

DANVILLE AREA SCHOOL DISTRICT  
MONTOUR COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2010



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

Mr. Allan Schappert, Board President  
Danville Area School District  
600 Walnut Street  
Danville, Pennsylvania 17821

Dear Governor Rendell and Mr. Schappert:

We conducted a performance audit of the Danville Area School District (DASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 30, 2007 through August 27, 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 DASD 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 DASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve DASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the DASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 26, 2010

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



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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period August 30, 2007 through August 27, 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 DASD encompasses approximately 120 square miles. According to 2000 federal census data, it serves a resident population of 18,894. According to District officials, in school year 2007-08 the DASD provided basic educational services to 2,563 pupils through the employment of 200 teachers, 152 full-time and part-time support personnel, and 16 administrators. Lastly, the DASD received more than \$11.7 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the DASD 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 DASD 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 DASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the DASD had taken appropriate corrective action in implementing our recommendations pertaining to their Memorandum of Understanding and pupil transportation (see page 11).





## Audit Scope, Objectives, and Methodology

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### 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 August 30, 2007 through August 27, 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 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 DASD'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 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?
- ✓ 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.

DASD 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 and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 31, 2008, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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*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 Danville Area School District uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and CSIU’s software are maintained on the District’s servers, which are physically located at the District. CSIU has remote access into the District’s network servers and 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 have a formal contract with the CSIU to provide student accounting applications and related information technology services.

2. The District does not have a non-disclosure agreement for the local education agencies (LEA) propriety information.
3. The District does not have current information technology (IT) policies and procedures for controlling the activities of the CSIU, nor does it require the CSIU to sign the District's Acceptable Use Policy.
4. The District does not require all CSIU employees to sign that they agree to abide by the IT Security Policy.
5. The District does not require written authorization before adding, deleting, or changing a userID.
6. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
7. The CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
8. 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); to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
9. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
10. The District has certain weaknesses in environmental controls in the room that contains the server that houses all the District's data. We noted that the specific location does not have fire suppression equipment.

**Recommendation**

The *Danville Area School District* should:

1. Develop an agreement with the CSIU to provide student accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Have a non-disclosure agreement for the LEA's propriety information.
3. Establish separate IT policies and procedures for controlling the activities of the CSIU and have the CSIU sign the District's Acceptable Use Policy.
4. Require all CSIU employees sign that they agree to abide by the IT Security policy.
5. Require written authorization before adding, deleting, or changing a userID.
6. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
7. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
8. 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); lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).

9. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
10. 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 install fire extinguishers in the server room.

**Management Response**

Management stated the following:

1. A contract has been signed by both the District and the CSIU.
2. An agreement has been signed by both the District and CSIU.
3. The District will create formal guidelines for controlling CSIU activities and will require all CSIU employees to sign its acceptable use policy.
4. By signing the Acceptable Use Policy, the CSIU employees will agree to the District's IT security policy (as outlined in the AUP).
5. All additions of user accounts within the District will pass through the IT request system from the appropriate authorized employees.
6. All deletions of user accounts within the District will pass through the IT request system from the appropriate authorized employees as part of a standard removal procedure.
7. All CSIU employees will have their own username and password when connecting in the District's network.
8. The District will increase the complexity requirements of passwords, force password change at 90 day intervals, keep a 3 password history, and lock accounts out after 3 unsuccessful attempts.

9. Upgrades and updates will not be made by the IU unless they receive written authorization from authorized District employees.
10. The District will install fire suppression equipment in the server rooms.



## Status of Prior Audit Findings and Observations

Our prior audit of the Danville Area School District (DASD) for the school years 2005-06 and 2004-05 resulted in two findings. The first finding pertained to their Memorandum of Understanding (MOU), and the second finding pertained to pupil transportation. 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 DASD Board’s written response to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the DASD did implement recommendations related to their MOU and pupil transportation.

<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 1: Lack of Memorandum of Understanding</i></u></p> <ol style="list-style-type: none"> <li>Develop and implement a MOU between the District and the Danville Police Department.</li> <li>Adopt a policy requiring the administration to review and re-execute the MOU every two years.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District’s records found that the District did not have a signed (MOU available for one school building located within the town of Danville.</p>	<p><b>Current Status:</b></p> <p>We followed up on the DASD’s MOU and found that DASD <u>did</u> take appropriate corrective action to address our previous audit recommendations.</p>
<p><u><i>II. Finding 2: Continued Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Over/Underpayments</i></u></p> <ol style="list-style-type: none"> <li>Reconcile contractor payments based on state formula per their signed contract.</li> <li>Meet with the contractors to reconcile end of the year payments as stated in the contract.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the District complied with two of our previous recommendations. However, DASD failed to reconcile all figures at the end of the school year and make necessary final payment adjustments to contactors who are paid based on state formula.</p> <p>Moreover, we identified discrepancies in reports submitted to DE for the 2005-06 and 2004-05 school years.</p>	<p><b>Current Status:</b></p> <p>We followed up on DASD’s transportation reports and found that DASD <u>did</u> take corrective action to address all of our prior audit recommendations.</p> <p>The District adjusted the contractor payments in June of 2009.</p> <p>DE adjusted the District’s allocations during the 2007-08 fiscal year.</p>

<p>3. Reconcile DE final reports to District reports to ensure accuracy of final reports.</p> <p>4. DE should adjust the District's allocations to resolve the reimbursement over/underpayments.</p>		
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## **Distribution List**

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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  
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The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
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333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Senator Jeffrey Piccola  
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Senator Andrew Dinniman  
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