

EXETER TOWNSHIP SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Mr. Jack Linton, Board President
Exeter Township School District
3650 Perkiomen Avenue
Reading, Pennsylvania 19606

Dear Governor Rendell and Mr. Linton:

We conducted a performance audit of the Exeter Township School District (ETSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 12, 2007 through June 24, 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 ETSD complied, in all significant respects, with applicable state laws, regulations, 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 ETSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve ETSD's operations and facilitate compliance with legal and administrative. We appreciate the ETSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 9, 2010

cc: **EXETER TOWNSHIP SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses	6
Status of Prior Audit Findings and Observations	10
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Exeter Township School District (ETSD). 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 ETSD in response to our prior audit recommendations.

Our audit scope covered the period June 12, 2007 through June 24, 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 ETSD encompasses 26 square miles. According to 2000 federal census data, it serves a resident population of 22,973. According to District officials, in school year 2007-08 the ETSD provided basic educational services to 4,376 pupils through the employment of 316 teachers, 297 full-time and part-time support personnel, and 26 administrators. Lastly, the ETSD received more than \$19.4 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the ETSD complied, in all significant respects, with applicable state laws, regulations, 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 Access Control Weaknesses. We noted that ETSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to their student accounting applications (see page 6).

Status of Prior Audit Findings and Observations. There were no findings or observations in our prior audit report for school years 2005-06, 2004-05, 2003-04 and 2002-03.



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 June 12, 2007 through June 24, 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 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 ETSD'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?
- ✓ 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?
- ✓ 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 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

ETSD 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, and financial stability.
- Items such as Board meeting minutes.

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

Findings and Observations

Observation

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Exeter Township School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the vendor’s software are maintained on the vendor’s servers which are physically located at the vendor’s location. The District has remote access into the vendor’s network servers. The vendor also provides the District with system maintenance and support.

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 vendor activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

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:

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 District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days.
3. The vendor uses a group userID rather than requiring that each employee have a unique userID and password.
4. 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 *Exeter Township School District* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, and the District should require the vendor to sign the District's Acceptable Use Policy.
2. 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).
3. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
4. 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:

The district will develop procedures that require vendors who are involved with the district's student information system to review and acknowledge the district requirements for vendor acceptable use.

The district is concerned that frequent password changes could result in risky password behavior. The current policy includes a complex password using symbols, caps,

non-words, and minimum password length, as well as not being able to repeat a password.

The district will incorporate the following password directives into acceptable use policy in order to address potential weaknesses in logical access controls:

User ID/Passwords/Network Logons

1. User IDs for the network operating systems are assigned by the Office of Information Technology and must identify the user.
2. Network passwords must be complex passwords (a combination of letters and numbers and symbols) and should be changed as often as every 30 days, but must be changed every 90 days.
3. Never reveal passwords to anyone. If a password is required for an IT technician who is working on a device, change the password immediately after the work has been completed.
4. Keep written user IDs and passwords in a secure location.
5. Do not use the "Remember Password" feature of software.
6. Do not store passwords on any computer system (including PDAs or similar devices) without encryption.
7. No anonymous "guest" accounts will be allowed.
8. Users will not be allowed to create a local account on computers.

Skyward uses group account to access databases: The "SKYWARD" user will be removed from the systems with the July release, Skyward will then only work when they contact a district wide access user and request an account or iLinc to a user and work with using that user's account. The user controls will be defined in the district's vendor procedures that require vendors who are involved with the district's student information system to review and acknowledge the district requirements for vendor acceptable use.

ISCorp Complied with the district's request for an industry standardized SAS 70 (www.sas70.com) audit on their security practices as well as providing us a confidential ISCORP Operations document detailing their security.

They will not disclose the names of the employees at
ISCORP that have physical access to the NOC.

Status of Prior Audit Findings and Observations

Our prior audit of the Exeter Township School District for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in no 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:

The Honorable Edward G. Rendell
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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.

