

CORNELL SCHOOL DISTRICT  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

OCTOBER 2009



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

Ms. Karen Murphy, Board President  
Cornell School District  
1099 Maple Street Ext.  
Coraopolis, Pennsylvania 15108

Dear Governor Rendell and Ms. Murphy:

We conducted a performance audit of the Cornell School District (CSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 10, 2007 through May 1, 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, 2007, 2006, and 2005. 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 CSD 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 audit 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 CSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

October 29, 2009

cc: **CORNELL 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 Cornell School District (CSD). 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 CSD in response to our prior audit recommendations.

Our audit scope covered the period January 10, 2007 through May 1, 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, 2006-07, 2005-06, and 2004-05.

### **District Background**

The CSD encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 7,363. According to District officials, in school year 2007-08 the CSD provided basic educational services to 699 pupils through the employment of 65 teachers, 34 full-time and part-time support personnel, and 4 administrators. Lastly, the CSD received more than \$3.2 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the CSD 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: District Had a General Fund Deficit of \$456,901 as of June 30, 2008.**

Our review of the CSD's annual financial reports found a deteriorating financial condition caused by the failure to control expenditures in accordance with the general fund budget (see page 6).

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

We determined that a risk exists that unauthorized changes to the CSD's data could occur and not be detected because the CSD was unable to provide supporting evidence that it is adequately monitoring vendor activity in its system (see page 8).

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

With regard to the status of our prior audit recommendations to the CSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the CSD had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses regarding bus drivers' qualifications (see page 11).

We found the CSD had not taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system and logical access (see page 12).



## 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 January 10, 2007 through May 1, 2009, except for:

- The verification of professional employee certification which was performed for the period March 2, 2006 to April 1, 2009.
- The review of outside vendor access to the District's student accounting applications which was completed on April 21, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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

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 CSD'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?

*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.

- ✓ 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?
- ✓ 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 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.

CSD 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, professional employee certification, and financial stability.
- Items such as board meeting minutes

Additionally, we interviewed selected administrators and support personnel associated with CSD's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 14, 2007, we reviewed the CSD's response to DE dated July 18, 2008. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

### Finding

### District Had a General Fund Deficit of \$456,901 as of June 30, 2008

*Criteria relevant to this finding:*

Section 609 of the Public School Code provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of the school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Our review of the District's annual financial reports, local auditor's reports, and general fund budgets for fiscal years ended June 30, 2008, 2007, 2006 and 2005 found a deteriorating financial condition, as shown in the following schedule:

<u>Fiscal Year Ending June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Expenditures (Over)/Under</u>	<u>General Fund Surplus (Deficit)</u>
2005	\$ -	\$ -	\$ -	\$(492,391)
2006	10,586,484	9,984,666	601,818	109,427
2007	10,075,221	10,317,973	(242,752)	(133,325)
2008	10,694,709	11,018,285	(323,576)	(456,901)

The most significant factor causing the deterioration of the general fund balance was the failure to control expenditures in accordance with the general fund budgets. The following schedule details actual expenditures in excess of budgeted expenditures:

<u>Fiscal Year Ending June 30</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>(Over) Expenditures</u>
2006	\$ 9,700,712	\$ 9,984,666	\$(283,954)
2007	9,943,047	10,317,973	(374,926)
2008	10,128,312	11,018,285	(889,973)

The highest unfavorable variances were in expenditures for regular programs, operations and maintenance of plant services, and student transportation services.

**Recommendations**

The *Cornell School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated.
3. Provide for the systematic reduction of the general fund deficit.

**Management Response**

Management stated the following:

The District has refinanced the Series 2004 and Series 2006 bond issues that resulted in a savings of approximately \$300,000 for fiscal years 2008/2009 and 2009/2010. With other cost savings and anticipated revenues for 2009/2010 the District anticipates removing the deficit. This is strongly dependent on the actual state budget.

**Observation**

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

*What is logical access control?*

“Logical Access” control 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 Cornell School District (CSD) 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 vendor activity in its system. However, since the District has manual compensating control, although not formally documented, in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

This is the fourth consecutive audit of CSD that has noted vendor system access and logical access control weaknesses.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into a paperless future with decentralized direct entry of data into their systems. 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 following weaknesses over vendor access to the District’s system:

1. 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 use passwords that are a minimum length of eight characters, and do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).

2. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
3. The District has not enabled all security features of its remote access software. The District does not use encryption to secure the District's remote connections.
4. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
5. The District does not have formally documented compensating controls.

## **Recommendations**

The *Cornell School District* should:

1. 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 to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
2. 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.
3. Encrypt the District's remote connections.
4. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.

5. Have formally documented compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

**Management Response**

Management waived its opportunity to respond to the observation.



## Status of Prior Audit Findings and Observations

Our prior audit of the Cornell School District (CSD) for the school years 2003-04 and 2002-03 resulted in two reported observations. The first observation pertained to weaknesses in administrative policies regarding bus drivers' qualifications. The second pertained to unmonitored vendor 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 analyzed the CSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the CSD did implement recommendations related to bus driver qualifications, but did not implement our recommendations related to unmonitored vendor access and logical access control weaknesses.

<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. Observation No. 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</i></u></p> <ol style="list-style-type: none"> <li>1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District's transportation contractor have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.</li> <li>2. Implement written policies and procedures to ensure the District is notified when current employees of the District's transportation contractor are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that neither the District nor the transportation contractor had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.</p>	<p><b>Current Status:</b></p> <p>Our current audit found the board adopted a bus driver policy on March 18, 2008, which provides that District bus drivers and/or contracted carriers shall be responsible to inform the District in writing at the beginning of each school year whether or not they or any of their employees have been charged with or convicted of crimes that affect their suitability to have direct contact with students.</p> <p>We will review the District's procedures during our next audit to determine if they are following the newly adopted policy.</p>

<p><u>I. Observation No. 2:</u> <u>Unmonitored Vendor System</u> <u>Access and Logical Access</u> <u>Control Weaknesses</u></p> <ol style="list-style-type: none"><li>1. Vendor changes to the District data should be made only after receipt of written authorization from appropriate District officials.</li><li>2. Require all District vendors to assign unique userIDs and passwords to each vendor's employees authorized to access the District system.</li><li>3. Require all users to change their passwords on a regular basis (i.e., every 30 days) and use passwords that are a minimum length of eight characters that include alpha, numeric and special characters.</li></ol>	<p><b>Background:</b></p> <p>Follow-up procedures performed during the operational year ended June 30, 2006, for our prior audit of the years ended June 30, 2004 and 2003 found that, while some weaknesses noted in our two preceding audit reports had been addressed, other weaknesses remained, as addressed in our prior audit reports recommendations.</p>	<p><b>Current Status:</b></p> <p>Based on the results of our current audit, we determined the District <u>did not</u> take appropriate corrective action to address this observation. (See the current observation beginning on page 8.)</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:

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

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
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Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
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Harrisburg, PA 17120

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
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Harrisburg, PA 17120

Senator Andrew Dinniman  
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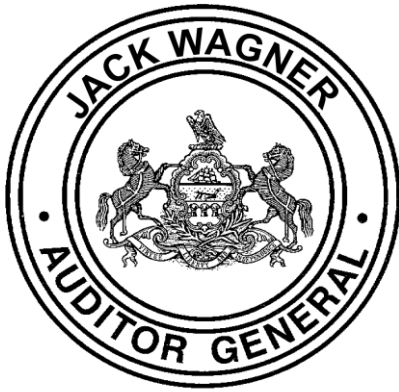
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