

ELK LAKE SCHOOL DISTRICT
SUSQUEHANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Chuck Place, Board President
Elk Lake School District
P.O. Box 100
1 Schoolhouse Road
Dimock, Pennsylvania 18816

Dear Governor Corbett and Mr. Place:

We conducted a performance audit of the Elk Lake School District (ELSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 4, 2009 through August 4, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 ELSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **ELK LAKE 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 Elk Lake School District (ELSD). 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 ELSD in response to our prior audit recommendations.

Our audit scope covered the period June 4, 2009 through August 4, 2011, 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 2009-10 and 2008-09.

District Background

The ELSD encompasses approximately 197 square miles. According to 2000 federal census data, it serves a resident population of 7,735. According to District officials, in school year 2009-10 the ELSD provided basic educational services to 1,361 pupils through the employment of 122 teachers, 61 full-time and part-time support personnel, and 4 administrators. Lastly, the ELSD received more than \$9.6 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the ELSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matters reported as a finding.

Finding: Membership Reporting Errors and Department of Education Error Resulted in a Net Underpayment of \$45,284. Our audit of the ELSD pupil membership reports submitted to the Department of Education (DE) for the 2009-10 and 2008-09 school years found reporting errors and a DE error for children placed in private homes. These errors resulted in a net reimbursement underpayment of \$45,284 (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the ELSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the ELSD had not taken appropriate corrective action in implementing all of our recommendations pertaining to their unmonitored vendor system access and logical access control weaknesses (see page 8).



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 June 4, 2009 through August 4, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 ELSD'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?
- ✓ 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

ELSD 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 professional employee certification, state ethics compliance, 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 ELSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 13, 2010, we reviewed the ELSD's response to DE dated December 9, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Membership Reporting Errors and Department of Education Error Resulted in a Net Underpayment of \$45,284

Criteria and Public School Code section relevant to the finding:

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Our audit of the Elk Lake School District's (ELSD) pupil membership reports submitted to the Department of Education (DE) for the 2009-10 school year found reporting errors for children placed in private homes. Our audit also found a DE error for the 2008-09 school year. District personnel inaccurately reported membership for children placed in private homes resulting in underpayments of \$44,194 for the 2009-10 school year. The DE error resulted in a reimbursement underpayment of \$1,090 for the 2008-09 school year, for a net reimbursement underpayment of \$45,284.

For the 2009-10 school year, membership days for children placed in private homes were never reported to DE. The District should have reported 207 membership days for elementary students and 641 membership days for secondary students for the 2009-10 school year. Membership days for children placed in private homes during the 2008-09 school year were reported correctly. However, DE underpaid the District \$1,090 and DE did not adjust their subsidy in the 2010-11 school year to correct this underpayment.

These errors occurred because District personnel made clerical errors and failed to ensure the data was properly reported.

DE has been provided a report detailing the errors for use in recalculating the District's reimbursement.

Recommendations

The *Elk Lake School District* should:

1. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions.
2. Implement controls to verify actual membership days to computer generated reports.

3. Perform an internal review of membership reports and summaries prior to submission of final reports to DE.
4. Review subsequent year reports and if errors are found, submit revised reports to DE.

The *Department of Education* should:

5. Adjust the ELSD's allocations to resolve the net underpayment of \$45,284.

Management Response

Management stated the following:

The Superintendent and Business Manager will review the Child Accounting Membership for Children Placed in Private Homes at the conclusion of each year with the Child Accounting Secretary to correct any errors.

Status of Prior Audit Findings and Observations

Our prior audit of the Elk Lake School District (ELSD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to their unmonitored vendor system access and logical access control weaknesses. 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 ELSD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the ELSD did not implement all recommendations related to their logical access control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

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

Observation Summary: Our prior audit found that the ELSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the ELSD network servers.

Recommendations: Our audit observation recommended that the ELSD:

1. Develop an updated agreement with the vendor to provide student accounting applications and related information technology (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. The updated signed contract with the vendor should contain a non-disclosure agreement for the ELSD proprietary information.
2. Ensure that the ELSD's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
3. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the ELSD should require the vendor to sign the ELSD's Acceptable Use Policy.
4. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.

5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. 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 ELSD should lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
7. Generate monitoring reports (including firewall logs) of vendor 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 ELSD should review these reports to determine that the access was appropriate and that data was not improperly altered. The ELSD should also ensure it is maintaining evidence to support this monitoring and review.
8. Ensure that the upgrades/updates to the ELSD's system are made only after receipt of written authorization from appropriate ELSD officials.
9. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
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 extinguishers in the computer room.
11. Store back-up tapes in a secure, off-site location.
12. Mitigate IT control weaknesses by having compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

During our current audit procedures we found that the ELSD did not implement our recommendation to change passwords every 30 days and to use passwords that are a minimum length of eight characters and include alpha, numeric, and special characters. However, the ELSD did implement our other recommendations. A verbal comment will be issued.



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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