

SCHOOL DISTRICT OF THE CITY OF JEANNETTE
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2011

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

Mr. William Brasco, Board President
School District of City Jeannette
198 Park Street
Central Administration Building
Jeannette, Pennsylvania 15644

Dear Governor Corbett and Mr. Brasco:

We conducted a performance audit of the School District of the City of Jeannette (SDCJ) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 27, 2009 through April 12, 2011, 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 SDCJ 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 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 SDCJ's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SDCJ's operations and facilitate compliance with legal and administrative requirements. We appreciate the SDCJ's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 22, 2011

cc: **SCHOOL DISTRICT OF THE CITY OF JEANNETTE** Board Members

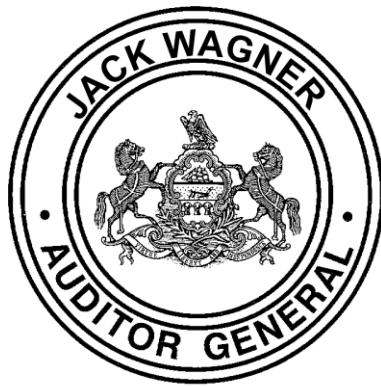


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the School District of the City of Jeannette (SDCJ). 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 SDCJ in response to our prior audit recommendations.

Our audit scope covered the period March 27, 2009 through April 12, 2011, 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 SDCJ encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 10,654. According to District officials, in school year 2007-08 the SDCJ provided basic educational services to 1,241 pupils through the employment of 89 teachers, 51 full-time and part-time support personnel, and 7 administrators. Lastly, the SDCJ received more than \$9.9 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the SDCJ 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: Errors in Reporting Nonresident Membership Resulted in an Overpayment of \$82,772 in Tuition for Children Placed in Private Homes.

For the 2007-08 school year, our audit found that nonresident elementary and secondary membership for children placed in private homes was overstated by 136 and 1,538 days, respectively. The error resulted in an overpayment of \$82,772 in Commonwealth-paid tuition for children placed in private homes (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses.

We determined that a risk exists that unauthorized changes to the SDCJ's data could occur and not be detected because the SDCJ was unable to provide supporting evidence that it is monitoring all remote activity in its system (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the SDCJ from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SDCJ did take corrective action pertaining to errors in reporting nonpublic students transported (see page 12). The SDCJ had not taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting 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 March 27, 2009 through April 12, 2011.

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 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 SDCJ'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:

- ✓ 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?
- ✓ 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 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

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.

SDCJ 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 financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 29, 2009, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding →

Errors in Reporting Nonresident Membership Resulted in an Overpayment of \$82,772 in Tuition for Children Placed in Private Homes

Public School Code section relevant to the finding:

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2007-08 school year found that nonresident elementary and secondary membership for children placed in private homes was overstated by 136 and 1,538 days, respectively. The error resulted in an overpayment of \$82,772 in Commonwealth-paid tuition for children placed in private homes.

The District reported the membership days as for children placed in private homes, when they should have been reported as nonresident institutionalized children for whom the child's district of residence pays tuition. The district of residency was correctly billed and tuition was received by the District. Clerical errors also contributed to the overstatement.

No problems were noted in the 2006-07 school year.

We have provided DE with reports detailing the nonresident membership errors for use in recalculating the District's tuition payment.

Recommendations

The *School District of the City of Jeannette* should:

1. Review membership data thoroughly to ensure students are properly classified prior to submitting membership reports to DE.
2. Review reports submitted subsequent to the years audited, and submit revised reports to DE if errors are found,

The *Department of Education* should:

3. Adjust the District's allocations to recover the overpayment of \$82,772.

Management Response

Management waved the opportunity to respond at the time of our audit.

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 Jeannette City 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 it is monitoring all remote activity in its system. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes is increased.

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 vendor access to the District system:

1. The District 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.
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 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); and does not lock out users after three unsuccessful attempts and require users to log off the system after a period of inactivity (i.e., 60 minutes maximum).
5. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
6. 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 their system.
7. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
8. The District does not have formal policies in place to control emergency changes to systems or programs.
9. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
10. The District does not have a list of personnel with authorized access to the area where the servers with the membership/attendance data reside.
11. 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.

12. The District does not have compensating controls that would mitigate the IT weaknesses and alert the District to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.

Recommendations

The *City of Jeannette School District* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
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 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).
5. Allow only access to the system only 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.

6. 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.
7. Allow upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.
8. Establish a process for defining, raising, testing, documenting, assessing, and authorizing emergency changes to systems or programs that do not follow the established change process.
9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
10. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
11. 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.
12. To mitigate IT control weaknesses, the District should have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Management Response

Management waived the opportunity to respond at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the School District of the City of Jeannette (SDCJ) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to errors in reporting data for nonpublic students transported, and the second finding pertained to errors in reporting 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 performed audit procedures and questioned District personnel regarding the prior findings. As shown below, we found that the SDCJ did implement recommendations related to transportation of nonpublic students, but did not implement recommendations related to errors in reporting nonresident membership.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Transportation Reimbursement Underpayment of \$1,925

Finding Summary: Our prior audit of the District's pupil transportation records found errors in data reported to the Department of Education (DE) for the 2005-06 school year. The number of nonpublic students transported was understated, resulting in a transportation underpayment of \$1,925.

Recommendations: Our audit finding recommended that the SDCJ:

1. Require administrative personnel to perform an internal review of transportation reports prior to their submission to DE to ensure accurate reporting of the number of nonpublic pupils transported.
2. Ensure that records are maintained so that all necessary information is available to personnel preparing transportation reports as well as for audit purposes.
3. Review reports submitted to DE subsequent to the years audited and, if errors are found, submit revised reports.

We also recommend that the Department of Education:

4. Adjust the District's allocations to correct the \$1,925 underpayment of transportation reimbursement.

Current Status: During our current audit procedures we found that the SDCJ did implement the recommendations. As of April 12, 2011, DE had not adjusted the District's allocations to correct the \$1,925 underpayment of transportation reimbursement. We again recommend that DE take action to resolve this underpayment.

Finding No. 2: Errors in Reporting Nonresident Membership Resulted in an Overpayment of \$7,386 in Tuition for Children Placed in Private Homes

Finding Summary: Our prior audit of pupil membership reports submitted to DE for the 2005-06 school year found that nonresident secondary membership for children placed in private homes was overstated by 180 days. The errors resulted in an overpayment of \$7,386 in tuition for children placed in private homes.

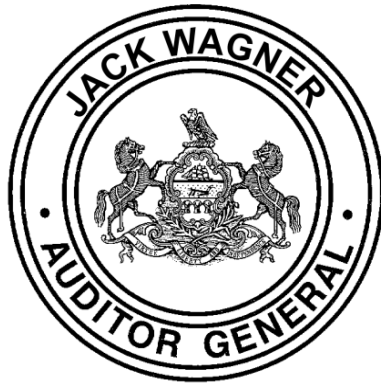
Recommendations: Our audit finding recommended that the SDCJ:

1. Review membership data thoroughly to ensure student are properly classified prior to submitting reports to the DE.
2. Review reports submitted subsequent to the years audited, and submit revised reports to DE if errors are found.

We also recommend the Department of Education:

3. Adjust the District's allocations to recover the \$7,386 overpayment of tuition for children placed in private homes.

Current Status: During our current audit procedures we found that the SDCJ did not implement the recommendations. The District failed to correctly report nonresident membership for children placed in private homes (see the current finding beginning on page 6). As of April 12, 2011, DE had not adjusted the District's allocations to correct the \$7,386 overpayment of tuition for children placed in private homes. We again recommend that DE take action to resolve this overpayment.



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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Harrisburg, PA 17120

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