

LEHIGHTON AREA SCHOOL DISTRICT
CARBON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2012

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

Mr. Rocky Ahner, Board President
Lehigh Area School District
1000 Union Street
Lehigh, Pennsylvania 18235

Dear Governor Corbett and Mr. Ahner:

We conducted a performance audit of the Lehigh Area School District (LASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 9, 2007 through January 29, 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 LASD complied, in all significant respects, with applicable state laws, 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 LASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve LASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the LASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 17, 2012

cc: **LEHIGH AREA SCHOOL DISTRICT** Board Members

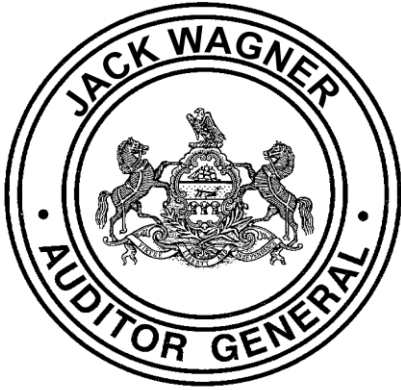
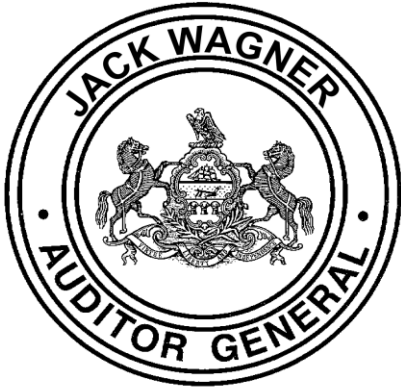


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Lehigh Area School District (LASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the LASD in response to our prior audit recommendations.

Our audit scope covered the period November 9, 2007 through January 29, 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

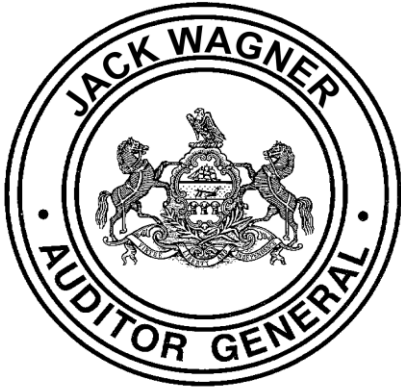
The LASD encompasses approximately 68 square miles. According to 2000 federal census data, it serves a resident population of 17,131. According to District officials, in school year 2007-08 the LASD provided basic educational services to 2,568 pupils through the employment of 196 teachers, 145 full-time and part-time support personnel, and 9 administrators. Lastly, the LASD received more than \$11 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that LASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the LASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LASD had not taken appropriate corrective action in implementing our recommendations pertaining to the prior superintendent's costly and confidential buy-out of the contract (see page 9). We found the LASD had taken appropriate corrective action in implementing our recommendations pertaining to nonpublic pupils transported (see page 11).



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 9, 2007 through January 29, 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the LASD's compliance with applicable state laws, 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?
- ✓ 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, 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.

LASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2008, we reviewed the LASD's response to DE dated May 29, 2009. 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 systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Lehigh Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above vendor’s software are maintained on the vendor’s servers which are physically located at the vendor’s location. The District has remote access into the vendor’s network servers. The vendor also provides the District with 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 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 District had the following weaknesses over vendor access to the District’s system:

1. Does not include provisions for authentication (password security and syntax requirements) in the District’s Acceptable Use Policy.

2. 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.
3. 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.
4. Does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

Recommendations

The *Lehigh Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. 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.
3. 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).
4. 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 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.

Management Response

Management stated the following:

1. We are implementing, but need to revise acceptable use policy.
2. Will adapt acceptable use policy for vendors as recommended.
3. The District is of the opinion that the 90-day change-over of passwords provides sufficient security.
4. There are no current automated tools to monitor the vendor access. The District is using manual compensating controls as appropriate.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Lehigh Area School District (LASD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to the prior superintendent's costly and confidential buy-out of the contract, and the second pertained to nonpublic pupils transported. 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 LASD 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 LASD did not implement recommendations related to the prior superintendent's costly and confidential buy-out of the contract and did implement or recommendations related to nonpublic pupils transported.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: The District Did Not Provide Adequate Provisions in the Superintendent's Employment Contract Leading to a Costly and Confidential Buy-out of the Contract: It is Questionable Whether the Buy-out Was in the Best Interest of the Taxpayers of the District

Finding Summary: Our prior audit found that on July 12, 2004, the LASD entered into a Contract for employment of District Superintendent (Contract) with an individual (Superintendent) to serve as the District's superintendent.

The Contract set the Superintendent's term of employment as five years, from July 12, 2004 through June 30, 2009.

On August 14, 2006, after the Superintendent had served only two years and one month of the five-year term of the Contract, the Board unanimously approved the acceptance of the voluntary resignation of the Superintendent, effective immediately, as well as the execution of an agreement between the District and the Superintendent. The agreement required the District to pay a lump sum payment of \$150,000 to the Superintendent by August 18, 2006; the Superintendent waived payment for unused vacation, personal, and sick time.

In addition to the \$150,000 lump sum payment made to the Superintendent, the District paid \$63,200, at a rate of \$400 per day, to an Acting Superintendent who was appointed at the same August 14, 2006 board meeting and who served for the remainder of the 2006-07 school year.

Recommendations: Our audit finding recommended that the LASD:

1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by the state law, in order to limit potential financial liability by the District and its taxpayers.
2. Ensure that future employment contracts contain adequate termination provisions sufficient to protect the interests of the taxpayers of the school district in the event that the employment ends prematurely for any reason.
3. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and justifying the District's expenditure of public funds to buy out the Superintendent's contract.

Current Status: We followed up on the LASD administrator contracts and found that no subsequent administrator contract buyouts occurred, however, the LASD did not take appropriate corrective action to address this finding.

The District's solicitor stated that a prior superintendent's contract was in compliance with the maximum time set in the public school code. The solicitor also noted that in the event that the District would negotiate and hire a new superintendent, the District will consider the Auditor General's findings and suggestion of a shorter contract will be considered based on the economic times and the employment market at the time.

The District's solicitor also stated in part that a prior superintendent's buyout was in the taxpayer's best interest when considering actual costs and benefits.

On July 16, 2007, the LASD entered into a similar contract with a new superintendent for a five year period ending June 30, 2012.

On March 19, 2008, the LASD entered into a similar contract with another administrator, the current business manager for the remainder of a five year period ending June 30, 2012.

This new contract has not been revised to contain adequate termination provisions in the event that the employment ends prematurely for any reason.

Our prior audit was released on June 30, 2008 which was after the two new contracts were approved. However, after receiving our report, amendments could have been made to the contracts.

The LASD has not provided additional information to the taxpayers of the District explaining reasons for the termination of the prior superintendent and justifying the District's expenditure of public funds to buyout the prior superintendent's contract.

We continue to encourage the District to implement our prior audit recommendations. We will review contract provisions during our next audit.

Finding No. 2: Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in a Reimbursement Underpayment of \$6,545

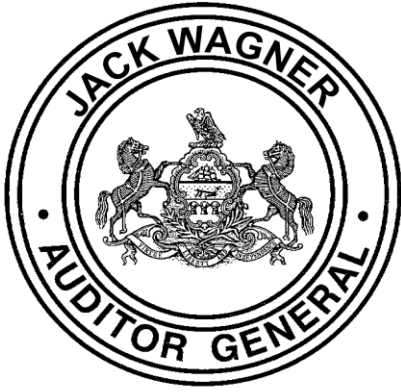
Finding Summary: Our prior audit comparison of pupil rosters and pupil transportation reports for the 2005-06 and 2004-05 school years found errors in data submitted to DE for the 2004-05 school year. Our audit found District personnel did not report 17 nonpublic pupils transported resulting in a reimbursement underpayment of \$6,545 for the 2004-05 school year.

Recommendations: Our audit finding recommended that the LASD:

1. Strengthen controls to ensure that all data is accurately reported to DE.
2. Review reports for subsequent years and submit revised reports, if errors are found.
3. DE should adjust the District's allocations to resolve the reimbursement underpayment of \$6,545.

Current Status: We followed up on the LASD pupil transportation reports and found the LASD did take appropriate corrective action to improve nonpublic transportation reporting.

As of our fieldwork completion date of January 29, 2010, DE had not adjusted the District's allocations to resolve the \$6,545 underpayment to the District based on transportation errors made in the 2004-05 school year.



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:

The Honorable Tom Corbett
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The Honorable Ronald J. Tomalis
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