

AVELLA AREA SCHOOL DISTRICT
WASHINGTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010

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

Mr. Corey McConn, Board President
Avella Area School District
1000 Avella Road
Avella, Pennsylvania 15312

Dear Governor Rendell and Mr. McConn:

We conducted a performance audit of the Avella Area School District (AASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 30, 2007 through November 2, 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 AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding in this report. A summary of the results is presented in the Executive Summary section of the audit.

Our audit finding and recommendations have been discussed with AASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve AASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the AASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

September 3, 2010

cc: **AVELLA AREA 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 Avella Area School District (AASD). 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 AASD in response to our prior audit recommendations.

Our audit scope covered the period April 30, 2007 through November 2, 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 AASD encompasses approximately 73 square miles. According to 2000 federal census data, it serves a resident population of 4,497. According to District officials, in school year 2007-08 the AASD provided basic educational services to 670 pupils through the employment of 63 teachers, 35 full-time and part-time support personnel, and 4 administrators. Lastly, the AASD received more than \$6.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the AASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Unmonitored Vendor System Access and Logical Access Control

Weaknesses. A risk exists that unauthorized changes to the AASD's data could occur and not be detected because the AASD is not adequately monitoring vendor activity in its system (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the AASD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the AASD had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 11).



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 April 30, 2007 through November 2, 2009, except for:

- The verification of professional employee certification which was performed for the period April 30, 2007 to October 29, 2009.
- The review of outside vendor access to the District's student accounting applications which was completed on October 5, 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 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

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 AASD'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?

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 and 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 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?
- ✓ 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 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.

AASD 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 Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 26, 2007, we reviewed the AASD's response to DE dated February 3, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

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 system.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Avella Area 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 is not adequately monitoring vendor activity in its system. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes is increased.

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 following weaknesses over vendor access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for privacy, e.g.: accountability (responsibilities of users, auditing, incident handling); authentication (password security and syntax requirements); and violations/incidents (what is to be reported and to whom). Further, the employees are not required to sign the policy.
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.

3. The District does not require written authorization before adding, deleting or changing a userID.
4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. 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 characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords).
6. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
7. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
8. The District does not have formal policies in place to control emergency changes to systems or programs.
9. The District does not maintain the servers with membership/attendance data in a restricted/secure area. The servers are located in business office which is open during the normal working hours.
10. The District does not have a list of personnel with authorized access to the area where the servers with the membership/attendance data reside.
11. The District 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 detection/fire suppression equipment.
12. The District does not perform regular backups of the system.
13. The District does not store data back-ups in a secure, off-site location.

14. The District does not have any compensating controls that would mitigate the IT weaknesses or alert the District to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.

Recommendations

The *Avella Area School District* should:

1. Include in its Acceptable Use Policy provisions for privacy, e.g.: accountability (responsibilities of users, auditing, incident handling); authentication (password security and syntax requirements); and violations/incidents (what is to be reported and to whom). Further, the employees should be required to sign the policy.
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. 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 should be a minimum length of eight characters and 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).
6. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.

7. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
8. Establish a process for defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process.
9. 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.
10. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
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 detectors and fire suppression equipment in the computer room.
12. Perform regular backups of the system.
13. Store back-up tapes in a secure, off-site location.
14. To mitigate IT control weaknesses, implement compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Management Response

Management provided a written response which included the following points:

- The District has installed a program that will require the vendor to log on to the system and write a reason for their access. All logins are logged.
- Since the attendance secretary is retiring at the end of the year, the District will explore some alternatives when a new secretary is trained on the system.

- The Acceptable Use Policy will be taken up with the solicitor and the new school board after the board reorganization.
- Management felt that requiring passwords to be changed periodically will result in passwords being written down so that people can remember what they are currently using. The recommendation to change passwords periodically would be acceptable if the changes were required once a year.
- Moving the server to a more secure area would result in it being less accessible; management suggested methods of making the server more secure without changing the location were preferable.
- The server area has a fire extinguisher.
- Management believed that the Human Resources secretary was performing daily tape backups, and noted that if this isn't the case they will start requiring it.
- The District is investigating buying into a secure backup through the intermediate unit.

Auditor Conclusion

Regarding password changes, we continue to recommend that they be required every 30 days.

Regarding securing the server in its current area, it is management's responsibility to determine whether this can be accomplished.

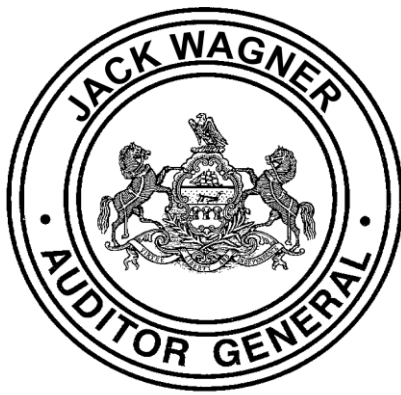
We recommend that installation of fire detection and suppression equipment, beyond the presence of a fire extinguisher, be considered.

The auditors provided additional explanation to management of the various weaknesses at the audit exit conference. Management stated that these weaknesses would be reviewed and addressed.

Status of Prior Audit Findings and Observations

Our prior audit of the Avella Area School District (AASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported observation. The observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. 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 AASD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the AASD did implement recommendations related to the bus drivers' policies.

<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. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</i></u></p> <ol style="list-style-type: none"> 1. Implement written policies and procedures to ensure the District is notified when employees of the District and the District's transportation contractor are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children, and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action. 2. Develop a process to determine, on a case-by-case basis whether prospective and current employees have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children. 	<p>Background:</p> <p>Our prior audit found that neither the District nor its transportation provider had any written policies or procedures in place to ensure they were notified if the current employees were charged with or convicted of a criminal offense.</p>	<p>Current Status:</p> <p>Our current audit found that as of January 28, 2009, the District has a new contract with the contractor that states they must notify the District if a driver is cited for any moving violations, driving under the influence, child abuse, and any arrest.</p> <p>Based on the results of our current audit, we conclude that the District did take appropriate corrective action to address this observation.</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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