

SOUTHERN COLUMBIA AREA SCHOOL DISTRICT  
COLUMBIA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2010



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

Mr. Michael Yeager, Board President  
Southern Columbia Area School District  
800 Southern Drive  
Catawissa, Pennsylvania 17820

Dear Governor Rendell and Mr. Yeager:

We conducted a performance audit of the Southern Columbia Area School District (SCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 2, 2007 through December 11, 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 SCASD 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 recommendations have been discussed with SCASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SCASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

April 12, 2010

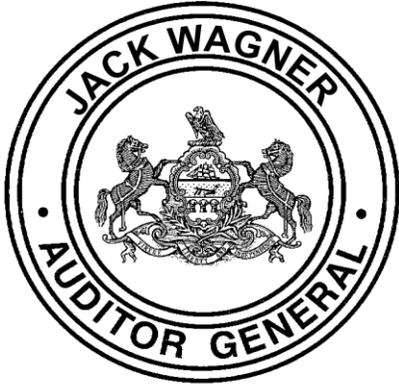
cc: **SOUTHERN COLUMBIA AREA SCHOOL DISTRICT** Board Members

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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 Southern Columbia Area School District (SCASD). 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 SCASD in response to our prior audit recommendations.

Our audit scope covered the period March 2, 2007 through December 11, 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**

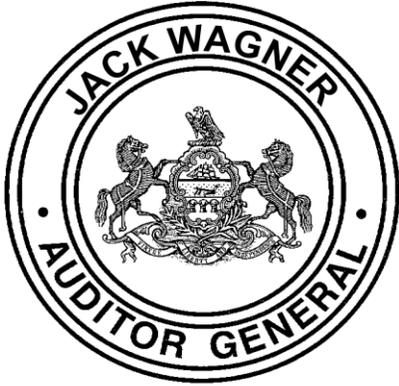
The SCASD encompasses approximately 108 square miles. According to 2000 federal census data, it serves a resident population of 9,803. According to District officials, in school year 2007-08 the SCASD provided basic educational services to 1,424 pupils through the employment of 114 teachers, 141 full-time and part-time support personnel, and 7 administrators. Lastly, the SCASD received more than \$6.8 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the SCASD 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: Unmonitored Vendor System Access and Logical Access Control Weaknesses.** We noted that SCASD 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 SCASD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the SCASD had taken appropriate corrective action in implementing our recommendations pertaining to Statements of Financial Interests forms not being filed (see page 10).



## 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 March 2, 2007 through December 11, 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 the 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 SCASD'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?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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.

SCASD 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, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

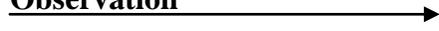
Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 14, 2007, we reviewed the SCASD's response to DE dated August 15, 2008. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### 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.

### Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Southern Columbia Area School District uses software purchased from a vendor for its critical student accounting applications (membership and attendance). The 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 manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into an entirely paperless future with decentralized direct entry of data into their systems. 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 audit, we found the District had the following weaknesses over vendor access to the District’s system:

1. Does not have a formal contract with the vendor to provide student accounting applications and related information technology services.
2. Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).

3. Does not have current information technology (IT) policies and procedures for controlling the activities of vendors, nor does it require the vendor to sign the District's Acceptable Use Policy.
4. Does not require written authorization before adding, deleting, or changing a userID.
5. 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 use passwords that are a minimum length of eight characters.
6. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
7. Does not have evidence they are reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.
8. Has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire suppression equipment.

## **Recommendations**

The *Southern Columbia Area 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. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).

3. Establish separate IT policies and procedures for controlling the activities of vendors and have the vendor sign this policy, or the District should require the vendor 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. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that are a minimum length of eight characters.
6. 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.
7. 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.
8. 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 extinguishers in the computer room.

**Management Response**

Management stated the following:

1. The District will develop a formal contract with the vendor to provide student accounting applications and related IT services. The agreement will cover legal, financial, organization, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). The agreement and all agreement changes will be reviewed by the District's solicitor.

2. The Acceptable Use Policy will include provisions for authentication (password security and syntax requirements).
3. Procedures will be implemented for controlling the activities of vendors/consultants and the vendor will sign the Acceptable Use Policy.
4. The District will require written authorization when adding, deleting, or changing a userID.
5. The District will require passwords that are a minimum length of eight characters.
6. The Technology Director will work with the vendor to establish individual login accounts for employees who access the district's network data.
7. The District will review activity logs and maintain evidence to support the monitoring and review.
8. The District will install fire suppression equipment in the server rooms.

## Status of Prior Audit Findings and Observations

Our prior audit of the Southern Columbia Area School District (SCASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in a finding. The finding pertained to board members failing to file their Statements of Financial Interests forms. 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 SCASD superintendent's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the SCASD did implement recommendations related to board members failing to file Statements of Financial Interests forms.

<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 a Statement of Financial Interests Form in Violation of the Ethics Act</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of its solicitor in regard to the board's responsibility when a member fails to file a Statement of Financial Interests.</li> <li>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of District records for the calendar years ended December 31, 2005 and 2004 found that one board member failed to file their Statement of Financial Interests forms for the calendar year ended December 31, 2004, and one board member failed to file their Statement of Financial Interests forms for the calendar year ended December 31, 2005. Also, one board member filed their Statement of Financial Interests late for the calendar year ended December 31, 2005.</p>	<p><b>Current Status:</b></p> <p>We followed up on the SCASD Statement of Financial Interests forms and found that the District <u>did</u> take corrective action to address our prior audit recommendations.</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:

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

Senator Jeffrey Piccola  
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Senator Andrew Dinniman  
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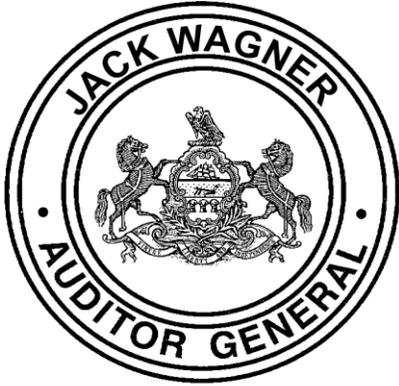
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