

MIDLAND BOROUGH SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. David Vuckovich, Board President
Midland Borough School District
173 Seventh Street
Midland, Pennsylvania 15059

Dear Governor Rendell and Mr. Vuckovich:

We conducted a performance audit of the Midland Borough School District (MBSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 17, 2005 through September 11, 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, 2007, 2006 and 2005. 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 MBSD 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 MBSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MBSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MBSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 29, 2010

cc: **MIDLAND BOROUGH 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 Midland Borough School District (MBSD). 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 MBSD in response to our prior audit recommendations.

Our audit scope covered the period June 17, 2005 through September 11, 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, 2006-07, 2005-06 and 2004-05.

District Background

The MBSD encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 3,500. According to District officials, in school year 2007-08 the MBSD provided basic educational services to 382 pupils through the employment of 22 teachers, 21 full-time and part-time support personnel, and 4 administrators. Lastly, the MBSD received more than \$3.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the MBSD 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: Logical Access Control Weaknesses. MBSD uses software purchased from an outside vendor. Logical access control weaknesses could lead to unauthorized changes to the MBSD's membership information and result in the MBSD not receiving the funds to which it was entitled from the state (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the MBSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the MBSD had taken appropriate corrective action in implementing our recommendations pertaining to the failure to issue a local audit report for the 2003-04 fiscal year as of June 17, 2005 (see page 9).



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 June 17, 2005 through September 11, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 MBSD'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:

- ✓ 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.

MBSD 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 area of comparative financial information.

Our audit examined the following:

- Records pertaining to financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 23, 2006, we reviewed the MBSD's response to DE dated January 14, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

What is logical access control?

“Logical Access” control 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.

Logical Access Control Weaknesses

The Midland Borough School District uses software purchased from an outside vendor for its critical student accounting application (membership and attendance).

Based on our current year procedures, we determined that the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database.

Reliance on manual compensating controls becomes problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. 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. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
2. The District has the following weaknesses in logical access controls:
 - the District’s system parameter settings do not require all users, including the vendor, to change their passwords every 30 days;
 - the District’s system parameter settings do not require all users, including the vendor to use passwords that are a minimum length of eight characters; and
 - the District’s system parameter settings do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).

Recommendations

The *Midland Borough School District* should:

1. Include provisions for authentication (password security and syntax requirements) in the District's Acceptable Use Policy.
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);
 - to use passwords that are a minimum length of eight characters; and
 - to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

Management Response

Management stated the following:

The following items were noted as weaknesses to the District's Logical Access Control (IT) [information technology].

- District's Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements); however it does indicate that no network information shall be shared or use of another's network information shall be used. Recommendation by review asks that this language be added to policy.
- District does not require a password to be changed every 30 days: however district's current policy requires a new password annually for the new student management system (Power school). Recommendation by review asks that passwords be changed every 30 days.
- District current passwords are set at a minimum of 5 characters to include alpha, numeric and symbols. Recommendation by review asks that a minimum of 8 characters be used for passwords.

- District does not maintain a password log for terminated employees; district's IT manager . . . prohibits the maintaining of user passwords for any reason after an employee's employment is terminated regardless of reason. Recommendation by the review asks that a password log be maintained for the most recent 10 vacated employees.

The Midland Borough School District will add required language to the Acceptable Use Policy; as well as sharing recommendations with IT Manager . . . for consideration of implementation.

Auditor Clarification

Our recommendation regarding password history was not addressing terminated employees, but rather the prevention of individual users from using the same password over again.

Status of Prior Audit Findings and Observations

Our prior audit of the Midland Borough School District (MBSD) for the school years 2003-04 and 2002-03 resulted in one finding. The finding pertained to the local auditor's failure to issue its report for the 2003-04 fiscal year as of June 17, 2005. 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 superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the MBSD did implement our recommendations related to the local auditor's report.

<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>Finding: Local Audit Report Not Issued for 2003-04 Fiscal Year as of June 17, 2005</i></u></p> <ol style="list-style-type: none"> 1. Immediately meet with the local auditor and resolve all issues related to the 2003-04 fiscal year audit, so the local auditor can finalize and issue its report of finances to the District. 2. DE should review the situation and take any action it deems necessary. 	<p>Background:</p> <p>Our prior audit of the District's financial records for the 2003-04 and 2002-03 fiscal years found that no audit report had been issued by the District's local auditor for the 2003-04 school year. The accounting firm employed by the District had provided a draft of the audit report for the 2003-04 school year, but was unable to provide a completed report with an opinion since a lease agreement with a charter school was not finalized.</p>	<p>Current Status:</p> <p>Our current audit for the period July 1, 2004 to June 30, 2008, found no noncompliance issues.</p> <p>Based on our current results, we concluded the District <u>did</u> take the corrective action to address this finding.</p> <p>A letter from DE dated August 24, 2006, indicated that DE received the local auditor's report for the fiscal year ended June 30, 2004, and found that it was substantially in compliance.</p>



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:

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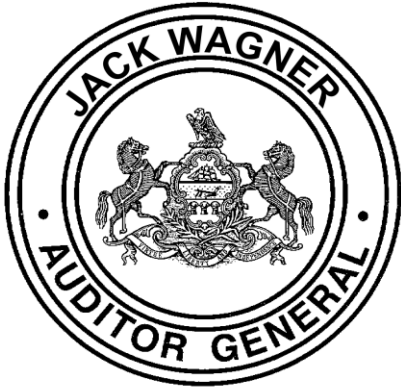
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