

LOYALSOCK TOWNSHIP SCHOOL DISTRICT  
LYCOMING COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 2010



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

Ms. Margaret P. Piper, Board President  
Loyalsock Township School District  
1720 Sycamore Road  
Montoursville, Pennsylvania 17754

Dear Governor Rendell and Ms. Piper:

We conducted a performance audit of the Loyalsock Township School District (LTSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 14, 2007 through December 17, 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 LTSD 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 LTSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve LTSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the LTSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

March 25, 2010

cc: **LOYALSOCK TOWNSHIP 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 Loyalsock Township School District (LTSD). 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 LTSD in response to our prior audit recommendations.

Our audit scope covered the period March 14, 2007 through December 17, 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 LTSD encompasses approximately 21 square miles. According to 2000 federal census data, it serves a resident population of 10,876. According to District officials, in school year 2007-08 the LTSD provided basic educational services to 1,430 pupils through the employment of 105 teachers, 48 full-time and part-time support personnel, and 10 administrators. Lastly, the LTSD received more than \$4.6 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the LTSD 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 IU System Access and Logical Access Control Weaknesses**

We noted that LTSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit 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 LTSD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the LTSD had taken appropriate corrective action in implementing our recommendations pertaining to certification (see page 9), transportation (see page 10), tuition and nonresident membership (see page 11) and the bus drivers' qualifications (see page 13).





## 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 March 14, 2007 through December 17, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2009 to November 12, 2009 and the prior cited individual was verified for the period February 9, 2007 to November 12, 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 LTSD'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?
- ✓ 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?

*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.

- ✓ 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?
- ✓ 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

*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.

LTSD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, and pupil membership records.
- Tuition receipts

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 4, 2008, we reviewed the LTSD's response to DE dated June 20, 2008. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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### Unmonitored IU 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 systems.

The Loyalsock Township School District uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the network servers.

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 they are adequately monitoring all CSIU 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 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 review, we found the District had the following weaknesses over CSIU’s access to the District’s system:

1. Certain weaknesses in logical access controls. We noted that the District’s system parameter settings do not lock out users after three unsuccessful access attempts.
2. Does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including CSIU and District employees). There is no evidence that the District is performing procedures in order to determine which data the CSIU

may have altered or which CSIU employees accessed their system.

**Recommendations**

The *Loyalsock Township School District* should:

1. Implement a security policy and system parameter settings to lock out users after three unsuccessful access attempts.
2. 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.

**Management Response**

Management stated the following:

**Condition 1**

Security of our network resources is paramount to the staff of the technology department. We feel that the current District access and password policies sufficiently protect District network resources at all times. It is our professional belief that implementing a user lockout policy would not increase security of our resources more than it would decrease the efficiencies of our user log in process.

Currently, we have no way of differentiating a lockout feature on both student and staff/faculty accounts. This means that *ALL* K-12 student accounts would be subjected to a lockout of network access after 3 failed attempts. For example, if a first grade student should type the wrong password three times, the student account would be locked out of the educational network for the remainder of the period. The student would then not have access to the same learning materials as his/her classmates.

We have discussed this feature at great length and strongly believe that it is not practical to impose this feature on our young students who already have difficulty memorizing a complex password. However, we will continue to monitor and evaluate all access restrictions, to include a user lockout feature, periodically throughout the school year.

### **Condition 2**

The District has implemented a system of monitoring outside access to network resources of all vendors. Our current policy for remote access requires all vendors to sign the LTSD AUP and a vendor network remote access/confidentiality agreement and provide a unique PIN to LTSD technology personnel at which time the appropriate account is enabled for a one-hour preliminary work period. If additional time is required, the technician must notify LTSD technology personnel.

As a further measure of monitoring, we have implemented a shadowing requirement where we watch the system and or servers remotely through a “GotoMeeting” session for the entire period of network access. All vendors must provide the “GotoMeeting” session link before the network account is enabled.

We feel this new process more accurately ensures the integrity of all data within the LTSD network.

### **Auditor Conclusion**

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

## Status of Prior Audit Findings and Observations

Our prior audit of the Loyalsock Township School District (LTSD) for the school years 2005-06, 2004-05, 2003-02 and 2002-03 resulted in four findings and one observation as shown in the following table. 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 LTSD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the LTSD did implement recommendations related to the certification, transportation, tuition, nonresident membership and the bus driver qualifications.

<i>School Years 2005-06, 2004-05, 2003-02 and 2002-03 Auditor General Performance Audit Report</i>		
<b>Prior Recommendations</b>	<b>Implementation Status</b>	
<p><u><i>I. Finding 1: Certification Deficiency</i></u></p> <ol style="list-style-type: none"> <li>The board should require employees to obtain proper certification prior to hiring.</li> <li>The superintendent should only assign employees to areas in which they have proper certification and ensure that all certificates are current.</li> <li>DE should adjust the District's allocations to recover the subsidy forfeitures of \$3,038.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that one administrator was employed as an instructional technology specialist for the 2005-06 and 2006-07 school years. The administrator did not hold certification for the area of assignment for three months in the 2005-06 school year and seven months in the 2006-07 school year.</p>	<p><b>Current Status:</b></p> <p>Based on the results of our current audit, we concluded that the District <u>did</u> follow our recommendations by taking appropriate corrective action to address this finding.</p> <p>DE adjusted the District's allocations in June 2008.</p>

<p><u>II. Finding 2: Pupil Transportation Reporting Errors Resulted in a Net Reimbursement Underpayment</u></p> <ol style="list-style-type: none"><li>1. Thoroughly reconcile all transportation data for accuracy prior to submission of reports to DE.</li><li>2. Strengthen controls to ensure accurate reporting of the number of nonpublic pupils transported.</li><li>3. Review the transportation data for subsequent years and, if similar errors are found, submit revised reports to DE.</li><li>4. DE should adjust the District's allocations to resolve the net reimbursement underpayment of \$5,689.</li></ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's pupil transportation reports and other related records for the 2004-05 and 2002-03 school years found that District personnel incorrectly reported the number of pupils transported, daily mileage, and the number of nonpublic pupils transported to DE, which resulted in a net reimbursement underpayment of \$5,689.</p>	<p><b>Current Status:</b></p> <p>Based on the results of our current audit, we concluded that the District <u>did</u> follow our recommendations and took appropriate corrective action to address this finding.</p> <p>As of our fieldwork completion date of December 17, 2009, DE had not adjusted the District's allocations.</p>
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<p><u>III. Finding 3: Tuition Billing Errors</u></p> <ol style="list-style-type: none"> <li>1. Implement control procedures which will provide assurance that tuition is properly billed.</li> <li>2. Send revised invoices to the districts noted to correct the billing errors.</li> <li>3. Review membership and tuition invoices for years subsequent to the years audited and, if similar errors occurred, submit revised reports and invoices, as necessary.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of tuition billings for the 2004-05, 2003-04 and 2002-03 school years found that District personnel failed to bill or incorrectly billed tuition for some of the nonresident students attending special education classes conducted at the LTSD to their districts of residence. The errors resulted in unbilled tuition of \$2,823 for 2004-05 school year, and \$6,624 for the 2003-04 school year, and overbilled tuition of \$670 for the 2002-03 school year.</p>	<p><b>Current Status:</b></p> <p>Based on the results of our current audit, we concluded that the District <u>did</u> follow our recommendations and took appropriate corrective action to address this finding.</p> <p>On March 22, 2007, the District submitted corrected invoices and payments were received in April and May of 2007.</p>
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<p><u>IV. Finding No. 4: Nonresident Membership Errors Resulted in a Net Reimbursement Underpayment</u></p> <ol style="list-style-type: none"> <li>1. Provide regular in-service training to staff responsible for recording and reporting membership. This training should emphasize the importance of maintaining accurate records and the relationship of membership data to state subsidies and reimbursements.</li> <li>2. Perform an internal review of membership reports and summaries prior to submission of final reports to DE.</li> <li>3. Review subsequent years' reports and, if errors are found, submit</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of pupil membership reports found errors in reporting nonresident membership to DE for the 2004-05, 2003-04 and 2002-03 school years. The errors resulted in a net underpayment in tuition for orphans and children placed in private homes of \$15,062.</p>	<p><b>Current Status:</b></p> <p>Based on the results of our current audit, we concluded that the District <u>did</u> follow our recommendations and took appropriate corrective action to address this finding.</p> <p>DE adjusted the District's allocations in June of 2009.</p>
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<p>revised reports to DE.</p> <p>4. DE should adjust the District's allocations to resolve both the prior audit finding and current audit finding net underpayments, in the amount of \$23,016.</p>		
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<p><u>Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <ol style="list-style-type: none"> <li>1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though they occurred beyond the five-year look-back period or were otherwise not disqualifying under state law, but which affect their suitability to have direct contact with children.</li> <li>2. Implement written policies and procedures to ensure that the District is notified when current employees are charged with or convicted of crimes that call into question their suitability to continue to have contact with children and to ensure that the District considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the personnel records for a random sample of 25 of 28 bus drivers currently employed by the LTSD found that these individuals possessed the minimum requirements to be employed as bus drivers and that the LTSD had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files that we reviewed.</p> <p>However, our review found that the District did not have written policies or procedures in place to ensure that it was notified if current employees have been charged with or convicted of criminal offenses that should be considered for the purpose of determining the individual's suitability to be in direct contact with children.</p>	<p><b>Current Status:</b></p> <p>Based on the results of our current audit, we concluded that the District <u>did</u> follow our recommendations and took appropriate corrective action to address this observation.</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:

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