

FOREST AREA SCHOOL DISTRICT
FOREST COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2010

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

Mr. Michael G. Oliver, Board President
Forest Area School District
22318 Route 62, Box 16
Tionesta, Pennsylvania 16353

Dear Governor Rendell and Mr. Oliver:

We conducted a performance audit of the Forest Area School District (FASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period December 12, 2007 through March 9, 2010, 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 FASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the FASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 25, 2010

cc: **FOREST 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 Forest 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 December 12, 2007 through March 9, 2010, 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 FASD encompasses approximately 428 square miles. According to 2000 federal census data, it serves a resident population of 4,946. According to District officials, in school year 2007-08 the FASD provided basic educational services to 606 pupils through the employment of 60 teachers, 34 full-time and part-time support personnel, and 4 administrators. Lastly, the FASD received more than \$4.3 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. We report no findings or observations in this report.

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 2005-06 and 2004-05 school years, we found the FASD had taken appropriate corrective action in implementing our recommendations pertaining to bus drivers' qualifications (see page 7).

We also found that the FASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control (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 December 12, 2007 through March 9, 2010.

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 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

- ✓ 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?
- ✓ 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 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, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Deposited state funds.

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 January 30, 2008, we reviewed the FASD's response to DE dated December 23, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Forest Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the FASD for the school years 2005-06 and 2004-05 reported one finding and one observation. The finding pertained to bus drivers' qualifications deficiencies, and the observation pertained to 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 FASD Superintendent's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the FASD did implement recommendations related to bus drivers' qualifications and unmonitored vendor system access.

<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. Finding: School Bus Drivers' Qualifications Deficiencies</u></p> <ol style="list-style-type: none"> 1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students. 2. Maintain files, separate from the transportation contractor, for all District drivers and work with the contractor to ensure that the District's files are up-to-date and complete. 	<p>Background:</p> <p>Our prior audit of the District's school bus drivers' qualifications on file at the District for the 2006-07 school year found that the District did not have valid driver's licenses on file for 16 van drivers, and three bus drivers had expired physical exam forms.</p> <p>All necessary documents were obtained from the bus contractor after the start of the prior audit.</p>	<p>Current Status:</p> <p>Our current audit found that the District obtained, and kept on file, all necessary documentation pertaining to bus driver qualifications, with the exception of two drivers that did not have federal criminal history records on file. When requested, the needed criminal histories were obtained from the contractor the next day.</p>

<p><u>II. Observation:</u> <u>Unmonitored Vendor System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on the District’s system. Monitoring reports should include the date, time and reason for access, changes(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’s 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 remote access to the system only when the vendor needs 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. 	<p>Background:</p> <p>Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.</p> <p>We determined that a risk existed 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 was adequately monitoring all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit found that:</p> <ol style="list-style-type: none"> 1. The District now generates monitoring reports of the activity on its system. 2. The vendor has installed a login monitoring program on the District’s server, as detailed in their annual Software Maintenance Agreement. 3. The District’s technology coordinator authorizes vendor remote access by activating “on” and “off” to the server account. 4. A service order is signed and approved by the technology coordinator for removal of terminated employees. 5. A District-generated form is used when adding, deleting, or changing a userID, approved and signed by the technology coordinator. 6. Storage of back-up tapes is in a secure, off-site location. 7. The vendor requires employees to sign an acknowledgement of their information technology (IT) related policies in the vendor’s Employee Handbook. The vendor’s policies are in agreement with the District’s policies. 8. The District requires all employees to sign an Acceptable Use Policy as acknowledgement that they have read and understood the policy.
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<p>4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <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 separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.</p> <p>8. Require all employees to sign its Acceptable Use Policy as acknowledgement that they have read and understood the policy.</p> <p>9. Implement a security policy and system parameter settings to require all users, including the vendor, to ensure their passwords are a minimum length of eight character and included 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 log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p>		<p>9. The District has password requirements and an Acceptable Use Policy, signed by District employees, which addresses passwords.</p> <p>10. The District has installed fire detectors and a fire extinguisher in the computer room.</p>
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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.		
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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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