

BELLEFONTE AREA SCHOOL DISTRICT  
CENTRE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

OCTOBER 2010



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

Ms. Becky Rock, Board President  
Bellefonte Area School District  
318 North Allegheny Street  
Bellefonte, Pennsylvania 16823

Dear Governor Rendell and Ms. Rock:

We conducted a performance audit of the Bellefonte Area School District (BASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 2, 2008 through May 13, 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 BASD 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 BASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

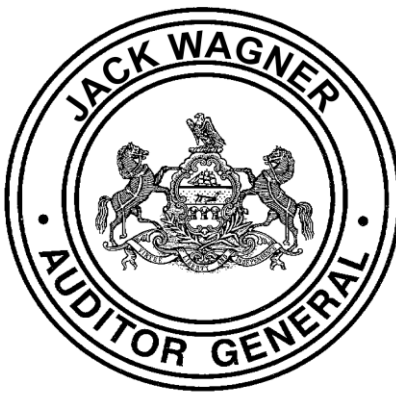
Sincerely,

/s/

JACK WAGNER  
Auditor General

October 1, 2010

cc: **BELLEFONTE AREA SCHOOL DISTRICT** Board Members

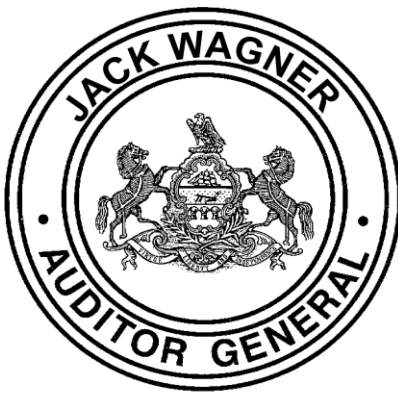


## Table of Contents

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses .....	6
Status of Prior Audit Findings and Observations .....	10
Distribution List .....	13



## **Executive Summary**

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Bellefonte Area School District (BASD). 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 BASD in response to our prior audit recommendations.

Our audit scope covered the period May 2, 2008 through May 13, 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 years 2007-08 and 2006-07.

### **District Background**

The BASD encompasses approximately 115 square miles. According to 2000 federal census data, it serves a resident population of 21,480. According to District officials, in school year 2007-08 the BASD provided basic educational services to 2,946 pupils through the employment of 243 teachers, 178 full-time and part-time support personnel, and 27 administrators. Lastly, the BASD received more than \$12.5 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

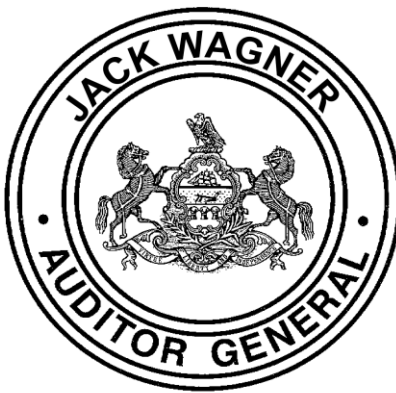
Our audit found that the BASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

#### **Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.**

We determined that a risk exists that unauthorized changes to the BASD's data could occur and not be detected because the BASD 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 BASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the BASD had taken appropriate corrective action in implementing our recommendations pertaining to transportation (see page 10), Social Security and Medicare wages (see page 11), and pupil membership (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 May 2, 2008 through May 13, 2010, except for the review of outside vendor access to the District's student accounting applications which was completed on April 28, 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 BASD'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:

- ✓ 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?
- ✓ 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.

BASD 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, and bus driver qualifications.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 3, 2009, we reviewed the BASD's response to DE dated May 26, 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 system.

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

The Bellefonte 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. However, since the District does have evidence to support that it has 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 decreased.

Unmonitored vendor access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving 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 District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
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 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 used a group userID rather than requiring that each employee has a unique userID and password.
7. The District does not have a person assigned to review the vendor activity log.
8. The District does not require written authorization prior to the updating/upgrading of key applications.
9. The District does not store data back-ups in a secure, off-site location.

## **Recommendations**

The *Bellefonte Area School District* should:

1. Include in the District's Acceptable Use Policy provisions for authentication (password security and syntax requirements).
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 for 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 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. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District was to obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. Assign a person to review the vendor activity log.
8. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
9. Store back-ups in a secure, off-site location.

### **Management Response**

Management stated the following:

1. The District's Acceptable Use Policy will be revised to include provisions for authentication.
  - a. Scheduled approval change/update: August 2010.
  - b. Implemented at the start of the 2010-2011 school year.
2. The District will require that our vendor sign the Acceptable Use Policy.
  - a. Implemented upon approval of the changes in the Acceptable Use Policy, approximately September 2010.
3. The District will develop and implement policies and procedures to require written authorization for adding, deleting, or changing a user ID.
  - a. An internal form will be developed and implemented by September 2010.
4. The District will maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

- a. An internal spreadsheet will be used to track employees to be implemented immediately.
- 5. The District will maintain a security policy to require all users, including the vendor, to change their passwords every 90 days. Passwords will be a minimum of eight characters and will include alpha and numeric characters. The District will maintain a password history of the last 4 passwords.
  - a. Implemented upon approval of the changed/updated Acceptable Use Policy in August 2010.
- 6. The District will require our vendor to assign unique user IDs and passwords to vendor employees authorized to access the district system.
- 7. The District will assign individuals to review the vendor activity log.
- 8. Upgrades/updates to the student information system will be performed solely by an appropriate District official and not by the vendor.
- 9. The District will prepare a plan to store back-ups in a secure, off-site location as part of a comprehensive Backup/Disaster Recovery plan to be implemented during the summer of 2010.

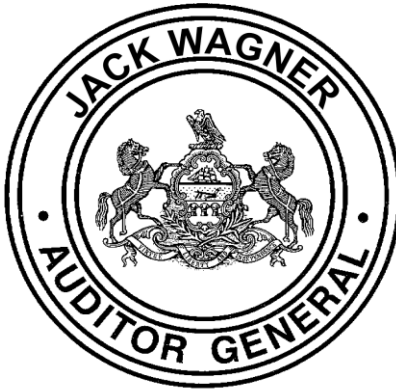
## Status of Prior Audit Findings and Observations

Our prior audit of the Bellefonte Area School District (BASD) for the school years 2005-06 and 2004-05 resulted in three reported findings. The findings pertained to transportation, Social Security and Medicare wages and pupil membership. 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 BASD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the BASD did implement recommendations related to all three of the prior findings.

<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 No. 1:</i></u>  <u><i>Transportation Errors</i></u>  <u><i>Resulted in a Net</i></u>  <u><i>Reimbursement</i></u>  <u><i>Underpayment of \$15,436</i></u></p> <ol style="list-style-type: none"> <li>1. Verify counts of nonpublic, charter school and nonreimbursable pupils before submission of reports to DE.</li> <li>2. Review reports subsequent to those audited for accuracy, and revise, as necessary.</li> <li>3. DE should adjust the District's future allocations to correct the net underpayment of \$15,436.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's pupil transportation data found discrepancies in reports submitted to DE for the 2005-06 and 2004-05 school years.</p>	<p><b>Current Status:</b></p> <p>Our current audit of the 2007-08 and 2006-07 school years found only insignificant errors in reporting pupil transportation data. Based on our current audit we concluded the District did take appropriate corrective action.</p> <p>As of May 13, 2010, DE had not adjusted the District's allocations. Therefore, we again recommend that DE correct the net underpayment of \$15,436.</p>



<p><b><u>II. Finding No. 2: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments of \$21,151</u></b></p> <ol style="list-style-type: none"> <li>1. Reconcile federal funds reported on the PDE-2105 to all of the final federal expenditure reports.</li> <li>2. Comply with DE instructions for forms PDE-339 and PDE-2105 when reporting wages paid with federal funds.</li> <li>3. Review reports submitted after our audit period for inclusion of federal wages and resubmit reports to DE, if necessary.</li> <li>4. DE should adjust the District's future allocations to correct the reimbursement overpayments of \$21,151.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of Social Security and Medicare wages for the 2005-06 and 2004-05 school years found that wages were incorrectly report to DE, resulting in reimbursement overpayments totaling \$21,151.</p>	<p><b>Current Status:</b></p> <p>Our current audit of Social Security and Medicare wages found insignificant errors in the 2006-07 school year; no errors were noted in the 2007-08 school year. Based on our current audit, we concluded the District did take appropriate corrective action.</p> <p>As of May 13, 2010, DE had not adjusted the District's allocations. Therefore, we again recommend that DE correct the overpayments of \$21,151.</p>
<p><b><u>III. Finding No. 3: Continued Membership Errors</u></b></p> <ol style="list-style-type: none"> <li>1. Continue to closely monitor pupil membership reports submitted to DE to ensure that all nonresident students are reported accurately.</li> <li>2. DE should adjust the District's future allocations to correct the overpayment of \$17,783.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of pupil membership records for the 2005-06 and 2004-05 school years found that for the 2004-05 school year the District continued to have internal control weaknesses in identifying, classifying, and reporting membership for nonresident students, resulting in an overpayment of \$17,783 in tuition for children placed in private homes.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District did take corrective action and found no errors in the District's reporting of membership for children placed in private homes.</p> <p>As of May 13, 2010, DE had not adjusted the District's allocations. Therefore, we again recommend that DE correct the overpayment of \$17,783.</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](http://www.auditorgen.state.pa.us), and the following:

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

The Honorable Thomas E. Gluck  
Acting 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

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

Representative James Roebuck  
Chair  
House Education Committee  
208 Irvis Office Building  
Harrisburg, PA 17120

Representative Paul Clymer  
Republican Chair  
House Education Committee  
216 Ryan Office Building  
Harrisburg, PA 17120

Ms. Barbara Nelson  
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](http://www.auditorgen.state.pa.us).

