

NORTHEAST BRADFORD SCHOOL DISTRICT
BRADFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Mr. Edward O'Connor, Board President
Northeast Bradford School District
R.R. #1, Box 211B
Rome, Pennsylvania 18837

Dear Governor Rendell and Mr. O'Connor:

We conducted a performance audit of the Northeast Bradford School District (NBSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 3, 2006 through April 2, 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, 2007, 2006 and 2005. 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 NBSD 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 NBSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NBSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the NBSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

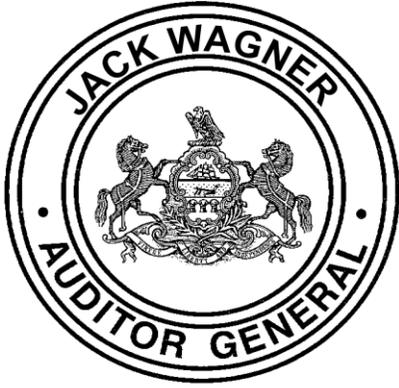
JACK WAGNER
Auditor General

November 5, 2010

cc: **NORTHEAST BRADFORD 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 Northeast Bradford School District (NBSD). 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 NBSD in response to our prior audit recommendations.

Our audit scope covered the period November 3, 2006 through April 2, 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, 2006-07, 2005-06 and 2004-05.

District Background

The NBSD encompasses approximately 169 square miles. According to 2004 local census data, it serves a resident population of 5,223. According to District officials, in school year 2007-08 the NBSD provided basic educational services to 880 pupils through the employment of 68 teachers, 47 full-time and part-time support personnel, and 7 administrators. Lastly, the NBSD received more than \$7.6 million in state funding in school year 2007-08.

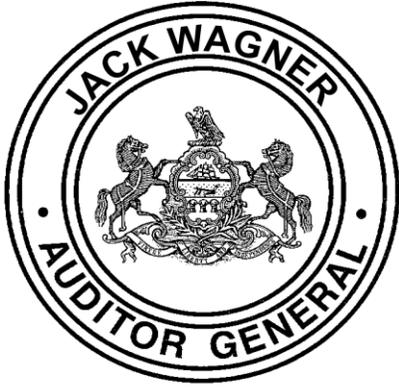
Audit Conclusion and Results

Our audit found that the NBSD 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: Certification Deficiency. Our audit found that one professional employee taught with a lapsed certificate from September 1, 2009 through January 1, 2010 (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that NBSD 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 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the NBSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the NBSD had taken appropriate corrective action in implementing our recommendations pertaining to membership (see page 12).



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 3, 2006 through April 2, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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

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 NBSD'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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ 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

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

NBSD 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, and financial stability.
- Items such as Board meeting minutes, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on September 2, 2009, we reviewed the NBSD's response DE dated January 11, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Public School Code sections relevant to the finding:

Section 1202 provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 mandates any school district that:

. . . has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio. . . .

Certification Deficiency

Our audit of professional employees' certification and assignments for the period July 1, 2008 through January 27, 2010, was performed to determine compliance with the Public School Code and the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education's (DE), Certification and Staffing Policies and Guidelines. Our audit found that one professional employee taught with a lapsed certificate from September 1, 2009 through January 1, 2010.

Information pertaining to the certificate and assignment was submitted to BSLTQ, DE, for its review. On March 19, 2010, BSLTQ confirmed the deficiency. Therefore, the District will be subject to subsidy forfeiture for the 2009-10 school year.

However, the subsidy forfeiture for the 2009-10 school year could not be computed since the aid ratio data necessary to complete the calculation was not yet available from DE. The deficiency resulted from the District's failure to adequately monitor non-permanently certified employees certificates.

Recommendations

The *Northeast Bradford School District* should:

Require the superintendent to implement a review process to ensure individuals with provisional certificates receive their permanent certificates in a timely manner.

The *Department of Education* should:

Adjust the District's allocations to recover any subsidy forfeiture deemed necessary.

Management Response

Management stated the following:

Teacher failed to apply for Level II certification in a timely manner. Upon discovering this, the District suspended the teacher from conducting classes in this content area.

Teacher has since received her Level II certification and returned to the classroom.

In the future, no teacher will be assigned a classroom without providing proof of Level II certification in the district office.

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 Northeast Bradford 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 they are adequately monitoring all vendor activity in their system. However, since the District has adequate manual compensating controls in place for most instances 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’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements);
2. 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.
3. Does not require written authorization before adding, deleting, or changing a userID.

4. Does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. 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 maintain a password history (i.e., approximately ten passwords); to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
6. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
7. 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.
8. 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 *Northeast Bradford School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. 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.
3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.

4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. 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 maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
6. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. 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.
8. 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:

1. Acceptable Use Policy (AUP) will be updated to include password requirement. Active Directory was changed in December 2009 to require password complexity and they must be changed every 60 days.

2. The District has contacted the vendor to inform them of this observation. They are working on providing a solution where each vendor employee will have a unique user-id. Currently they cannot access the application without approval from a district employee. In the interim the District will create a log to track when non-district employees have accessed our student data application.
3. The technology department will be creating procedures and forms for access management which will include additions, changes and deletions.
4. This will be addressed with the procedure on deleting employee access.
5. The technology department and business office are creating a district wide access management process which will include password requirements and separation of duties.
6. The district will review applications to determine if applicable logs exist so critical systems can be monitored to ensure no unauthorized changes were made.
7. The technology department will create a procedure to monitor data that changed and who made the changes.
8. Procedures will be created to make backups before upgrades to software and/or hardware and test before a complete rollout.

Status of Prior Audit Findings and Observations

Our prior audit of the Northeast Bradford School District (NBSD) for the school years 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to membership errors. 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 NBSD superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the NBSD did implement recommendations related to membership errors.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Membership Errors Resulted in Overpayments</i></u></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure pupil membership is reported in accordance with DE guidelines and instructions. 2. Perform an internal review of membership reports and summaries prior to submission of final reports to DE to ensure only eligible membership is reported. 3. Review membership for the subsequent school years and submit revised reports, if similar errors occurred. 4. DE should adjust the District's future allocations to recover the overpayments of \$3,668. 5. Revise the District's pupil membership and adjust the District's subsidies and reimbursements based on the resulting aid ratio changes. 	<p>Background:</p> <p>Our prior audit of the District's pupil membership reports, submitted to DE for the 2003-04 and 2002-03 school years found inaccuracies. Errors in reporting resident membership for elementary ungraded resulted in overpayments of \$3,668.</p>	<p>Current Status:</p> <p>Based on the results of our current review and discussion with District management, we concluded that the District did follow our recommendations by taking corrective action to address this finding.</p> <p>However, as of our fieldwork completion date of April 2, 2010, DE had not adjusted the District's allocations to resolve the overpayment of \$3,668 for the 2003-04 and 2002-03 school years.</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:

The Honorable Edward G. Rendell
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

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office 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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