

FAIRVIEW SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2010



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

Mr. Daniel Stroup, Board President  
Fairview School District  
7460 McCray Road  
Fairview, Pennsylvania 16415

Dear Governor Rendell and Mr. Stroup:

We conducted a performance audit of the Fairview School District (FSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 20, 2008 through December 21, 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 FSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

August 25, 2010

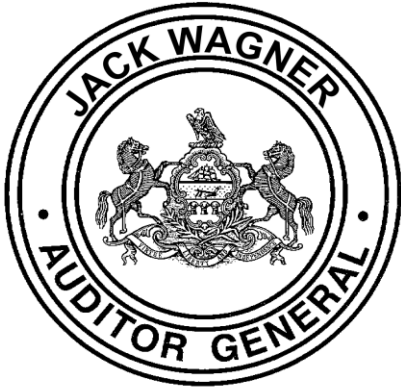
cc: **FAIRVIEW SCHOOL DISTRICT** Board Members

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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 Fairview School District (FSD). 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 FSD in response to our prior audit recommendations.

Our audit scope covered the period February 20, 2008 through December 21, 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 FSD encompasses approximately 28 square miles. According to 2000 federal census data it serves a resident population of 10,140. According to District officials, in school year 2007-08 the FSD provided basic educational services to 1,732 pupils through the employment of 112 teachers, 99 full-time and part-time support personnel, and 14 administrators. Lastly, the FSD received more than \$5.4 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the FSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

#### **Observation 1: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses.**

Our prior audit determined that a risk existed that unauthorized changes to the FSD's data could occur and not be detected because the FSD was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. Our current audit found continued weaknesses with unmonitored vendor system access and logical access control (see page 6).

#### **Observation 2: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications for the Third Time.**

Our prior audit found continued internal control weaknesses in administrative policies regarding bus drivers' qualifications. Currently, the FSD has not yet made changes to administrative policies that would ensure that the FSD is notified if any current bus driver is charged with or convicted of a crime that would call into question a driver's suitability to be in direct contact with school students (see page 10).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the FSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the FSD had taken appropriate corrective action in implementing our recommendations pertaining to the membership finding (see page 12). However, we found that the FSD did not take appropriate actions regarding our observation on information technology (see page 13) or our observation on internal control weaknesses over bus drivers' qualifications (see page 15).



## 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 February 20, 2008 through December 21, 2009, except for the verification of professional employee certification which was performed for the period January 1, 2008 through September 30, 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

*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 FSD'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?

- ✓ 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?
- ✓ 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?
- ✓ 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**

*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.

*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.

FSD 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, 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 FSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 1, 2009, we reviewed the FSD's response to DE dated November 23, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation No. 1

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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 system.

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

The Fairview School District uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). CSIU has remote access into the District’s network servers.

We addressed system access and logical access control weaknesses in our prior audit report (see page 13).

Based on our current year procedures, we determined that a risk still 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 CSIU 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.

Best practices in information technology (IT) security include: limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring the system to ensure integrity of key database and applications; regulating changes to software; restricting physical access; implementing and maintaining minimum environmental controls; and planning for contingencies.

During our current review, we found the District had the following continued weaknesses over vendor access to the District's system:

1. CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
2. The District was unable to provide evidence that it requires written authorization for adding or changing a userID.
3. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
4. The District does not have current IT policies and procedures for controlling the activities of vendor/consultants, nor does it require CSIU to sign the District's Acceptable Use Policy (AUP).
5. The District's AUP does not include provisions for authentication (password security and syntax requirements). Further, the employees are not required to sign the AUP.
6. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire detection equipment.

## **Recommendations**

The *Fairview School District* should:

1. Require CSIU to assign unique userIDs and passwords to CSIU employees authorized to access the District's system. Further, the District should obtain a list of CSIU employees with remote access to its data and ensure that changes to the data are made only by authorized CSIU representatives.
2. Develop policies and procedures to require written authorization when adding or changing a userID.

3. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
4. Establish separate CSIU policies and procedures for controlling the activities of vendor/consultants and have CSIU sign this policy, or the District should require CSIU to sign the District's AUP.
5. The District's AUP should include provisions for authentication (password security and syntax requirements). Further, all employees should be required to sign and adhere to this policy.
6. 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 in the computer room.

### **Management Response**

Management provided a written response which restated the weaknesses in our observation and referenced CSIU's "Information Security Specifications." We have edited management's response to include only these portions that directly address our recommendations, as follows:

1. Access to the application servers and software is restricted to domain administrators. Temporary access to client data is granted on an 'as needed' basis for resolving client-initiated calls. This access to client data automatically times-out at the end of an established access period, and is unique to each CSIU staff person, hence, an audit trail is established. In addition, these occurrences are documented with regard to need, date, and time.
2. The District currently has a documented procedure in place for the deletion of users. The District will create a similar procedure for the adding or changing of accounts.
3. [The] District will work on implementing procedures to compare and analyze the impact of any program changes in relation to other business-critical functions.

4. The district will review its IT policies with the potential to add all vendors and/or consultants to the language.
5. Although our AUP does not include provisions for authentication, the district does follow specific password security and syntax requirements. Evidence of these practices has been provided. The District will begin to require employees to sign the AUP.
6. We are investigating ways to satisfy the environmental controls.

**Auditor Conclusion**

Regarding management's response to our first recommendation, due to the sensitivity of the data we continue to recommend that the District require CSIU to assign unique userID's and passwords to its employees to strengthen controls over vendor access.

In addition, based on management's response to our fourth recommendation we continue to recommend that the District obtain its vendor's signature on the District's policies and procedures. Taking this step will help ensure that the District can hold its vendor accountable for any inappropriate activities or actions.

Finally, based on management's response to our fifth recommendation, we continue to recommend that the District documents its provisions for authentication including its requirements for password security and syntax, in its AUP.

**Observation No. 2** →

**Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications for the Third Time**

*Criteria relevant to the observation:*

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

Our audit found continued internal control weaknesses in administrative policies regarding bus drivers' qualifications for the third time.

Our prior two audit reports contained observations addressing these weaknesses (see page 15). Our current audit found that neither the District nor the District's transportation contractor yet have written policies or procedures to ensure that they are notified if current employees are charged with or convicted of serious criminal offenses which should be considered when determining an individual's continued suitability to be in direct contact with children. We consider this lack of written policies and procedures to be an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

**Recommendations**

The *Fairview School District* should:

1. In consultation with the District's solicitor, develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District and the District's independent contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.



2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

**Management Response**

Management stated the following:

The district has not changed its position on this observation since the February 2006 response.

As of February 8, 2006, the district indicated that efforts would be made to negotiate a change to policies and procedures regarding this observation. Since that time the support staff union has questioned why drivers are being singled out and shouldn't we consider all employees. District personnel then had discussions with the solicitor and representatives from both unions regarding policy for all employees and to this date have not come up with a solution. At this time the district is not actively pursuing a change in policy or procedure to require employees to report serious criminal offense, and if reported, how the district would proceed.

**Auditor Conclusion**

While we understand that the District must take the unions' concerns into consideration, we continue to be troubled by the fact that the District currently has no way of knowing if one of its bus drivers has committed a crime which would affect his/her suitability to have direct contact with children. This situation is of particular concern given that bus drivers' transport students off the school premises and that bus drivers' are responsible for the students safety in a motor vehicle.

Therefore we reiterate our recommendation that the District take action to resolve this issue.

## Status of Prior Audit Finding and Observations

Our prior audit of the Fairview School District (FSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two observations. The finding pertained to pupil membership. The first observation pertained to information technology and the second observation pertained to bus drivers' qualifications. 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 FSD 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 FSD did implement the recommendations related to pupil membership but did not take corrective action to resolve the information technology and bus drivers' qualifications observations.

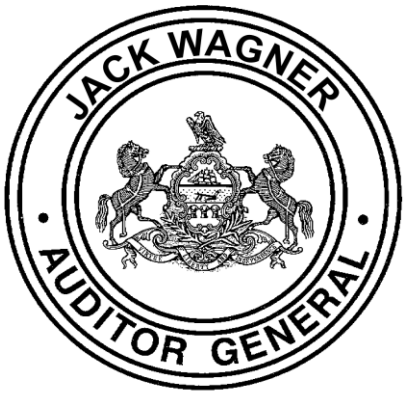
<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Error in Reporting Pupil Membership for Nonresident Children Placed in Private Homes Resulted in a Reimbursement Overpayment of \$15,607</i></u></p> <ol style="list-style-type: none"> <li>1. Perform an internal audit prior to submission of pupil membership to DE to ensure all students are classified correctly.</li> <li>2. Review subsequent reports for pupil classification accuracy, and revise, if necessary.</li> </ol>	<p><b>Background:</b></p> <p>Our audit of the District's pupil membership reports submitted to DE for the 2004-05 school year found errors in the reporting of pupil membership days for children placed in private homes, resulting in a reimbursement overpayment of \$15,607.</p>	<p><b>Current Status:</b></p> <p>We followed up on the reporting errors and found FSD did take appropriate corrective action.</p> <p>Our current audit of the 2007-08 and 2006-07 school years found the District reported pupil membership days for children placed in private homes accurately for both years.</p> <p>As of our fieldwork completion date of December 21, 2009, DE had not adjusted the District's allocations. Therefore, we again recommend that DE do so to resolve the overpayment.</p>

<p><u>II. Observation 1:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> <li>1. Generate monitoring reports (including firewall logs) of Central Susquehanna Intermediate Unit #16 (CSIU) and employee access and activity on the District's 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.</li> <li>2. Require CSIU to assign unique userIDs and passwords to CSIU employees authorized to access the District's system. Further, the District should obtain a list of CSIU employees with remote access to its data and ensure that changes to the data are made only by authorized CSIU representatives.</li> <li>3. The contract with CSIU should be reviewed by legal counsel.</li> <li>4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the FSD uses software purchased from CSIU for its critical student accounting applications (membership and attendance). CSIU has remote access into the District's network servers. An audit of outside vendor access to the District's student accounting applications was completed on May 22, 2008. We concluded that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District could not provide evidence that it was adequately monitoring all CSIU activity in its system.</p>	<p><b>Current Status:</b></p> <p>During our current audit we followed up on the weaknesses and found FSD took appropriate corrective actions for 5 of our 11 recommendations.</p> <p>Based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address 6 of our 11 recommendations (see Observation No. 1, page 6).</p>
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<p>5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.</p> <p>6. Store back-up tapes in a secure, off-site location.</p> <p>7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>8. Establish separate intermediate unit policies and procedures for controlling the activities of vendor/consultants and have CSIU sign this policy, or the District should require CSIU to sign the District's Acceptable Use Policy.</p> <p>9. The District's Acceptable Use Policy should include provisions for authentication (password security and syntax requirements). Further, all employees should be required to sign and adhere to this policy.</p> <p>10. Implement a security policy and system parameter settings to require all users, including CSIU, to ensure passwords are a minimum length of eight characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and log</p>		
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<p>users off the system after a period of inactivity (i.e., 60 minutes maximum).</p> <p>11. 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 in the computer room.</p>		
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<p><i>III. Observation 2: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</i></p> <p>1. In consultation with the District's solicitor, develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District and the District's independent contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.</p> <p>2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call in to question their suitability to continue to have direct contact with children.</p>	<p><b>Background:</b></p> <p>Our prior audit found that neither the District nor the independent bus contractor had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses, which should be considered when determining an individual's continued suitability to be in direct contact with children. We considered this lack of written policies and procedures to be an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.</p> <p>The observation was also included in our audit report for the 2003-04 and 2002-03 school years.</p>	<p><b>Current Status:</b></p> <p>We followed up on FSD's internal control weaknesses and found that the District did have discussions with its solicitor and representatives from both District employee unions, but no policy or procedure changes were implemented.</p> <p>Based on the results of our current audit, we concluded that the District did not take appropriate corrective action to address this observation (see Observation No. 2, page 10).</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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Harrisburg, PA 17120

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