# SUSQUENITA SCHOOL DISTRICT PERRY COUNTY, PENNSYLVANIA PERFORMANCE AUDIT REPORT

MAY 2010

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

Mr. Timothy A. Eller, Board President Susquenita School District 1725 Schoolhouse Road Duncannon, Pennsylvania 17020

Dear Governor Rendell and Mr. Eller:

We conducted a performance audit of the Susquenita School District (SSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 20, 2007 through October 22, 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, 2007, 2006 and 2005. 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 SSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

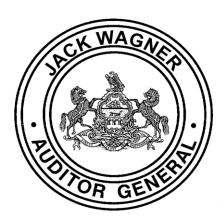
We appreciate SSD's cooperation during the conduct of the audit.

Sincerely,

/s/ JACK WAGNER Auditor General

May 4, 2010

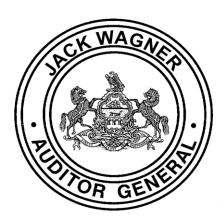
cc: SUSQUENITA SCHOOL DISTRICT Board Members



### **Table of Contents**

#### Page

Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	5
Status of Prior Audit Findings and Observations	6
Distribution List	9



## **Executive Summary**

### <u>Audit Work</u>

The Pennsylvania Department of the Auditor General conducted a performance audit of the Susquenita 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 SSD in response to our prior audit recommendations.

Our audit scope covered the period February 20, 2007 through October 22, 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, 2006-07, 2005-06 and 2004-05.

#### **District Background**

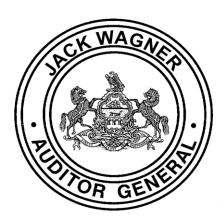
SSD encompasses approximately 87 square miles. According to a 2009 local census data, it serves a resident population of 13,634. According to District officials, in school year 2007-08 SSD provided basic educational services to 1,964 pupils through the employment of 175 teachers, 207 full-time and part-time support personnel, and 15 administrators. Lastly, SSD received more than \$12.7 million in state funding in school year 2007-08.

#### Audit Conclusion and Results

Our audit found that 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 Finding and**

**Observations**. With regard to the status of our prior audit recommendations to SSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the SSD had taken appropriate corrective action in implementing our recommendations pertaining to board members' failure to file Statements of Financial Interest (see page 6) and unmonitored vendor system access and logical access control weaknesses (see page 7).



# Audit Scope, Objectives, and Methodology

#### Scope

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.

### Objectives

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 February 20, 2007 through October 22, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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.

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 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:

- ✓ 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?

#### 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.

- ✓ 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?

*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.

Our audit examined the following:

- Records pertaining to state ethics compliance, and financial stability.
- 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 January 28, 2008, we reviewed SSD's response to DE dated April 27, 2009. We then performed additional audit procedures targeting the previously reported matters.

# **Findings and Observations**

 $\mathbf{F}^{\mathrm{or}}$  the audited period, our audit of the Susquenita School District resulted in no findings or observations.

# **Status of Prior Audit Findings and Observations**

Our prior audit of the Susquenita School District (SSD) for the school years 2003-04 and 2002-03 resulted in one reported finding and one observation. The finding pertained to board members failure to file Statements of Financial Interests, and the observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed SSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that SSD did implement recommendations related to the finding and all but one of seven recommendations related to the observation.

School Years 2003-04 and 2002-03 Auditor General Performance Audit Report				
Prior Recommendations	Implementation Status			
<u>I. Finding: Board</u> Members Failed to File	Background:	Current Status:		
Statements of Financial         Interests According to         Provisions of the Public         Official and Employee         Ethics Act.         1. Seek the advice of the         District's solicitor in	Our prior audit of the District's SFIs found that three board members failed to file their statement for the year ended December 31, 2005, and one board member failed to file his statement for the year ended December 31, 2003.	Our current audit found that the District's solicitor was contracted and suggested that the District develop procedures based on the recommendations as identified in our prior audit.		
regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests (SFI).		Beginning with the 2006 calendar year, procedures were developed to ensure that all individuals required to file SFIs do so in compliance with the Ethics Act. Our		
2. Continue to develop procedures to ensure that all individuals required to file SFIs do so in compliance with the Ethics Act.		audit of the 2008, 2007 and 2006 calendar years found that all board members filed their SFIs. However, one board member filed his SFI late for 2008 and 2007 calendar years.		

II. Observation:	Background:	Current Status:
Unmonitored Vendor		
System Access and Logical	Our prior audit found that a risk existed that	Our current audit found that:
Access Control Weaknesses	unauthorized changes to the District's data could	
	occur and not be detected because the District was	1. The District can monitor
1. Generate monitoring	unable to provide supporting evidence that it was	all action in the system.
reports (including	adequately monitoring all vendor activity in its	The monitoring report
firewall logs) of Capital	system.	identifies the date, time,
Area Intermediate	-,	amount of time logged in,
Unit #15 (CAIU),		userID and what data was
vendor and employee		accessed. However, the
remote access and		reports are only generated
activity on the system.		as needed. There is no
Monitoring reports		regularly scheduled review
should include the date,		of the monitoring reports.
time and reason for		No breeches of security or
access, change(s) made		manipulation of data have
and who made the		been noted as the manual
change(s). The District		compensating control
should review these		reports agree with the data
reports to determine that		in the system. However,
the access was		we again recommend that
appropriate and that data		the District generate and
was not improperly		review monitoring reports
altered. The District		on a regular basis.
should also ensure it is		
maintaining evidence to		2. The District's solicitor was
support this monitoring		presented with a copy of
and review.		the information technology
2. For contracts with		(IT) contract between the District and the CAIU for
2. For contracts with information technology		review and guidance.
vendors, the District's		leview and guidance.
legal counsel should		3 & 4. The District developed
consider how to protect		an employee entry/exit
the District's interests in		form for all employees at
the event that errors or		the District which
fraud occur as a result of		identifies the dates of
vendor employees		activation and termination
accessing the District's		of access to the District
data.		computer systems.
3. Maintain documentation		5. Beginning with the
to evidence that		2009-10 school year, the
terminated employees		district requires CAIU
are properly removed		employees that have access
from the system in a		to the District's data sign
timely manner.		the District's Acceptable Use Policy.
4. Develop policies and		Use roncy.
procedures to require		6 & 7. The Acceptable Use
written authorization		Policy does not include
when adding, deleting,		provisions for
or changing a userID.		authentication; however,

	4 4
5 Det 11 1 second IT	there are authentication
5. Establish separate IT	provisions that are set up
policies and procedures	by the technology
for controlling the	coordinator that all
activities of	employees must adhere to
vendors/consultants and	in order to log into the
have CAIU and the	system. These provisions
vendor sign this policy,	are
or the District should	
require the vendor sign	• history of five
this policy, or the	passwords;
District should require	pusswords,
the vendor to sign the	must change password
	• must change password
District's Acceptable	every 200 days (during
Use Policy.	summer break) and
	every 90 days when
6. The District's	school is in session;
Acceptable Use Policy	
should include	• passwords must be a
provisions for	minimum of eight
authentication (e.g.,	characters and contain
password security and	at least three of the four
syntax requirements).	required syntax (lower
synax requirements).	case, upper case,
7. Implement a security	numbers & special
policy and system	_
	symbols);
parameter settings to	
require all users,	• automatic log-off after
including the vendor, to	30 minutes of
change their passwords	inactivity; and
on a regular basis (i.e.,	
every 30 days).	<ul> <li>account lockout after</li> </ul>
Passwords should be a	nine invalid login
minimum length of eight	attempts.
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	
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).	

### **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:

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

The Honorable Gerald Zahorchak, D.Ed. Secretary of Education 1010 Harristown Building #2 333 Market Street Harrisburg, PA 17126

The Honorable Robert M. McCord State Treasurer Room 129 - Finance Building Harrisburg, PA 17120

Senator Jeffrey Piccola Chair Senate Education Committee 173 Main Capitol Building Harrisburg, PA 17120

Senator Andrew Dinniman Democratic Chair Senate Education Committee 183 Main Capitol Building Harrisburg, PA 17120

Representative James Roebuck Chair House Education Committee 208 Irvis Office Building Harrisburg, PA 17120

Representative Paul Clymer Republican Chair House Education Committee 216 Ryan Office Building Harrisburg, PA 17120 Ms. Barbara Nelson Director, Bureau of Budget and Fiscal Management Department of Education 4th Floor, 333 Market Street Harrisburg, PA 17126

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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

