SCHUYLKILL HAVEN AREA SCHOOL DISTRICT

SCHUYLKILL COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

OCTOBER 2011

The Honorable Tom Corbett   Mr. Scott R. Jacoby, Board President
Governor   Schuylkill Haven Area School District
Commonwealth of Pennsylvania   501 East Main Street
Harrisburg, Pennsylvania 17120   Schuylkill Haven, Pennsylvania 17972

Dear Governor Corbett and Mr. Jacoby:

We conducted a performance audit of the Schuylkill Haven Area School District (SHASD) to
determine its compliance with applicable state laws, regulations, contracts, grant requirements,
and administrative procedures. Our audit covered the period February 3, 2009 through
January 31, 2011, 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 SHASD complied, in all significant respects, with applicable state laws,
regulations, contracts, grant requirements, and administrative procedures. However, we
identified two matters unrelated to compliance that are reported as observations. A summary of
these results is presented in the Executive Summary section of the audit report.

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

                                                   Sincerely,

                                                   /s/
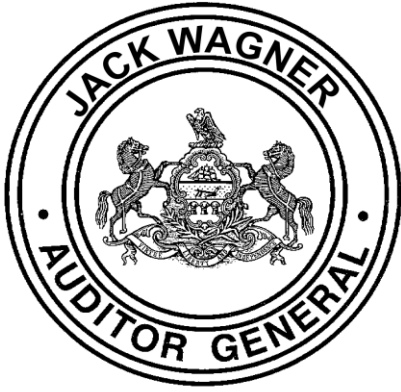   JACK WAGNER
October 11, 2011   Auditor General

cc: **SCHUYLKILL HAVEN 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 Schuylkill Haven Area School District (SHASD). 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 SHASD in response to our prior audit recommendations.

Our audit scope covered the period February 3, 2009 through January 31, 2011, 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 SHASD encompasses approximately 55 square miles. According to 2000 federal census data, it serves a resident population of 8,202. According to District officials, in school year 2007-08 the SHASD provided basic educational services to 1,443 pupils through the employment of 106 teachers, 55 full-time and part-time support personnel, and 6 administrators. Lastly, the SHASD received more than $8.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SHASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

Observation No. 1: Unmonitored IU System Access and Logical Access Control Weaknesses. We noted that SHASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over Carbon-Lehigh Intermediate Unit #21's and an outside vendor's access to their student accounting applications (see page 6).

Observation No. 2: Memorandum of Understanding Not Updated in a Timely Manner. Our audit of the SHASD's records found that the current Memorandum of Understanding between the SHASD and the local police department was signed June 29, 2007, and has not been updated (see page 9).

Status of Prior Audit Findings and Observations. We noted that the SHASD changed software vendors and server location from Central Susquehanna Intermediate Unit #16 to an outside vendor and the server location is now at Carbon-Lehigh Intermediate Unit #21. Therefore, we disregarded the information technology (IT) weaknesses from the prior audit and completed a new IT audit (see page 11).

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.

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.

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 3, 2009 through January 31, 2011.

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 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.

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 SHASD'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?

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

SHASD 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 financial stability.
- Items such as Board meeting minutes and pupil membership records

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 1, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1 ————————▶ **Unmonitored IU System Access and Logical Access Control Weaknesses**

> *What is logical access control?*
>
> "Logical access" is the ability to access computers and data via remote outside connections.
>
> "Logical access control" refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

The Schuylkill Haven Area School District (SHASD) uses software purchased from an outside vendor located on servers at the Carbon-Lehigh Intermediate Unit #21 (IU) for its critical student accounting applications (membership and attendance). The IU 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 IU activity in their system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. Membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into an entirely paperless future with decentralized direct entry of data into their systems. Unmonitored IU system access and logical access control weaknesses could lead to unauthorized changes to the District's membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over IU access to the District's system:

1. The District does not have current information technology (IT) policies and procedures for controlling the activities of the IU, nor does it require the IU to sign the District's Acceptable Use Policy.

2. The District has certain weaknesses in logical access controls. We noted that the SHASD'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) and to lock out users after three unsuccessful attempts.

3. The IU uses a group userID rather than requiring that each employee has a unique userID and password.

4. The IU has unlimited access (24 hours a day/7 days a week) into the District's system.

5. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (IU employees). There is no evidence to support that the District is performing any procedures in order to determine which data the IU may have altered or which IU employees accessed their system.

Recommendations

The *Schuylkill Haven Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of the IU and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.

2. 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) and lock out users after three unsuccessful attempts.

3. Require the IU to assign unique userIDs and passwords to the IU employees authorized to access the District system.

4. Only allow access to their system when the IU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of IU changes.

5. Generate monitoring reports (including firewall logs) of IU 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 that all items are being addressed with the IU.

Observation No. 2   ⟶

Memorandum of Understanding Not Updated in a Timely Manner

Our audit of the SHASD's records found that the current Memorandum of Understanding (MOU) between the SHASD and the local police department was signed June 29, 2007, and has not been updated.

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

During our current audit, on January 27, 2011, SHASD personnel and personnel of their local police department signed an updated MOU.

> *Public School Code section and criteria relevant to the observation:*
>
> Section 13-1303-A(c) provides:
>
> All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.
>
> Additionally, a Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:
>
> This Memorandum may be amended, expanded or modified at any time upon written consent of parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and <u>every two years thereafter</u>. (Emphasis added).

Recommendations

The *Schuylkill Haven Area School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the local police department.

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

Management Response   Management stated that a new Memorandum of
                                Understanding was created and will be signed by the
                                Borough's Chief of Police.

Status of Prior Audit Findings and Observations

O ur prior audit of the Schuylkill Haven Area School District (SHASD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to unmonitored intermediate unit system access into the SHASD child accounting system. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the servers holding the District's child accounting data changed from the Central Susquehanna IU #16 (CSIU) to Carbon-Lehigh IU #21 (CLIU). The outside vendor changed also. We determined the District continued to have access and control weaknesses at the new location resulting in a continued observation in the current audit report.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Observation:	**Unmonitored IU System Access and Logical Access Control Weaknesses**
Observation Summary:	The SHASD uses software purchased from CSIU 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 CSIU servers which are physically located at CSIU. The District has remote access into CSIU's network servers. CSIU also provides the District with system maintenance and support.
Recommendations:	Our audit observation recommended that the SHASD:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).

2. Implement a security policy and system parameter settings to require all users, including the CSIU, 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).

3. To mitigate information technology control weaknesses, the District should have formally documented procedures for entering membership and attendance information and reconciliation/rollforwards information into the system.

Current Status: During our current audit procedures, we found that the SHASD changed software vendors from CSIU to an outside vendor and the server location from CSIU to CLIU. Therefore, we completed a new review and found that the District continued to have access and control weaknesses (see Observation No. 1 on page 6).

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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