

SOUTHERN LEHIGH SCHOOL DISTRICT
LEHIGH COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JULY 2010

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

Mrs. Corinne Gunkle, Board President
Southern Lehigh School District
5775 Main Street
Center Valley, Pennsylvania 18034

Dear Governor Rendell and Mrs. Gunkle:

We conducted a performance audit of the Southern Lehigh School District (SLSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 27, 2007 through December 10, 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 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 SLSD 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 SLSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SLSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SLSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

July 1, 2010

cc: **SOUTHERN LEHIGH 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 Southern Lehigh School District (SLSD). 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 SLSD in response to our prior audit recommendations.

Our audit scope covered the period September 27, 2007 through December 10, 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 and 2006-07.

District Background

The SLSD encompasses approximately 45 square miles. According to 2000 federal census data, it serves a resident population of 18,138. According to District officials, in school year 2007-08 the SLSD provided basic educational services to 3,156 pupils through the employment of 195 teachers, 164 full-time and part-time support personnel, and 25 administrators. Lastly, the SLSD received more than \$9.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SLSD 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: Unmonitored IU System Access and Logical Access Control Weaknesses.

We noted that SLSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over intermediate unit access to the student accounting applications (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the SLSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SLSD had taken appropriate corrective action in implementing our recommendations pertaining to their Memorandum of Understanding (see page 10).



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 September 27, 2007 through December 10, 2009.

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

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 SLSD'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?
- ✓ 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?
- ✓ 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 conclusion 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.

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 24, 2008, we reviewed the SLSD's response to DE dated February 6, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

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 Southern Lehigh School District uses software purchased from the Carbon Lehigh Intermediate Unit #21 (IU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the IU’s servers which are physically located at the IU. The District has remote access into the IU’s network servers, with the IU providing 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 it is adequately monitoring all vendor activity in their system. However, since the District has adequate manual compensating controls in place 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 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 (AUP).
2. 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 IU, to change their passwords every 30 days; to use passwords that 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 has unlimited access (24 hours a day/7 days a week) into the District's system.
4. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including IU and District employees). There is no evidence that the District is performing procedures in order to determine which data the IU may have altered or which IU employees accessed their system.

Recommendations

The *Southern Lehigh 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 AUP.
2. Implement a security policy and system parameter settings to require all users, including the IU, to change their passwords on a regular basis (i.e., every 30 days); passwords should include alpha, numeric and special characters; 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. 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.

4. Generate monitoring reports (including firewall logs) of IU 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:

Response to Recommendation 1

The District recognizes the importance of protecting our attendance data and has established a deadline of December 21, 2009, for all IU employees with access to our Student accounting system to provide signed copies of our Acceptable Use Policy.

Response to Recommendation 2

The District is currently working on a procedure to require password credentials to include eight characters with both upper and lowercase letters as well as one special character. While we currently have our attempts limits set for eight failed attempts, we will request that the failed attempts be limited to three.

Response to Recommendation 3

The District and CLIU [has] entered into a security and confidentiality agreement for services regarding our Student Information System. Within this agreement, certain stipulations have been defined which allow for limited access to and specific use of our data, and procedures have been defined for allowing access. It is within this professional relationship that we feel comfortable our data is well protected.

Response to Recommendation 4

The District recognizes the importance of access to, and activity on our system. Consequently, the District will implement a procedure that will require the review of firewall logs and other access/activity on a bimonthly basis.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Southern Lehigh School District (SLSD) for the school years 2005-06 and 2004-05 resulted in one reported finding pertaining to their Memorandum of Understanding. 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 SLSD 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 SLSD did implement recommendations related to their Memorandum of Understanding.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding : Lack of Memorandum of Understanding</i></u></p> <ol style="list-style-type: none"> In consultation with the solicitor, continue to review, update and re-execute the current Memorandum of Understanding (MOU) between the District and the three local law enforcement agencies as required by Section 13-1303-A (c) of the Public School Code. Adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the District's records found that the District did not have a signed MOU available for audit.</p>	<p>Current Status:</p> <p>We followed up on SLSD records and found that the SLSD did take appropriate corrective action and re-executed the MOU between the District and the three local law enforcement agencies. Also, the SLSD adopted a policy requiring the administration to review and re-execute the MOU every two 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:

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