

LEWISBURG AREA SCHOOL DISTRICT
UNION COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2011

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

Mrs. Kathy Swope, President
Lewisburg Area School District
P.O. Box 351, Washington Avenue, Dept CO
Lewisburg, Pennsylvania 17837

Dear Governor Corbett and Mrs. Swope:

We conducted a performance audit of the Lewisburg Area School District (LASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period February 8, 2008 through June 8, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 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, 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 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

December 22, 2011

cc: **LEWISBURG 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 Lewisburg Area School District (LASD). 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 LASD in response to our prior audit recommendations.

Our audit scope covered the period February 8, 2008 through June 8, 2011, 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 2009-10, 2008-09, 2007-08, and 2006-07.

District Background

The LASD encompasses approximately 46 square miles. According to 2000 federal census data, it serves a resident population of 17,279. According to District officials, in school year 2009-10 the LASD provided basic educational services to 1,890 pupils through the employment of 159 teachers, 101 full-time and part-time support personnel, and 10 administrators. Lastly, the LASD received more than \$6.2 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the LASD 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 Control Weaknesses. Our audit found that the LASD personnel should strengthen controls over their critical 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 taken appropriate corrective action in implementing our recommendations pertaining to their bus contractor's billing errors (see page 9). However, the LASD did not implement all of our recommendations related to the board members failure to file Statement of Financial Interest forms (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 8, 2008 through June 8, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 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 LASD'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 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 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, 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 and bus driver qualifications, professional employee certification, and state ethics compliance.
- Items such as Board meeting minutes.

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 January 29, 2009, we reviewed the LASD's response to DE dated May 18, 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 Lewisburg Area School District (LASD) uses software purchased from an outside vendor, for its critical student accounting applications (membership and attendance). The LASD’s entire computer system, including all its data and the vendor’s software are maintained on a server physically located in the LASD’s middle school building. The vendor has remote access into the network server, but, only through permission and access granted by the LASD’s information technology (IT) department. The outside vendor provides the LASD with system maintenance and support.

During our review, we found the LASD had the following weaknesses, concerning vendor access to the LASD’s system:

1. Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements). Further, the LASD does not require administrative staff or teachers to sign the policy.
2. Certain weaknesses in logical access controls. We noted that the LASD’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 and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords).
3. The vendor only has access through the assistant IT coordinator but the LASD does not remove access to the system/data after completion of work even though they have the capability of doing so.

4. Certain weaknesses in environmental controls in the room that contains the server that houses the LASD's membership data. We noted that the specific location does not have (fire suppression equipment in the location).
5. Does not store data back-ups in a secure, off-site location. The LASD currently is storing all backups in the computer room with the server.

Recommendations

The *Lewisburg Area School District* should:

1. Include the Acceptable Use Policy provisions for authentication (password security and syntax requirements). They should also require that all administrative staff and teachers sign the policy to verify they have read it.
2. 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 and include alpha, numeric and special characters. Also, the LASD should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
3. Require the vendor access to system/data be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
4. Consider implementing an additional environmental control around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the LASD should (install fire extinguishers in the computer room).
5. Store back-up tapes in a secure, off-site location.

Management Response

Management provided the following response:

1. The district will require all staff members to sign the District Acceptable Use Policy.
2. We operate an Active Directory Network through PC-Based Servers that communicate with over 1500 Macintosh Computers. In order to change the passwords on Macintosh Computers, our technology staff would have to physically change the settings on every computer. This would create a very labor-intensive issue for us. We are hopeful that the newest version of our Student Management Software will alleviate this issue. In the mean time, the district agrees to change passwords at least two or three times per year, but we believe the recommendation of every 30 days is excessive under current circumstances.
3. We are able to control the remote desktop setting for our outside vendors, which enables them to connect to our network. Changing a vendor password after every connection to our system is not necessary to keep our network secure.
4. The district has placed fire extinguisher equipment in the server room.
5. The district will contract with an off-site provider for back-up of district data.

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 Lewisburg Area School District (LASD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to their bus contractor's billing errors and the second finding pertained to board members failure to file Statement of Financial Interests forms. 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 superintendent'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 implement recommendations related to their bus contractor's billing errors, however, the LASD did not implement recommendations related to the board members failure to file Statement of Financial Interests forms.

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

Finding No. 1: Bus Contractor's Billing Errors Resulted in Incorrect District Reimbursement

Finding Summary: Our prior audit of the District's pupil transportation records and reports found that the District personnel underpaid one bus contractor in the amount of \$32,446, resulting in a reimbursement underpayment of \$32,446 for the 2004-05 school year.

Recommendations: Our audit finding recommended that the LASD:

Reconcile all figures at the end of the school year and make final payment adjustments to contractors, as necessary.

We also recommend that DE should:

Adjust the District's allocations to resolve the reimbursement underpayment.

Current Status: During our current audit procedures we found that the LASD did implement the recommendations. As of our fieldwork completion date of June 8, 2011, DE had not resolved the underpayment.

Finding No. 2: Board Members Failed to File Statement of Financial Interests Forms in Violation of the Ethics Act

Finding Summary: Our prior audit of District records for calendar years ended December 31, 2006 and 2005 found that one member did not file his Statement of Financial Interests form for calendar year ended December 31, 2006 and three members did not file their Statement of Financial Interests forms for the calendar year ended December 31, 2005.

Recommendations: Our audit finding recommended that the LASD:

1. Contact the State Ethics Commission in regard to the board's responsibility when a member fails to file a Statement of Financial Interests form.
2. Develop procedures to ensure all individuals required to file Statement of Financial Interests forms do so in compliance with the Ethics Act.

Current Status: During our current audit procedures we found that the LASD did not implement the recommendations. We again recommend that the District implement our recommendations and will follow up on this issue during our next scheduled audit.

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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

