

SOUDERTON AREA SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Mr. Bernard S. Currie, Board President
Souderton Area School District
760 Lower Road
Souderton, Pennsylvania 18964

Dear Governor Rendell and Mr. Currie:

We conducted a performance audit of the Souderton Area School District (SASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 30, 2007 through March 5, 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 SASD 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 SASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the SASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 5, 2010

cc: **Souderton 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 Souderton Area School District (SASD). 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 SASD in response to our prior audit recommendations.

Our audit scope covered the period August 30, 2007 through March 5, 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 SASD encompasses approximately 50 square miles. According to 2000 federal census data, it serves a resident population of 39,002. According to District officials, in school year 2007-08 the SASD provided basic educational services to 6,910 pupils through the employment of 514 teachers, 358 full-time and part-time support personnel, and 43 administrators. Lastly, the SASD received more than \$19.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SASD 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: Memorandums of Understanding Not Updated Timely. Our audit of the SASD's records shows that the current Memorandum of Understanding (MOUs) between the SASD and five police departments were signed and have been updated. However, we found that the prior MOUs between the SASD and the five police departments were not reviewed and re-executed in the two year time period as required by the Department of Education (see page 6).

Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that SASD 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 SASD from an audit we conducted of the 2005-06, 2004-05, 2003-04 and 2002-03 school years, we found the SASD did take appropriate corrective action in implementing our recommendations pertaining to the SASD's Social Security and Medicare reimbursement underpayments (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 August 30, 2007 through March 5, 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 SASD'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 payroll (e.g. Social Security and retirement), 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.

SASD 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 professional employee certification.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 24, 2008, we reviewed the SASD's response to DE dated September 24, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Memorandums of Understanding Not Updated Timely

Public School Code section and criteria relevant to the observation:

Section 13-1303-A(c) requires:

All school entities to 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 protocol 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 format to be used for school entities.

Section VI, General Provision 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 Memorandums of Understanding (MOUs) between the District and the four police departments and the Pennsylvania State Police, Troop K, Philadelphia were signed and were updated on January 15, 2010. However, we found that the prior MOUs between the District and the four police departments and the Pennsylvania State Police, Troop K, Philadelphia were not reviewed and re-executed timely in the two year time period required. The prior MOUs were dated June 21, 2007.

The failure to update the MOUs 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 *Souderton Area School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOUs between the District and local law enforcement.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.

Management Response

Management stated the following:

The District has received the Memorandums of Understanding (MOU) from the police departments in question. Copies of these MOUs have been forwarded to the State Auditor. To avoid this issue in the future, the District will request an updated MOU from each police department on an annual basis.

Observation No. 2 →

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 Souderton Area School District 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 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 it is adequately monitoring all vendor 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 audit, we found the District had the following weaknesses over vendor access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements). Further, the employees are not required to sign the policy.
2. Does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District’s Acceptable Use Policy.

3. 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; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
4. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
5. 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.
6. Has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have (fire detection and fire suppression equipment).

Recommendations

The *Souderton Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements). Further, all employees should be required to sign this policy.
2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.

3. 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). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
4. Only allow access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
5. 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.
6. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should (install fire detectors and install fire extinguishers in the computer room).

Management Response

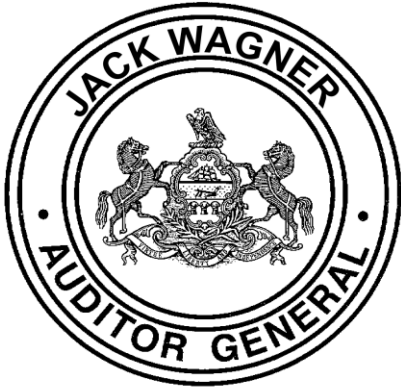
Management stated the following:

The Souderton Area School District management agrees with the observations and will endeavor to address weaknesses in their policies and procedures regarding logical access controls and unmonitored vendor system access.

Status of Prior Audit Findings and Observations

Our prior audit of the Souderton Area School District (SASD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one finding. The finding pertained to Social Security and Medicare reimbursement underpayments. 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 SASD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the SASD did implement recommendations related to Social Security and Medicare reimbursement underpayments.

<i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Social Security and Medicare Reimbursement Underpayments of \$68,375</i></u></p> <ol style="list-style-type: none"> 1. Ensure that total Social Security and Medicare wages are reported in columns four and five of the Reconciliation of Social Security and Medicare Tax Contributions reimbursement applications and should also reconcile the application for reimbursement to the applicable Internal Revenue Service Form 941. 2. DE should pay the District an additional \$68,375 to resolve the finding. 	<p>Background:</p> <p>Our audit of the District’s 2005-06, 2004-05, 2003-04 and 2002-03 Reconciliation of Social Security and Medicare Tax Contributions Reimbursement forms filed with DE found errors in reporting the total taxable wages for all four years, resulting in total underpayments of \$68,375.</p>	<p>Current Status:</p> <p>We followed up on the SASD’s reconciliation of Social Security and Medicare Tax Contributions Reimbursement forms filed with DE and found that SASD did take appropriate corrective action as recommended. In addition, DE resolved the underpayment to the District on April 2, 2009.</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:

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

The Honorable Thomas E. Gluck
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

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

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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