

PENNRIDGE SCHOOL DISTRICT  
BUCKS COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2010



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

Dr. Peter A. Yarnell, Board President  
Pennridge School District  
1200 North 5<sup>th</sup> Street  
Perkasie, Pennsylvania 18944

Dear Governor Rendell and Dr. Yarnell:

We conducted a performance audit of the Pennridge School District (PSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period April 8, 2008 through August 12, 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 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 PSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that 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 PSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

April 12, 2010

JACK WAGNER  
Auditor General

cc: **PENNRIDGE 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 Pennridge School District (PSD). 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 PSD in response to our prior audit recommendations.

Our audit scope covered the period April 8, 2008 through August 12, 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 and 2006-07.

### **District Background**

The PSD encompasses approximately 91 square miles. According to 2000 federal census data it serves a resident population of 42,814. According to District officials, in school year 2007-08 the PSD provided basic educational services to 7,243 pupils through the employment of 502 teachers, 438 full-time and part-time support personnel, and 37 administrators. Lastly, the PSD received more than \$20.2 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the PSD 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 1: Memorandum of Understanding Still Not Updated**. Our audit of the PSD's records found that the current Memorandum of Understanding (MOU) between the PSD and the Bedminster Township Police Department and Pennridge Regional Police Force was signed and has been updated. However, we found that the MOU between the PSD and the Hilltown Township and Perkasio police departments was signed August 18, 1998, and had not been updated (see page 6).

**Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses**. We noted that PSD personnel should improve controls over remote access to its computers. In particular, control should be strengthened over outside vendor access to the student accounting applications (see page 8).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the PSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the PSD had not taken appropriate corrective action in implementing our recommendations pertaining to the Memorandum of Understanding. PSD has received two of the four signatures from their local police departments (see page 11).



## 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 April 8, 2008 through August 12, 2009.

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

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 PSD'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?
- ✓ 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?

*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.

- ✓ Is the District’s pupil transportation department, including any contracted vendors, in compliance with applicable state 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 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

PSD 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, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2009, we reviewed the PSD's response to DE dated August 11, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation No. 1

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*Criteria relevant to the observation:*

Section 1303-A(c) provides:

All school entities shall develop a memorandum of understanding with local law enforcement that 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.

Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education 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.” (Emphasis added)

### Memorandum of Understanding Still Not Updated

Our audit of the District’s records found that the current Memorandum of Understanding (MOU) between the Pennridge School District (PSD) and the Bedminster Township Police Department and Pennridge Regional Police Force was signed on March 31, 2008. However, we found that the MOU between the PSD and the Hilltown Township and Perkasio police departments was signed August 18, 1998 and have not been updated.

The failure to update the MOU with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or 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.

The PSD administration provided documentation of contacts made to all four police departments asking for a signed MOU with the PSD.

**Recommendations**

The *Pennridge School District* should:

1. In consultation with the solicitor, review, update and re-execute the current MOU between PSD and local law enforcement.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

**Management Response**

Management stated the following:

The District made a concerted effort since March 2008 to execute an updated Memorandum of Understanding between the Pennridge School District and the four police departments which provide service to the district: Bedminster Township P.D., Hilltown Township P.D., Pennridge Regional P.D., and Perkasio Borough P.D.. The district obtained the signatures of the police chiefs of Bedminster and Pennridge Regional Police departments, but the police chiefs of Hilltown Township and Perkasio Borough refused to sign the MOU, despite numerous contacts and attempts made by representatives of the Pennridge School District to execute a signed MOU. After more than a year of trying to obtain their signatures, and upon advice from a legal consultant to the Pennsylvania Department of Education, the district submitted the MOU, signed by the Bedminster and Pennridge Regional Police departments to the Bucks County Emergency Management Agency, with a notation of the other two police chiefs' refusal to sign the document. The district has provided documentation of the efforts made between March 2008 and April 2009 to obtain these signatures to the auditors during this audit cycle.

**Auditor Conclusion**

District personnel have made a documented effort to update the District's MOU. We continue to recommend that the MOU be updated; thus, ensuring cooperation, direction and guidance if an incident would occur on school property.

**Observation No. 2** →

*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 PSD 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 they are adequately monitoring all 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 a formal contract with the vendor to provide student accounting applications and related information technology services.
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of the vendor, 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 passwords include alpha, numeric and special characters; to log off the system after a period of inactivity (i.e., 60 minutes maximum); and to maintain a password history (i.e., approximately ten passwords).
4. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.

## **Recommendations**

The *Pennridge School District* should:

1. Develop an agreement with the vendor to provide student accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Establish separate IT policies and procedures for controlling the activities of the vendors 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 that are a minimum length of eight characters; and passwords should use include alpha, numeric and special characters. System should automatically log a user off the system after a period of inactivity (i.e., 60 minutes maximum). Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

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 access to its data and ensure that changes to the data are made only by authorized vendor representatives.

### **Management Response**

Management stated the following:

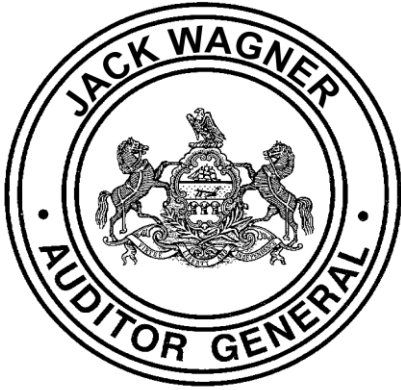
1. The District is migrating from our current automated student accounting system to another system. The District does not have a current written contract. Pennridge will be using the new system for the 09-10 school year and does have a written contract with this provider.
2. The district will be using [vendor] as our student accounting software for 09-10. The district will have [vendor] sign an acceptable use policy.
3. The District will develop and establish a security policy as noted in the observation. Our new student accounting software is web based with functionality that is needed to implement the improvements noted in the observation. The District will require the following:
  - Minimum passwords of eight characters;
  - Automatic logoff of the system after sixty minutes of inactivity;
  - Users will be required to change their passwords after sixty days
4. The District believes that the recommendation would improve control of our student records. We will request [vendor] to assign unique userIDs to their employees that may have access to our system.



## Status of Prior Audit Findings and Observations

Our prior audit of the Penn Ridge School District (PSD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to the Memorandum of Understanding not updated timely. 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 PSD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the PSD did not implement recommendations related to the Memorandum of Understanding.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u>1. Observation:</u> <u>Memorandum of Understanding Not Updated Timely</u></p> <p>1. The District administration in consultation with its solicitor, should review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the four local law enforcement agencies.</p> <p>2. Additionally, the District should adopt a policy requiring the administration to review and re-execute the MOU every two years.</p>	<p><b>Background:</b></p> <p>Our prior audit of the District’s records found that the current MOU between the District and four local law enforcement agencies including, the Pennridge Regional Police Force, Bedminster Township, Hilltown Township and Perkasio Borough police departments, was signed August 18, 1998, and has not been updated.</p>	<p><b>Current Status:</b></p> <p>We followed up on the PSD’s current MOU and found that the District <u>did not</u> take appropriate corrective action to update their MOU. The Bedminster Township Police Department and Pennridge Regional Police Force signed their MOU with PSD on March 31, 2008. However, we found that the Hilltown Township and Perkasio police departments refused to sign the MOU (see Observation No. 1, page 6).</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:

The Honorable Edward G. Rendell  
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Harrisburg, PA 17120

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Secretary of Education  
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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  
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