

KUTZTOWN AREA SCHOOL DISTRICT  
BERKS COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2010



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

Mr. Carl Ziegler, Board President  
Kutztown Area School District  
50 Trexler Avenue  
Kutztown, Pennsylvania 19530

Dear Governor Rendell and Mr. Ziegler:

We conducted a performance audit of the Kutztown Area School District (KASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 18, 2008 through August 14, 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 KASD 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 KASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve KASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the KASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 22, 2010

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

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Kutztown Area School District (KASD). 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 March 18, 2008 through August 14, 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 KASD encompasses approximately 100 square miles. According to 2000 federal census data, it serves a resident population of 16,774. According to District officials, in school year 2007-08 the KASD provided basic educational services to 1,670 pupils through the employment of 151 teachers, 139 full-time and part-time support personnel, and 15 administrators. Lastly, the KASD received more than \$3.6 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

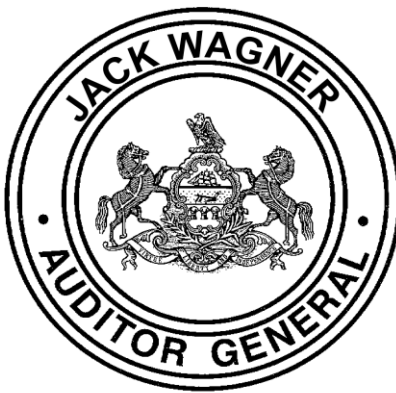
Our audit found that the KASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

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

**Weaknesses.** We noted that KASD 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.** There were no prior audit findings or observations for school years 2005-06 and 2004-05.





## Audit Scope, Objectives, and Methodology

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### 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 18, 2008 through August 14, 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

*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 KASD'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 pupil membership (e.g. basic education, special education, and vocational education), 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?

- ✓ 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 buyout, reasons for the termination/settlement, and do the current employment contracts(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?

## 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.

KASD 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to bus driver qualifications.
- Items such as Board meeting minutes, and pupil membership records.

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

## Findings and Observations

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### Observation

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*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 Kutztown Area School District uses software purchased from the Carbon Lehigh Intermediate Unit #21 (CLIU) for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the CLIU’s servers which are physically located at the CLIU. The District has remote access into the CLIU’s network servers, with the CLIU providing 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 CLIU 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 CLIU 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 Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).

2. The District does not have current information technology (IT) policies and procedures for controlling the activities of the CLIU, nor does it require the CLIU to sign the District's Acceptable Use Policy.
3. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including CLIU to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); and to lock out users after three unsuccessful attempts.
4. The CLIU has unlimited access (24 hours a day/7 days a week) into the District's system.
5. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including CLIU and district employees). There is no evidence that the District is performing procedures in order to determine which data the CLIU may have altered or which CLIU employees accessed their system.

## **Recommendations**

The *Kutztown Area School District* should:

1. Include in their Acceptable Use Policy provisions for authentication (password security and syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of the CLIU and have the CLIU sign this policy, or the District should require the CLIU to sign the District's Acceptable Use Policy.

3. Implement a security policy and system parameter settings to require all users, including the CLIU to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); and to lock out users after three unsuccessful attempts.
4. Only allow access to their system when the CLIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CLIU has completed its work. This procedure would also enable the monitoring of CLIU changes.
5. Generate monitoring reports (including firewall logs) of CLIU 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.

### **Management Response**

Management stated the following:

The District's server does authentication every time that someone logs in; therefore, we did not think that this needed to be in the AUP. CLIU has provided a copy of their privacy agreement; therefore, we do not feel that we need to have their employees sign [our] AUP. Our student management software, Power School, does not allow for the following parameters: changing passwords on a regular basis, minimum length of 8 characters, including alpha, numeric and special characters, and maintain the password history to prevent the use of a repetitive password. As for only allowing CLIU employees access when they need it and then remove them is a job that isn't an option. They have our server at their site. The privacy agreement talks to this recommendation. We are looking into the settings for locking out users after three unsuccessful access attempts. This is not being done currently because of the way our network server is using IP addresses.

**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**

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Our prior audit of the Kutztown Area School District for the school years 2005-06 and 2004-05 resulted in no findings or observations.



## Distribution List

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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  
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The Honorable Gerald Zahorchak, D.Ed.  
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Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Senator Jeffrey Piccola  
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Senator Andrew Dinniman  
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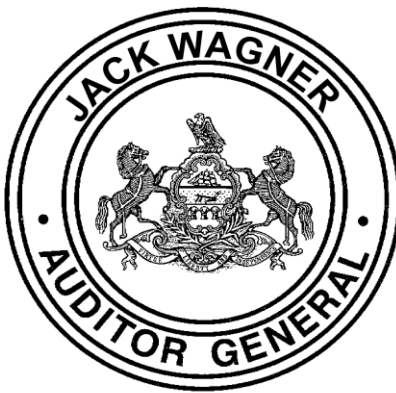
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