

NORTH SCHUYLKILL SCHOOL DISTRICT
SCHUYLKILL COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Robin Hetherington, Board President
North Schuylkill School District
15 Academy Lane, Route 61
Ashland, Pennsylvania 17921

Dear Governor Corbett and Ms. Hetherington:

We conducted a performance audit of the North Schuylkill School District (NSSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period January 2, 2007 through December 12, 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 NSSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observations and recommendations have been discussed with NSSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NSSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NSSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 21, 2011

cc: **NORTH SCHUYLKILL 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 North Schuylkill School District (NSSD). 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 January 2, 2007 through December 12, 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 NSSD encompasses approximately 72 square miles. According to 2000 federal census data, it serves a resident population of 16,685. According to District officials, in school year 2005-06 the NSSD provided basic educational services to 1,988 pupils through the employment of 126 teachers, 79 full-time and part-time support personnel, and 9 administrators. Lastly, the NSSD received more than \$10.5 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the NSSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two matters unrelated to compliance which are reported as observations.

Observation No. 1: Memorandums of Understanding Not Updated Timely. Our audit of the NSSD's records found that the current Memorandums of Understanding between the NSSD, the Butler Township and Ringtown Borough police departments were signed May 13, 2002 and September 23, 1998, respectively, and had not been updated (see page 6).

Observation No. 2: Unmonitored IU System Access and Logical Access Control Weaknesses. We noted that NSSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit access to the student accounting applications (see page 8).

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

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 January 2, 2007 through December 12, 2009, except for the verification of professional employee certification which was performed for the period December 12, 2006 to December 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

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 NSSD'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?

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.

- ✓ 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 if so, are there internal controls in place related to vendor access?

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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

NSSD 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 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 NSSD operations.

Findings and Observations

Observation No. 1

Public School Code (PSC) section and criteria relevant to this observation:

Section 1303-A(c) provides:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities. Section VI, General Provisions item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memorandums of Understanding Not Updated Timely

Our audit of the North Schuylkill School District's (NSSD) records found that the current Memorandums of Understanding (MOU) between the NSSD, the Butler Township and Ringtown Borough police departments signed May 13, 2002, and September 23, 1998, respectively, have not been updated.

The failure to update the MOUs with the Butler Township and the Ringtown Borough police departments could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

The District's failure to update the MOUs was due to the District not having a policy requiring the administration to review and re-execute the MOU every two years.

During our current audit, on December 10, 2008, District personnel and personnel of the Butler Township and Ringtown Borough police departments signed updated MOUs.

Recommendations

The *North Schuylkill School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOUs between the District, the Butler Township and Ringtown Borough police departments.

2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Management Response

Management stated the following:

The current revised and executed MOUs for Butler Township and Ringtown Borough [were provided to the auditors.] The district will also revise its school safety policy to require administration to review and re-execute the MOU every two years. Although the district did not revise and re-execute the MOUs, administration has had a very close working relationship with each police department.

Observation No. 2 →

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 NSSD uses software purchased from the Central Susquehanna Intermediate Unit #16 (IU) for its critical student accounting applications (membership and attendance). The District has remote access into the IU’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 they are adequately monitoring all IU 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 IU 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 IU access to the District’s system:

1. The District does not have a fully executed maintenance agreement on file.
2. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
3. The District does not have current information technology (IT) policies and procedures for controlling the activities of the IU, nor does it require the IU to sign the District’s Acceptable Use Policy.

4. The District was unable to provide evidence that they require written authorization for adding, deleting, or changing a userID.
5. 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.

Recommendations

The North Schuylkill School District should:

1. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file.
2. The District's Acceptable Use Policy should include provisions for authentication (password and syntax requirements).
3. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.
4. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
5. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions

Management Response

Management stated the following:

North Schuylkill would like to respond to each observation individually and explain the steps we will take to ensure compliance with the state's observation.

1. The District does not have a fully executed maintenance agreement on file.

Response: While the auditor was reviewing our files we could only find a faxed copy of the original contract. However, we have now found the original and it is in our business office for review.

2. The district's Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).

Response: While our servers require this type of authentication we do not have the policy written in our AUP. We will revise our AUP to include a strong password policy.

3. The district does not have current IT policies and procedures for controlling the activities of IU, nor does it require the IU to sign the district's Acceptable Use Policy.

Response: Currently, there can be no changes to the child accounting system, by employees of CSIU, without written authorization by the district. We will enact a policy requiring CSIU to sign our AUP.

4. The district was unable to provide evidence that they require written authorization for adding, deleting, or changing a user ID.

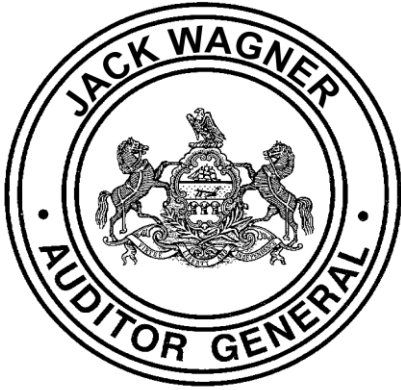
Response: The district will develop a policy and procedure to require written authorization when adding, deleting, or changing a user ID.

5. 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.

Response: The district will establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

Status of Prior Audit Findings and Observations

Our prior audit of the North Schuylkill School District resulted in no reported 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:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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