

MOHAWK AREA SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2010

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

Mr. Eugene A. Butch, Jr., Board President
Mohawk Area School District
385 Mohawk School Road
P.O. Box 25
Bessemer, Pennsylvania 16112

Dear Governor Rendell and Mr. Butch:

We conducted a performance audit of the Mohawk Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 25, 2008 through April 15, 2010, 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 MASD 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 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
Auditor General

October 1, 2010

cc: **MOHAWK 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 Mohawk 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; and to determine the status of corrective action taken by the MASD in response to our prior audit recommendations.

Our audit scope covered the period April 25, 2008 through April 15, 2010, 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 MASD encompasses approximately 101 square miles. According to 2000 federal census data, it serves a resident population of 11,628. According to District officials, in school year 2007-08 the MASD provided basic educational services to 1,754 pupils through the employment of 126 teachers, 98 full-time and part-time support personnel, and 12 administrators. Lastly, the MASD received more than \$12.7 million in state funding in school year 2007-08.

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 unrelated to compliance that is reported as an observation.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

The MASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). We determined that a risk exists that unauthorized changes to the MASD's data could occur (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the MASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to a professional employees' certification deficiency (see page 8).



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 April 25, 2008 through April 15, 2010.

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 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 and 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 and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

- ✓ 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 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

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 findings and conclusions based on our audit objectives.

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.

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.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 22, 2009, we performed audit procedures targeting the previously reported matters.

Findings and Observations

Observation

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Mohawk Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s 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 it is adequately monitoring all vendor activity in its 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. Attendance and membership reconciliations are performed between manual reports and reports generated from the Student Accounting System.

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 vendor 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 the review, it was found that the District had the following weakness:

1. 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 use passwords that are minimum length of eight characters, to maintain a password history (i.e., approximately ten passwords), and to lock out users after three unsuccessful attempts.

2. The District does not remove the vendors' access to the system/data after the vendor has completed work on the system.
3. The District does not back-up each application before placing program changes into production.
4. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire suppression equipment.

Recommendations

The *Mohawk Area School District* should:

1. Implement a security policy and system parameter setting to require all users, including the vendor, to use passwords that are minimum length of eight characters, maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), and lock out users after three unsuccessful attempts.
2. Remove vendor access to the system/data after the vendor has completed work on the system.
3. Back-up each application before placing program changes into production.
4. Consider installing fire extinguishers in the room that houses the server.

Management Response

Management indicated it agreed with the observation, but provided no additional response.

Status of Prior Audit Findings and Observations

Our prior audit of the Mohawk Area school District (MASD) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to a certification deficiency. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the MASD did implement recommendations related to the certification deficiency.

<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>I. Finding: Certification Deficiency</i></u></p> <p>1. Put procedures in place to ensure all professional employees with provisional certificates obtain permanent certification prior to the expiration of their provisional certificates.</p> <p>2. The Department of Education (DE) should adjust the District's allocations to recover the subsidy forfeiture of \$1,704.</p>	<p>Background:</p> <p>Our prior audit of the District's professional employees' certification and assignments for the period June 1, 2005 through January 31, 2008, found that one employees' provisional certificate had lapsed.</p> <p>Information pertaining to the certificate in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), DE, for its review. BSLTQ determined the certificate had lapsed. As a result the District was subject to a subsidy forfeiture of \$1,704 for the 2006-07 school year.</p>	<p>Current Status:</p> <p>Our current audit of the District's professional employees' certification and assignments found no deficiencies. We concluded MASD did take appropriate corrective action.</p> <p>On June 1, 2009, DE withheld the subsidy forfeiture of \$1,704 from the District's basic education funding payment to resolve this finding.</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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