

PALMYRA AREA SCHOOL DISTRICT
LEBANON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Mr. George E. Downey III, Board President
Palmyra Area School District
1125 Park Drive
Palmyra, Pennsylvania 17078

Dear Governor Rendell and Mr. Downey:

We conducted a performance audit of the Palmyra Area School District (PASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period November 9, 2007 through May 5, 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 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 PASD 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 PASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PASD'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: **PALMYRA 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 Palmyra Area School District (PASD). 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 PASD in response to our prior audit recommendations.

Our audit scope covered the period November 9, 2007 through May 5, 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 and 2006-07.

District Background

The PASD encompasses approximately 40 square miles. According to 2008 local census data, it serves a resident population of 20,487. According to District officials, in school year 2007-08 the PASD provided basic educational services to 3,247 pupils through the employment of 235 teachers, 155 full-time and part-time support personnel, and 15 administrators. Lastly, the PASD received more than \$9.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the PASD 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: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses. Our follow-up review of internal controls over outside vendor/IU access into the PASD's child accounting system found five continuing weaknesses (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the PASD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found that the PASD did take appropriate corrective action in implementing our recommendations pertaining to membership (see page 10) and their Memorandum of Understanding being updated in a timely manner (see page 12). However, we found that the PASD did not take appropriate corrective action in implementing our recommendations pertaining to board members filing untimely Statements of Financial Interest forms which resulted in a verbal comment (see page 11) and their outside vendor access into the PASD's membership data which resulted in an observation (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 November 9, 2007 through May 5, 2010.

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

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 PASD'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 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?

- ✓ 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 observation and conclusions 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.

PASD's 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 pupil transportation, bus driver qualifications and state ethics compliance.
- Items such as Board meeting minutes and pupil membership records.
- Tuition receipts.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2008, we reviewed the PASD's response to DE. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

Continued Unmonitored Vendor 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 Palmyra Area School District continues to use software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District changed intermediate units which maintained the District’s entire computer system, including all its data and the above vendor’s software. The District changed from Lebanon-Lancaster Intermediate Unit #13 (LLIU) to Carbon-Lehigh Intermediate Unit #21 (CLIU). The District has remote access into CLIU’s network servers. CLIU/outside vendor also provides the District with system maintenance and support.

During our prior audit, we found that the District had five weaknesses dealing with the LLIU/outside vendor access into the District’s system. Based on our current year audit procedures, we determined that a risk still exists whereas unauthorized changes to the District’s data could occur and not be detected. This stems from the District’s inability to provide supporting evidence that they are adequately monitoring all CLIU/outside vendor activity in their system. However, since the District still 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. Continued unmonitored CLIU/outside 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 current review, we found the District had the following five weaknesses over CLIU/outside 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. The District does not have current information technology (IT) policies and procedures for controlling the activities of CLIU/vendor, nor does it require the CLIU/vendor to sign the District's Acceptable Use Policy.
3. 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 CLIU/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) and to lock out users after three unsuccessful attempts.
4. The CLIU/vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
5. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including CLIU/vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the CLIU/vendor may have altered or which CLIU/vendor employees accessed their system.

Recommendations

The *Palmyra Area 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 CLIU/vendor and have the CLIU/vendor sign this policy, or the District should require the CLIU/vendor to sign the District's Acceptable Use Policy.
3. Implement a security policy and system parameter settings to require all users, including the CLIU/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) and lock out users after three unsuccessful attempts.
4. Only allow access to their system when the CLIU/vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CLIU/vendor has completed its work. This procedure would also enable the monitoring of CLIU/vendor changes.
5. Generate monitoring reports (including firewall logs) of CLIU/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:

The Palmyra Area School District, along with a consortium of Carbon, Lehigh and Lebanon County school districts, use Carbon-Lehigh Intermediate Unit 21 as a service provider for software purchased from PowerSchool. The PowerSchool software is student information software used by 7,800 schools nationwide managing information for 3,200,000 students.

1. The district has established password criteria that meet the recommended syntax requirements.

Passwords are assigned based on those criteria and communicated to all users. The district is in the process of updating its AUP and will include password security and syntax requirements for users.

2. The Intermediate Unit has a contract with the Palmyra Area School District that establishes its fiduciary duty to protect the integrity of the data and any proprietary information. The Intermediate Unit provided a signed letter entitled “Security Agreement for Vendor Access” detailing their policies and responsibilities. A copy of this letter has been provided as part of the audit process.
3. PowerSchool is unable to support password aging as a security feature. If future upgrades in our software support this, we will institute this security feature. Passwords are assigned using the recommended syntax requirements. PowerSchool is unable to enforce the syntax requirements. The district will communicate the revised AUP to users and require them to change passwords based on the new syntax. PowerSchool is unable to support password syntax requirements and password aging as a security feature. Password history is also not a supported feature. Locking the user out of the software is a supported security feature that has been enabled.
4. Unlimited access for the Intermediate Unit and its vendor is required for adequate support of our needs. Evening and weekend use must be supported.
5. Palmyra Area School District has enabled logging features within PowerSchool. Copies of requested logs were provided during the audit process. Logging does not currently provide record of changes in child accounting and attendance data. PowerSchool is anticipating a feature in a future software release called “Attendance Monitoring” which may address this concern. When questioned as to if other districts using PowerSchool are using logs to identify attendance and accounting irregularities CLIU reiterated that they are not since this type of data is not logged.

Status of Prior Audit Findings and Observations

Our prior audit of the Palmyra Area School District (PASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in two reported findings and two observations as shown in the following table. 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 PASD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observations. As shown below, we found that the PASD did implement recommendations related to membership and their Memorandum of Understanding (MOU). However, we noted that the PASD did not implement recommendations related to their Statements of Financial Interest forms and their student accounting applications.

<i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Inaccurate Reporting of Membership Resulted in a Net Subsidy and Reimbursement Overpayment of \$220,098</i></u></p> <ol style="list-style-type: none"> 1. Establish reconciliation procedures to ensure instructional days reported on the instructional time summary agree with membership reports used to report membership days. 2. Ensure correct student data, including tracking codes, is entered into the District’s child accounting software package. 3. Establish reconciliation procedures between District membership data and Lebanon County Career and Technology Center data to ensure the correct reporting of vocational educational membership. 	<p>Background:</p> <p>Our prior audit of documentation supporting pupil membership reports submitted to DE for the 2005-06, 2004-05, 2003-04 and 2002-03 school years found errors in resident, nonresident and instructional days data. The errors resulted in a net overpayment of \$220,098.</p>	<p>Current Status:</p> <p>Our current audit of the PASD’s resident and nonresident membership, along with instructional days found that the PASD did take corrective action to address our prior audit recommendations.</p> <p>Furthermore, DE has adjusted the District’s allocations to resolve the overpayment of \$220,098.</p>

<p>4. Establish reconciliation procedures between District membership data and data reported to DE to ensure all membership is reported.</p> <p>5. Ensure the accurate reporting of membership for children placed in private homes, wards of state, children in group homes, and district-paid tuition students.</p> <p>6. Review reports for years subsequent to the audit and submit revisions to DE if errors are noted.</p>		
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<p><u>II. Finding 2: Board Members Failed to File Statements of Financial Interests According to Provisions of the Public Official and Employee Ethics Act</u></p> <p>1. Seek the advice of its solicitor in regard to the board's responsibility when an elected or former board member fails to file a Statement of Financial Interests.</p> <p>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.</p>	<p>Background:</p> <p>Our prior audit of the District's Statements of Financial Interests for the years ended December 31, 2006, 2005, 2004 and 2003 found one board member failed to file her statement for 2004. Additionally, there were two board members who repeatedly filed their statements late, in 2006, 2004 and 2003. Two other board members also filed their statements late in 2006, and one other board member did so in 2003.</p>	<p>Current Status:</p> <p>Our current audit found that all Statements of Financial Interests forms were filed for the years ending December 31, 2008 and 2007. However, one board member failed to file their statement for 2007 before the May 1st deadline. A verbal comment will be issued.</p>
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<p><u>III. Observation 1:</u> <u>Memorandum of</u> <u>Understanding Not</u> <u>Updated Timely</u></p> <ol style="list-style-type: none">1. The board and school administration, in consultation with the solicitor, should review, update and re-execute the current MOUs between the District and the Palmyra Borough and South Londonderry Township police departments.2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.	<p>Background:</p> <p>Our prior audit of the District’s records found that the District had on file a properly signed MOU between the District and all three of its local law enforcement agencies (Palmyra Borough, North Londonderry Township and South Londonderry Township police departments). However, the MOUs for Palmyra Borough and South Londonderry Township had not been updated since August 26, 1996.</p>	<p>Current Status:</p> <p>Our current audit found that the PASD did implement our prior recommendations. The MOUs between the District, Palmyra Borough, North Londonderry Township and South Londonderry Township police departments are fully executed and current.</p>
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<p><u>IV. Observation 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 the Lancaster-Lebanon Intermediate Unit #13 (IU), vendor and employee remote 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. 2. Only allow remote access to their system when the IU and/or vendor need access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU and/or vendor has completed its work. This procedure would also enable the monitoring of IU and/or vendor changes. 3. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the IU and the vendor sign this policy, 	<p>Background:</p> <p>Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District’s membership and attendance data and the above vendor’s software are maintained on the IU servers which are physically located at the IU. The District has remote access into the IU’s network servers. The IU also provides the District with system maintenance and support.</p>	<p>Current Status:</p> <p>We followed up on the PASD’s student accounting applications and found that the servers containing the PASD membership information changed locations from IU to Carbon-Lehigh Intermediate Unit #21. Therefore, we completed a review and found that the District continues to have access and control weaknesses. See the observation on page 6.</p>
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<p>or the District should require the IU and the vendor to sign the District's Acceptable Use Policy.</p> <p>4. The District's Acceptable Use Policy should include provisions for authentication (e.g., password security and syntax requirements).</p> <p>5. Implement a security policy and system parameter settings to require all users, including the IU 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 the use of a repetitive password (i.e., last ten passwords) and lock out users after three unsuccessful attempts.</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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