

HAMBURG AREA SCHOOL DISTRICT  
BERKS COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2010



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

Mr. Brooke K. Adams, Board President  
Hamburg Area School District  
701 Windsor Street  
Hamburg, Pennsylvania 19526

Dear Governor Rendell and Mr. Adams:

We conducted a performance audit of the Hamburg Area School District (HASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 9, 2007 through July 1, 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 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 HASD 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 HASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve HASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the HASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

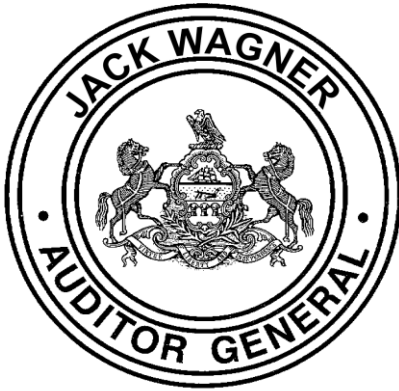
Sincerely,

/s/

JACK WAGNER  
Auditor General

January 19, 2010

cc: **HAMBURG AREA SCHOOL DISTRICT** Board Members



## **Table of Contents**

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Observation – Unmonitored IU System Access and Logical Access Control Weaknesses .....	6
Status of Prior Audit Findings and Observations .....	10
Distribution List .....	13



## **Executive Summary**

---

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Hamburg Area School District (HASD). 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 HASD in response to our prior audit recommendations.

Our audit scope covered the period March 9, 2007 through July 1, 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 and 2006-07.

### **District Background**

The HASD encompasses approximately 110 square miles. According to 2000 federal census data, it serves a resident population of 18,013. According to District officials, in school year 2007-08 the HASD provided basic educational services to 2,605 pupils through the employment of 189 teachers, 146 full-time and part-time support personnel, and 15 administrators. Lastly, the HASD received more than \$11.1 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the HASD 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 IU System Access and Logical Access Control Weaknesses.**

We noted that HASD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 6).

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

With regard to the status of our prior audit recommendations to the HASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the HASD had taken appropriate corrective action in implementing our recommendations pertaining to financial interests forms (see page 10) and health service reimbursements (see page 11).





## 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 March 9, 2007 through July 1, 2009.

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

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 HASD'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:

- ✓ In areas where the District receives state subsidy and 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 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.

HASD 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 bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, and reimbursement applications.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 17, 2007, we performed additional audit procedures targeting the previously reported matters.

## 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 IU System Access and Logical Access Control Weaknesses

The Hamburg Area School District uses software purchased through Berks County Intermediate Unit #14 (BCIU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the BCIU’s server is maintained at BCIU. The District has remote access into BCIU’s network servers. BCIU 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 for most instances 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 over vendor access to the District’s system:

1. The District’s executed contract with BCIU does not contain a non-disclosure agreement to protect local education agency’s proprietary information.

2. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
3. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users to change their passwords every 30 days.
4. The BCIU has unlimited access (24 hours a day/7 days a week) into the District's system without District control of access.
5. There is no notification procedure for when the BCIU accesses the system.
6. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including BCIU and District employees). There is no evidence that the District is performing procedures in order to determine which data the BCIU may have altered or which BCIU employees accessed their system.
7. The District does not require the BCIU to get approval from District for any program changes and/or upgrades.

## **Recommendations**

The *Hamburg Area School District* should:

1. Include a non-disclosure agreement in the new contract with BCIU which is due for renewal July 2009.
2. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
3. Implement a security policy and system parameter settings to require all users to change their passwords on a regular basis every 30 days.

4. Only allow access to their system when the BCIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the BCIU has completed its work. This procedure would also enable the monitoring of BCIU changes.
5. Set up a notification procedure with BCIU for every time they access the system so they can monitor the access.
6. Generate monitoring reports (including firewall logs) of BCIU 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.
7. The upgrades/updates to the District's system should be made only after receipt of written authorization from appropriate officials.

**Management Response**

Management stated the following:

1. The school district agrees. This will be incorporated into the new contract.
2. The district will develop and implement a policy or procedure to document removal of terminated employees in a timely manner.
3. This policy is set by the Intermediate Unit. The district will discuss this with the Intermediate Unit. However, they are in control of this.
4. The district will request proper notification from Intermediate Unit when they are accessing the system.
5. The district will request proper notification from Intermediate Unit when they are accessing the system.

6. The school district will request from the IU monitoring reports which will include date, time and reason for access or changes to data.
7. The intermediate unit is in control of the upgrades/updates to the system. The district will suggest that changes should be made only after receipt of written authorization from appropriate district official.

**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.

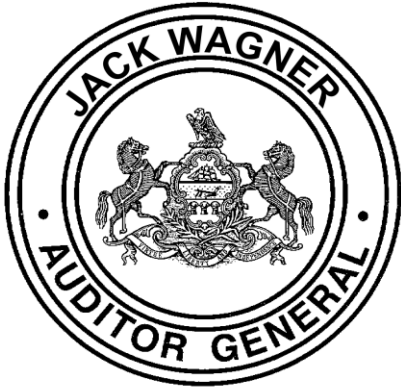
## Status of Prior Audit Findings and Observations

Our prior audit of the Hamburg Area School District (HASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to Statement of Financial Interests forms, and the second to health services reimbursements. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the HASD did implement recommendations related to Statement of Financial Interests forms and health services reimbursements.

<i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Board Members Failed to File Their Statement of Financial Interests Forms</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests.</li> <li>2. Develop and implement procedures to ensure all individuals required to file Statements of Financial Interests forms do so in compliance with the Public Official and Employee Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our audit of District records for the calendar years ended December 31, 2005, 2004 and 2003 found that three board members failed to file their Statements of Financial Interests forms for the calendar year ended December 31, 2005. Furthermore, three board members failed to file their Statements of Financial Interests forms for the calendar year ended December 31, 2003.</p>	<p><b>Current Status:</b></p> <p>We followed up the HASD's board member's Statements of Financial Interests forms for the calendar years ended December 31, 2008, 2007, and 2006 and found that the HASD <u>did</u> take corrective action to address our prior audit recommendations.</p>



<p><u>II. Finding 2: Health Services Reimbursement Net Over/Under Payments</u></p> <ol style="list-style-type: none"> <li>1. Report average daily membership (ADM) for all students for whom comprehensive health records are maintained.</li> <li>2. Perform an internal review of the membership and health services data prior to submitting reports to the Department of Health (DH).</li> <li>3. Review reports for school years subsequent to our audit period and, if similar errors are found, submit revised reports to DH.</li> <li>4. The Department of Education should adjust the District's allocations to resolve the reimbursement underpayments of \$3,908 for the 2003-04 and 2005-06 school years.</li> </ol>	<p><b>Background:</b></p> <p>Our audit of health services found errors in data reported for the 2005-06 school year. We further found that the District underreported ADM for kindergarten students for the 2003-04 school year. The errors resulted in an underpayment of \$2,444 for the 2005-06 school year and \$1,464 for the 2003-04 school year.</p>	<p><b>Current Status:</b></p> <p>We followed up the HASD's health services reimbursements application for the 2007-08 school year and found that HASD <u>did</u> take corrective action to address our prior audit recommendations.</p> <p>On June 5, 2009, HASD received the reimbursement underpayment of \$2,442 for the 2005-06 school year.</p> <p>As of our fieldwork completion date of July 3, 2009, DH had not adjusted the District's allocations to resolve the reimbursement underpayments of \$1,464 for the 2003-04 school year.</p>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------



## **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](http://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](http://www.auditorgen.state.pa.us).

