

CHELTENHAM TOWNSHIP SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Ms. Tina Viletto, Board President
Cheltenham Township School District
2000 Ashbourne Road
Elkins Park, Pennsylvania 19027

Dear Governor Rendell and Ms. Viletto:

We conducted a performance audit of the Cheltenham Township School District (CTSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 21, 2008 through July 14, 2010, 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 CTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, 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 finding, observation and recommendations have been discussed with CTSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CTSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CTSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 13, 2010

cc: **CHELTENHAM TOWNSHIP 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 Cheltenham Township School District (CTSD). 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 CTSD in response to our prior audit recommendations.

Our audit scope covered the period March 21, 2008 through July 14, 2010, 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 CTSD encompasses approximately 13 square miles. According to 2010 local census data, it serves a resident population of 36,000. According to District officials, in school year 2007-08 the CTSD provided basic educational services to 4,365 pupils through the employment of 399 teachers, 259 full-time and part-time support personnel, and 38 administrators. Lastly, the CTSD received more than \$12.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

Finding: Internal Control Weaknesses and Lack of Documentation Supporting Data Reported to the Department of Education for Pupil Transportation. Our audit of pupil transportation records and reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found internal control weaknesses and a lack of documentation supporting reimbursements of \$1,074,170 and \$991,915, respectively (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the CTSD's data could occur and not be detected because the CTSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. Four areas of weakness were identified in our review (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CTSD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the CTSD had taken appropriate corrective action in implementing our recommendations

pertaining to board members failing to file their Statements of Financial Interests (see page 11).

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 March 21, 2008 through July 14, 2010.

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 CTSD'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:

- ✓ 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.

CTSD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 3, 2009, we reviewed the CTSD's response to DE dated June 9, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Internal Control Weaknesses and Lack of Documentation Supporting Data Reported to the Department of Education for Pupil Transportation

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.4 provides, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

- (5) The furnishing of rosters of pupils to be transported on each school bus run and trip.
- (6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.

Section 518 of the Public School Code requires retention of these records for a period of not less than six years.

DE's End of Year Instructions for the reporting of mileage and pupils state:

- The local education agency (LEA) must maintain records of miles with pupils, miles without pupils, and the largest number of pupils assigned to each vehicle.
- Procedures, information, and data used by the LEA should be retained for audit purposes.

Our audit of pupil transportation records and reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found internal control weaknesses and a lack of documentation supporting reimbursements of \$1,074,170 and \$991,915, respectively, as follows:

- The District failed to retain adequate documentation to support the reported pupil counts for public, nonpublic, non-hazardous, hazardous and nonreimbursable students for both years of audit.
- The District's Pupil Transportation Data Worksheet for the 2007-08 school year contained only one monthly odometer reading, taken in October, for the sample average method of computing mileage.
- Clerical errors were noted in the recording and computation of miles with and without pupils and pupil counts reported to DE for the 2006-07 school year.
- There is a lack of written policies and procedures for the collection, retention and processing of transportation documentation.

Changes in District personnel and in contracted bus companies were the causes of the errors.

The failure of District personnel to retain complete, reliable and accurate data places the District at risk of losing state reimbursement for noncompliance with DE reporting instructions.

Recommendations

Criteria relevant to the finding:

- For the sample average method (mileage), once during each month from October through May measure and record: (1) the number of miles the vehicle traveled with pupils; (2) the number of miles the vehicle traveled without pupils; and (3) the number of students assigned to ride the vehicle at any one time during the day. At the end of the school year, calculate the average of the eight measurements for each of the three variables. These averages are called sample averages.

Management Response

The *Cheltenham Township School District* should:

1. Implement procedures to ensure complete and accurate documentation for all pupils transported is retained supporting information reported to DE.
2. Ensure Pupil Transportation Data Worksheet summaries are prepared and contain complete information for all school years.
3. Ensure all reports are reviewed and verified for accuracy prior to submission to DE.
4. Implement written policies and procedures relating to the collection, retention, and processing of transportation documentation.

Management stated the following:

The School District of Cheltenham Township acknowledges the finding made by the Auditor General's Office. The school district will review the documentation for future years transportation reports to ensure back up information is present and retained. Additionally the office of support services who generates the annual transportation report will ensure records which are kept by [the transportation contractor] are accurate and complete.

Observation

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Cheltenham Township School District uses software purchased from the Montgomery County Intermediate Unit #23 (MCIU) for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the above software, are maintained on MCIU's servers, which are physically located at MCIU. The District has remote access into MCIU's network servers, with MCIU providing system maintenance and support.

Based on our 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. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Information System.

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 audit, 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 MCIU and District employees). There is no evidence that the District is performing procedures to determine which data the MCIU may have altered or which MCIU employees accessed the system.

2. The District does not have current information technology (IT) policies and procedures for controlling the activities of MCIU, nor does it require MCIU to sign the District's Acceptable Use Policy.
3. 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 passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters and to maintain a password history (i.e., approximately ten passwords).
4. The District does not have a list of personnel with authorized access to the area where the servers with the membership/attendance data reside.

Recommendations

The *Cheltenham Township School District* should:

1. Generate monitoring reports, available from MCIU, (including firewall logs) of MCIU 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.
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the MCIU sign this policy, or require the MCIU to sign the District's Acceptable Use Policy.
3. 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).

4. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.

Management Response

Management stated the following:

1. The firewall logs generated from the MCIU do not list user access for the [vendor] system. These logs display only network traffic information.
2. The Cheltenham [Township] School District will be investigating policy and procedure for controlling the activities of vendors/consultants. This topic will be presented at an upcoming board policy meeting.
3. The [vendor] system does not have functionality to enforce mandatory password changes. The Cheltenham [Township] School District will be recommending that all users change passwords on a regular basis.
4. The Cheltenham [Township] School District is aware of all MCIU personnel who have access to the Cheltenham [Township] School District [vendor] system. [Three individuals] currently have server access.

Auditor Conclusion

We appreciate CTSD's willingness to implement our recommendations. However management's response does not address all of our recommendations, and we reiterate that the District should:

1. Generate monitoring reports, (including firewall logs) of MCIU and employee access and activity on their system.
2. 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 and include alpha, numeric and special characters, and maintain a password history that will prevent the use of a repetitive password.
3. Maintain a list of authorized individuals with access to the hardware

Status of Prior Audit Findings and Observations

Our prior audit of the Cheltenham Township School District (CTSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to board members failing to file their Statements of Financial Interests. 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 CTSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the CTSD did implement recommendations related to the finding.

<i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Board Members Failed to File Their Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District's solicitor with regard to the board's responsibility when a board member fails to file a Statement of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of board members' Statements of Financial Interests found that one member failed to file in 2006, two members failed to file in 2005, one member failed to file in 2004, three members failed to file in 2003, and one member failed to file in 2002.</p>	<p>Current Status:</p> <p>Our current audit found that the District implemented our recommendations. All board members filed their Statements of Financial Interests for the calendar years ended 2009, 2008 and 2007 in a timely manner.</p>



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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