

ABINGTON HEIGHTS SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Ms. Cathy Hardaway, Board President
Abington Heights School District
200 East Grove Street
Clarks Summit, Pennsylvania 18411

Dear Governor Rendell and Ms. Hardaway:

We conducted a performance audit of the Abington Heights School District (AHSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 20, 2008 through August 17, 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 AHSD 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 AHSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve AHSD's operations and facilitate compliance with legal and administrative. We appreciate the AHSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 23, 2010

cc: **ABINGTON HEIGHTS 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 Abington Heights School District (AHSD). 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 AHSD in response to our prior audit recommendations.

Our audit scope covered the period March 20, 2008 through August 17, 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 year 2007-08 and 2006-07.

District Background

The AHSD encompasses approximately 69 square miles. According to 2000 federal census data, it serves a resident population of 29,222. According to District officials, in school year 2007-08 the AHSD provided basic educational services to 3,525 pupils through the employment of 265 teachers, 188 full-time and part-time support personnel, and 22 administrators. Lastly, the AHSD received more than \$11.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the AHSD 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 AHSD 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 AHSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the AHSD had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of nonpublic pupils transported (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 March 20, 2008 through August 17, 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 AHSD'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?
- ✓ 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?
- ✓ 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 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.

AHSD 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2009, we reviewed the AHSD's response to DE dated April 13, 2009. 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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Abington Heights 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 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 employees are not required to sign the Acceptable Use Policy.
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; use passwords that include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords).

4. The District does not have evidence they are generating or 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.

Recommendations

The *Abington Heights School District* should:

1. Require all employees to sign the Acceptable Use Policy.
2. Establish separate IT policies and procedures for controlling the activities of the vendors and have the vendor sign this policy, and 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; also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
4. Generate monitoring reports (including firewall logs) of vendor 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.

Management Response

Management stated the following:

1. All employees will sign an acceptable use policy form.
2. The contract with our student information system vendor stipulates agreement with our acceptable use policy.
3. The Abington Heights School District will develop a password change protocol. The protocol will address password complexity and change frequency.
4. The Abington Heights School District maintains the ability to monitor changes in child accounting enrollment data through its student information system data base.

Status of Prior Audit Findings and Observations

Our prior audit of the Abington Heights School District (AHSD) for the school years 2005-06 and 2004-05 resulted in one finding. The finding pertained to reporting of nonpublic pupils transported. 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 AHSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the AHSD did implement recommendations related to reporting of nonpublic pupils transported.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Errors in Reporting Nonpublic Pupil Transportation Data Resulted in a Net Subsidy Overpayment of \$5,390</i></u></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure accurate reporting of the number of nonpublic pupils transported. 2. Review reports submitted subsequent to the audit period and, if similar errors are found, submit revised reports to DE. 3. DE should adjust the District's allocations to recover the reimbursement overpayment of \$5,390 from two audits ago as well as the \$3,850 underpayment in our prior audit report. 	<p>Background:</p> <p>Our prior audit found that the AHSD reported the number of nonpublic pupils transported incorrectly. The errors resulted in an overpayment of \$5,390.</p>	<p>Current Status:</p> <p>We followed up on the AHSD's records and found that the AHSD did take appropriate corrective action to strengthen controls to ensure accurate reporting of the number of nonpublic pupils transported and to review reports submitted subsequent to the audit period and, if similar errors are found, submit revised reports to DE.</p> <p>DE has not adjusted the District's allocations at this point in time. We again recommend to DE that they should make the necessary adjustments from the previous audits.</p>



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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