

PENN DELCO SCHOOL DISTRICT  
DELAWARE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

DECEMBER 2010



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

Mr. Anthony Ruggieri, Board President  
Penn Delco School District  
2821 Concord Road  
Aston, Pennsylvania 19014

Dear Governor Rendell and Mr. Ruggieri:

We conducted a performance audit of the Penn Delco School District (PDSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 24, 2004 through June 27, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, 2005, 2004 and 2003, as they were the most recent reimbursements subject to audit. 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, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance 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 PDSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PDSD's operations and facilitate compliance with legal and administrative requirements.

In addition to the observations, we also wish to address the following matters. In December 2007, a former superintendent pled guilty to a felony conflict of interest charge for not disclosing her financial connection to the Quick Start Preschool program on her Statement of Financial Interests. The conflict arose because the District used the preschool program. As a result, she was sentenced to 1 to 12 months of confinement, community service, and fines of \$15,000.

In January 2008, the former board president pled guilty to five felony counts including violating the state Public Official and Employee Ethics Act by setting up and deriving a financial interest in the Quick Start Preschool program used by the District. He was sentenced to one to three years confinement, community service, and fines of \$15,000.

In December 2007, a former board member pled no contest to a felony conflict of interest charge for voting to approve District invoices from the company for which he worked. He was sentenced to 18 months probation, community service, and fines of \$2,510.

Sincerely,

/s/

JACK WAGNER  
Auditor General

December 23, 2010

cc: **PENN-DELCO SCHOOL DISTRICT** Board Members

## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Observation No. 1 – The District Should Have Made The Reasons For An Early Administrator Contract Termination More Transparent to Taxpayers .....	6
Observation No. 2 – Unmonitored Vendor System Access and Logical Access Control Weaknesses .....	8
Status of Prior Audit Findings and Observations .....	14
Distribution List .....	15



## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Penn Delco School District (PDS D). 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 D in response to our prior audit recommendations.

Our audit scope covered the period August 24, 2004 through June 27, 2008 except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy reimbursements was determined for school years 2005-06, 2004-05, 2003-04 and 2002-03 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

### **District Background**

The PDS D encompasses approximately 9 square miles. According to 2000 federal census data, it serves a resident population of 26,455. According to District officials, in school year 2005-06 the PDS D provided basic educational services to 3,269 pupils through the employment of 225 teachers, 230 full-time and part-time support personnel, and 24 administrators. Lastly, the PDS D received more than \$9.7 million in state funding in school year 2005-06.

### **Audit Conclusion and Results**

Our audit found that the PDS D complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, one matter unrelated to compliance is reported as an observation.

**Observation No. 1: The District Should Have Made The Reasons For An Early Administrator Contract Termination More Transparent to Taxpayers.** On November 18, 2008, the PDS D and its 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 (see page 8).

**Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses.** The PDS D uses software purchased from an outside vendor for its critical student accounting applications. We determined that a risk exists that unauthorized changes to the PDS D's data could occur (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the PDS D from an audit we conducted of the 2003-04 and 2002-03 school years, we found the PDS D did not have any findings or observations.





## 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 August 24, 2004 through June 27, 2008, except for:

- The verification of professional employee certification which was performed for the period July 19, 2004 through March 12, 2008.
- The review of outside vendor access to the District's student accounting applications which was completed on August 25, 2008.

Regarding state subsidy reimbursements, our audit covered school years 2005-06, 2004-05, 2003-04 and 2002-03 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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 PDSB'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 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.

- ✓ 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?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), 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?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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 and conclusions based on our audit objectives.

PDSD 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 bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as 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 14, 2004, we performed audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation No. 1

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#### **The District Should Have Made The Reasons For An Early Administrator Contract Termination More Transparent to Taxpayers**

On November 18, 2008, the District and its 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.

In response to the Department of the Auditor General's request for an explanation as to why the District terminated the CAO's contract early, the District's solicitor stated there were concerns about the District's business operations. These concerns included various deficiencies identified by an outside firm that was hired by the District to review its business activities. In addition, the solicitor indicated that other concerns were raised regarding the CAO's performance.

After the issuance of these allegations against the CAO, the subsequent labor dispute was resolved via the Settlement Agreement. Effective January 29, 2010, the CAO accepted a business manager position at another school district. However, the specifics of the dispute were never disclosed to the taxpayers who ultimately govern the District, and who subsequently have a right to know the details of its operations.

### Recommendations

*The Penn-Delco School District* should:

While the Department of the Auditor General does not encourage the early termination of administrator contracts, if such an action takes place, the District should take steps to ensure that as much information as possible is made available to the taxpayers, including the reasons for the termination.

**Response of Management**

Management stated the following:

The School District respectfully disagrees with the recommendations for a variety of reasons. First, the contract terminating the administrative contract is in many respects like any other contract. The Department of the Auditor General is not making any recommendations that this District or any other District takes steps to “to ensure that as much information as possible is made available to the taxpayers” with respect to any of the hundreds of other contracts entered into by the District. Second, the result of the District’s actions was a net savings to taxpayers. Third, this matter involved a personal matter. It is submitted that it is the public policy of the Commonwealth of Pennsylvania that personal matters not be made public. The public policy is expressed by law. The Sunshine Act expressly allows the deliberation of personal matters in private. The Right-To-Know Law expressly states that investigative records, including the records of investigations of employees, are not public records. If school districts or other municipalities were to do what is being recommended, it would result in fewer settlements, more litigation and more expense to taxpayers. This transaction was handled properly in full accord with all legal requirements and to the benefit of the school district and its taxpayers.

**Auditor Conclusion**

We appreciate management’s position related to this important issue. It is our hope that these types of early terminations are handled with as much transparency as possible.

**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 Penn Delco 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. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes is increased.

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.

Best practices in information technology (IT) security include: limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring the system to ensure integrity of key databases and applications; regulating changes to software; restricting physical access; implementing and maintaining minimum environmental controls; and planning for contingencies.

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

1. 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 vendor

may have altered or which vendor employees accessed its system.

2. The District does not have any compensating controls that would mitigate the IT weaknesses or alert the District to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.
3. The vendor uses a group userID rather than requiring that each employee has a unique userID and password. Further, the District does not monitor the vendor's use of the group userID through review of the vendor-developed monitoring report.
4. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
5. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
6. The District does not require written authorization before adding, deleting, or changing a userID.
7. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
8. The District does not have formal policies in place to control emergency changes to systems or programs.
9. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
10. The District does not have current IT policies and procedures for controlling the activities of vendor/consultants, nor does it require vendor to sign the District's Acceptable Use Policy.
11. The District's Acceptable Use Policy does not include provisions for authentication (password and syntax requirements).

12. 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; 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).

## **Recommendations**

The *Penn-Delco School District* should:

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. To mitigate IT control weaknesses, 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 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 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 their passwords every 30 days, and to use passwords that are a minimum length of eight characters and that 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).

**Management Response**

Management stated the following:

1. We acknowledge the concern. We will need to investigate monitoring software.
2. We acknowledge the concern. We will need to investigate monitoring software.
3. We will obtain a list of vendor employees to monitor who has access to our system. All reports/changes that are completed by the vendor are reviewed by the

appropriate administrator prior to access and completion. We will create an internal procedure to document this process.

4. Please see the comments for number 3. In addition, we will limit access so that the vendor does not have 24/7 access.
5. District employees are to be removed once their termination has been recognized by the school board if not sooner. The changes can be confirmed by the IT department after each school board meeting.
6. We currently use a document that is shared only by the human resources department and the technology department indicating new hires, their assignments, and any other details required to create a network account.
7. We acknowledge the concern and agree. The District will create a form for this purpose.
8. All emergency changes are made as per the Superintendent, Assistant Superintendent, and/or Technology Director. This can be followed up in a written format if necessary.
9. We acknowledge the recommendation; however, it indicates that District *should* establish a policy to “analyze the impact of proposed program changes . . .” The technology department does test new equipment and programs prior to implementation. We do not feel that a change is required at this time.
10. We acknowledge the concern. We will have vendors sign an acceptable use policy.

We acknowledge the concern. Our school board policy is being updated this school year. We will address this concern as needed when that portion of the policy is updated.

11. We acknowledge the concern; however, we have concerns of our own with changing our system. Besides the likelihood that users would have to write down their passwords causing additional security issues, we would need to make server changes that could affect the use of our current system. We do not

believe that this is necessary at this time but will consider it when we look to upgrade.

**Auditor Conclusion**

We acknowledge the District's statement that they test new equipment and programs. However, we continue to recommend that the District implement a *policy* to analyze changes to programs as well, to ensure applications continue to function as intended.

Due to the sensitive nature of the information in the student membership and attendance applications, we continue to recommend the security parameter settings detailed above.

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

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**O**ur prior audit of the Penn Delco School District resulted in no findings or observations.

## **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:

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

The Honorable Thomas E. Gluck  
Acting Secretary of Education  
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The Honorable Robert M. McCord  
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