

FERNDALE AREA SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2009

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

Mr. Ridley Banks, Board President
Ferndale Area School District
100 Dartmouth Avenue
Johnstown, Pennsylvania 15905

Dear Governor Rendell and Mr. Banks:

We conducted a performance audit of the Ferndale Area School District (FASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 3, 2006 through May 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. 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 FASD 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 FASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve FASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the FASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 1, 2009

cc: **FERNDALE AREA 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 Ferndale Area School District (FASD). 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 FASD in response to our prior audit recommendations.

Our audit scope covered the period February 3, 2006 through May 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 FASD encompasses approximately 6 square miles. According to 2000 federal census data, it serves a resident population of 5,759. According to District officials, in school year 2007-08 the FASD provided basic educational services to 902 pupils through the employment of 66 teachers, 36 full-time and part-time support personnel, and 5 administrators. Lastly, the FASD received more than \$6.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the FASD 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 Vendor System Access and Logical Access Control Weaknesses.

We determined that a risk exists that unauthorized changes to the FASD's data could occur and not be detected because the FASD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the FASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the FASD had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses and reporting errors in pupil transportation records (see page 9) and improper student activity fund practices (see page 10).



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 February 3, 2006 through May 20, 2009, except for the verification of professional employee certification which was performed for the period December 1, 2005 through January 31, 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 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 FASD'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?
- ✓ 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.

- ✓ 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?
- ✓ 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 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.

FASD 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 and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 18, 2006, we reviewed the FASD's response to DE dated November 15, 2006. We then performed additional audit procedures targeting the previously reported matters.

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 system.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Ferndale Area School District uses the services from an outside vendor for technical support for its critical student accounting applications (membership and attendance). The technical support vendor has remote access into the District’s network servers.

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 it is adequately monitoring all vendor activity in its 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 following weaknesses over vendor access to the District’s system:

1. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed their system.

2. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
3. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
4. The contract with the vendor did not contain a non-disclosure agreement for the District's proprietary information.
5. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District's Acceptable Use Policy.
6. The District's Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
7. 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; to maintain a password history (i.e., approximately ten passwords) or to lock out users after three unsuccessful attempts.

Recommendations

The *Ferndale Area School District* should:

1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the 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.

2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Allow access to its system only when the vendor needs to access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
4. Include in the contract with the vendor a non-disclosure agreement for the District's proprietary information.
5. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
6. Include in the District's Acceptable Use Policy provisions for authentication (password security and syntax requirements).
7. 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. 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.

Management Response

Management indicated it agreed with the observation, but provided no additional response.

Status of Prior Audit Findings and Observations

Our prior audit of the Ferndale Area School District (FASD) for the school years 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to transportation records and reports, and the second finding pertained to student activity fund practices. 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 FASD 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 FASD did implement recommendations related to transportation and student activity funds.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding No. 1: Internal Control Weaknesses and Reporting Errors Resulted in Questionable Transportation Reimbursements of \$580,511</i></u></p> <p>1. Develop and implement internal control procedures and a review process to ensure that transportation data is accurately reported in accordance with DE instructions.</p> <p>2. Review reports submitted to DE subsequent to the audit period, and submit revised reports if verifiable errors are found.</p>	<p>Background:</p> <p>Our prior audit of the District’s pupil transportation records and reports submitted to DE for the 2003-04 and 2002-03 school years found procedural and reporting errors resulting in questionable transportation reimbursements of \$300,327 and \$280,184 for the respective years.</p>	<p>Current Status:</p> <p>Our current audit found that District personnel reported miles with and miles without students in accordance with DE instructions.</p> <p>Additionally, no errors were noted in the reporting of those miles, or in reporting the greatest number of pupils assigned to ride vehicles.</p> <p>Based on the results of our current audit, we determined the District <u>did</u> take appropriate corrective action to address this finding.</p>

<p><u>II. Finding No. 2: Improper Student Activity Fund Practices</u></p> <ol style="list-style-type: none">1. Ensure students adopt bylaws governing the operation of their organization, elect student officers, record minutes of their meetings and sign all payment authorizations.2. Eliminate all general fund and faculty accounts from the student activity fund.3. Liquidate all inactive accounts.4. Prorate interest earnings to student accounts, or obtain waivers from groups that want to assign their proportionate share of interest earnings to a designated account used to benefit all students. Any waiver of interest must be voluntary and properly documented.	<p>Background:</p> <p>Our prior audit of the high school student activity fund for the 2004-05 school year found that the District failed to comply with the Public School Code and written procedures established for the management of this fund, resulting in improper student activity fund practices.</p>	<p>Current Status:</p> <p>Our current audit determined that students adopted bylaws, elected officers, recorded minutes of their meetings and signed payment authorization forms.</p> <p>General fund and faculty fund accounts were eliminated and all inactive accounts were liquidated.</p> <p>Interest earnings were appropriately authorized to be transferred to an account that benefits all students.</p> <p>Based on the results of our current audit we determined the District took appropriate corrective action to address this finding.</p>
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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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