

BUTLER AREA SCHOOL DISTRICT
BUTLER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Ms. Linda Patten, Board President
Butler Area School District
110 Campus Lane
Butler, Pennsylvania 16001

Dear Governor Corbett and Ms. Patten:

We conducted a performance audit of the Butler Area School District (BASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 10, 2009 through July 1, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 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 BASD complied, in all significant respects, with applicable state laws, 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 BASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 31, 2012

cc: **BUTLER AREA 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 Butler Area School District (BASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BASD in response to our prior audit recommendations.

Our audit scope covered the period July 10, 2009 through July 1, 2011, 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 2009-10, 2008-09, 2007-08 and 2006-07.

District Background

The BASD encompasses approximately 148 square miles. According to 2008 local census data, it serves a resident population of 55,870. According to District officials, in school year 2009-10 the BASD provided basic educational services to 8,001 pupils through the employment of 579 teachers, 365 full-time and part-time support personnel, and 42 administrators. Lastly, the BASD received more than \$38.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the BASD complied, in all significant respects, with applicable state laws, 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 Vendor System Access and Logical Control Weaknesses. We determined that a risk exists that unauthorized changes to the BASD data could occur and not be detected because the BASD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the BASD from an audit we conducted of the 2004-05 and 2005-06 school years, we found the BASD had not taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical 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 July 10, 2009 through July 1, 2011, except for the verification of professional employee certification which was performed for the period February 1, 2009 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the BASD's compliance with applicable state laws, 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?
- ✓ 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, 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, observations and conclusions based on our audit objectives.

BASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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, professional employee certification, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2010, we reviewed the BASD's response to DE dated February 15, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

What is logical access control?

“Logical access” control is the ability to access computers and data via remote outside connections.

“Logical access control” refers to the internal control procedures used for identification, authorization, and authentication to access the computer system.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Butler Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

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 its system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

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 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 vendor access to the District’s system:

1. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.
2. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.

3. The vendor has unlimited access (24 hours a day/seven days a week) into the District's system.
4. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
5. The District does not require written authorization prior to updating/upgrading of key applications.
6. 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 equipment or a temperature controlled room.

Recommendations

The *Butler Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants, or have the vendor sign the District's Acceptable Use Policy.
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are only made by authorized vendor employees.
3. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
4. Generate monitoring reports (including firewall logs) of vendor 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 review.

5. The upgrades/updates to the District's system should be made only after receipt of written authorization from appropriate District officials.
6. The District should 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 detectors in the computer room and keep the servers in a temperature controlled room.

Management Response

Management stated the following:

The District changed vendors since our last audit and thought that the controls for access by the vendor were in place. The corrective action is already started. [The vendor] has a program that will be installed to alert the technology department when they, if at all, need to access our system. This will insure that the monitoring will take place.

Status of Prior Audit Findings and Observations

Our prior audit of the Butler Area School District (BASD) for the school years 2005-06 and 2004-05 resulted in one reported observation. 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 the BASD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the BASD did not implement recommendations related to the observation.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Observation: **Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation
Summary:

Our prior audit found the BASD used software purchased from the Midwestern Intermediate Unit #4 (MIU) for its critical student accounting applications. The District's data and the software were maintained on the MIU's servers, which were physically located at the MIU. The District had remote access into the MIU's network servers, with the MIU providing 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 unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the BASD:

1. Have the ability to access the firewall logs at the MIU to monitor the activity on the District's files.
2. Allow access to its system only when the MIU needs to make pre-approved changes/updates or requested assistance. This access should be removed when the MIU has completed its work. This procedure would also enable the monitoring of MIU changes.
3. Implement a security policy and system parameter settings to require all users, including the MIU, to use passwords that are a minimum length of eight characters and to log off the system after a period of inactivity (i.e., 60 minutes maximum).

Current Status: The District changed vendors for the 2009-10 school year and no longer utilizes the MIU for its critical student accounting applications. The risks associated with the new vendor's access to the District's system are detailed in the observation in this report (see page 6).

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 Tom Corbett
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The Honorable Ronald J. Tomalis
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