

OLEY VALLEY SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2010

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

Mr. Robert Heckman, Board President
Oley Valley School District
17 Jefferson Street
Oley, Pennsylvania 19547

Dear Governor Rendell and Mr. Heckman:

We conducted a performance audit of the Oley Valley School District (OVSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 6, 2007 through December 4, 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, 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 OVSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the OVSD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 31, 2010

cc: **OLEY VALLEY 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 Oley Valley School District (OVSD). 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 OVSD in response to our prior audit recommendations.

Our audit scope covered the period February 6, 2007 through December 4, 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, 2006-07, 2005-06 and 2004-05.

District Background

The OVSD encompasses approximately 65 square miles. According to 2000 federal census data, it serves a resident population of 12,725. According to District officials, in school year 2007-08 the OVSD provided basic educational services to 1,991 pupils through the employment of 162 teachers, 123 full-time and part-time support personnel, and 17 administrators. Lastly, the OVSD received more than \$7.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the OVSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the OVSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the OVSD had taken appropriate corrective action in implementing our recommendations pertaining to the general fund expenditures (see page 7). The OVSD partially implemented our recommendations regarding unmonitored vendor system access and logical access control weaknesses (see page 8).



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 February 6, 2007 through December 4, 2009.

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 OVSD'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:

- ✓ 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 and if so, are there internal controls in place related to vendor access?
- ✓ 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 and conclusions based on our audit objectives.

OVSD 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.

Our audit examined the following:

- Records pertaining to financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2008, we reviewed the OVSD's response to DE dated February 18, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Oley Valley School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Oley Valley School District (OVSD) for the school years 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to general fund expenditures exceeding budgeted appropriations, and the second finding pertained to unmonitored vendor system access and logical access control weaknesses. 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 OVSD Board’s written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the OVSD did implement recommendations related to general fund expenditures exceeding budgeted appropriations. OVSD had not yet implemented all of our recommendations related to unmonitored vendor system access and logical access control weaknesses.

<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 No. 1: General Fund Expenditures Exceeded Budgeted Appropriations by \$466,885 for the Fiscal Years Ending June 30, 2005, 2004 and 2003</i></u></p> <p>1. Ensure adequate controls are in place to comply with the Public School Code and do not approve expenditures that exceed budget limits.</p>	<p>Background:</p> <p>Our prior audit of the District’s June 30, 2005, 2004 and 2003 local auditor’s report found that the budgets were over-expended a total of \$466,885 for the three years.</p>	<p>Current Status:</p> <p>Our current audit found that the District implemented our recommendations and general fund budgeted expenditures were not exceeded by actual expenditures for the 2008-09, 2006-07 and 2005-06 school years. For the 2007-08 school year, actual expenditures exceeded budgeted expenditures by \$134,658. However, subsequent to the adoption of the budget, the District received Classrooms for the Future Grant monies in excess of the over expenditure. Although not required by the Public School Code, reopening of the budget to appropriate the grant would have resulted in the budget not being over-expended.</p> <p>We recommend the District re-open its budget when unanticipated federal or state monies are received after budget adoption to avoid over-expenditure of budgeted appropriations.</p>

<p><u>II. Finding No. 2:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of Berks County Intermediate Unit #14 (BCIU), vendor and employee remote access and activity on the system. Monitoring reports should include the date, time, and reason for access, changes(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. 2. Allow remote access to the system only when BCIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when BCIU has completed its work. This procedure would also enable the monitoring of BCIU and vendor changes. 3. Perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any authorized changes within the system would 	<p>Background:</p> <p>Our prior audit found that OVSD used 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, is maintained on the BCIU's servers, which are physically located at BCIU. The District has remote access into BCIU's network servers. BCIU also provides the District with system maintenance and support.</p> <p>We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit found the District partially complied with our recommendations, as follows:</p> <ol style="list-style-type: none"> 1. Monitoring reports are generated of activity of BCIU, vendor and employee activity on the system; however, the reports were not reviewed regularly. District personnel noted they intended on reviewing access activity reports on a quarterly basis during the 2009-10 school year. 2. BCIU continues to have unlimited remote access to the District's system, and the system physically resides at the BCIU; access by BCIU to the District's data is customary. 3. The District was unable to provide documentation that reconciliations were done between computer generated reports and manual records. The District noted it would perform reconciliations between system-generated and manual membership reports beginning with the 2009-10 school year. 4. The current service agreement, dated July 27, 2009, between the District and the BCIU contains a non-disclosure agreement; however, the agreement provided for our review was not signed by a BCIU representative. 5. The BCIU has signed a letter acknowledging it is in compliance with the District's Acceptable Use
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<p>be detected in a timely manner.</p> <p>4. Include in the contract with BCIU a non-disclosure agreement for the District's proprietary information.</p> <p>5. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have BCIU and the vendor to sign this policy, or require BCIU and the vendor to sign the District's own AUP.</p> <p>6. Include in the District's AUP provisions for authentication (e.g., password security and syntax requirements); the policy should be signed by all employees.</p> <p>7. Upgrades/updates to the District's system should be made only after receipt of written authorization from appropriate District officials.</p> <p>8. Implement a security policy and system parameter settings to require all users, including BCIU and 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</p>		<p>Policy (AUP).</p> <p>6. The District's AUP does not include provisions for authentication (password security and syntax requirements). However, through the BCIU's system password security and syntax requirements have been addressed. The District's AUP requires all employees to sign the agreement.</p> <p>7. The District stated that it currently has in place a Change Advisory Board to approve change requests by the BCIU. However, no documentation was available to support that this system is in place.</p> <p>8. The District's system parameter settings require all users, including BCIU and the vendor, to change their passwords every 90 days (30 days was recommended); the District uses passwords that are at least seven characters in length (eight characters was recommended); the District is in compliance with password control including uppercase, lowercase, and numbers and/or non-alphabetic characters; the District's password history is reused to four passwords; (approximately ten passwords was recommended); the District's system logs off after a period of inactivity of 30 minutes; (60 minutes was recommended).</p> <p>The system parameter settings as stated above are acceptable.</p>
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<p>the use of a repetitive password (i.e. last ten passwords) and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p>		<p>We again recommend that OVSD:</p> <ol style="list-style-type: none">1. Ensure it is maintaining evidence that it is monitoring and reviewing reports of BCIU, vendor and employee activity on its system.2. Allow remote access to their system only when BCIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when BCIU has completed its work.3. Perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records.4. Have the current service agreement signed by a BCIU representative.5. Ensure it is maintaining evidence to support change requests approved or disapproved by the Change Advisory Board.
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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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