

LINE MOUNTAIN SCHOOL DISTRICT  
NORTHUMBERLAND COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2010



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

Mr. Troy Laudenslager, Board President  
Line Mountain School District  
500 West Shamokin Street  
Treverton, Pennsylvania 17830

Dear Governor Rendell and Mr. Laudenslager:

We conducted a performance audit of the Line Mountain School District (LMSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 18, 2008 through July 10, 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 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 LMSD 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 LMSD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve LMSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the LMSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 25, 2010

cc: **LINE MOUNTAIN SCHOOL DISTRICT** Board Members

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Line Mountain School District (LMSD). 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 LMSD in response to our prior audit recommendations.

Our audit scope covered the period June 18, 2008 through July 10, 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 and 2006-07.

### **District Background**

The LMSD encompasses approximately 155 square miles. According to 2000 federal census data, it serves a resident population of 8,975. According to District officials, in school year 2007-08 the LMSD provided basic educational services to 1,234 pupils through the employment of 110 teachers, 113 full-time and part-time support personnel, and 10 administrators. Lastly, the LMSD received more than \$8.8 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the LMSD 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: Continued Unmonitored IU System Access and Logical Access Control Weaknesses.** During our follow-up review of our prior audit observation pertaining to outside vendor access, we noted that the LMSD implemented 4 out of our 10 prior recommendations (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the LMSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LMSD had taken appropriate corrective action in implementing our recommendations pertaining to our finding regarding an error in reporting of transportation data to the Department of Education (see page 9). We also found that the LMSD had not taken appropriate corrective action in implementing all of our recommendations pertaining to our observation regarding unmonitored intermediate unit system access (see page 10). Finally, we found that the LMSD had taken appropriate corrective action in implementing our recommendations pertaining to our observation regarding the LMSD's failure to maintain an updated

Memorandum of Understanding  
(see page 12).



## Audit Scope, Objectives, and Methodology

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### 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 June 18, 2008 through July 10, 2009.

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

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 LMSD'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?
- ✓ 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?
- ✓ 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 take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

*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.

LMSD 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.

*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.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation and bus driver qualifications.
- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2009, we reviewed the LMSD's response to DE dated May 11, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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*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.

### Continued Unmonitored IU System Access and Logical Access Control Weaknesses

The Line Mountain School District continues to use software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU continues to have remote access into the District’s network servers.

During our prior audit, we found that the District had ten weaknesses pertaining to the CSIU’s access into the District’s system. Based on our current year procedures, we determined that a risk still exists whereas unauthorized changes to the District’s data could occur and not be detected. This stems from the District’s inability to provide supporting evidence that they are adequately monitoring all CSIU activity in their system. However, since the District still has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into an entirely paperless future with decentralized direct entry of data into their systems. Continued unmonitored CSIU 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 current follow-up review, we found the District had the following six continued weaknesses over CSIU access to the District’s system:

1. The District does not have a written information technology (IT) security policy.

2. The District does not have current 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 District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the CSIU, 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).
4. The CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
5. The District/CSIU is not using the most current version of the remote access software.
6. The District did not provide requested documentation to evidence that security features are enabled in the remote access software.

## **Recommendations**

The *Line Mountain School District* should:

1. Develop and maintain a written IT security policy and ensure that all employees are aware of this policy.
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. Implement a security policy and system parameter settings to require all users, including the CSIU, 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 District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

4. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized CSIU representatives.
5. Upgrade the remote access software to the most current version of the remote access software.
6. Provide documentation e.g., screen shots that evidence the remote access software security features are enabled.

**Management Response**

Management stated the following:

1. The District Administration will recommend the need to generate a new policy to the Board Policy Committee.
2. The District Administration will recommend the need to update the current Acceptable Use Policy to include vendor accounts with signature pages. Upon implementation of the updated policy, the Administration will require all vendors (including CSIU) to have a signed AUP on file prior to account access.
3. The District will implement the use of strong passwords, but will not implement frequent changes as this promotes users to write passwords on notes and creates more security risk.
4. The District will implement individual user accounts to vendors (including CSIU) upon completion of item #2 above.
5. The District is in the process of implementing 128-bit encryption on all access to the student information server. Upon completion of updates on all District computers, the server will be configured to only allow 128-bit connections therefore forcing all users to be using the latest software.
6. The implementation of item #5 above will also complete this item.

## Status of Prior Audit Findings and Observations

Our prior audit of the Line Mountain School District (LMSD) for the school years 2005-06 and 2004-05 resulted in one reported finding and two observations. The finding pertained to an error in reporting transportation data to the Department of Education (DE). The first observation pertained to unmonitored intermediate unit access, and the second pertained to the District not maintaining an updated Memorandum of Understanding (MOU). 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 LMSD's Superintendent's written response provided to DE, performed audit procedures, and questioned District personnel regarding the prior finding and observations. As shown below, we found that the LMSD did implement recommendations related to our finding regarding an error in reporting transportation data to DE. Also, the LMSD did not implement all of our recommendations related to our observation regarding unmonitored intermediate unit system access. Finally, the LMSD did implement our recommendations related to our observation regarding the District not maintaining an updated MOU.

<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>1. Finding : District Incorrectly Reported Transportation Data Resulting in Underpayments of \$48,848</i></u></p> <ol style="list-style-type: none"> <li>1. Ensure that District spreadsheets have correct formulas to correctly count the number of days transported and the approved daily mileage.</li> <li>2. Reconcile final reported data to DE reports to ensure the correct data has been entered for all reimbursable routes.</li> <li>3. Review subsequent years' reports and if similar errors occurred, submit revised reports to DE.</li> </ol>	<p><b><i>Background:</i></b></p> <p>Our audit of the District's contracted pupil transportation reports found discrepancies in reports submitted to the DE for the 2005-06 and 2004-05 school years.</p>	<p><b><i>Current Status:</i></b></p> <p>We followed up on the LMSD transportation reports and found that the LMSD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>However, DE had not adjusted the District's allocations to resolve the underpayments of \$48,848.</p>

<p>4. DE should adjust the Districts' allocations to resolve the reimbursement underpayments of \$48,848.</p>		
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<p><b><u>II. Observation 1:</u></b>  <b><u>Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses</u></b></p> <ol style="list-style-type: none"> <li>1. Develop and maintain a written information technology (IT) security policy and ensure that all employees are aware of this policy.</li> <li>2. Establish separate IT policies and procedures for controlling the activities of the Central Susquehanna Intermediate Unit #16 (CSIU) and have the CSIU sign this policy, or the District should require the CSIU to sign the District's Acceptable Use Policy.</li> <li>3. Implement a security policy and system parameter settings to require all users, including the CSIU, 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 District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).</li> </ol>	<p><b><u>Background:</u></b></p> <p>The LMSD uses software purchased from the CSIU for its critical student accounting applications (membership and attendance). The CSIU has remote access into the District's network servers.</p>	<p><b><u>Current Status:</u></b></p> <p>We followed up on the LMSD unmonitored system access and logical access control weaknesses and found that the LMSD <u>did not</u> take corrective action to address all of our prior audit recommendations (see page 6).</p>
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<p>4. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized CSIU representatives.</p> <p>5. Allow access to their system 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.</p> <p>6. Generate monitoring reports (including firewall logs) of CSIU 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.</p>		
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<p>7. Upgrade the remote access software to the most current version.</p> <p>8. Provide documentation e.g., screen shots that evidence the remote access software security features are enabled.</p> <p>9. Maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.</p> <p>10. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.</p>		
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<p><u>III. Observation 2:</u> <u>Memorandum of Understanding Not Updated in a Timely Manner</u></p> <p>1. Continue to review, update and re-execute the current MOU between the District and the Pennsylvania State Police.</p> <p>2. Adopt policy requiring the administration to review and re-execute the MOU every two years.</p>	<p><b>Background:</b></p> <p>Our audit of the District’s records found that the current MOU between the District and the Pennsylvania State Police signed June 23, 2004, has not been updated.</p>	<p><b>Current Status:</b></p> <p>We followed up on the LMSD MOU and found that the LMSD <u>did</u> take corrective action to address our prior audit recommendations.</p>
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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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

The Honorable Gerald Zahorchak, D.Ed.  
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

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

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