

HAMBURG AREA SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2011

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

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

Dear Governor Corbett and Ms. 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 July 1, 2009 through May 17, 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 and June 30, 2009. 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.

We appreciate the HASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

August 29, 2011

cc: **HAMBURG 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 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 July 1, 2009 through May 17, 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 and 2008-09.

District Background

The HASD encompasses approximately 103 square miles. According to 2000 local census data, it serves a resident population of 18,103. According to District officials, in school year 2009-10 the HASD provided basic educational services to 2,491 pupils through the employment of 189 teachers, 145 full-time and part-time support personnel, and 16 administrators. Lastly, the HASD received more than \$11 million in state funding in school year 2009-10.

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. We report no findings or observations in this report.

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 2007-08 and 2006-07 school years, we found the HASD had taken appropriate corrective action in implementing our recommendations pertaining to the strengthening of controls over outside vendor access to student accounting applications (see page 7).



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 1, 2009 through May 17, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ 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, 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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 January 19, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Hamburg Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Hamburg Area School District (HASD) for the school years 2007-08 and 2006-07 resulted in one reported observation. The observation pertained to the strengthening of controls over outside vendor access to student accounting applications. 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 observation. As shown below, we found that the HASD did implement recommendations related to the strengthening of controls over outside vendor access to student accounting applications.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

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

Observation Summary: 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 Berks County Intermediate Unit #14 (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:

Our audit observation recommended that the HASD:

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.

Current Status:

During our current audit procedures we found that the HASD did implement the recommendations.

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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