

SOUTHMORELAND SCHOOL DISTRICT
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2011

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

Mr. Sam Accipiter, Board President
Southmoreland School District
609 Parker Avenue
Scottsdale, Pennsylvania 15683

Dear Governor Corbett and Mr. Accipiter:

We conducted a performance audit of the Southmoreland School District (SSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 30, 2008 through August 30, 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. 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 SSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 21, 2011

cc: **SOUTHMORELAND 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 Southmoreland 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 October 30, 2008 through August 30, 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 43 square miles. According to 2000 federal census data, it serves a resident population of 15,639. According to District officials, in school year 2007-08 the SSD provided basic educational services to 2,146 pupils through the employment of 156 teachers, 77 full-time and part-time support personnel, and 10 administrators. Lastly, the SSD received more than \$12.6 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; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

Observation No. 1: Internal Control Weaknesses Over Remote Access to Student Accounting System.

We determined that a risk exists that unauthorized changes to the SSD's data could occur and not be detected because of logical access control weaknesses (see page 6).

Observation No. 2: Memorandum of Understanding Not Updated Timely.

The current Memorandum of Understanding with the SSD's local law enforcement agency was signed on September 4, 1998, and has not been updated (see page 8).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the SSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SSD had taken appropriate corrective action in implementing our recommendations pertaining to uncollected tuition and nonresident membership reporting errors (see page 10). The SSD did not take appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses over remote access to the student accounting system (see page 11) and updating a

Memorandum of Understanding (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 October 30, 2008 through August 30, 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:

- ✓ 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 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, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts.

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 July 29, 2009, we reviewed the SSD's response to DE dated November 19, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

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.

Internal Control Weaknesses Over Remote Access to Student Accounting System

The Southmoreland School District uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). CSIU has remote access into the District’s network servers.

Based on our current audit 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 its system. Further, the District does not have evidence to support that it performs formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have evidence that it has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, the risk of unauthorized changes is increased.

This is continuation of weaknesses that were addressed in our prior audit (see page 11).

Unmonitored 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 review, we found the District had the following weaknesses over CSIU access to the District’s system:

1. The CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
2. The District does not require written authorization before adding, deleting, or changing a userID.
3. The District does not have a written information technology (IT) security policy.

4. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire detection/fire suppression equipment.
5. The District does not require that users be locked out after a series of unsuccessful attempts.
6. The District does not store data back-ups in a secure, off-site location.

Recommendations

The *Southmoreland School District* should:

1. Require the CSIU to assign unique userIDs and passwords to its employees who are authorized to access the District system.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Develop and maintain a written IT security policy and ensure that all employees, including those of the CSIU, are aware of this policy.
4. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detection/fire suppression equipment in the computer room.
5. Require that users be locked out after three unsuccessful attempts.
6. Store back-up tapes in a secure, off-site location.
7. Implement compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner, to mitigate IT control weaknesses.

Management Response

Management waived the opportunity to reply at the time of our audit.

Observation No. 2 →

Memorandum of Understanding Not Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code 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, the Basic Educational Circular issued by the DE 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, or modified at any time upon the 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 every two years thereafter.

Our review of the District's records found that the current Memorandum of Understanding (MOU) between the District and its local law enforcement agency was signed on September 4, 1998, and has not been updated.

The District stated that it has tried to get the MOU updated, but has not been successful (see the management response below).

The failure to update the MOU with the local law enforcement agency could result in a lack of cooperation, direction, and guidance between District employees and the law enforcement agency 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.

Recommendations

The *Southmoreland School District* should:

1. Continue its efforts to review, update and re-execute the current MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

3. Resolve any issues the local borough has with the proposed MOU and emphasize to the borough the importance of having a signed, current MOU on file.

Management Response

Management stated the following:

The Southmoreland School District has attempted to enter into a memorandum of understanding with the . . . Police Department, but, to date, the Police Department has not responded. This has been an ongoing issue for several years. Most recently, on August 18, 2010, the District received correspondence from the Borough of Scottdale requesting a meeting to discuss the MOU and a school crossing guard matter. The District will continue its efforts to obtain the appropriate MOU.

Status of Prior Audit Findings and Observations

Our prior audit of the Southmoreland School District (SSD) for the school years 2005-06 and 2004-05 resulted in three reported findings and one 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 Findings Nos. 1 and 2. The SSD did not implement recommendations related to the Memorandum of Understanding (MOU), and implemented only some of the recommendations related to internal control weaknesses over remote access to the student accounting system.

<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 No. 1: Uncollected Tuition of \$7,102</i></u></p> <p>1. Implement control procedures which would provide assurances that tuition is properly billed in advance of attendance, in accordance with board policy, and collected in a timely manner.</p> <p>2. Re-bill Connellsville Area School District \$3,913 for uncollected tuition.</p>	<p>Background:</p> <p>Our prior audit of tuition billings for the 2005-06 and 2004-05 school years found that the SSD had not been paid \$7,102 for educating nonresident students during the 2005-06 school year.</p>	<p>Current Status:</p> <p>Our current audit found that SSD implemented procedures to ensure that tuition is properly billed and collected in a timely manner. The District has collected the \$3,913 from the Connellsville Area School District.</p> <p>Therefore, we have concluded that the SSD did take appropriate corrective action to address this finding.</p>
<p><u><i>II. Finding No. 2: Nonresident Membership Errors</i></u></p> <p>1. Implement procedures to ensure nonresident children placed in private homes are properly identified and their membership is accurately reported.</p>	<p>Background:</p> <p>Our prior audit of pupil membership reports submitted to DE for the 2005-06 and 2004-05 school years found errors in reporting nonresident membership. These errors resulted in a net overpayment of \$783 in Commonwealth-paid tuition for children placed in private homes.</p>	<p>Current Status:</p> <p>Our current audit found that SSD implemented procedures to ensure the correct reporting of nonresident membership. Documentation that supports classifying a student as a nonresident child placed in a private home is obtained from all foster placing agencies.</p>

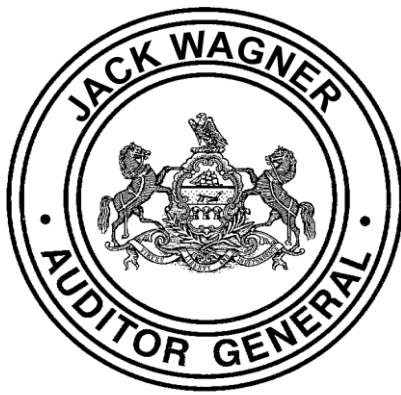
<p>2. Develop internal controls to ensure documentation that supports classifying a student as a nonresident child placed in a private home is obtained from all foster placing agencies.</p> <p>3. Review membership reports submitted to DE subsequent to the years audited and submit revised reports if errors are found. If needed, foster placing agencies should be contacted and appropriate documentation should be obtained to support the classification of nonresident students.</p> <p>4. DE should adjust the District's allocations to recover the \$783 net overpayment in tuition for children placed in private homes.</p>		<p>Therefore, we have concluded that the SSD did take appropriate corrective action to address this finding.</p> <p>As of August 30, 2010, DE had not adjusted the District's allocations to recover the \$783 net overpayment in tuition for children placed in private homes. We again recommend that DE take action to recover this overpayment.</p>
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<p><u>III. Finding No. 3:</u> <u>Internal Control</u> <u>Weaknesses Over Remote</u> <u>Access to Student</u> <u>Accounting System</u></p> <p>1. Have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner, to mitigate information technology (IT) control weaknesses.</p> <p>2. Require the Central Susquehanna Intermediate Unit #16 (CSIU) to assign unique userID's and passwords to its employees authorized to access the District's system.</p>	<p>Background:</p> <p>Our prior audit found that a risk existed that unauthorized changes to the SSD's child accounting data could occur and not be detected because the SSD 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 that SSD did not take appropriate corrective action to address all of our recommendations.</p> <p>Some recommendations were implemented (i.e., 3, 5, and part of 8). We strongly recommend the District implement the rest of our recommendations as detailed in our current observation (see page 6) to prevent unauthorized changes to critical student accounting data.</p>
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<p>3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>4. Develop policies and procedures to require written authorization when adding, deleting, or changing userIDs.</p> <p>5. Established policies and procedures to analyze the impact of proposed program changes in relation to other business critical functions.</p> <p>6. Store back-up tapes in a secure, off-site location.</p> <p>7. Develop and maintain a written IT security policy and ensure that all employees, including those of the CSIU, are aware of this policy.</p> <p>8. Implement a security policy and system parameter settings to require all users, including the CSIU, 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) and lock out users after three unsuccessful attempts.</p>		
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<p>9. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detection/fire suppression equipment in the computer room.</p>		
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<p><u>IV. Observation:</u> <u>Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"> 1. Review, update and re-execute the current MOU between the District and the local law enforcement agency. 2. 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 MOU between the District and the local law enforcement agency was signed on September 4, 1998, and had not been updated.</p>	<p>Current Status:</p> <p>Our current audit found that the MOU between the District and the local police department has not yet been updated as recommended.</p> <p>Therefore, we have concluded that the District has not yet addressed this observation. (See current audit observation, page 8.)</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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