

MOUNT CARMEL AREA SCHOOL DISTRICT  
NORTHUMBERLAND COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2010



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

Ms. Donna James, Board President  
Mount Carmel Area School District  
600 West 5<sup>th</sup> Street  
Mount Carmel, Pennsylvania 17851

Dear Governor Rendell and Ms. James:

We conducted a performance audit of the Mount Carmel Area School District (MCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 22, 2007 through August 19, 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 MCASD 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 MCASD's management and their response is included in the audit report. We believe the implementation of our recommendations will improve MCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MCASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 26, 2010

cc: **MOUNT CARMEL AREA 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 Mount Carmel Area School District (MCASD). 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 MCASD in response to our prior audit recommendations.

Our audit scope covered the period June 22, 2007 through August 19, 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 MCASD encompasses approximately 24 square miles. According to 2000 local census data, it serves a resident population of 12,815. According to District officials, in school year 2007-08 the MCASD provided basic educational services to 1,695 pupils through the employment of 120 teachers, 136 full-time and part-time support personnel, and 4 administrators. Lastly, the MCASD received more than \$10.9 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the MCASD 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 MCASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over IU access to the student accounting application (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the MCASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the MCASD had taken appropriate corrective action in implementing our recommendations pertaining to a certification deficiency (see page 9).





## 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 June 22, 2007 through August 19, 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 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 MCASD'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?

- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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**

*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 conclusion 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.

MCASD 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.

*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.

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 and pupil transportation.

Our audit examined the following:

- Records pertaining bus driver qualifications and professional employee certification.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 6, 2007. We performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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*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 IU System Access and Logical Access Control Weaknesses

The Mount Carmel Area School District (MCASD) uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the MCASD’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the MCASD’s data could occur and not be detected because the MCASD was unable to provide supporting evidence that they are adequately monitoring all CSIU activity in their system. However, since the MCASD 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 MCASD 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 MCASD’s membership information and result in the MCASD not receiving the funds to which it was entitled from the state.

During our review, we found the MCASD had the following weaknesses over CSIU access to the District’s system:

1. 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.

2. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not lock out users after three unsuccessful access attempts.
3. The CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
4. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
5. 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 detection.

## **Recommendations**

The *Mount Carmel Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of the CSIU and have the CSIU sign this policy, or the District should require the CSIU to sign the District's Acceptable Use Policy.
2. Implement a security policy and system parameter settings to lock out users after three unsuccessful access attempts.
3. Require the CSIU to assign unique userIDs and passwords to vendor employees authorized to access the District's 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.
4. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

5. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors.

**Management Response**

Management stated the following:

1. Attached is the CSIU's "Vendor Acceptable Use Covenant" that IU employees who access the district's data are required to sign [attachment removed].
2. Security settings have been modified to lock user accounts after three invalid login attempts [attachment removed].
3. The current practice of the CSIU is to use a group login unique to each of their clients for remote access. At this time they do not have unique individual logins for remote access to any of their clients' systems.
4. Attached is the CSIU's "Version Control System Procedural Guide" which governs the testing of any software program changes and their impact on the entire Fox Pro application suite [attachment removed].
5. The district has begun the process of having a fire detector installed in the server room.

**Auditor Conclusion**

The conditions and recommendations stated above represent the information communicated to the auditor during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

## Status of Prior Audit Findings and Observations

Our prior audit of the Mount Carmel Area School District (MCASD) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to certification. 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 MCASD did implement recommendations related to certification.

<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> <ol style="list-style-type: none"> <li>The superintendent should assign employees to areas in which they have proper certification.</li> <li>The Department of Education (DE) should adjust the District's allocations to recover any subsidy forfeiture.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found one teacher was employed as a technology educator during the 2006-07 school year with a certificate that expired June 30, 2006.</p>	<p><b>Current Status:</b></p> <p>We followed up on the MCASD's certification and found the MCASD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>DE adjusted the District's allocations to recover the subsidy forfeiture on May 30, 2008, in the amount of \$1,508 from the basic education funding payment.</p>





## **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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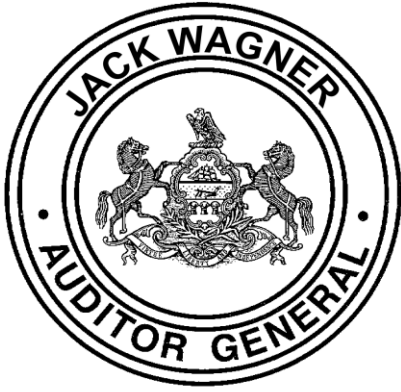
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