

SOLANCO SCHOOL DISTRICT
LANCASTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Daniel R. Bender, Board President
Solanco School District
121 South Hess Street
Quarryville, Pennsylvania 17566

Dear Governor Rendell and Mr. Bender:

We conducted a performance audit of the Solanco School District (SSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 1, 2007 through November 19, 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 SSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

June 2, 2011

cc: **SOLANCO 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 Solanco School District (SSD). 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 SSD in response to our prior audit recommendations.

Our audit scope covered the period November 1, 2007 through November 19, 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 SSD encompasses approximately 187 square miles. According to 2008 local census data, it serves a resident population of 30,566. According to District officials, in school year 2007-08 the SSD provided basic educational services to 3,872 pupils through the employment of 258 teachers, 246 full-time and part-time support personnel, and 18 administrators. Lastly, the SSD received more than \$16 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SSD 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 SSD, we found the SSD had taken appropriate corrective action in implementing our recommendations pertaining to conflict of interest transactions (see page 7), failure to obtain Memorandum of Understanding (see page 8), failure to file Statements of Financial Interests (see page 8), certification deficiencies (see page 9), and unmonitored vendor system access and logical access control weaknesses (see page 9).



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 1, 2007 through November 19, 2010, except for the verification of professional employee certification which was performed for the period August 28, 2007 through September 24, 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 SSD'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?
- ✓ 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 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.

SSD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 7, 2009, we reviewed the SSD's response to DE dated June 15, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

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

Status of Prior Audit Findings and Observations

Our prior audit of the Solanco School District (SSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in four reported findings and one reported observation, 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 SSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the SSD did implement recommendations related to possible conflict of interest transactions, failure to obtain Memorandum of Understanding (MOU), failure to file Statements of Financial Interests (SFI), certification deficiencies, and unmonitored vendor system access and logical access control weaknesses.

School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report

Finding No. 1: Possible Conflict of Interest Transactions

Finding Summary: Our prior audit of District records and a board member's SFI found a possible conflict of interest where it appeared that the board member may have engaged in prohibited transactions.

Recommendations: Our audit finding recommended that the SSD:

1. Strengthen controls regarding the review of SFIs to help ensure detection of any possible conflicts of interests.
2. Strengthen controls to help ensure compliance with state laws regarding board members conducting business with the District.

We also recommended that the State Ethics Commission:

3. Review and investigate this possible conflict of interest.

Current Status: Our current audit found that the District has complied with our recommendations by adopting a formal conflict of interest policy in August 2009, which includes guidance and protocol procedures. As of fieldwork completion, November 19, 2010, the District had not received a final determination from the State Ethics Commission. Therefore, we again recommend that the State Ethics Commission review and investigate this possible conflict of interest.

Finding No. 2: Failure to Obtain Memorandum of Understanding

Finding Summary: Our prior audit of the District’s records finds that the District did not have an MOU with state and local law enforcement agencies. District personnel provided only a one sentence “Letter of Assurance” that simply stated an MOU had been entered into with the state law enforcement agency; they could not provide an actual MOU detailing the procedures to be followed. No documentation of any kind existed for the local law enforcement agency.

Recommendations: Our audit finding recommended that the SSD:

1. In consultation with the District’s solicitor, obtain the required MOUs between the District and the two local enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status: Our current audit found that the District complied with our recommendations by obtaining the MOU between itself and its state and local law enforcement agencies. The District has included in its MOU a requirement that the administration review and re-execute the MOU every two years.

Finding No. 3: Board Members Failed to Failed to File Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act

Finding Summary: Our prior audit of District records finds that three former board members failed to file their SFI for the 2005 calendar year. As a result of our initial review, the superintendent’s secretary asked the former board members to submit their missing statements. Subsequently, all three former board members submitted statements for the 2005 calendar year dated July 26, 2007. Since the forms were to be filed by May 1st of the subsequent calendar year, the submission of these statements was not timely.

Recommendations: Our audit finding recommended that the SSD:

1. Seek the advice of the District’s solicitor in regard to the board’s responsibility when a board member fails to file a SFI.
2. Develop procedures to ensure that all individuals required to file SFIs do so in compliance with the Ethics Act.

Current Status: Our current audit found that the District has complied with our recommendations. For the 2009 and 2008 calendar years, all board members filed their SFI timely. In August 2009, the District developed procedures to ensure that all individuals required to file SFIs are in compliance with the Ethics Act.

Finding No. 4: Certification Deficiencies

Finding Summary: Our prior audit of professional employee's certification for the period July 28, 2004 through August 27, 2007, found that two professional employees were teaching with lapsed teaching certificates.

Recommendations: Our audit finding recommended that the SSD:

1. Ensure that all professional employees have current, valid teaching certificates.

We also recommended that DE:

2. Adjust the District's allocations to recover the appropriate subsidy forfeitures.

Current Status: Our current audit found that the District complied with our recommendations and both individuals obtained the required certification.

DE deducted \$7,078 from the District's allocations on June 25, 2008, to assess the subsidy forfeitures.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit of District's records found that the 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 of its data and the above software, are maintained on servers which are physically located at the intermediate unit (IU). The District has remote access into the IU network servers, with the IU providing system maintenance and support.

We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide supporting evidence that it was adequately monitoring all IU activity in its system.

Recommendations: Our audit observation recommended that the SSD:

1. Generate monitoring reports (including firewall logs) of the IU, vendor and employee activity on its 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. Allow remote access to the District's system only 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 work. This procedure would also enable the monitoring of IU and/or vendor changes.
3. Upgrade the remote access software to the most current version. Further, the District should encrypt the District's remote connections.
4. Exercise due professional care with important documents and maintain evidence that they have a signed and fully-executed contract with the IU. Further, the contract should contain a Maintenance Agreement and Non-Disclosure Agreement for the District's proprietary information.
5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
8. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the IU and the vendor sign this policy, or require the IU and the vendor to sign the District's Acceptable Use Policy.
9. Revise its Acceptable Use Policy to include provisions for authentication (password security and syntax requirements).
10. Implement a security policy and system parameter settings to require all users, including the IU and the vendor, to change 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).

Current Status: Our current audit found that the IU no longer maintains the District's child accounting software on their servers. Additionally, we determined that a risk that unauthorized changes to the District's data could occur and not be detected no longer exists.



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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