

HERMITAGE SCHOOL DISTRICT
MERCER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010

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

Mrs. Laurie Biblis, Board President
Hermitage School District
411 North Hermitage Road
Hermitage, Pennsylvania 16148

Dear Governor Rendell and Mrs. Biblis:

We conducted a performance audit of the Hermitage School District (HSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 24, 2008 through February 5, 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 HSD 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 HSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve HSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the HSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

September 3, 2010

cc: **HERMITAGE 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 Hermitage School District (HSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period November 24, 2008 through February 5, 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 HSD encompasses approximately 30 square miles. According to 2000 federal census data, it serves a resident population of 16,157. According to District officials, in school year 2007-08, the HSD provided basic educational services to 2,219 pupils through the employment of 147 teachers, 120 full-time and part-time support personnel, and 10 administrators. Lastly, the HSD received more than \$8.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the HSD 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. Our review found that the HSD has weaknesses in permitting unmonitored vendor system access and in logical access controls (see page 6).

Status of Prior Audit Findings and Observations. No findings or observations were noted in our prior audit report for the school years 2004-05 and 2005-06.



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 November 24, 2008 through February 5, 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 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 HSD'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?
- ✓ 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 relate to vendor access?
- ✓ 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?

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.

HSD 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, and pupil transportation.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

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

Findings and Observations

Observation

Unmonitored Vendor System Access and Logical Access Control Weaknesses

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.

The Hermitage 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 of its data and the above software are maintained on the CSIU’s servers which are physically located at the CSIU. The District has remote access into CSIU’s network servers, with CSIU providing 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 it is adequately monitoring all CSIU activity in its system. However, since the District has 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’s Acceptable Use Policy does not include provisions for authentication (syntax requirements).

2. The District does not have current information technology (IT) policies and procedures for controlling the activities of CSIU, nor does it require the CSIU to sign the District's Acceptable Use Policy.
3. The CSIU has unlimited access (24 hours a day/7 days a week) into the District's system.

Recommendations

The *Hermitage School District* should:

1. Ensure the District's Acceptable Use Policy includes provisions for authentication (syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of the CSIU and have the CSIU sign this policy, or the District should require the CSIU to sign the District's Acceptable Use Policy.
3. Allow access to the system only when the CSIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CSIU has completed its work. This procedure would also enable the monitoring of CSIU changes.

Management Response

Management stated the following:

The District will work with the staff and the vendor to make necessary adjustments and corrections as recommended. However, management has one point of clarification. With reference to recommendation number one, our Student Information System policy does utilize strict password requirements. Our Local Area Network, however does not, as it cannot differentiate password requirements between students and staff. Furthermore, requiring our students, especially younger ones, to maintain passwords that meet strict requirements would be burdensome on the educational process.

Auditor Conclusion

The focus of our procedures was on the student accounting system and CSIU's access to it, rather than student use of the local area network. Our recommendation is that the password requirements for the student accounting system be clearly stated in the District's Acceptable Use Policy.

Status of Prior Audit Findings and Observations

Our prior audit of the Hermitage School District for the school years 2005-06 and 2004-05 resulted in no findings or observations.

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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