

BLUE MOUNTAIN SCHOOL DISTRICT
SCHUYLKILL COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2009

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

Mr. Theodore H. Heffner, Board President
Blue Mountain School District
685 Red Dale Road
P.O. Box 188
Orwigsburg, Pennsylvania 17961

Dear Governor Rendell and Mr. Heffner:

We conducted a performance audit of the Blue Mountain School District (BMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period April 12, 2006 through March 20, 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, 2007, 2006, and 2005, 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 BMSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. 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 BMSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BMSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BMSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 6, 2009

cc: **BLUE MOUNTAIN 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 Blue Mountain School District (BMSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period April 12, 2006 through March 20, 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, 2006-07, 2005-06 and 2004-05.

District Background

The BMSD encompasses approximately 125 square miles. According to 2000 federal census data, it serves a resident population of 19,436. According to District officials, in school year 2007-08 the BMSD provided basic educational services to 2,983 pupils through the employment of 224 teachers, 148 full-time and part-time support personnel, and 24 administrators. Lastly, the BMSD received more than \$12 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BMSD 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 IU System Access and Logical Access Control

Weaknesses. We noted that BMSD 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.

Our prior audit for the school years 2003-04 and 2002-03 resulted in no findings or observations (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 April 12, 2006 through March 20, 2009, except for the verification of professional employee certification which was performed for the period March 24, 2006 through February 19, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 BMSD'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?
- ✓ 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?

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 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?

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.

BMSD 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 BMSD operations.

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 IU System Access and Logical Access Control Weaknesses

The Blue Mountain School District uses software purchased from the Carbon Lehigh Intermediate Unit #21 (CLIU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above vendor’s software are maintained on CLIU servers, which are physically located at CLIU. The District has remote access into CLIU’s network servers. CLIU also provides the District with system maintenance and support.

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 District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.

2. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including CLIU, 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; and to maintain a password history (i.e., approximately ten passwords), and to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
3. CLIU has unlimited access (24 hours a day/7 days a week) into the District's system.
4. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including CLIU and District employees). There is no evidence to support that the District is performing any procedures in order to determine which data CLIU may have altered or which CLIU employees accessed their system.

Recommendations

The *Blue Mountain School District* should:

1. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
2. Implement a security policy and system parameter settings to require all users, including CLIU, 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) and lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).

3. Only allow access to their system when the CLIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when CLIU has completed its work. This procedure would also enable the monitoring of CLIU changes.
4. Generate monitoring reports (including firewall logs) of CLIU 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. The District will designate one employee to remove terminated employees from the system in a timely manner. The terminated employees will be removed based on the date noted in the school board minutes.
2. The District will implement a security policy per the School Audit recommendations. The process will be finalized during the summer of 2009 and implemented for 2009-2010 school year. Passwords associated with membership and attendance will be changed every thirty (30) days. Users will be locked out of the system after three attempts.
3. Blue Mountain School District will contact IU21 with the recommendation. The school District will implement in a timely manner security procedures to assure monitoring capabilities for access to the SIS system.
4. The District will restrict access to the membership and attendance for the IU personnel. Access will only be allowed through contact with the Director of Instructional Technology. At the completion of the technology support request, the Director will restore restricted access to the membership and attendance.

Status of Prior Audit Findings and Observations

Our prior audit of the Blue Mountain School District for the school years 2003-04 and 2002-03 resulted in no findings or observations.



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:

The Honorable Edward G. Rendell
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The Honorable Robert M. McCord
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Senator Andrew Dinniman
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Senate Education Committee
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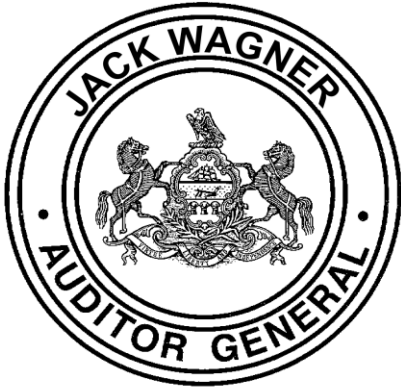
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