

DUNMORE SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2009

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

Mr. Michael Hallinan, Board President
Dunmore School District
300 West Warren Street
Dunmore, Pennsylvania 18512

Dear Governor Rendell and Mr. Hallinan:

We conducted a performance audit of the Dunmore School District (DSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 11, 2006 through March 5, 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 DSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We identified one matter unrelated to compliance that is reported as an observation. A summary of these results are presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with DSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve DSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the DSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

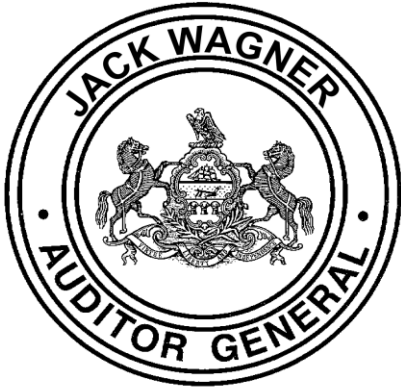
JACK WAGNER
Auditor General

August 20, 2009

cc: **DUNMORE 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 Dunmore School District (DSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period August 11, 2006 through March 5, 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 DSD encompasses approximately 8 square miles. According to 2000 federal census data, it serves a resident population of 14,081. According to District officials, in school year 2007-08 the DSD provided basic educational services to 1,673 pupils through the employment of 110 teachers, 37 full-time and part-time support personnel, and 8 administrators. Lastly, the DSD received more than \$5.5 million in state funding in school year 2007-08.

Audit Conclusion and Results

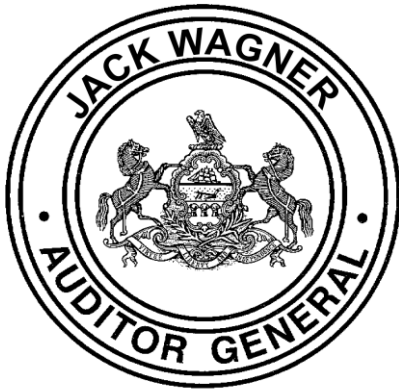
Our audit found that the DSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Unmonitored IU System Access and Logical Access Control

Weaknesses. We noted that DSD personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 6).

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the DSD from our audit of the 2003-04 and 2002-03 school years, we found the DSD had taken appropriate corrective action in implementing our recommendations pertaining to pupil transportation (see page 10).



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 11, 2006 through March 5, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2006 through 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 DSD'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?

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 reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ In areas where the District receives state subsidy 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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

DSD 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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 2, 2007, we reviewed the DSD's response to DE dated June 28, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation



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 IU System Access and Logical Access Control Weaknesses

The Dunmore School District uses software purchased from the Northeastern Educational Intermediate Unit #19 (NEIU) for its critical student accounting applications (membership and attendance). The NEIU 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 all NEIU activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over NEIU access to the District’s system:

1. The District does not have a fully executed maintenance agreement on file.
2. The District’s Acceptable Use Policy does not include provisions for authentication (syntax requirements).
3. The District does not have current information technology (IT) policies and procedures for controlling the activities of NEIU, nor does it require the NEIU to sign the District’s Acceptable Use Policy.

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 use passwords that are a minimum length of eight characters and include alpha, numeric and special characters.
5. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including NEIU and District employees). There is no evidence to support that the District is performing any procedures in order to determine which data the NEIU may have altered or which NEIU employees accessed their system. However, procedures are being implemented to create a monitoring report of NEIU access and activity on the system.

Recommendations

The *Dunmore School District* should:

1. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file.
2. Ensure that the District's Acceptable Use Policy includes provisions for authentication (syntax requirements).
3. Establish separate IT policies and procedures for controlling the activities of the NEIU and have the NEIU sign this policy, or the District should require the NEIU to sign the District's Acceptable Use Policy.
4. Implement a security policy and system parameter settings to require all users, including the vendor, to maintain passwords that are a minimum length of eight characters and include alpha, numeric and special characters.

5. Generate monitoring reports (including firewall logs) of NEIU and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Management Response

Management stated the following:

The Dunmore School District has embarked on a plan to address the rapidly changing, complex world of Information Technology by establishing a separate, in house, Department of Information Technology. The district appointed a full time manager in the summer of 2007 for the 2007-08 fiscal year. The district understands and agrees on the importance and security of its IT systems. The IT manager has made great strides in the past 1 ½ years in this area. The observations and recommendations resulting from the Department of Auditor General's Audit of Information Technology vendor applications will be accepted and addressed in an appropriate and timely manner. Below is our response to the observations.

1. The district will request a more detailed maintenance agreement from NEIU #19 to replace the agreement currently in force.
2. The district's IT department is in the process of requiring authentication (syntax requirements) for its users.
3. The district will address the activities of IU procedures in the more detailed agreement in #1. Signature of the district's acceptable use of policy will be required.
4. The district will request that all users including the vendor to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters.

5. The district has been working on establishing these monitoring receipts with the NEIU and [Central Susquehanna Intermediate Unit #16]. This procedure will be implemented as soon as feasible.

Status of Prior Audit Findings and Observations

Our prior audit of the Dunmore School District (DSD) for the school years 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to pupil transportation. 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 DSD 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 DSD did implement recommendations related to pupil transportation.

| <i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i> | | |
|---|---|--|
| <i>Prior Recommendations</i> | <i>Implementation Status</i> | |
| <p><i>II. Finding: Pupil Transportation Data Reporting Errors</i></p> <ol style="list-style-type: none"> 1. Perform an internal review of transportation reports prior to submission of reports to DE to help ensure the accuracy of reported data. 2. Strengthen controls to help ensure accurate reporting of year of manufacture for buses and the number of charter school students transported are accurately reported to DE. 3. Review transportation reports submitted for years subsequent to the audit years and submit revisions, if necessary. 4. DE should adjust the District's future allocations by \$2,328 to resolve the reimbursement overpayments. | <p>Background:</p> <p>Our prior audit of the District's pupil transportation data and reports for the 2003-04 and 2002-03 school years found that incorrect reports were submitted to DE for the 2003-04 school year, which resulted in overpayments of pupil transportation reimbursement of \$2,328.</p> | <p>Current Status:</p> <p>We reviewed the DSD transportation reports and found that the DSD <u>did</u> take corrective action to improve their pupil transportation reporting.</p> <p>As of our fieldwork completion date of March 5, 2009, DE had not adjusted the District's allocations to recover the \$2,328 overpayments.</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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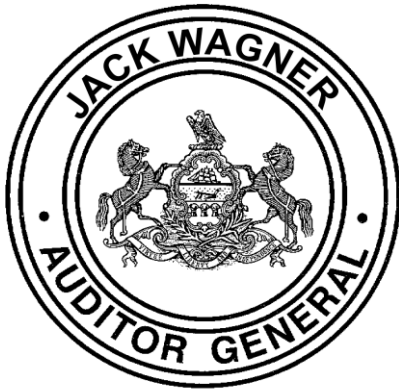
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