

NORTHAMPTON AREA SCHOOL DISTRICT
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. David Gogel, Board President
Northampton Area School District
2014 Laubach Avenue
Northampton, Pennsylvania 18067

Dear Governor Rendell and Mr. Gogel:

We conducted a performance audit of the Northampton Area School District (NASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period October 12, 2007 through June 18, 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 NASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, 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 finding, observation and recommendations have been discussed with NASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 13, 2010

cc: **NORTHAMPTON 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 Northampton Area School District (NASD). 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 NASD in response to our prior audit recommendations.

Our audit scope covered the period October 12, 2007 through June 18, 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 NASD encompasses approximately 97 square miles. According to 2000 federal census data, it serves a resident population of 38,251. According to District officials, in school year 2007-08 the NASD provided basic educational services to 5,754 pupils through the employment of 407 teachers, 212 full-time and part-time support personnel, and 32 administrators. Lastly, the NASD received more than \$22.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding: Continued Errors in Reporting Pupil Membership Resulted in Reimbursement Net Overpayments of \$73,808.

Our audit of pupil membership reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found errors in reporting resident, nonresident, and vocational membership data for students. These errors resulted in a net reimbursement overpayment of \$73,808 to the NASD and a subsidy underpayment of \$4,399 to the Bethlehem Area Vocational-Technical School for the 2006-07 school year (see page 6).

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

We noted that NASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the NASD had not taken appropriate corrective action in implementing our recommendations pertaining to vocational and nonresident membership (see page 13).

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 October 12, 2007 through June 18, 2009, except for the review of outside vendor access to the district's student accounting applications which was completed on May 13, 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 NASD'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:

- ✓ 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?
- ✓ 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?

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.

- ✓ 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 finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation and conclusions based on our audit objectives.

NASD 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, 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 NASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 24, 2008, we reviewed the NASD's response to DE dated February 9, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Continued Errors in Reporting Pupil Membership Resulted in Reimbursement Net Overpayments of \$73,808

Criteria relevant to the finding:

Resident, nonresident, and vocational education membership data must be maintained in accordance with DE guidelines and instructions, since they are major factors in determining the district's subsidies and reimbursements.

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2007-08 and 2006-07 school years found continued reporting errors. District personnel inaccurately reported membership for children placed in private homes for both school years. These errors resulted in reimbursement overpayments of \$61,291 and \$18,601, respectively.

Membership days for children placed in private homes were overstated, as follows:

<u>Classification</u>	<u>Days Overstated</u>	
	<u>2007-08</u>	<u>2006-07</u>
Kindergarten	-	33
Elementary	218	322
Secondary	1,147	126

We also found elementary resident days were understated by 210 for the 2007-08 school year. The reimbursement underpayment could not be determined since the applicable basic education funding (BEF) and special education funding reports are not available at this time.

The errors were due to District personnel erroneously misclassifying membership for resident students as children placed in private homes during the 2007-08 school year. Miscalculations of nonresident days reported for the 2007-08 and 2006-07 school years were clerical.

Furthermore, during the 2007-08 and 2006-07 school years, District students attended classes at the Bethlehem Area Vocational Technical School (BAVTS). Based on this data, the Commonwealth provided secondary vocational education subsidy directly to the BAVTS.

Errors in reporting vocational education membership data for the 2006-07 school year resulted in a subsidy underpayment of \$4,399 to the BAVTS.

District child accounting personnel understated membership days for students receiving vocational education at the BAVTS by 754 days for the 2006-07 school year.

There were no vocational education errors found during the audit of reports for the 2007-08 school year.

The errors in calculating vocational education membership data submitted for the 2006-07 school year also resulted in an understatement of secondary resident days totaling 2,250, resulting in a \$5,952 underpayment in BEF and \$132 in special education funding to the District.

The clerical errors in reporting vocational education days were due to the complexity of reporting average daily membership for students attending the BAVTS for a quarter of each day.

Furthermore, District personnel failed to follow our prior audit recommendation to strengthen controls to ensure adherence to DE regulations and review reports subsequent to the 2005-06 school year and submit revised reports to DE if errors were found.

DE has been provided a report detailing the errors for use in recalculating the District's subsidy.

Recommendations

The *Northampton Area School District* should:

1. Ensure data is input correctly so that the software program accurately calculates nonresident membership and other data used for pupil membership reporting.
2. Review DE instructions and compile the nonresident listing accordingly.
3. Review membership data thoroughly for residency classifications prior to submitting reports to DE.
4. Implement a system of review to ensure accurate reporting of vocational education membership data.

5. Implement a system of review to ensure subsequent years reports are correct, and if errors are found, submit revised reports to DE.

The *Department of Education* should:

6. Adjust the District's membership reports and recover the overpayments of \$61,291 and \$18,601 for the 2007-08 and 2006-07 school years, respectively.
7. Adjust the District's resident membership reports for the 2006-07 school year to resolve the subsidy underpayments of \$6,084.
8. Adjust the District's resident membership reports for the 2007-08 school year to resolve any subsidy underpayments as necessary.
9. Adjust the BAVTS's allocations to resolve the underpayment of \$4,399 to the BAVTS.

Management Response

Management stated the following:

After reviewing the continued errors in child accounting, administration is addressing all issues within the Child Accounting Department and the appropriate personnel have been made aware of the issues. A corrective action plan will be implemented for the department and administration will have an extensive review plan in place for the 2008-09 child accounting reporting process.

Observation →

Criteria relevant to the 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 Northampton Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above vendor’s software are maintained on the vendor’s servers which are physically located at the vendor’s location. The District has remote access into the vendor’s network servers. The vendor 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 vendor 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 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 our review, we found the District had the following weaknesses over vendor 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 vendors/consultants, nor does it require the vendor 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; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
5. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
6. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including vendor 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 *Northampton Area School District* should:

1. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file.
2. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
3. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.

4. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
5. Only allow access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
6. Generate monitoring reports (including firewall logs) of vendor 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.

Management Response

Management stated the following:

1. NASD has several maintenance agreements for a variety of systems and services. Our student information system is a fully hosted solution provided by K12 Systems in Allentown. It is our first venture into remotely hosted systems and the audit findings are correct. NASD technology staff is working with K12 Systems to develop and present to the board a maintenance agreement for approval.

2. The current Acceptable Use Policy is board policy number 815. The policy states on page four in the security section, “Employees and students shall not reveal their passwords to another individual.” This rather global statement encourages careful handling of passwords. We agree with the audit finding that password syntax such as password length, complexity, and change requirements are not defined in policy. An updated acceptable use policy was proposed during the March 25, 2009, Technology Steering Committee and is being presented to the school board policy committee for summer adoption. Password security and syntax shall be addressed in the updated policy.
3. The vendor will read and sign the District’s Acceptable Use Policy.
4. The District will study, develop, and implement a plan to require users to change passwords on a regular basis, enforce password length and complexity requirements. The District will also study, develop, and implement an account lockout program. The target for implementation is the start of the 2009-2010 school year.
5. Technology Services is working with K12 Systems to implement security measures whereby the District will control access to data by vendor support staff. The security measures shall include methods for monitoring access by vendor support staff.
6. Technology Services is working with K12 Systems to implement monitoring reports as outlined in the suggestion.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors 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 Northampton Area School District (NASD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to pupil membership for students attending the Bethlehem Area Vocational-Technical School (BAVTS), and the second pertained to continued errors in reporting membership for nonresident children placed in private homes. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the NASD superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the NASD did not implement recommendations related to both membership findings.

<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 1: Errors in Reporting Pupil Membership for Students Attending the Area Vocational-Technical School</i></u></p> <ol style="list-style-type: none"> 1. Implement a system of review to ensure accurate reporting of vocational education membership data. 2. Review subsequent years reports, and if errors are found, submit revised reports to DE. 3. DE should adjust the BAVTS' allocations to resolve the overpayment of \$31,790 to the BAVTS. 	<p>Background:</p> <p>Our prior audit found that pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate. Errors in reporting vocational education membership data resulted in subsidy overpayments of \$8,569 and \$23,221, respectively, to BAVTS.</p>	<p>Current Status:</p> <p>We followed up on the NASD's vocational-technical records and found that the District <u>did not</u> take appropriate corrective action to correct this finding for the 2006-07 school year (see page 6).</p> <p>District personnel correctly reported vocational-technical days for the 2007-08 school year.</p> <p>DE had not adjusted the BAVTS's allocations to resolve the \$31,790 overpayment to the BAVTS.</p>

<p><u>II. Objective 2 Finding:</u> <u>Continued Errors in Reporting Membership for Nonresident Children Placed in Private Homes Resulted in Reimbursement Under/Overpayments</u></p> <ol style="list-style-type: none"> 1. Ensure that data is input correctly so that the software program accurately calculates nonresident membership and other data used for pupil membership reporting. 2. Review DE instructions and compile the nonresident listing accordingly. 3. Review membership data thoroughly for residency classifications prior to submitting reports to DE. 4. Review reports submitted subsequent to the years audited, and submit revised reports to DE, if errors are found. 5. DE should adjust the District's membership reports and recover the net overpayment of \$26,210 for the 2005-06, 2004-05, and 2002-03 school years. 	<p>Background:</p> <p>Our prior audit found that District personnel inaccurately reported, to DE, membership for children placed in private homes for the 2004-05 and 2005-06 school years. These errors resulted in reimbursement overpayments of \$20,426 and \$12,446, respectively.</p> <p>Also, we cited in the 2002-03 audit report inaccurate reporting with nonresident membership.</p>	<p>Current Status:</p> <p>We followed up on the NASD's child accounting records and found that the District <u>did not</u> take appropriate corrective action to correct this finding (see page 6).</p> <p>DE has not adjusted the District's allocations to resolve the \$32,672 overpayment to the District.</p>
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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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