MILLVILLE AREA SCHOOL DISTRICT

COLUMBIA COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

APRIL 2009

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

Mr. William Berger, Board President
Millville Area School District
330 East Main Street
P.O. Box 260
Millville, Pennsylvania 17846

Dear Governor Rendell and Mr. Berger:

We conducted a performance audit of the Millville Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 23, 2006 through October 29, 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 MASD 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 MASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/
JACK WAGNER
April 23, 2009   Auditor General

cc: **MILLVILLE 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 Millville Area School District (MASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period March 23, 2006 through October 29, 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 MASD encompasses approximately 91 square miles. According to 2000 federal census data, it serves a resident population of 5,500. According to District officials, in school year 2005-06, the MASD provided basic educational services to 756 pupils through the employment of 74 teachers, 58 full-time and part-time support personnel, and 7 administrators. Lastly, the MASD received more than $5.7 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the MASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter that is unrelated to compliance that is reported as an observation.

Observation: Unmonitored IU System Access and Logical Access Control Weaknesses. We noted that the MASD should strengthen its controls over its critical student accounting applications (membership and attendance). MASD management agreed with some of our recommendations and disagreed with others (see page 7).

Status of Prior Audit Findings and Observations. There were no prior audit findings or observations for the 2003-04 and 2002-03 school years (see page 12).

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 March 23, 2006 through October 29, 2008, except for the verification of professional employee certification which was performed for the period February 15, 2006 through October 3, 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

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 MASD'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 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 findings, observations 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.

MASD 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.

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

Findings and Observations

Observation ————————————➤

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 Millville Area 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 CSIU's software are maintained on CSIU servers which are physically located at CSIU. The District has remote access into CSIU'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 include provisions for privacy (e.g., monitoring of electronic mail, access to files); access (acceptable use guidelines for users); accountability (responsibilities of users, auditing, incident handling); authentication (password security and syntax requirements); and violations/incidents (what is to be reported and to whom). However, the employees are not required to sign the policy.

2. The District does not have current information technology (IT) policies and procedures for controlling the activities of the 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 CSIU has unlimited access (24 hours a day/7 days a week) into the District's system.

6. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including CSIU and District employees). There is no evidence to support that the district is performing any procedures in order to determine which data the CSIU may have altered or which CSIU employees accessed their system.

7. The District has not enabled all security features of its remote access software. The District does not use encryption to secure the District's remote connections.

Recommendations   The *Millville Area School District* should:

1. Require the employees to sign the policy.

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. Only 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.

6. Generate monitoring reports (including firewall logs) of the 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.

7. Encrypt the District's remote connections.

Management Response

Management <u>agreed</u> with some of our recommendations and <u>disagreed</u> with others stating the following:

1. The policy does expect employees to read the regulations, sign the Acceptable Use Form, and comply with the regulations or risk loss of privileges. The forms were signed and gathered. However, they were misplace, but new ones were issued, and all employees with system access have signed the Acceptable Use Form. Samples have been provided to the auditors.

2. We believe controls are adequate for access to our information on the IU system by IU personnel. While the IU has access to Millville data on the IU server, the IU does not have access to the district system. Therefore, we do not believe it is necessary for them to sign an Acceptable Use Policy.

3. A form will be developed to be used, as needed.

4. A checklist will be developed to facilitate this process. It will include the responsible parties, as well as space for relevant notations, including dates.

5. Our Technology Director is in the process of consulting with the IU. Because the files are housed at the IU, they have access to their own equipment, not the district system. IU procedures include written approval for access to district data on IU servers.

6. Our Technology Director is working with the IU on these concerns. Because the files are housed at the IU on their systems, there are no Millville firewall logs.

7. The remote access software is encrypted based on the settings at the IU server. They encrypt the files at a level of basic encryption. We have been informed this process passed an IT audit conducted on their systems by the state.

Auditor Conclusion

Our recommendations were based on the District's answers to question on the IT internal control questionnaire. Therefore, all of our recommendations should be reviewed and the District should enact if they so desire to further protect District data that is housed on the CSIU server. Any subsequent improvements or changes in management's representations will be evaluated in the subsequent audit. The observation remains as presented.

Status of Prior Audit Findings and Observations

Our prior audit of the Millville Area School District for the 2003-04 and 2002-03 school years resulted in no findings or observations.

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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