

EAST ALLEGHENY SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Mrs. Gerri McCullough, Board President
East Allegheny School District
1150 Jacks Run Road
North Versailles, Pennsylvania 15137

Dear Governor Rendell and Mrs. McCullough:

We conducted a performance audit of the East Allegheny School District (EASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 31, 2007 through March 12, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the EASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding 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 finding, observation and recommendations have been discussed with EASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve EASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the EASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 29, 2010

cc: **EAST ALLEGHENY 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 East Allegheny School District (EASD). 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 EASD in response to our prior audit recommendations.

Our audit scope covered the period August 31, 2007 through March 12, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The EASD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 16,340. According to District officials, in school year 2007-08 the EASD provided basic educational services to 1,883 pupils through the employment of 130 teachers, 65 full-time and part-time support personnel, and 9 administrators. Lastly, the EASD received more than \$10.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Finding: District Reports Deficit Fund Balance for School Year Ended

June 30, 2009. Our review of the EASD financial reports found a general fund deficit of \$1.5 million as of June 30, 2009 (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access

Control Weaknesses. An outside vendor has remote access into EASD network servers, which presents a risk that unauthorized changes to EASD critical student accounting applications (membership and attendance) could occur and not be detected (see page 9).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the EASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the EASD had taken appropriate corrective action in implementing our recommendations pertaining to nonresident membership (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 August 31, 2007 through March 12, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2008 through June 30, 2009.

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 EASD'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?

- ✓ 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?
- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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 and conclusions based on our audit objectives.

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.

EASD 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 EASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 30, 2008, we reviewed the EASD's response to DE dated December 23, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

District Reports Deficit Fund Balance for School Year Ended June 30, 2009

Criteria relevant to the finding:

Section 609 of the Public School Code provides, in part:

No work shall be hired to be done, no materials purchased, and no contracts made by any board of school directors which will cause the sums appropriated to specific purposes in the budget to be exceeded.

Our review of the District's annual financial reports and general fund budgets for fiscal years ending June 30, 2005 through June 30, 2009, found that the general fund balance decreased from a surplus of \$111,247 to a deficit of \$1,589,242, detailed as follows:

Fiscal Year <u>Ending</u> <u>June 30</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Expenditures</u> <u>(Over)/Under</u>	<u>General Fund</u> <u>Surplus/(Deficit)</u>
2005	-	-	-	\$ 111,247
2006	\$23,982,881	\$24,668,387	\$ (685,506)	(574,259)
2007	25,331,028	25,127,618	203,410	(370,849)
2008	26,850,176	26,494,623	355,553	(15,296)
2009	27,502,658	29,076,604	(1,573,946)	(1,589,242)

As shown in the above chart, expenditures have exceeded revenues in two of the four years since June 30, 2006.

The most significant factor causing the general fund deficits was the failure to control expenditures in accordance with the general fund budgets. The following schedule details total actual expenditures in excess of budgeted expenditures:

Fiscal Year <u>Ending June 30</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>Over</u> <u>Expenditures</u>
2006	\$23,770,669	\$24,668,387	\$ (897,718)
2007	23,716,922	25,127,618	(1,410,696)
2008	23,045,879	26,494,623	(3,448,744)
2009	25,774,484	29,076,604	(3,302,120)

The highest variances were expenditures for operations maintenance and plant, student transportation services and administrative services

Recommendations

The *East Allegheny School District* should:

1. Monitor and maintain budgetary control over expenditures in compliance with Section 609 of the Public School Code.
2. Use monthly budget status reports to scrutinize proposed expenditures for current operations and limit them to revenues received and the amount appropriated.
3. Provide for the systematic reduction of the general fund deficit.

Management Response

Management stated the following:

The fund balance deficit at the end of the 2008-2009 fiscal year is the culmination of many factors, including but not limited to:

1. The continuous disregard of tax payers not paying their current and delinquent real estate school taxes. Result low collection rate.
2. Fixed costs increases in employee salaries per contracts, healthcare, retirement, utilities, fuel costs, respectively. (Also retiree healthcare payments)
3. The School Board of Directors not raising mills an adequate amount in order to plan for Future fiscal year expenditures.
4. The restraints of Act 1 for mill increases to be no more than the District index makes it very difficult to budget local real estate tax revenues to support expenditures.
5. A long term spending of fund balance to soften the impact of 1 million less tax increases.
6. Upgrade of technology, curriculum and new District textbook adoption.

7. Lower interest rates for investments.
8. High costs in special education services, charter school tuition, and tuition placements.

Corrective Action

1. Recommend to the Board of Education to raise mills by index each fiscal year.
2. Continue the aggressive pursuit of delinquent tax revenue utilizing collection group services in addition to internal efforts.
3. Continue to investigate and apply for grants when opportunity presents.
4. Diligence in reducing the use of electricity by turning off any lighting that is not needed and combine errands to reduce the cost of fuel for vehicles.
5. Continue requiring employees to pay into their healthcare coverage.
6. Cutting operational costs in area of supplies, repairs and services when at all possible.
7. Overall maintaining good business practices and being mindful of keeping costs in line with the budget adopted by the board of education of East Allegheny School District.

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 Vendor System Access and Logical Access Control Weaknesses

The East Allegheny 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 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 it is adequately monitoring all vendor activity in its system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. 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 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 following weaknesses over vendor access to the District’s system:

1. The employees are not required to sign the District’s Acceptable Use of the Internet Policy.
2. The District does not require written authorization before adding, deleting, or changing a userID.
3. 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; to use passwords that are a minimum length of eight characters (the District requires a five character

password) and include alpha, numeric and special characters and to maintain a password history (i.e., approximately ten passwords).

4. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
5. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
6. The District 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 equipment.

Recommendations

The *East Allegheny School District* should:

1. Require all employees to sign the Acceptable Use of the Internet Policy
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
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).
4. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.

5. The District should 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. The District should 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 in the computer room.

Management Response

Management stated the following:

1. Agree – We will require all employees to sign the Acceptable Use of the Internet form, which is part of our policy. These forms will be kept on record in the Superintendent’s Office. However, the District does have a content filter that prevents employees from visiting unauthorized sites.
2. Agree – We will keep a log indicating who was added, changed or deleted, date of action, who made the changes, what action was taken – add, delete, change, and what was done to the account – change password, deleted due to resignation/retirement, etc.
3. Disagree – Requiring a change of password every 30 days would present a hardship to the IT [information technology] department in that when they have to work on a person’s computer, they oftentimes are doing this after hours. With the employee not around, there is no way to determine the employee’s password. Resetting the password would present difficulties in dealing with the staff. They often check their e-mail from home and there would be no way to inform them their password was changed.
4. Disagree – The vendor . . . uses a single userID rather than each employee having their own unique ID and password. This vendor has many employees who help

our District when questions arise or updates are added. To give each [vendor] employee their own login would require all that to be stored on our server, taking up valuable space. The IT department would have to create and maintain those logins. Only [the vendor] has the capability to remote into our system and they are aware who does that and when.

5. Agree – We will contact [the vendor] requesting a report on vendor access. . . . [O]ur Automation Systems Coordinator, gets a message when any change is made to the system. He will request the same for when someone remotes in. This report will be generated monthly and kept on file.
6. Agree – While there is a fire extinguisher in the room housing the servers and data, a smoke detector will also be installed. Additionally, the room is temperature controlled.

Auditor Conclusion

Our recommendations are based on standard IT best practices. While the District is making improvements, as of the date of our review our recommendations were valid.

We continue to recommend that the District and vendor adopt the password parameter settings suggested in our observation and discontinue the use of a group userID.

Status of Prior Audit Findings and Observations

Our prior audit of the East Allegheny School District (EASD) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to nonresident membership. 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 EASD 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 EASD did implement recommendations related to errors in reporting nonresident membership.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Errors in Reporting Nonresident Membership Resulted in Underpayments of \$83,045</i></u></p> <ol style="list-style-type: none"> 1. Become familiar with DE requirements for reporting nonresident membership. 2. Review membership data thoroughly to ensure students are properly classified prior to submitting reports to DE. 3. Review reports submitted subsequent to the years we audited and submit revised reports to DE if errors are found. 4. DE should adjust the District's allocations to correct the underpayment of \$83,045 in tuition for children placed in private homes. 	<p>Background:</p> <p>Our prior audit of pupil membership submitted to DE for the 2005-06 and 2004-05 school years found that nonresident secondary membership for children placed in private homes was understated by 1,036 and 515 days, respectively. The errors resulted in underpayments of \$52,543 and \$30,502 in tuition for children placed in private homes for the 2005-06 and 2004-05 school years, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that child accounting personnel were assigned to child accounting training conferences. Meetings were held with school building personnel to ensure students were properly coded and that all required documentation was obtained and forwarded to child accounting. Reports submitted subsequent to our prior audit were reviewed and revised as necessary.</p> <p>Based on the results of our current audit, we concluded that the District had taken appropriate corrective action to address this finding.</p> <p>As of March 12, 2010, DE had not reimbursed the District for the \$83,045 underpayment. We again recommend that they do so.</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
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