

CATASAUQUA AREA SCHOOL DISTRICT
LEHIGH COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Ms. Penny Hahn, Board President
Catasauqua Area School District
201 North 14th Street
Catasauqua, Pennsylvania 18032

Dear Governor Rendell and Ms. Hahn:

We conducted a performance audit of the Catasauqua Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period July 20, 2007 through July 10, 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 CASD 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 CASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 19, 2010

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

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Observation – Unmonitored IU System Access and Logical Access Control Weaknesses	6
Status of Prior Audit Findings and Observations	9
Distribution List	11



Executive Summary

Audit Work

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

Our audit scope covered the period July 20, 2007 through July 10, 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 CASD encompasses approximately 7 square miles. According to 2007 local census data, it serves a resident population of 11,238. According to District officials, in school year 2007-08 the CASD provided basic educational services to 1,701 pupils through the employment of 132 teachers, 117 full-time and part-time support personnel, and 12 administrators. Lastly, the CASD received more than \$6.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CASD 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 CASD 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 CASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CASD had taken appropriate corrective action in implementing our recommendations pertaining to their general fund deficit and subsequent recovery (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 July 20, 2007 through July 10, 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 CASD'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?
- ✓ 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?

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.

- ✓ 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.

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 28, 2008, we reviewed the superintendent's response to DE dated March 4, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation



Unmonitored IU System Access and Logical Access Control Weaknesses

Criteria relevant to the 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.

The Catasauqua Area School District uses software purchased from the Carbon Lehigh Intermediate Unit #21 (IU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the IU’s servers which are physically located at the IU. The District has remote access into the IU’s network servers, with the IU providing 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 IU 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 IU 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’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 the IU, nor does it require the IU 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 IU, 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); and to lock out users after three unsuccessful attempts.
4. The IU has unlimited access (24 hours a day/7 days a week) into the District's system.
5. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including IU and District employees). There is no evidence that the District is performing procedures in order to determine which data the IU may have altered or which IU employees accessed their system.

Recommendations

The *Catasauqua Area School District* should:

1. The District's Acceptable Use Policy should include provisions for authentication (password security and syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of the IU and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.

3. Implement a security policy and system parameter settings to require all users, including the IU, 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.
4. Only allow access to their system when the IU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of IU changes.
5. Generate monitoring reports (including firewall logs) of IU 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

CASD administration will review the results and develop action plans to address these concerns to the extent feasible.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Catasauqua Area School District (CASD) for the school years 2005-06 and 2004-05 resulted in one reported finding pertaining to a general fund deficit. 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 CASD superintendent'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 CASD did implement recommendations related to the general fund deficit and subsequent recovery.

<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: General Fund Deficit and Subsequent Recovery.</i></u></p> <ol style="list-style-type: none"> 1. Establish internal control procedures for proper review of financial record keeping. 2. Adopt budgets which more accurately estimate beginning and ending general fund balances in order to project the true financial condition of the District. 3. Monitor and maintain budgetary control over expenditures in compliance with the Section 609 of the Public School Code (PSC). 4. Reconcile general ledger accounts on a monthly basis. 5. Use monthly budget status reports to scrutinize proposed expenditures for the current operations and limit them to revenues received and the amount appropriated. 	<p>Background:</p> <p>The District's general fund balance decreased from \$1,128,359 at June 30, 2004 to (\$1,079,348) at June 30, 2006. Further review of the District's June 30, 2007 annual financial report found that the District's general fund balance made a subsequent recovery.</p>	<p>Current Status:</p> <p>We followed up on the CASD's financial records and found that the District <u>did</u> take appropriate corrective action to ensure budgetary control of their fund balance.</p> <p>At June 30, 2007 and 2008, the District had positive fund balances of \$408,188 and \$749,535, respectively.</p>

6. Comply with DE guidelines and regulations, the Manual of Accounting, Generally Accepted Accounting Principles, and the PSC regarding general fund budget preparation and maintenance.		
--	--	--

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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.
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

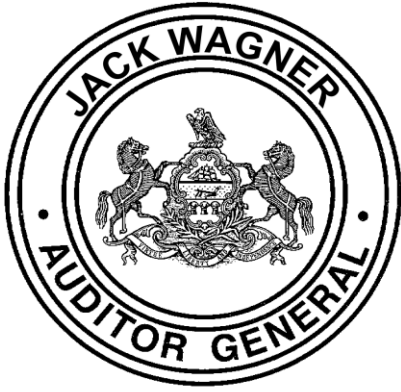
Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

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.

