

MONTOURSVILLE AREA SCHOOL DISTRICT
LYCOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2011

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

Mr. Robert H. Lorson, Jr., Board President
Montoursville Area School District
50 North Arch Street
Montoursville, Pennsylvania 17754

Dear Governor Corbett and Mr. Lorson:

We conducted a performance audit of the Montoursville Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period April 2, 2008 through April 12, 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 two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observations 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

March 4, 2011

cc: **MONTOURSVILLE 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 Montoursville 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 April 2, 2008 through April 12, 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 189.6 square miles. According to 2000 federal census data, it serves a resident population of 13,512. According to District officials, in school year 2007-08 the MASD provided basic educational services to 2,012 pupils through the employment of 155 teachers, 103 full-time and part-time support personnel, and 12 administrators. Lastly, the MASD received more than \$9.5 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 two matters unrelated to compliance that are reported as an observations.

Observation No. 1: Failure to Obtain the Pennsylvania State Police Signature on its Memorandum of Understanding. We noted that MASD personnel should obtain the Pennsylvania State Police signature on its Memorandum of Understanding (see page 6).

Observation No. 2: Unmonitored IU 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 intermediate unit access to their student accounting applications (see page 8).

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 their Memorandum of Understanding not being updated timely (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 April 2, 2008 through April 12, 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 (DE) 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:

- ✓ 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations 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 pupil transportation, bus driver qualifications, and financial stability.
- Items such as Board meeting minutes and pupil membership records.
- Tuition receipts.

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 29, 2009, we reviewed the MASD's response to DE dated April 15, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Failure to Obtain the Pennsylvania State Police Signature on its Memorandum of Understanding

Criteria relevant to the observation:

Section 13-1303-A(c) provides:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property.

Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities.

Section VI, General Provisions, item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added)

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the Montoursville Area School District (MASD) and the Pennsylvania State Police was not signed. However, the MOU was signed by the Montoursville Borough Police Department on March 9, 2010, after our auditor arrived on site.

As reported in our previous audit report, the MASD was cited for not updating their MOU in a timely manner. The Montoursville Borough Police Department and the Pennsylvania State Police Department signed the previous MOU on September 2, 1998, and September 3, 1998, respectively.

Per discussion with District administration, the Pennsylvania State Police refused to sign the current MOU until the District's Emergency Procedures Plan is updated to their satisfaction.

The failure to update the MOU with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *Montoursville Area School District* should:

1. In consultation with the solicitor, review, update and re-execute the current MOU and the District's Emergency Procedures Plan between the MASD and the Pennsylvania State Police.

2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

The District has developed an updated Memorandum of Understanding (MOU) and both the District and the local police department have approved and signed this revised MOU. However, the PA State Police informed the District that it would have to send the revised MOU to their legal department in Harrisburg before approving and signing it and, they want the District to complete the revision of the entire District emergency response plan before they submit the MOU to Harrisburg. This plan revision is slated to be completed and submitted to the PA State Police by the fall of 2010.

Observation No. 2



Unmonitored IU System Access and Logical Access Control Weaknesses

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.

The MASD uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) and the vendor from BLaST Intermediate Unit #17 (IU) for its critical student accounting applications (membership and attendance).

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 CSIU/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 CSIU/IU 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 CSIU/IU’s access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions that the employees are required to sign the 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 IU, to change their passwords every 30 days and to use passwords that are a minimum length of eight characters.
3. The IU has unlimited access (24 hours a day/7 days a week) into the District’s system.

Recommendations

The *Montoursville Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes the provision that the employees be required to sign the policy.
2. Implement a security policy and system parameter settings to require all users, including the IU, to change their passwords on a regular basis (i.e., every 30 days) and to use passwords that are a minimum length of eight characters.
3. 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.

Management Response

Management stated the following:

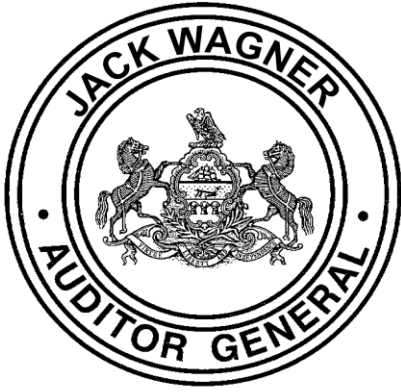
1. The District will have an acceptable use policy form created and signed by the staff in place for the next school year.
2. The District will implement password changes for four times each year at the end of every marking period. This will allow new passwords at the end of the school year for security purposes over the summer.
3. The District will change the parameters for passwords at a minimum of six characters that will include a complex set of characters. The password will include capitals, small, letters, numbers, as well as characters. This combination of characters will allow enough security for the District's needs.

4. The District has a signed acceptable use policy with the IU that services the District. As our agent, the CSIU will have a log with the District and will notify the District when work is done on our site. We do not see this as a risk to the District since we monitor our site on a daily basis. The District also has had a very good track record over 12 years with the IU and other districts in the area.

Status of Prior Audit Findings and Observations

Our prior audit of the Montoursville Area School District (MASD) for the school years 2004-05 and 2005-06 resulted in one reported observation. The observation pertained to their Memorandum of Understanding (MOU) not updated timely. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the MASD Board’s written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the MASD did not implement recommendations related to their MOU not updated timely.

<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"> The District administration, in consultation with the solicitor, should review, update and re-execute the current MOU between the District and local law enforcement agencies. The District should adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the District’s records found that the current MOU between the District and its local law enforcement agencies including the Pennsylvania State Police, Montoursville Barracks and the Montoursville Borough Police Department was signed September 3, 1998, and September 2, 1998, respectively, and has not been updated.</p>	<p>Current Status:</p> <p>After our auditors arrived on site, the MASD began to take corrective action to address the recommendations in our prior report. The MASD personnel updated their MOU and had the Montoursville Borough Police Department sign the MOU on March 9, 2010. However, the Pennsylvania State Police, Montoursville Barracks, refused to sign the MOU (see Observation No. 1 on page 6).</p>



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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