

EASTERN LEBANON COUNTY SCHOOL DISTRICT
LEBANON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

SEPTEMBER 2009

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

Ms. Donna Moyer, Board President
Eastern Lebanon County School District
180 Elco Drive
Myerstown, Pennsylvania 17067

Dear Governor Rendell and Ms. Moyer:

We conducted a performance audit of the Eastern Lebanon County School District (ELCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period December 22, 2006 through February 19, 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, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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 ELCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. In addition, 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 ELCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve ELCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the ELCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

September 2, 2009

cc: **EASTERN LEBANON COUNTY 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 Eastern Lebanon County School District (ELCSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period December 22, 2006 through February 19, 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 2004-05 and 2005-06 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The ELCSD encompasses approximately 75 square miles. According to 2000 federal census data, it serves a resident population of 17,785. According to District officials, in school year 2005-06 the ELCSD provided basic educational services to 2,442 pupils through the employment of 174 teachers, 100 full-time and part-time support personnel, and 14 administrators. Lastly, the ELCSD received more than \$7.4 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the ELCSD 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 1: Memorandum of Understanding Not Updated Timely.

Our audit of the ELCSD's records found that the current Memorandum of Understanding between the ELCSD and the Pennsylvania State Police was signed August 31, 1998, and has not been updated (see page 6).

Observation 2: Unmonitored IU System Access and Logical Access Control Weaknesses.

We noted that ELCSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor/IU access to the student accounting applications (see page 8).

Status of Prior Audit Findings and Observations.

There were no prior audit findings or observations for the school years 2003-04 and 2002-03 (see page 14).



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 December 22, 2006 through February 19, 2009, except for the verification of professional employee certification which was performed for the period November 9, 2006 through January 12, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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 ELCSD'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?

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.

- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

ELCSD 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 pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Findings and Observations

Observation No. 1

Memorandum of Understanding Not Updated Timely

Criteria relevant to this observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement that 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.

The Basic Educational Circular (BEC) issued by the Department of Education 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, expanded or modified at any time upon the written consent of the 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. (Emphasis added).

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police was signed August 31, 1998, and has not been updated.

The failure to update the MOU with the Pennsylvania State Police could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or 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.

The District's failure to update the MOU was due to the Pennsylvania State, Police not re-executing the prior MOU despite the District's continued effort.

On February 11, 2009, during our current audit, District personnel and personnel of the Pennsylvania State Police signed an updated MOU.

Recommendations

The *Eastern Lebanon County School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the Pennsylvania State Police.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

The District made repeated attempts to execute a Memorandum of Understanding with the Pennsylvania State Police to no avail until February [11], 2009. All other Memorandum of Understanding were on file and recently updated.

Observation No. 2 →

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 Eastern Lebanon County 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 network servers. Additionally, the software is located on a server that is located at and owned by the Lancaster-Lebanon Intermediate Unit #13 (IU). They also have access to the 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 they are adequately monitoring all IU activity in their system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. 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 move into an entirely paperless future with decentralized direct entry of data into their systems. 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 a fully executed maintenance agreement on file.
2. The contract with the IU did not contain a non-disclosure agreement for the District’s proprietary information.

3. The District's Acceptable Use Policy does not include provisions for violations/incidents (what is to be reported and to whom).
4. The District does not have current information technology (IT) policies and procedures for controlling the activities of IU, nor does it require the IU to sign the District's Acceptable Use Policy.
5. The District was unable to provide evidence that they require written authorization for adding, deleting, or changing a userID.
6. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
7. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
8. The IU has unlimited access (24 hours a day/7 days a week) into the District's system.
9. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including IU and district employees). There is no evidence to support that the District is performing any procedures in order to determine which data the IU may have altered or which IU employees accessed their system.
10. The District has not enabled all security features of its remote access software. The District does not use encryption to secure the District's remote connections.
11. The District does not have a list of personnel with authorized access to the area where the servers with the membership/attendance data reside.

Recommendations

The *Eastern Lebanon County School District*:

1. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file.
2. Ensure that the contract with the IU contains a non-disclosure agreement for the District's proprietary information.
3. Ensure that the District's Acceptable Use Policy includes provisions for violations/incidents (what is to be reported and to whom).
4. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.
5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
6. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
7. Implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
8. 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.

9. 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.
10. Encrypt the District's remote connections.
11. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.

Management Response

Management stated the following:

1. Acknowledged

The District is planning to contract with Carbon-Lehigh IU beginning July 1, 2009 and will request an annual agreement be executed.

2. Acknowledged

The district develops reports for the PowerSchool system as needed and does not believe a non-disclosure agreement is needed. The District has no problem with another District using the reports developed or if that district adjusts the report format. At no time did the district release reports with student information. It was and is strictly report formats.

3. Acknowledged

The District is in the process of updating its Acceptable Use Policy and will address these concerns in the revised policy.

4. Acknowledged

The District will update its policy and address these concerns accordingly.

5. Acknowledged

The District is working on developing procedures for this concern.

6. Acknowledged

The District will consider implementing this procedure but staffing limitations may prohibit it.

7. Acknowledged

The District can include the requirement in a policy but enforcement is not possible.

8. Acknowledged

The District does not have this option as we contract with the IU for the computer services and the IU holds governing authority.

9. Acknowledged

The District does have access to reports showing major changes or upgrades to the system and uses them as needed. Because PowerSchool is used by many staff members to record attendance, grades, etc., it is unreasonable to log every entry and have it reviewed.

10. Agree/Disagree

Powerschool dictates the tool to be used to access their system and it is not in the District's immediate control whether it is encrypted or not.

11. Agree/Disagree

The servers for this application reside at the IU. It is unreasonable for the District to maintain a listing of who is and is not authorized to enter the server room.

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. The observation will remain as presented.

Status of Prior Audit Findings and Observations

Our prior audit of the Eastern Lebanon County School District for the school years 2003-04 and 2002-03 resulted in no prior findings or observations.

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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