

MIDD-WEST SCHOOL DISTRICT  
SNYDER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

APRIL 2009



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

Ms. Nancy Kroh, Board President  
Mid-West School District  
568 East Main Street  
Middleburg, Pennsylvania 17842

Dear Governor Rendell and Ms. Kroh:

We conducted a performance audit of the Mid-West School District (MWSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 24, 2006 through November 7, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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 MWSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. 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 MWSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MWSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MWSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

April 24, 2009

cc: **MIDD-WEST 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 Midd-West School District (MWSD). 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 MWSD in response to our prior audit recommendations.

Our audit scope covered the period October 24, 2006 through November 7, 2008, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

### **District Background**

The MWSD encompasses approximately 226 square miles. According to 2000 federal census data, it serves a resident population of 16,531. According to District officials, in school year 2005-06, the MWSD provided basic educational services to 2,375 pupils through the employment of 186 teachers, 134 full-time and part-time support personnel, and 15 administrators. Lastly, the MWSD received more than \$11.3 million in state funding in school year 2005-06.

### **Audit Conclusion and Results**

Our audit found that the MWSD 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 MWSD 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. MWSD is in agreement with this observation (see page 7).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the MWSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the MWSD had taken appropriate corrective action in implementing our recommendations pertaining to certification irregularities, errors in tuition billings, certain contracted bus drivers of the MWSD lacking clearances required to operate school buses in Pennsylvania and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 11).





## 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 October 24, 2006 through November 7, 2008, except for the verification of professional employee certification which was performed for the period July 1, 2006 to October 22, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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 MWSD'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?

*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.

- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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.

MWSD 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, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 2, 2007, we reviewed the MWSD response to DE dated September 18, 2007. 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 Midd-West 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 its data and the above vendor’s software are maintained on District servers which are physically located at the District. The CSIU has remote access into the District’s network servers. CSIU 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 they are adequately monitoring all CSIU activity in their 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. 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. 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 access to the District's system:

1. The District's Acceptable Use Policy does not include provisions for authentication (password security and 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 District does not require written authorization before adding, deleting, or changing a userID.
4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. 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 vendor, to change their passwords every 30 days and to lock out users after three unsuccessful attempts.
6. The CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
7. The District does not have evidence that 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 to determine which data the CSIU may have altered or which CSIU employees accessed their system.
8. The District does not have formal policies in place to control emergency changes to systems or programs.

## Recommendations

The *Midd-West School District* should:

1. Include provisions in the Acceptable Use Policy for the authentication (password security and syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the CSIU sign this policy, or the District should require the CSIU to sign the district's Acceptable Use Policy.
3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. 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). Also, the District should lock out users after three unsuccessful attempts.
6. 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 vendor representatives.
7. 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.
8. Establish a process for the CSIU for defining, raising, testing, documenting, assessing and authorizing

emergency changes to systems or programs that do not follow the established change process.

**Management Response**

Management agreed with the observation and stated:

The District Administration has reviewed the recommendations with the District's Network Administrator. The District intends to follow the recommendations provided by updating policy and procedures and working with the vendor on upgrading access control and monitorings.



## Status of Prior Audit Findings and Observations

Our prior audit of the Mid-West School District (MWSD) for the school years 2003-04 and 2002-03 resulted in three findings and one observation reported 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 MWSD Board'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 MWSD did implement recommendations related to certification irregularities, errors in tuition billings, certain contracted bus drivers of the District lacking clearances required to operate school buses in Pennsylvania, and internal control weaknesses in administrative policies regarding bus drivers' qualifications.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Certification Irregularities</i></u></p> <ol style="list-style-type: none"> <li>The superintendent should take the necessary action required to ensure compliance with certification irregularities.</li> <li>DE should take action to adjust the District's allocations to recover the subsidy forfeitures levied.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the MWSD's professional employees' certification for the period January 12, 2004 through June 30, 2006, found that numerous teachers were not properly certified. This resulted in the District forfeiting \$3,934.</p>	<p><b>Current Status:</b></p> <p>We followed up on the MWSD certification and found that the MWSD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>DE adjusted the District's allocations of \$3,934 as reported on May 30, 2008.</p>
<p><u><i>II. Finding 2: Errors in Tuition Billings</i></u></p> <ol style="list-style-type: none"> <li>District personnel should send new bills to all of the districts that were undercharged.</li> <li>District personnel should review tuition billings for the 2004-05 school year for accuracy and submit revised billings, if necessary.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of tuition billings for the 2003-04 and 2002-03 school years found the District used an incorrect number of membership days when calculating a daily rate for the 2003-04 school year and used an incorrect tuition rate for the 2002-03 school year. The errors resulted in undercharges of \$268 in the 2003-04 school year and undercharges of \$3,840 in the 2002-03 school year.</p>	<p><b>Current Status:</b></p> <p>We followed up on the MWSD tuition billings and found that the MWSD <u>did</u> take corrective action to address our prior audit recommendations.</p>

<p><u>III. Finding 3: Certain Contracted Bus Drivers of the District Could Not Provide Clearances Required to Operate School Buses in Pennsylvania</u></p> <p>1. The school board and District administrators should ensure that the District’s transportation coordinator reviews each driver’s qualifications prior to that person transporting students.</p>	<p><b>Background:</b></p> <p>During our prior audit, we reviewed the personnel records of a random sample of 21 of the 74 bus drivers currently employed by the District’s transportation contractors. Our review found that District personnel could not provide documentation for some of those drivers.</p>	<p><b>Current Status:</b></p> <p>We followed up on the MWSD bus driver clearances and found that the MWSD <u>did</u> take corrective action to address our prior audit recommendations.</p>
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<p><u>VI. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications</u></p> <p>1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District’s transportation contractors have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.</p> <p>2. Implement written policies and procedures to notify the District when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.</p>	<p><b>Background:</b></p> <p>Our prior audit found that neither the District nor its transportation contractors have written policies or procedures in place to notify them if their current employees have been charged with or convicted of serious criminal offenses ,which should be considered for the purpose of determining an individual’s continued suitability to be in direct contact with children.</p>	<p><b>Current Status:</b></p> <p>We followed up on the MWSD administrative policies regarding bus drivers’ qualifications and found that the MWSD <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:

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