

NORTH HILLS SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2010

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

Mr. Edward M. Wielgus, Board President
North Hills School District
135 Sixth Avenue
Pittsburgh, Pennsylvania 15229

Dear Governor Rendell and Mr. Wielgus:

We conducted a performance audit of the North Hills School District (NHSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 1, 2007 through June 25, 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 NHSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, two matters unrelated to compliance are 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 NHSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NHSD's operations and facilitate compliance with legal and administrative requirements. We appreciate NHSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

June 25, 2010

cc: **NORTH HILLS SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Observation No. 1 – Memoranda of Understanding Not Updated Timely.....	6
Observation No. 2 – Unmonitored Vendor System Access and Logical Access Control Weaknesses	7
Status of Prior Audit Findings and Observations	10
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the North Hills School District (NHSD). 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 NHSD in response to our prior audit recommendations.

Our audit scope covered the period March 1, 2007 through June 25, 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

NHSD encompasses approximately 15 square miles. According to 2000 federal census data, it serves a resident population of 39,828. According to District officials, in school year 2007-08 NHSD provided basic educational services to 4,497 pupils through the employment of 379 teachers, 763 full-time and part-time support personnel, and 7 administrators. Lastly, NHSD received more than \$12 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that NHSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

Observation No. 1: Memoranda of Understanding Not Updated Timely. Our audit found that the Memoranda of Understanding between the NHSD and two local law enforcement agencies, the Ross Township and the West View police departments, have not been updated (see page 6).

Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the NHSD's data could occur and not be detected because the NHSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 7).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to NHSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the NHSD had not taken appropriate corrective action in implementing our recommendations pertaining to health services reimbursement, although the effect of the errors on reimbursement was not significant enough to warrant a finding in our current audit report (see page 10).



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 1, 2007 through June 25, 2009, except for the review of outside vendor access to the District's student accounting applications which was completed on June 16, 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 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 NHSD'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?
- ✓ 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.

NHSD's 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 financial stability.
- Items such as Board meeting minutes, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 16, 2007, we performed audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides, in part:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property.

Additionally, the Basic Educational Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memoranda of Understanding Not Updated Timely

Our audit found that the Memoranda of Understanding (MOU) between the District and two local law enforcement agencies, the Ross Township and the West View Borough police departments, were signed April 13, 2005 and May 27, 2003, respectively, and had not been updated.

The failure to update the MOUs with local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and the law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

As a result of our audit, the District updated the MOU for the West View Borough Police Department on August 31, 2009. The Ross Township Police Department was still in the process of reviewing the MOU at the completion of our audit.

Recommendations

The *North Hills School District* should:

1. Continue to review, update and re-execute the current MOUs between the District and the two local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Management Response

Management agreed with the observation, but provided no further response.

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 North Hills 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. 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 would 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 following weaknesses over vendor access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements). Further, the employees are not required to sign the policy.
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 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; and to log off the system after a period of inactivity (i.e., 60 minutes maximum).

4. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
5. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.

Recommendations

The *North Hills School District* should:

1. Include in its Acceptable Use Policy provisions for authentication (password security and syntax requirements). Further, all employees should be required to sign this policy.
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 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 log users off the system after a period of inactivity (i.e., 60 minutes maximum).
4. Require the vendor to assign unique userIDs 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.

5. 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.

Management Response

Management stated the following:

Management agreed with recommendations 1 and 3, stating that the District's Acceptable Use Policy will be updated in the spring of 2010 to reflect these recommendations.

Regarding recommendation 2, the District responded:

We believe our vendor is in compliance. The Vendor has developed procedures that have been accepted by the Auditor General's Office. Those procedures are being followed. Documentation is being sent to us by the Vendor. Our vendors will be required to sign our Acceptable Use Policy when it is implemented.

Regarding recommendation 4, the District responded:

We believe our vendor is in compliance. The Vendor has developed procedures that have been accepted by the Auditor General's Office. Documentation is being sent to us by the Vendor.

Regarding recommendation 5, the District responded:

Our updates are usually done at night by the vendor. A detailed log is generated and will be sent to us by the vendor.

Auditor Conclusion

We have no knowledge of the procedures referenced in management's response. The conclusions in this observation are based on the information presented at the time of audit. However, we will review any changes made in the District's procedures during our next audit of the District and render our opinion at that time.

Status of Prior Audit Findings and Observations

Our prior audit of the North Hills School District (NHSD) for the school years 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to health services reimbursement underpayments. 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 findings. As shown below, we found that NHSD did not implement our recommendations related to the health services reimbursement underpayments.

<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 \$2,167</i></u></p> <ol style="list-style-type: none"> 1. Review health services reimbursement applications prior to submission to the Department of Health (DH) to ensure accurate average daily membership (ADM) is reported. 2. Adhere to Public School Code restrictions on the number of students under the care of each school nurse. 3. Review applications submitted subsequent to our audit years and, if errors are noted, send revised reports to DH. 4. DH should adjust the District's allocations to correct the underpayments of \$2,167. 	<p>Background:</p> <p>Our prior audit of health services reimbursement applications for the 2003-04 and 2002-03 school years found that District personnel incorrectly reported ADM to DH, resulting in underpayments to the District of \$2,167.</p> <p>The errors were caused by District personnel failing to include area vocational-technical school ADM for students who received health services from District nurses.</p>	<p>Current Status:</p> <p>Our current audit of health services for the 2007-08, 2006-07, 2005-06, and 2004-05 school years found that the District did not take corrective action and auditors found the same error as in the prior audit.</p> <p>The cumulative underpayments are insignificant for the four school years and do not warrant a finding in our current audit.</p> <p>However, we again recommend that the District take action on our previous recommendation to prevent these repeated errors from having a larger financial impact.</p> <p>As of June 25, 2009, DH had not adjusted the allocations to the District. We again recommend they do so to correct the underpayments of \$2,167.</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:

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

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055



This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

