

ANNVILLE-CLEONA SCHOOL DISTRICT
LEBANON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2009

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

Mr. Thomas Tshudy, Board President
Annville-Cleona School District
520 South White Oak Street
Annville, Pennsylvania 17003

Dear Governor Rendell and Mr. Tshudy:

We conducted a performance audit of the Annville-Cleona School District (ACSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 5, 2004 through April 11, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, 2005, 2004 and 2003, as they were the most recent reimbursements subject to audit. 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 ACSD 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 ACSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve ACSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the ACSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 22, 2009

cc: **ANNVILLE-CLEONA 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 Annville-Cleona School District (ACSD). 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 ACSD in response to our prior audit recommendations.

Our audit scope covered the period November 5, 2004 through April 11, 2008, 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 2005-06, 2004-05, 2003-04 and 2002-03 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The ACSD encompasses approximately 40 square miles. According to 2002 local census data, it serves a resident population of 11,876. According to District officials, in school year 2005-06 the ACSD provided basic educational services to 1,650 pupils through the employment of 121 teachers, 56 full-time and part-time support personnel, and 11 administrators. Lastly, the ACSD received more than \$6.2 million in state funding in school year 2005-06.

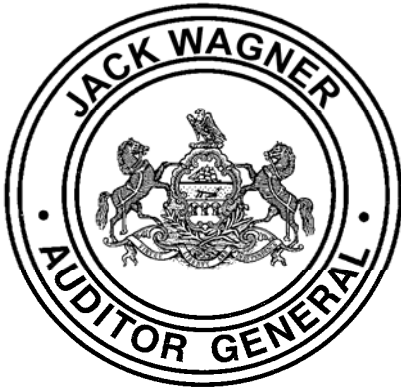
Audit Conclusion and Results

Our audit found that the ACSD 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. The ACSD uses software purchased from Lancaster-Lebanon Intermediate Unit #13 (LLIU) for its critical student accounting applications.

We determined that a risk exists that unauthorized changes to the ACSD's data could occur and not be detected because the ACSD was unable to provide supporting evidence that they are adequately monitoring all Lancaster-Lebanon IU #13 activity in their system. (see page 7).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the ACSD from an audit we conducted of the 2001-02 and 2000-01 school years, we found the ACSD had taken appropriate corrective action in implementing our recommendations pertaining to Tuition Billing Errors and Failure to Seek Competitive Bids. (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 November 5, 2004 through April 11, 2008, except for certification which was reviewed for the period October 1, 2004 through February 1, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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

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 ACSD'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 objectives:

- ✓ Were professional employees certified for the positions they held?

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.

- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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 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.

ACSD 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.

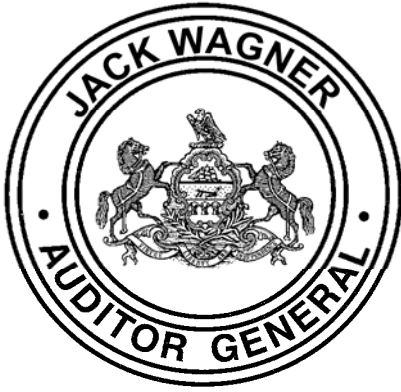
In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 14, 2004, we reviewed the ACSD's response to DE dated February 21, 2005. 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. It is in contrast to “physical access” which is the ability to actually touch the computer components.

“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 Annville-Cleona School District uses software purchased from Lancaster-Lebanon Intermediate Unit #13 (LLIU) for its critical student accounting applications (membership and attendance). LLIU 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 LLIU 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:

- 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.
- The District has certain weaknesses in logical access controls. We noted that the District’s system parameter settings do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).

Recommendations

The *Annville-Cleona 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. 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).

Management Response

Management agreed with the observation and stated:

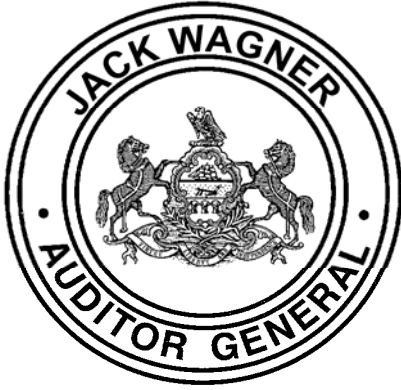
The software in question does not enforce password changes every XX days. The software in question does not support password history; the ability to force unique passwords every XX days.

An enhancement ticket was completed with an expectation of vendor compliance in the next year.

Status of Prior Audit Findings and Observations

Our prior audit of the Annville-Cleona School District (ACSD) for the school years 2001-02 and 2000-01 resulted in two findings reported. The first finding pertained to tuition billing errors, and the second to the failure to seek competitive bids. As part of our current audit, we determined the status of corrective action taken by the ACSD to implement our prior recommendations. We analyzed the ACSD Board’s written response provided to the Department of Education, performed audit procedures, and questioned ACSD personnel regarding the prior findings. As shown below, we found that the ACSD did implement recommendations related to tuition billings and competitive bids.

<i>School Years 2001-02 and 2000-01 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>I. Finding 1: Tuition Billing Errors Resulted in Unbilled and Uncollected Tuition of \$19,890</i></u></p> <ol style="list-style-type: none"> 1. Send tuition bills to collect the amounts due. 2. Implement procedures to reconcile membership reports to tuition billings. 3. Review subsequent years’ billings, reconcile the billings to membership reports, and if errors were found, submit revised billings to the affected. 	<p>Background:</p> <p>Our prior audit of pupil membership records and tuition billings for the 2001-02 and 2000-01 school years found errors in the tuition billed to other districts. The errors resulted in unbilled and uncollected tuition of \$19,890.</p>	<p>Current Status:</p> <p>Our current audit confirmed that the District billed and collected the unbilled tuition for the 2001-02 and 2000-01 school years in December of 2004. Additionally, our current audit of tuition billings and collection of the tuition billing submitted to the districts did not find any errors. Based on the results of our current audit, we concluded that the District <u>did take</u> appropriate corrective action to address this finding.</p>
<p><u><i>II. Finding 2: District Failed to Seek Competitive Bids for Computer Purchases</i></u></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure compliance with the Public School Code and board policy. 	<p>Background:</p> <p>Our prior audit found that the District failed to comply with bidding requirements for computer purchases. District personnel, on two separate occasions, failed to advertise and solicit bids for computer purchases of \$49,839 and \$31,599.</p>	<p>Current Status:</p> <p>Our current audit confirmed the District followed our recommendation. Based on the results of our current audit, we concluded that the District <u>did take</u> appropriate corrective action to address this finding.</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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