

MAHANoy AREA SCHOOL DISTRICT  
SCHUYLKILL COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

OCTOBER 2010



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

Mrs. Beth Bradbury, Board President  
Mahanoy Area School District  
1 Golden Bear Drive  
Mahanoy City, Pennsylvania 17948

Dear Governor Rendell and Mrs. Bradbury:

We conducted a performance audit of the Mahanoy Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 13, 2007 through April 20, 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 MASD 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 MASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

October 1, 2010

cc: **MAHANoy 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 Mahanoy Area School District (MASD). 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 MASD in response to our prior audit recommendations.

Our audit scope covered the period September 13, 2007 through April 20, 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 MASD encompasses approximately 53 square miles. According to 2000 federal census data serves a resident population of 8,939. According to District officials, in school year 2007-08 the MASD provided basic educational services to 1,122 pupils through the employment of 105 teachers, 72 full-time and part-time support personnel, and 11 administrators. Lastly, the MASD received more than \$9.2 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the MASD 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 MASD 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 MASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to the MASD's Memorandum of Understanding (see page 9).





## 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 September 13, 2007 through April 20, 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 MASD'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?
- ✓ 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.

MASD 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, 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 MASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 30, 2008, we performed additional audit procedures targeting the previously reported matters.

## 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 Vendor System Access and Logical Access Control Weaknesses

The Mahanoy Area School District uses software purchased from the Central Susquehanna Intermediate Unit #16 (IU) 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 IU’s servers which are physically located at the IU. The District has remote access into the IU’s network servers, with the IU 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 it is adequately monitoring all IU activity in its 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 over IU 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 IU, nor does it require the IU to sign the District's Acceptable Use Policy.
3. The IU uses a group userID rather than requiring that each employee has a unique userID and password.
4. The IU 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 IU and District employees). There is no evidence that the District is performing procedures in order to determine which data the IU may have altered or which IU employees accessed their system.

## **Recommendations**

The *Mahanoy Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
2. Establish separate IT policies and procedures for controlling the activities of the IU and have the IU sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy.
3. Require the IU to assign unique userIDs and passwords to IU employees authorized to access the District system. Further, the District should obtain a list of IU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
4. 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.

5. 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.

### **Management Response**

Management stated the following:

1. The District will make the change for the 2010-11 school year. The district will resubmit the policy for signature to all employees and students at the start of the school year.
2. The Mahanoy Area School District will have CSIU sign the Acceptable Use Policy.
3. The Mahanoy Area School District will contact CSIU and obtain a list of CSIU employees and their login ID's to our system. Using the security logs in CSIU the Mahanoy Area School District will view logs on a regular basis.
4. CSIU sends an email whenever it makes a change or an update to their software. If a change needs to be done specific to the Mahanoy Area School District they will fax a work order that needs to be signed before the work will be completed. I am not sure how to limit access to their servers when the servers are located in their facility.
5. CSIU has logs and auditing for the Mahanoy Area School District to access. The technology department will begin reviewing the logs weekly and store them for future reference.

## Status of Prior Audit Findings and Observations

Our prior audit of the Mahanoy Area School District (MASD) for the school years 2005-06 and 2004-05 resulted in one reported observation pertaining to their Memorandum of Understanding (MOU). 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 MASD did implement recommendations related to their MOU.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Observation: Memorandum of Understanding Not Updated Timely</i></u></p> <ol style="list-style-type: none"> <li>The District administration, in consultation with the solicitor, should continue to review, update and re-execute the current MOU between the District, the Mahanoy City Police Department and Pennsylvania State Police, Frackville Barracks.</li> <li>The board should adopt a policy requiring the administration to review and re-execute the MOU every two years.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the District's records found that the current MOU between the District, Mahanoy City Police Department and Pennsylvania State Police, Frackville Barracks, was signed June 8, 1999 and May 22, 2002, respectively, and had not been updated.</p>	<p><b>Current Status:</b></p> <p>We followed up on the MASD's records and found that the MASD did take appropriate corrective action to ensure the MOU between the MASD and the Mahanoy City Police Department and Pennsylvania State Police, Frackville Barracks was implemented and current.</p>





## **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:

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