

MONTGOMERY AREA SCHOOL DISTRICT
LYCOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2009

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

Ms. Bonnie R. Taylor, Board President
Montgomery Area School District
120 Penn Street
Montgomery, Pennsylvania 17752

Dear Governor Rendell and Ms. Taylor:

We conducted a performance audit of the Montgomery Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 1, 2007 through May 15, 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 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
Auditor General

December 3, 2009

cc: **MONTGOMERY 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 Montgomery 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 November 1, 2007 through May 15, 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 MASD encompasses approximately 87 square miles. According to 2000 federal census data, it serves a resident population of 7,749. According to District officials, in school year 2007-08 the MASD provided basic educational services to 944 pupils through the employment of 82 teachers, 57 full-time and part-time support personnel, and 5 administrators. Lastly, the MASD received more than \$7.3 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 observation matter unrelated to compliance that is reported as an observation.

Observation: Unmonitored IU System Access and Logical Access Control Weaknesses

We noted that MASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over CSIU 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 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 nonresident membership (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 November 1, 2007 through May 15, 2009, except for the verification of professional employee certification which was performed for the period October 16, 2007 to March 17, 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 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?
- ✓ 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?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?

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 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.

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 professional employee certification and financial stability.

- Items such as Board meeting minutes and pupil membership records.

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 29, 2008. DE did not send a reply to MASD. Therefore, we performed additional audit procedures targeting the previously reported matters.

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 Montgomery Area School District uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) and BLaST Intermediate Unit #17 (BIU) for its critical student accounting applications (membership and attendance). The CSIU and BIU have 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/BIU activity in their 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/BIU 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/BIU’s 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’s Acceptable Use Policy does not include provisions for the employees to sign the policy.

3. The District does not have current information technology (IT) policies and procedures for controlling the activities of the CSIU/BIU, nor does it require the CSIU/BIU to sign the District's Acceptable Use Policy.
4. 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 maintain a password history (i.e., approximately ten passwords).
5. 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/BIU and district employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

Recommendations

The *Montgomery Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Ensure that the District's Acceptable Use Policy includes provisions that the employees should be required to sign the policy.
3. Establish separate IT policies and procedures for controlling the activities of the CSIU/BIU and have the CSIU/BIU sign this policy, or the District should require the CSIU/BIU to sign the District's Acceptable Use Policy.
4. Implement a security policy and system parameter settings to require all users, including the CSIU/BIU, to change their passwords on a regular basis (i.e., every 30 days). Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

5. Monitor reports that 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:

1. The District's Acceptable Use Policy will be modified to include provisions for employees to sign the policy.
2. Both IU 16 and IU 17 will sign the District's Acceptable Use Policy.
3. The District will implement a security policy and system parameter setting to require all users, including vendors, to change their passwords every 90 days. The District will maintain a ten password history that will prevent the use of a repetitive password.
4. All vendors will be required to request prior authorization of the Network Administrator for access to the system. The Network Administrator will then provide access and monitor the access.

Auditor's Conclusion

The Montgomery Area School District's management response addressed most of our recommendations however it failed to address the establishment of separate IT policies and procedures for controlling the activities of the CSIU/BIU and ensuring that the District's Acceptable Use Policy includes provisions for authentication. Their response also noted that they would require users to change their passwords every 90 days as opposed to our recommendation of every 30 days. Any subsequent improvements or changes in management representations will be evaluated in our subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Montgomery Area School District (MASD) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to nonresident membership. 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 nonresident membership.

<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: Nonresident Membership Reporting Errors Resulted in Reimbursement Overpayments</i></u></p> <ol style="list-style-type: none"> 1. Implement controls to help ensure the District correctly reports its membership for students attending Clear Vision as “wards of the state” educated in a detention facility. 2. Submit expenditure report to the Department of Education (DE) to determine applicable tuition rate for wards of the state educated in a detention facility. 3. Implement controls to help ensure that nonresident students who withdraw from school are removed from child accounting rolls. 4. DE should adjust the District’s allocations to resolve the errors. 	<p>Background:</p> <p>Our audit of child accounting records found that District personnel incorrectly reported data to DE, for students attending the Clear Vision Residential Treatment Services, Inc. (Clear Vision) detention facility for the 2005-06 school year. The error resulted in the reimbursement of \$18,720 being incorrectly paid to MASD. Furthermore, MASD incorrectly reported the number of membership days for a nonresident student resulting in reimbursement overpayments to the District of \$3,890 for the 2005-06 school year.</p>	<p>Current Status:</p> <p>We followed up on the MASD membership reporting and found that the MASD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>As of May 15, 2009, DE had not adjusted the District’s allocations.</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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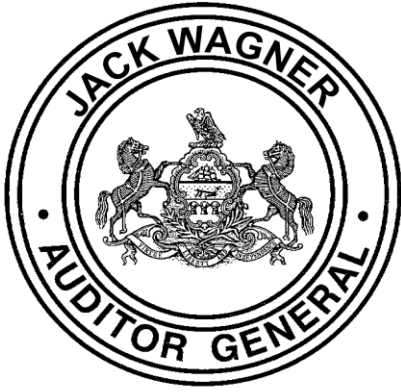
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