

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

Audit Work

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.

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.

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.

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?

- ✓ 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.

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

For 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.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Board Members Failed to File Statements of Financial Interests According to Provisions of the Public Official and Employee Ethics Act.</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District's solicitor in regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests (SFI). 2. Continue to develop procedures to ensure that all individuals required to file SFIs do so in compliance with the Ethics Act. 	<p>Background:</p> <p>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.</p>	<p>Current Status:</p> <p>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.</p> <p>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 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.</p>

<p><u>II. Observation:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of Capital Area Intermediate Unit #15 (CAIU), vendor and employee remote access and activity on the 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. For contracts with information technology vendors, the District's legal counsel should consider how to protect the District's interests in the event that errors or fraud occur as a result of vendor employees accessing the District's data. 3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. 4. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID. 	<p>Background:</p> <p>Our prior audit found that a risk existed 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 was adequately monitoring all vendor activity in its system.</p>	<p>Current Status:</p> <p>Our current audit found that:</p> <ol style="list-style-type: none"> 1. The District can monitor all action in the system. The monitoring report identifies the date, time, amount of time logged in, userID and what data was accessed. However, the reports are only generated as needed. There is no regularly scheduled review of the monitoring reports. No breeches of security or manipulation of data have been noted as the manual compensating control reports agree with the data in the system. However, we again recommend that the District generate and review monitoring reports on a regular basis. 2. The District's solicitor was presented with a copy of the information technology (IT) contract between the District and the CAIU for review and guidance. 3 & 4. The District developed an employee entry/exit form for all employees at the District which identifies the dates of activation and termination of access to the District computer systems. 5. Beginning with the 2009-10 school year, the district requires CAIU employees that have access to the District's data sign the District's Acceptable Use Policy. 6 & 7. The Acceptable Use Policy does not include provisions for authentication; however,
--	---	---

<p>5. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have CAIU and the vendor sign this policy, or the District should require the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.</p> <p>6. The District's Acceptable Use Policy should include provisions for authentication (e.g., password security and syntax requirements).</p> <p>7. 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), lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).</p>		<p>there are authentication provisions that are set up by the technology coordinator that all employees must adhere to in order to log into the system. These provisions are</p> <ul style="list-style-type: none"> • history of five passwords; • must change password every 200 days (during summer break) and every 90 days when school is in session; • passwords must be a minimum of eight characters and contain at least three of the four required syntax (lower case, upper case, numbers & special symbols); • automatic log-off after 30 minutes of inactivity; and • account lockout after nine invalid login attempts.
---	--	---

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

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055



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.

