

QUAKERTOWN COMMUNITY SCHOOL DISTRICT
BUCKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MAY 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Dean Wackerman, Board President
Quakertown Community School District
600 Park Avenue
Quakertown, Pennsylvania 18951

Dear Governor Corbett and Mr. Wackerman:

We conducted a performance audit of the Quakertown Community School District (QCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 18, 2008 through December 22, 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 QCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, 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 recommendation has been discussed with QCSD's management and their response is included in the audit report. We believe the implementation of our recommendation will improve QCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the QCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

May 26, 2011

cc: **QUAKERTOWN COMMUNITY 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 Quakertown Community School District (QCSD). 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 QCSD in response to our prior audit recommendations.

Our audit scope covered the period August 18, 2008 through December 22, 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 QCSD encompasses approximately 72 square miles. According to 2000 federal census data, it serves a resident population of 32,163. According to District officials, in school year 2007-08 the QCSD provided basic educational services to 5,453 pupils through the employment of 342 teachers, 321 full-time and part-time support personnel, and 26 administrators. Lastly, the QCSD received more than \$17.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the QCSD 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: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that QCSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the QCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the QCSD had taken appropriate corrective action in implementing our recommendations pertaining to the superintendent approving contracts less than \$25,000 (see page 8) and their Memorandum of Understanding (see page 10). However, we found the QCSD had not taken complete appropriate corrective action in implementing our recommendations pertaining to its student accounting applications (see page 9).



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 August 18, 2008 through December 22, 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 QCSD'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?
- ✓ 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?
- ✓ 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 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

QCSD 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, 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 QCSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2010, we reviewed the QCSD's response to DE dated September 7, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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.

Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Quakertown Community 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 continued 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 continued weaknesses over vendor access to the District’s system. 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 to maintain a password history (i.e., approximately ten passwords).

Our prior audit addressed those weaknesses; however, the District failed to implement our recommendation regarding logical access controls.

Recommendations

The *Quakertown Community School District* should:

1. 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).
2. Passwords should be a minimum length of eight characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

Management Response

Management stated the following:

The decisions made concerning passwords were based on providing adequate network security, while providing for user convenience. Discussions will be scheduled to determine if further adjustments to password practices are possible.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Quakertown Community School District (QCSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two observations. The finding pertained to the board authorizing the superintendent to approve contracts less than \$25,000. The first observation pertained to the District's Memorandum of Understanding (MOU), and the second observation pertained to its student accounting applications. 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 QCSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the QCSD did implement all recommendations related to the superintendent approving contracts less than \$25,000, as well as the District's MOU. However, we found the QCSD did not implement all recommendations related to its student accounting applications.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

| | |
|-------------------------|---|
| Finding: | Board Authorized Superintendent to Approve Contracts less than \$25,000 |
| <u>Finding Summary:</u> | At the February 28, 2008 QCSD public board meeting, the board voted to authorize the Superintendent to approve and execute contracts, that do not exceed a yearly cost of \$25,000. This authorization violates the District's board policy and the Public School Code of 1949, because it is being done without board vote or public discussion. |
| <u>Recommendations:</u> | Our audit finding recommended that the QCSD: <ol style="list-style-type: none">1. End the practice of allowing the superintendent to approve and execute contracts that do not exceed a yearly cost of \$25,000.2. Ensure that, as required by the Public School Code, contracts of any kind require prior approval by the school board in public discussion and vote where such contracts exceed \$100. |
| <u>Current Status:</u> | We followed up on the QCSD board authorizing the superintendent to approve and execute contracts that do not exceed a yearly cost of \$25,000, without board vote and public discussion, and found that QCSD <u>did</u> take appropriate corrective action, as recommended. |

Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: The QCSD 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 software servers.

Recommendations: Our audit observation recommended that the QCSD:

1. Develop an agreement with the vendor to provide student accounting applications and related (information technology) 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. Ensure the contract with the vendor is reviewed by legal counsel.
3. 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.
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. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
5. Make upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.

Current Status: We followed up on the QCSD's student accounting applications and found that the District did not take appropriate corrective action, to address 1 of our 5 recommendations. Failure to comply with all of our prior audit recommendations resulted in a continuation observation in our current report.

An agreement with the vendor has been developed and has been reviewed by legal advisors.

The contract with the vendor has been reviewed by legal counsel.

Separate IT policies and procedures, for controlling the activities of vendors/consultants have been established. The vendor signed this policy.

Security policy and system parameter settings are in place for all users, including the vendor. However, recommended password change frequency, length of characters and password history maintenance are not met.

Upgrades/updates are only made after receipt of written authorization from appropriate District officials.

Observation No. 2: Memorandum of Understanding Not Updated Timely

Observation Summary: The MOU between the QCSD and three local law enforcement agencies and the State Police were signed August 26, 2005, September 5, 2005 and August 27, 2007, respectively, and have not been updated timely.

Recommendations: Our audit observation recommended that the QCSD:

1. In consultation with the solicitor, review, update and re-execute the current MOU between the District and the Borough of Quakertown and the Richland Township police departments.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status: We followed up on the District's MOU, and found that the QCSD did take appropriate corrective action, as recommended.

The current MOU's have been reviewed, updated and re-executed.

A policy is in place requiring the administration to review and re-execute the MOU every two years.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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