

PINE GROVE AREA SCHOOL DISTRICT
SCHUYLKILL COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mrs. Sara McKinsey-Barra, Board President
Pine Grove Area School District
103 School Street
Pine Grove, Pennsylvania 17963

Dear Governor Corbett and Mrs. McKinsey-Barra:

We conducted a performance audit of the Pine Grove Area School District (PGASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 15, 2009 through August 4, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 PGASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

Sincerely,

February 24, 2012

JACK WAGNER
Auditor General

cc: **PINE GROVE AREA SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Pine Grove Area School District (PGASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the PGASD in response to our prior audit recommendations.

Our audit scope covered the period October 15, 2009 through August 4, 2011, 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 2009-10 and 2008-09.

District Background

The PGASD encompasses approximately 109 square miles. According to 2000 federal census data, it serves a resident population of 11,284. According to District officials, in school year 2009-10 the PGASD provided basic educational services to 1,614 pupils through the employment of 143 teachers, 74 full-time and part-time support personnel, and 19 administrators. Lastly, the PGASD received more than \$9.6 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the PGASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. Therefore, we found 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 the PGASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the PGASD had taken appropriate corrective action in implementing 12 out of 16 of our recommendations pertaining to their unmonitored intermediate unit system access and logical access control weaknesses. Two of the remaining weaknesses we determined were not significant enough for a continuation observation and the other two weaknesses were being updated as of the completion of our audit. A verbal comment was issued for those remaining four weaknesses (see page 7).



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 October 15, 2009 through August 4, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 statute regulation, policy, 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 and defined business practices. Our audit focused on assessing the PGASD's compliance with applicable state laws, 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 payroll (e.g. Social Security and retirement), 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, 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

PGASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2010, we reviewed the PGASD's response to DE dated March 24, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Pine Grove Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Pine Grove Area School District (PGASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to their unmonitored intermediate unit (IU) 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 PGASD Superintendent'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 PGASD did implement most of our recommendations related to their unmonitored IU system access and logical access control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: **Unmonitored IU System Access and Logical Access Control Weaknesses**

Observation

Summary:

Our prior audit found that PGASD uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the District's network servers.

Recommendations:

Our audit observation recommended that the PGASD:

1. Develop an agreement with the CSIU to provide student accounting applications and related information technology 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 that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
3. Establish separate information technology policies and procedures for controlling the activities of the CSIU and have the CSIU sign this policy, or the District should require the CSIU to sign the District's Acceptable Use Policy.
4. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.

5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. Implement a security policy and system parameter settings to require all users, including the CSIU, to log off the system after a period of inactivity (i.e., 60 minutes maximum). In addition, the District should implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
7. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
8. Only allow access to their system when the CSIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CSIU has completed its work. This procedure would also enable the monitoring of CSIU changes.
9. Generate monitoring reports (including firewall logs) of CSIU and employee access and activity on their 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.
10. Upgrade the remote access software to the most current version.
11. Encrypt the District's remote connections.
12. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
13. Maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.
14. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
15. 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 detectors/install fire extinguishers in the computer room.

16. Store back-up tapes in a secure, off-site location.

Current Status:

During our current audit procedures we found that the PGASD did implement 12 out of 16 recommendations related to the weaknesses listed in our prior audit report. However, due to the fact that the remaining weaknesses were of a lower significance and due to the District's current effort to update its software to correct the remaining weaknesses, we determined a continued observation is not warranted. However, we will follow-up on the District's efforts during our next regularly scheduled audit.



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 Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
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

Ms. Nichole Duffy
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.

