

PENN-TRAFFORD SCHOOL DISTRICT  
WESTMORELAND COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2009



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

Mr. Phillip Kochasic, Board President  
Penn-Trafford School District  
1006 Harrison City-Export Road  
P.O. Box 530  
Harrison City, Pennsylvania 15636

Dear Governor Rendell and Mr. Kochasic:

We conducted a performance audit of the Penn-Trafford School District (PTSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period September 8, 2005 through May 16, 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 and June 30, 2005, 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 PTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except 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 PTSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PTSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PTSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 26, 2009

cc: **PENN-TRAFFORD 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 Penn-Trafford School District (PTSD). 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 PTSD in response to our prior audit recommendations.

Our audit scope covered the period September 8, 2005 through May 16, 2008, 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 2005-06 and 2004-05 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 PTSD encompasses approximately 27 square miles. According to 2000 federal census data, it serves a resident population of 25,070. According to District officials, in school year 2005-06 the PTSD provided basic educational services to 4,681 pupils through the employment of 236 teachers, 100 full-time and part-time support personnel, and 14 administrators. Lastly, the PTSD received more than \$18.5 million in state funding in school year 2005-06.

### **Audit Conclusion and Results**

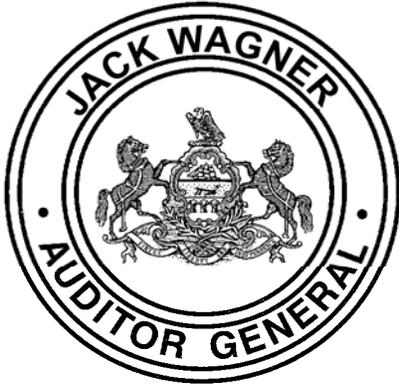
Our audit found that the PTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

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

PTSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into PTSD's network servers. Based on our current year procedures, we determined that a risk exists that unauthorized changes to PTSD's data could occur and not be detected because the PTSD was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. PTSD management agreed with the observation (see page 6).

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

With regard to the status of our prior audit recommendations to the PTSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the PTSD had taken appropriate corrective action in implementing our recommendations pertaining to errors in health services reimbursement data (see page 9).



## 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 September 8, 2005 through May 16, 2008, except for certification which was reviewed for the period July 1, 2005 through June 30, 2007.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 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 PTSD'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:

- ✓ Were professional employees certified for the positions they held?

*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.

- ✓ In areas where the District receives state subsidy 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 reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District 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 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 agreements 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.

PTSD 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 pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 9, 2006, we reviewed the PTSD's response to the Department of Education dated June 12, 2006. 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. It is in contrast to “physical access” which is the ability to actually touch the computer components.

“Logical access control” refers to internal control procedures used for identification authorization, and authentication to access the computer systems.

### Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Penn-Trafford 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 not able to provide supporting evidence that they are adequately monitoring vendor activity in their system. 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.

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.

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 to support they are reviewing monitoring reports of user’s remote access and activity on the system (including vendor and District employees). There is no evidence to support that the District is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

2. The District 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 District's Acceptable Use Policy.
3. The vendor uses a group userID rather than requiring that each employee have a unique userID and password.
4. 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).

## **Recommendations**

The *Penn-Trafford School District* should:

1. Review monitoring reports of vendor activity on the District's system. 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. Establish separate IT 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 own Acceptable Use Policy.
3. Require the vendor to assign unique userID's and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.

4. 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. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and log users off the system after a period of inactivity (i.e., 60 minutes maximum).

**Management Response**

Management agreed with the observation and stated:

Unmonitored Vendor System -- While our vendors need to call and ask permission from our Director of Technology to adjust the program, they are not monitored while adjusting the program. We will be reviewing programs that enable us to monitor the adjustments made to our programs while the software company technician is updating our information.

Logical Access Control Weakness -- Computers left unattended do not shut down for up to one hour. We will shorten the amount of time the computers are allowed to be idle before shutting down in order to prevent an unauthorized person from using a computer.

## Status of Prior Audit Findings and Observations

Our prior audit of the Penn-Trafford School District (PTSD) for the school years 2003-04 and 2002-03, resulted in one reported finding. The finding pertained to errors found in the preparation of health services reimbursement applications. As part of our current audit, we determined the status of corrective action taken by the PTSD to implement our prior recommendations. We analyzed the PTSD Board’s written response provided to the Department of Education, performed audit procedures, and questioned PTSD personnel regarding the prior finding. As shown below, we found that the PTSD did implement recommendations related to the Health Services finding.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding – Errors in Health Services Reimbursement Data Resulted in Underpayments of \$2,330</i></u></p> <ol style="list-style-type: none"> <li>1. Review health services reimbursement applications prior to submission to the Department of Health (DH).</li> <li>2. Adhere to Public School Code restrictions on the number of students under the care of each school nurse.</li> <li>3. Review applications submitted subsequent to our current audit years and, if errors are noted, send revised reports to DH.</li> <li>4. DH should adjust Penn-Trafford School District’s (PTSD) allocations to correct the reimbursement underpayments of \$2,330.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that health services reimbursement applications for the 2003-04 and 2002-03 school years contained errors in reporting average daily membership (ADM) to DH, resulting in reimbursement underpayments of \$2,330.</p> <p>The errors were caused by PTSD personnel failing to include area vocational-technical school ADM for students who received health services from PTSD nurses.</p>	<p><b>Current status:</b></p> <p>Based on the results of our current audit, we concluded that the PTSD complied with our recommendations and did take corrective action to address this finding.</p> <p>All recommendations reviewed with the District have been implemented. District employees now review health reports prior to their submission to DH.</p> <p>DH corrected the reimbursement underpayments of \$2,330 on April 27, 2006.</p>



## **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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State Treasurer  
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Harrisburg, PA 17120

Senator Andrew Dinniman  
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