require the vendor to assign unique userIDs and passwords to vendor employees, or regularly review the vendor-developed reports to monitor the use of the group userID. In either scenario, the District should obtain a list of all vendor employees with access to its data and ensure that all changes are made only by authorized vendor representatives.
4. 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.
5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
7. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.

8. Establish a process for defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process.
9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
10. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
11. Include in its Acceptable Use Policy provisions for authentication (password security and syntax requirements).
12. Establish system parameter settings that require all users, including the vendor, to change passwords every 30 days, and to use passwords that are a minimum length of eight characters and include alpha, numeric, and special characters. The system should maintain a password history (i.e. approximately 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).

Current Status:

Our current audit found that the PDSB implemented recommendations 1, 3, 4, 5, 8, 9, 10 and 11 and partially implemented recommendation 12. Therefore we again recommend that PDSB:

1. Have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
4. Establish system parameter settings that require all users, including the vendor, to use passwords that include alpha, numeric, and special characters. The system should lock out users after three unsuccessful attempts; and log users off the system after a period of inactivity (i.e. 60 minutes maximum).



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

The Honorable Tom Corbett
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