

OLD FORGE SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2009

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

Ms. Deborah DeSando, Board President
Old Forge School District
300 Marion Street
Old Forge, Pennsylvania 18518

Dear Governor Rendell and Ms. DeSando:

We conducted a performance audit of the Old Forge School District (OFSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 30, 2006 through March 4, 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, 2007, 2006 and 2005 as they were the most recent reimbursements subject to audit. 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 OFSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. 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 OFSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve OFSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the OFSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 2, 2009

cc: **OLD FORGE 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 Old Forge School District (OFSD). 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 OFSD in response to our prior audit recommendations.

Our audit scope covered the period June 30, 2006 through March 4, 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, 2006-07, 2005-06 and 2004-05.

District Background

The OFSD encompasses approximately 3 square miles. According to 2000 federal census data, it serves a resident population of 8,798. According to District officials, in school year 2007-08 the OFSD provided basic educational services to 932 pupils through the employment of 65 teachers, 35 full-time and part-time support personnel, and 6 administrators. Lastly, the OFSD received more than \$4.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the OFSD 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 observations.

Observation 1: Memorandum of Understanding Not Updated Timely. Our audit of the OFSD's records found that the current Memorandum of Understanding between the OFSD and the Old Forge Borough Police Department was signed February 16, 2006 and has not been updated (see page 6).

Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that OFSD 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 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the OFSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the OFSD had taken appropriate corrective action in implementing our recommendations pertaining to an undercharge of \$7,033 for institutionalized children (see page 13).



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 June 30, 2006 through March 4, 2009, except for the verification of professional employee certification which was performed for the period June 2, 2006 to December 31, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 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

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 OFSD'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?

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.

- ✓ 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?
- ✓ 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?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

OFSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, 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 OFSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 18, 2007, we reviewed the Superintendent's response to DE dated April 17, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Criteria relevant to this observation:

Section 1303-A(c) of the Public School Code 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.

Memorandum of Understanding Not Updated Timely

Our audit of the Old Forge School District's records found that the current Memorandum of Understanding (MOU) between the Old Forge School District and the Old Forge Borough Police Department was signed February 16, 2006 and has not been updated.

The Basic Educational 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).

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 *Old Forge School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District 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:

With reference to the above, please note that the District Attorney's Office was contacted on several occasions, was sent a copy of the MOU for review but never contacted the district to set up a meeting, if necessary, to revise the MOU. This occurred sometime during February and March of 2008.

As of February 2009, the MOU has been signed by the appropriate parties and is on file in the District administrative offices.

The District will make every attempt in the future to have the MOU updated in a timely fashion.

Observation No. 2

Unmonitored Vendor 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 Old Forge School District uses software purchased from Modular Management System (MMS) for Schools, for its critical student accounting applications (membership and attendance). MMS has remote access into the District’s network servers.

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 vendor activity in their system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the district would ever move into a paperless future with decentralized direct entry of data into their systems. 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 to have the following weaknesses over remote vendor access:

1. The District’s Acceptable Use Policy does not include provisions for access (acceptable use guidelines for users).
2. The District does not require written authorization before adding, deleting, or changing a userID.

3. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
4. 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 vendor, to change their passwords every 30 days.
5. 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 vendor to use passwords that include alpha, numeric and special characters.
6. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
7. The District does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.
8. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
9. The District does not store data back-ups in a secure, off-site location.

Recommendations

The *Old Forge School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for access (acceptable use guidelines for users). The District's Acceptable Use Policy should include provisions for privacy (e.g., 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 violations/incidents (what is to be reported and to whom).
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days).
5. Implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that include alpha, numeric and special characters.
6. Implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).
7. Generate monitoring reports (including firewall logs) of vendor 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.

8. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
9. Store back-up tapes in a secure, off-site location.

Management Response

Management stated the following:

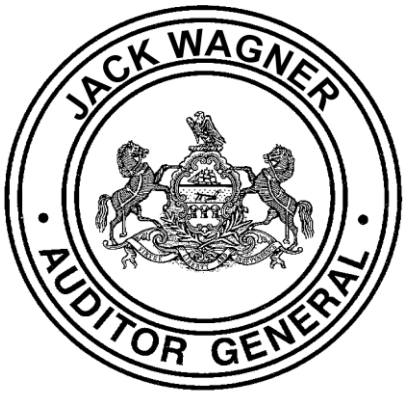
1. The District's Acceptable Use Policy was developed in 2002 and revised in 2003. Apparently, it does not contain all the recommended areas. Administration has already initiated the revision process by obtaining new sample policies and reviewing the recommended areas for addition. The changes will be recommended to the board for approval including provisions for privacy, accountability, authentication and incident reporting and handling.
2. In the past, userID additions, changes or deletions were done by the Intermediate Unit. The District utilized a form provided by IU #19 for this purpose. Over the past several years, changes have been done in house through e-mail requests by the IU#19 technician assigned to the District. The District will develop procedures and an authorization form for this purpose. Documentation of additions and removal of terminated employees will be maintained.
3. Current settings for changing passwords, syntax requirements and password history do not meet the recommended specification. The District will review and implement the recommended controls.
4. At the present time, the district does not employ an Instructional Technology Director/Coordinator to oversee system controls and monitoring. Access to membership and attendance data is granted to a limited amount of District users and vendor access is granted through the IU technician upon request. District Administration will explore again with the board the need for a District position to oversee District technology and will develop and implement access control procedures.

5. The District business manager and superintendent have been exploring avenues for data management including off-site back-up storage. A plan will be developed that will include secure off-site location of data back-ups.

Status of Prior Audit Findings and Observations

Our prior audit of the Old Forge School District (OFSD) for the school years 2003-04, and 2002-03 resulted in one finding. The finding pertained to the Department of Education's (DE) error resulting in an undercharge for institutionalized children. 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 OFSD superintendent's written response provided to the DE performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the OFSD did implement recommendations related to the undercharge for institutionalized children.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Department of Education Error Results in an Undercharge of \$7,033 for Institutionalized Children.</i></u></p> <ol style="list-style-type: none"> District personnel should strengthen controls to ensure that the final summary of child accounting membership data received from DE is accurate. DE should withhold \$7,033 to adjust the undercharge to the District and refund \$7,033 to the Lackawanna Trail School District to adjust for the overcharge of \$7,033. 	<p>Background:</p> <p>Our audit of pupil membership data found an error in reports completed by DE for the 2002-03 school year, resulting in an undercharge of \$7,033 for institutionalized children. DE guidelines define institutionalized children as students residing in a children's institution, e.g., group homes, treatment centers, temporary shelter and correction institutions.</p>	<p>Current Status:</p> <p>We followed up on the OFSD membership reports for 2004-05, 2005-06 and 2006-07 school years and found the OFSD <u>did</u> take appropriate corrective action to address our prior audit recommendations.</p> <p>On April 17, 2008, DE made the appropriate revision pertaining to the \$7,033.</p>



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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