

UPPER MORELAND TOWNSHIP SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Dr. David Hakes, Board President
Upper Moreland Township School District
2900 Terwood Road
Willow Grove, Pennsylvania 19090

Dear Governor Rendell and Dr. Hakes:

We conducted a performance audit of the Upper Moreland Township School District (UMTSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 14, 2008 through September 3, 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 UMTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the UMTSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 9, 2010

cc: **UPPER MORELAND 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 Upper Moreland Township School District (UMTSD). 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 UMTSD in response to our prior audit recommendations.

Our audit scope covered the period March 14, 2008 through September 3, 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 UMTSD encompasses approximately 8 square miles. According to 2000 federal census data, it serves a resident population of 24,993. According to District officials, in school year 2007-08, the UMTSD provided basic educational services to 3,031 pupils through the employment of 233 teachers, 233 full-time and part-time support personnel, and 32 administrators. Lastly, the UMTSD received more than \$7.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the UMTSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to UMTSD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found UMTSD had taken appropriate corrective action in implementing our recommendations pertaining to board members failing to file Statements of Financial Interests (see page 7) and unmonitored vendor system access and logical access control weaknesses (see page 8).



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 14, 2008 through September 3, 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 UMTSD'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?
- ✓ 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.

UMTSD 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 bus driver qualifications, state ethics compliance, and financial stability.
- Board meeting minutes.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 12, 2009, we reviewed the UMTSD's response to DE dated May 26, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Upper Moreland Township School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Upper Moreland Township School District (UMTSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported finding and one observation. The finding pertained to board members who failed to file their Statements of Financial Interests in violation of the Public Official and Employees Ethics Act (Ethics Act), and the observation pertained to unmonitored vendor system 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 UMTSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the UMTSD did implement recommendations related to the finding and observation.

<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 Employees Ethics Act</i></u></p> <p>1. Seek the advice of its solicitor in regard to the board of trustee's responsibility when administrators and members fail to file or file a late Statement of Financial Interests.</p> <p>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</p>	<p>Background:</p> <p>Our prior audit of Statements of Financial Interests for school board members for the calendar years ended December 31, 2006, 2005, 2004 and 2003 found that three board members failed to file their Statements of Financial Interests.</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>

<p><u>II. Observation:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of the vendor employee access and activity on the District’s 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. Have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner, to mitigate information technology (IT) control weaknesses. 3. Require the vendor to assign unique userIDs and passwords to the 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. 	<p>Background:</p> <p>Our prior audit found that UMTSD uses software purchased from an outside vendor for its critical student accounting applications. The software vendor has remote access into the district’s network servers. 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.</p>	<p>Current Status:</p> <p>Our current audit found that the District has implemented all of our recommendations.</p>
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<p>4. Include a non-disclosure agreement for the District's proprietary information in the contract with the vendor.</p> <p>5. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials, and retain evidence for audit.</p> <p>6. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>7. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have vendors sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>8. Include in the District's Acceptable Use Policy provisions for authentication (syntax requirements). Further, all employees should be required to sign this policy.</p> <p>9. Encrypt the District's remote connections.</p> <p>10. 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.,</p>		
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<p>every 30 days). Passwords should 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) and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p> <p>11. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detection equipment in the computer room.</p>		
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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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