

OIL CITY AREA SCHOOL DISTRICT
VENANGO COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

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

Mr. Randall Schwabenbauer, Board President
Oil City Area School District
825 Grandview Road
Oil City, Pennsylvania 16301

Dear Governor Corbett and Mr. Schwabenbauer:

We conducted a performance audit of the Oil City Area School District (OCASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 17, 2010 through February 3, 2012, 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 OCASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, 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 findings, observation and recommendations have been discussed with OCASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve OCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the OCASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 14, 2013

cc: **OIL CITY 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 Oil City Area School District (OCASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures, and to determine the status of corrective action taken by the OCASD in response to our prior audit recommendations.

Our audit scope covered the period February 17, 2010 through February 3, 2012, 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 OCASD encompasses approximately 80 square miles. According to 2010 federal census data, it serves a resident population of 15,053. According to District officials, in school year 2009-10 the OCASD provided basic educational services to 2,224 pupils through the employment of 168 teachers, 120 full-time and part-time support personnel, and 14 administrators. Lastly, the OCASD received more than \$18 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the OCASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

Finding No. 1: Errors in Reporting Pupil Membership Resulted in Reimbursement Underpayments Totaling \$12,031.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 and 2008-09 school years found reporting errors. OCASD personnel failed to report and or inaccurately reported nonresident pupil membership days. These errors resulted in reimbursement underpayments totaling \$12,031 (see page 6).

Finding No. 2: Internal Control Weaknesses in Pupil Transportation.

Our audit of the OCASD's board minutes revealed that the board did approve a pupil transportation program for the OCASD, but the approved program did not meet all of the requirements of the Pennsylvania State Board of Education Regulations (see page 8).

Observation: The Oil City Area School District Lacks Sufficient Internal Controls Over Its Student Record Data.

Our review of the OCASD's controls over membership data integrity found that internal controls need to be improved (see page 14).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the OCASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the OCASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 18). However, the OCASD did not take appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses and errors in membership for nonresident children (see page 17).

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 February 17, 2010 through February 3, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through November 21, 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 Pennsylvania Department of Education (PDE) 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the OCASD's compliance with applicable state laws, 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?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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?
- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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, 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.

OCASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 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, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 1, 2010, we reviewed the OCASD's response to PDE dated May 23, 2011. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Pupil Membership Resulted in Reimbursement Underpayments Totaling \$12,031

Criteria relevant to the finding:

Section 2503(c) of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

The Pennsylvania Information Management Systems (PIMS) manual of reporting provides guidelines for the reporting of all residency and nonresident classifications. The guidelines provide a sample of information required to enter in each District Field on the end-of-year membership reports to be filed with the Department of Education. The sample provides the Code, Residency Status, District Code, District Code of Residence and the Funding District Code.

Our audit of pupil membership reports submitted to the Pennsylvania Department of Education (PDE) for the 2009-10 and 2008-09 school years found reporting errors. Oil City Area School District (OCASD) personnel failed to report or inaccurately reported nonresident pupil membership days. These errors resulted in reimbursement underpayments totaling \$12,031 for the 2009-10 and 2008-09 school years.

For the 2009-10 school year, the District underreported 176 elementary membership days for nonresident children placed in private homes. The errors resulted in a reimbursement underpayment of \$8,255 in tuition for children placed in private homes.

For the 2008-09 school year, the District underreported 85 elementary membership days for nonresident children placed in private homes. The errors resulted in a reimbursement underpayment of \$3,776 in tuition for children placed in private homes.

The membership reporting errors were caused by District personnel incorrectly reporting children placed in private homes as residents of the District. The errors were a continuation of errors noted in our prior audit (see page 17).

Nonresident pupil membership data must be maintained and reported in accordance with PDE guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

We have provided PDE with reports detailing the membership errors for use in recalculating the District's tuition for children placed in private homes.

Recommendations

The *Oil City Area School District* should:

1. Strengthen controls to ensure adherence to PDE regulations when reporting nonresident students attending the District's educational programs.
2. Perform an internal audit of all records received from each school building to ensure accuracy.
3. Implement internal control procedures to ensure District personnel request and obtain verification of residency and legal guardianship for nonresident students enrolled in the District.
4. Review reports submitted subsequent to the years audited and submit revised reports to PDE if errors are found.

The *Pennsylvania Department of Education* should:

5. Adjust the District's allocations to resolve the reimbursement underpayments totaling \$12,031.

Management Response

Management stated the following:

"The Oil City Area School District understands the importance of accurately reporting pupil membership as it is a major factor in determining the district's various state subsidies. This particular error occurred when membership days for a non-resident foster child, who was a ward of the state, were incorrectly reported as resident days.

"Internal controls have been strengthened and all subsequent child accounting reports have been reviewed for accuracy and corrected when necessary.

"The district respectfully requests that the Department of Education reimburse \$12,031 to the district."

Finding No. 2

Criteria relevant to the finding:

Chapter 23 of the State Board of Education Regulations, Section 23.4 states, in part:

“The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following: . . .

“(2) The selection and approval . . . of eligible operators who qualify under the law and regulations.

“(3) The establishment of routes, schedules and loading zones which comply with laws and regulations. . . .

“(5) The furnishing of rosters of pupils to be transported on each school bus run and trip.

“(6) The maintenance of a record of pupils transported to and from school, including determination of pupils’ distances from home to pertinent school bus loading zones.

“(7) The negotiation and execution of contracts or agreements with contractors. . . .”

Internal Control Weaknesses in Pupil Transportation

Our audit of the Oil City School District’s board minutes found that the board did approve a pupil transportation program for the District, but the approved program did not meet all of the requirements of the Pennsylvania State Board of Education Regulations. The board’s approval was limited to drivers, vehicles and basic route descriptions. The approved program did not include pupil rosters, miles with and miles without pupils, or total annual approved miles. Lastly, we noted that the board-approved transportation contract was actually an unsigned “Proposal for Transportation Services.”

Our audit found that District personnel responsible for the board’s transportation program were unaware that the approved program was not in compliance with the requirements. In addition, our audit found several internal control breakdowns including the lack of written policies and procedures and a lack of independent verification of information submitted to the Pennsylvania Department of Education (PDE) for subsidy.

Mileage

The District did not independently verify bus route miles with pupils and miles without pupils and the total mileage transported. The District relied on the initial odometer sheets submitted by the contractor to set up the transportation software system, which was then used to compute end-of-year weighted averages. The District required new odometer sheets only when there was a route change.

At the end of the school year the business manager reconciled the actual contractor payments to an agreed upon cost per mile, plus the monthly van invoice payments, to determine total contractor costs.

Our audit of the District’s annual bus mileage reconciliation found that the bus route mileage remained consistent between the two years of audit; however, without an independent verification of route mileage with and without pupils and the total annual mileage, we were

unable to determine the validity of the mileage reported to PDE.

For the school years 2009-10 and 2008-09 we made a comparison of mileage that was billed on contractor invoices for four vans to the mileage that was reported to PDE for reimbursement. In the 2009-10 school year total mileage billed by the contractor for three of the vans was under the mileage reported by 7,565 miles. Miles billed for the remaining van were over the miles reported by 2,856 miles.

In the 2008-09 school year, the comparison showed total miles billed for two vans were under the reported miles by 1,413, and mileage for two vans was over the reported miles by 7,119. We were unable to determine the financial impact on the District as the contractor invoices did not break down daily mileage showing miles with and miles without pupils.

Again without independent verification of route mileage we were unable to determine the validity of data reported to PDE or if the District was accurately invoiced by the contractor.

Nonpublic Pupil Count

Our audit found that the District did not receive transportation request letters or forms from nonpublic schools but instead received a nonpublic family listing from the various nonpublic schools. District personnel reviewed the list and, based on previous years' transportation records, identified those students that would be requiring transportation in the current year.

Our comparison of one of the nonpublic schools' family list and the District's bus roster identified families that were not receiving transportation and a family that was receiving transportation that was not shown on the family list. Lastly, we noted that in the 2009-10 school year the District provided transportation to five nonpublic students who resided within a mile and half of their school. District personnel stated that the transportation was provided as a courtesy and, while the District did not receive supplemental nonpublic subsidy for these five children, they failed to report them as nonreimbursable pupils.

Nonreimbursable/Hazardous Pupil Counts

PDE defines nonreimbursable pupils as elementary pupils living within 1.5 miles of their school or secondary pupils living within two miles of their school who are transported by the district. Such pupils do not qualify the district for transportation reimbursement unless they are classified as exceptional children, are being transported to the area vocational-technical schools, or are transported over Pennsylvania Department of Transportation certified hazardous walking routes.

The District relies on information provided by the contractor for identification of hazardous pupils on their transportation software system; no street maps were maintained to verify that the data was accurate.

Our audit found that the District does not maintain any independent information confirming those students that are reported as nonreimbursable or hazardous. Without any independent verification, we were unable to determine the accuracy of the reported nonreimbursable and hazardous pupil counts.

Transportation Contract

The Board minutes stated that on June 22, 2009, the board approved a five-year transportation contract. The audit found that the District does not have a formal signed agreement or contract and instead is operating under an unsigned "Proposal for Transportation Services."

Contractor Insurance

The copy of the contractor's Certificate of Insurance provided to the auditors by the District did not name the District as "additional insured." Review of the "Proposal for Transportation Services" revealed that the contractor was to indemnify the District. District personnel incorrectly thought that being listed as a certificate holder was the same as being named "additional insured."

The miles with pupils and miles without pupils, as well as the number of nonpublic, nonreimbursable and hazardous pupils, are integral parts of the pupil transportation reimbursable formula and must be maintained in accordance with the State Board of Education Regulations and PDE guidelines and instructions.

As a result of District personnel failing to properly prepare the annual pupil transportation program for board approval and to retain supporting documentation, the auditor was unable to verify that the District received the accurate reimbursement to which it was entitled for pupil transportation services provided for both school years.

Recommendations

The *Oil City School District* should:

1. Consult with the District's solicitor to develop proper procedures to assist the board in meeting their responsibilities for the District's pupil transportation program.
2. Instruct the District's transportation coordinator to develop appropriate written procedures relating to the District's transportation program in compliance with State Board of Education regulations and PDE reporting requirements.
3. Develop a system of dual controls to ensure that all district-prepared transportation reports are accurate and correct prior to submission to PDE.
4. Implement procedures with the nonpublic schools to ensure that proper documentation relating to requests for transportation are received and properly implemented.
5. Independently verify nonreimbursable pupil documentation to ensure the data reported to PDE is accurate.
6. Independently verify hazardous pupil information to ensure the propriety of data reported to PDE.

7. Consult with the District's solicitor to convert the "Proposal for Transportation Services" to a signed agreement or contract to protect the District's interests.
8. Require the District's contractor to name the District as "additional insured" on their Certificate of Insurance.

Management Response

Management stated the following:

"On January 9, 2012, [District personnel] met with [the] State Auditor to verbally discuss the finding. The auditor made the following recommendations [based on the evidence related to the finding]:

1. "In June 2009, the board approved a 5-year agreement with our current contractor. The district must turn the terms of agreement into an actual signed contract and should consult with the solicitor to do so.
2. "Because the district established the routes, the district must independently verify the miles that the drivers travel [for nonpublic pupils] and compare them to what the district has determined. This will ensure that the district pays the contractor for the correct number of miles and will bring to the district's attention any discrepancies.
3. "The district must develop written procedures that are in compliance with both the state and school codes.
4. "There must be dual controls in place to ensure that the information presented in the state transportation report was properly and accurately entered.
5. "The contractor must name the district as an additional insured.

"The district is aware that there are no monetary adjustments to the years of audit."

Observation →

The Oil City Area School District Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the Federal Information Systems Control Manual (FISCAM), a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse", designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Because PDE now uses the data in PIMS to determine each LEA's state subsidy, it is vitally important that the student information entered into this system is accurate, complete, and valid. Moreover, anytime an entity implements a computer system of this magnitude, there is an increased risk that significant reporting errors could be made. LEA's must ensure that they have strong internal controls to mitigate these risks to their data's integrity. Without such controls, errors could go undetected and subsequently cause the LEA to receive the improper amount of state reimbursement.

Our review of the Oil City Area School District's (OCASD) controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. Seven students' membership totaling 414 days was not reported to PIMS; however, OCASD submitted manual changes to PDE that had not been processed at the time of our audit. These students do not affect the OCASD's subsidy but could possibly have an effect on another LEA's subsidy.
2. Six students who were resident students were reported as day students in a residential program, totaling 85 days.

3. One student was a day student but was reported as a student in a residential program for 54 days.
4. One student was reported as a District resident but should have been reported as an institutionalized nonresident for 69 days.
5. Fifteen students had the wrong funding district reported to PIMS, totaling 766 days.
6. The wrong district of residence code and funding district was reported for one student, totaling 89 days.

Recommendations

The *Oil City Area School District* should:

1. Reference the PIMS manual for proper instructions in reporting nonresident student's membership days.
2. Strengthen internal controls to ensure adherence to PDE regulations when reporting nonresident students.
3. Review the accuracy of membership reports submitted to PDE for school years subsequent to the audit and, if reporting errors are found, contact the PIMS help desk for guidance in changing the coding and submitting revised reports to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's and other LEA's allocations to resolve any over or underpayments that may have occurred as a result of the reporting errors.
5. Process the District's submitted manual changes and recalculate the possible effect on all LEA subsidies.

Management Response

Management stated the following:

“When the Pennsylvania Information Management System (PIMS) was first introduced, it was a time of intense training and acclimation to the new system. Several of the district's personnel have participated in ongoing trainings, most of which are offered online. Now that our personnel are accustomed to the system, it is easier to find and correct any errors that may have occurred.

“The district understands that PIMS is a vital piece to the proper calculation and subsequent distribution of state funding. Because of that, our staff will continue to participate in PDE sponsored trainings and updates. We will also periodically monitor our data and reports for accuracy.

“The district respectfully requests that the Department of Education process our corrections, if any, in a timely manner so that any over/under payments can be rectified promptly.”

Status of Prior Audit Findings and Observations

Our prior audit of the Oil City Area School District (OCASD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one reported observation. The finding pertained to membership, and the observation pertained to unmonitored vendor system access. 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 OCASD Board's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the OCASD did not implement recommendations related to membership. However, OCASD did implement recommendations related to unmonitored vendor system access.

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

Finding: **Internal Control Weakness and Errors in Reporting Membership for Nonresident Children Resulted in a Net Reimbursement Underpayment of \$16,711**

Finding Summary: Our audit of pupil membership reports submitted to PDE for the 2007-08 and 2006-07 school years found reporting errors resulting in a net underpayment of \$16,711. This was the result of an internal control weakness in the verification of the nonresident status of students placed in private homes.

Recommendations: Our audit finding recommended that the OCASD:

1. Strengthen controls to ensure adherence to PDE regulations when reporting nonresident students attending the District's educational programs.
2. Perform an internal audit of all records received from each building to ensure accuracy.
3. Implement internal control procedures to ensure District personnel request and obtain verification of nonresidency for nonresident students enrolled in the District.
4. Review reports submitted subsequent to the years audited, and submit revised reports to PDE if errors are found.

We also recommended that PDE:

5. Adjust the District's allocations to resolve the net underpayment of \$16,711.

Current Status: During our current audit procedures we found that the OCASD did not implement the recommendations. The finding continues in the current audit report (see Finding No.1, page 6). We contacted PDE on February 1, 2012, and verified that OCASD's underpayment is still awaiting resolution.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

The OCASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network only when the District permits. Based on our audit procedures, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected.

Recommendations: Our audit observation recommended that the OCASD:

1. Develop an agreement with the vendor to provide student accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. Revise the District's Acceptable Use Policy to require all employees to sign the policy.
3. Develop and maintain a written security policy which includes provisions for privacy (monitoring of electronic mail, access to files), access (acceptable use guidelines for users), accountability (responsibilities of users, auditing incident handling), authentication (password security and syntax requirements), and violation/incidents (what is to be reported and to whom). In addition, the District should ensure that the vendor's employees are aware of the policy and sign a copy of it annually.
4. Implement a security policy and system parameter settings to require all users to change passwords on a regular basis. 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 repetitive passwords.

5. Generate monitoring reports (including firewall logs) of vendor and employee remote access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s). Review these reports to determine that the access was appropriate and that data was not improperly altered. Ensure it is maintaining evidence to support this monitoring and review.
6. Require the vendor to assign unique userID's and passwords to vendor employees authorized to access the District's system. Further, obtain a list of the vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
7. Store back-up data in a secure, off-site location.
8. Prepare written procedures for entering membership/attendance information into the database system to avoid problems that could arise should the District experiences unexpected personnel changes.
9. Document the reconciliation procedures used by District that allow that District to detect significant changes in membership/attendance data.

Current Status:

During our current audit procedures we found that the OCASD did implement the recommendations, as follows:

1. The District and vendor signed a "Support and Services Agreement" on May 6, 2011. This agreement will be reaffirmed annually.
2. In August 2011, all employees were provided a copy of the District's "Policy for Use of Technology Resources" for their information. The IT department then requires all employees to sign and return a form acknowledging that they read, understood, and agreed to abide by the policy.

Review of the distributed policy statement revealed that it is identical to the District's Board Policy No. 815.

3. The vendor's activities are defined in the Support and Service Agreement signed by both parties in May 2011.

The vendor cannot enter the District's system without the District opening an internet protocol portal.

District personnel stated that all of the vendor employees are now required to sign the District's Technology Users Agreement.

District personnel review the input and change logs to ensure propriety of the changes and verify that the user should have performed the change.

4. As of November 9, 2011, employees were notified that effective immediately system passwords needed to be changed every 42 days, the minimum length is eight characters, and passwords could not be re-used for at least four changes.

The District's software system does not require administrative users to periodically change their passwords; however, with the log reviews and each administrative user being assigned their own userID and password, the District is able to monitor input and ensure accuracy and validity.

5. The District has limited remote access to the system to the business manager, the IT Coordinator and the two District employees responsible for child accounting. The IT Coordinator also monitors a remote access report.

Access to the District's software system does allow for remote access through a web-based site. This access is available to all teachers for after school work.

The system automatically logs off non-administrative users after 15 minutes of inactivity and administrative users after 60 minutes of inactivity.

The software system also locks users out after three unsuccessful log-on attempts.

Teachers can only input current attendance data and are not authorized to go back to make changes.

6. The vendor maintains a group userID; however, the vendor cannot enter the District's server without the opening of the District's portal.

In addition, with the monitoring of software logs and vendor case number identification, District personnel were able to trace back to the vendor any employee who was in the District's server with access to the District's data.

7. The District invested in an internet storage application that provides for complete nightly back-up and would be utilized if the District's system broke down, was corrupted, or was somehow destroyed.
8. The vendor provides onscreen form "help" access for the software program.

In addition, software administrators have access to a "searchable" data base that also provides procedures for data input and form completion.

Due to the size of the on-line help and searchable procedures, the District has not printed out a complete manual; individual pages may be printed to assist administrative users on an "as need" basis.

9. The District operates with a decentralized membership/attendance responsibility. At least one employee in each building has been trained in and is responsible for membership and attendance data entry. District personnel have ensured that each building has a back-up person with a separate userID and password. With the decentralization, building employees could quickly recognize significant changes in their building information.

District personnel review system-generated reports for propriety and accuracy of information, noting anything unusual for follow-up with the appropriate building administrative user.

Lastly, prior to submission of membership data to PDE the District's child accounting coordinator reviews all reports for accuracy. Variances are discussed with the appropriate building personnel for verification or correction.

Our audit follow-up also noted that when the vendor updates or changes programming, the IT coordinator runs the new application on a parallel server to ensure that the integrity of the District's data is not compromised.

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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