

STROUDSBURG AREA SCHOOL DISTRICT
MONROE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2010

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

Ms. Eloise Laubach, Board President
Stroudsburg Area School District
123 Linden Street
Stroudsburg, Pennsylvania 18360

Dear Governor Rendell and Ms. Laubach:

We conducted a performance audit of the Stroudsburg Area School District (SASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period July 13, 2007 through August 3, 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 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

March 11, 2010

cc: **STROUDSBURG AREA SCHOOL DISTRICT** Board Members

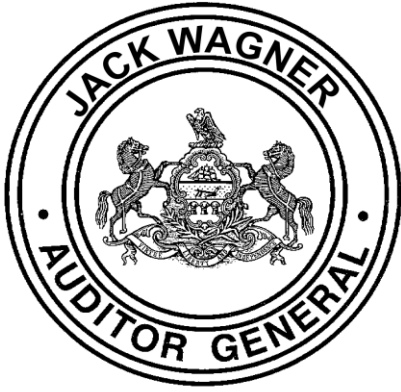


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Stroudsburg 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 July 13, 2007 through August 3, 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 and 2006-07.

District Background

The SASD encompasses approximately 73 square miles. According to 2000 federal census data, it serves a resident population of 138,678. According to District officials, in school year 2007-08 the SASD provided basic educational services to 5,906 pupils through the employment of 488 teachers, 364 full-time and part-time support personnel, and 24 administrators. Lastly, the SASD received more than \$18.9 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 Continued To Not Be Updated Timely. Our audit of the SASD's records found that the current Memorandums of Understanding (MOU) between the SASD and two of the three local law enforcement agencies have not been updated (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 and 2004-05 school years, we found the SASD had not taken appropriate corrective action in implementing our recommendations pertaining to the SASD's MOU with local law enforcement and the Pennsylvania State Police (see page 12).



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 July 13, 2007 through August 3, 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 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:

- ✓ 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 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.

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 and pupil transportation.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, and financial stability.
- Items such as Board meeting minutes.

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 October 22, 2007, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Memorandums of Understanding Continued To Not Be Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) 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.

Our audit of the District's records found that the current Memorandums of Understanding (MOU) between the Stroudsburg Area School District (SASD) and two of the three local law enforcement agencies: Delaware Water Gap Police Department and the Pennsylvania State Police, Swiftwater Barracks were signed December 6, 2001 and November 14, 2001, respectively, and have not been updated. The MOU between the SASD and the Stroud Area Regional Police Department was updated and signed on December 10, 2008.

Additionally, the Basic Education Circular issued by the Department of Education (DE) 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 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.

During our prior audit, District personnel stated that they had signed MOUs with the three local law enforcement agencies. However, two of these forms were not considered MOUs and were solely to comply with the requirements of Act 26 of 1995 of the Pennsylvania Legislature concerning expulsions for weapons violations and did not meet the Basic Education Circular criteria issued by DE.

Recommendations

The *Stroudsburg Area School District* should:

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

Management Response

Management stated the following:

The Memorandum of Understanding will be extended to the State Police (Swiftwater Barracks) and the Borough of Delaware Water Gap Police Department and placed on the August 19, 2009 Regular Board Meeting agenda for approval.

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 SASD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above vendor’s software are maintained on the vendor’s servers which are physically located at the vendor’s location. The District has remote access into the vendor’s network servers. The vendor also provides the District with system maintenance and support

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 vendor 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 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).
2. 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.

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

Recommendations

The *Stroudsburg Area School District* should:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
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.

Management Response

Management stated the following:

1. The District's Acceptable Use Policy governs activities of users once they're inside our open or semi-open systems (computers, network, e-mail). Users have to agree to certain allowed uses, but they don't have to agree to authentication restrictions, so those restrictions don't belong in the Acceptable Use Policy.
2. The District will develop a separate agreement covering vendors and consultants.
3. We agree with some of the logical access control observations, as they would relate to closed systems such as the Student Information System, Payroll, and Accounting. In particular, we plan to implement an automatic logoff feature after a set period of inactivity. However, the recommended password controls (new password every 30 days, tighter password syntax, prevention of repetitive passwords) actually make the system less secure because they increase the likelihood that users will have their password on a post-it note attached to their monitors so they can remember them.
4. We need to provide our vendors with 24/7 access because we live in a 24/7 world. Vendors often make necessary changes to database design in off hours when our users aren't accessing the system. In many cases, if

access had to be activated only when specifically needed, we would be unable to use our system until all the necessary people are available to grant access.

5. We are implementing a method of producing reports of vendor and employee access. To fully review these reports on a regular basis would require the addition of dedicated staff, for which no funds exist.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditor during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit. The observation remains as presented.

Status of Prior Audit Findings and Observations

Our prior audit of the Stroudsburg Area School District (SASD) for the school years 2005-06 and 2004-05 resulted in one reported observation pertaining to the District’s Memorandum of Understanding (MOU) with local and state police. 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 observation. As shown below, we found that the SASD did not implement recommendations related to the District’s MOU with local and state police.

<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. Observation:</u> <u>Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none"> 1. Review, update and re-execute the current MOU between the District and the three local law enforcement agencies. 2. Approve the current MOU and adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the District’s records found that the current MOU between the District and three local law enforcement agencies: Delaware Water Gap and Stroud Area Regional police departments and the Pennsylvania State Police, Swiftwater Barracks was signed December 6, 2001, November 14, 2001 and November 14, 2001, respectively, and has not been updated.</p>	<p>Current Status:</p> <p>We followed up on the SASD’s records and found that the SASD <u>did not</u> take appropriate corrective action to ensure the MOUs between the SASD and the Delaware Water Gap Police Department and the Pennsylvania State Police, Swiftwater Barracks were current.</p> <p>The District did receive a signed MOU between the Stroud Area Regional Police Department on December 10, 2008.</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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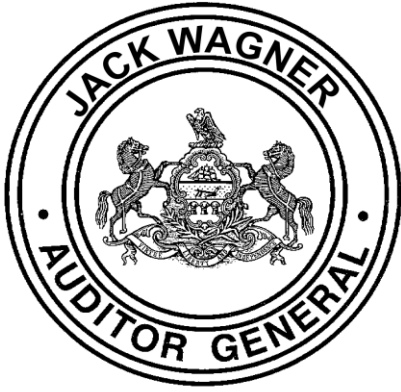
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