WHITEHALL-COPLAY SCHOOL DISTRICT

LEHIGH COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

SEPTEMBER 2010

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

Mr. Justin M. Madaus, Board President
Whitehall-Coplay School District
2940 MacArthur Road
Whitehall, Pennsylvania 18052

Dear Governor Rendell and Mr. Madaus:

We conducted a performance audit of the Whitehall-Coplay School District (WCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period January 30, 2009 through January 19, 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 WCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, 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 observation and recommendations have been discussed with WCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve WCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the WCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/
JACK WAGNER

September 8, 2010   Auditor General

cc: **WHITEHALL-COPLAY 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 Whitehall-Coplay School District (WCSD). 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 WCSD in response to our prior audit recommendations.

Our audit scope covered the period January 30, 2009 through January 19, 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 WCSD encompasses approximately 13 square miles. According to 2000 federal census data, it serves a resident population of 28,283. According to District officials, in school year 2007-08 the WCSD provided basic educational services to 4,353 pupils through the employment of 277 teachers, 321 full-time and part-time support personnel, and 23 administrators. Lastly, the WCSD received more than $10.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the WCSD 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 WCSD personnel should improve controls over remote access to its computers. In particular, control should be strengthened over outside intermediate unit 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 WCSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the WCSD took appropriate corrective action in implementing 5 of our 6 recommendations pertaining to their student accounting applications (see page 9).

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 January 30, 2009 through January 19, 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

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 WCSD'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?

✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

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.

✓ 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 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.

WCSD 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 and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 29, 2009, we reviewed the WCSD's response to DE. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation →

Unmonitored IU System Access and Logical Access Control Weaknesses

The Whitehall-Coplay School District uses software purchased from the Carbon Lehigh Intermediate Unit #21 (IU) for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the above software are maintained on the IU's servers which are physically located at the IU. The District has remote access into the IU's network servers, with the IU providing 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 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.

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.

During our review, we found the District had the following weakness over vendor access to the District's system:

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 IU, 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.

Recommendations

The *Whitehall-Coplay School District* should:

Implement a security policy and system parameter settings to require all users, including the IU, 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.

Management Response

Management stated the following:

The software utilized by the District for child accounting data input is provided by Carbon Lehigh Intermediate Unit (CLIU 21). The software does not have system parameter setting capabilities that require users to change their passwords, nor can it require minimum character lengths or special characters. The system lock out is programmable and it is currently set to lock out users after three unsuccessful attempts. As employees users are bound to the terms and conditions of the district's Policy 812 – ACCEPTABLE USE OF THE ELECTRONIC COMMUNICATIONS SYSTEMS AND NETWORK which includes specific parameters regarding the security of user passwords and log-in.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors 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 Whitehall-Coplay School District (WCSD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to their student accounting applications. 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 WCSD Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the WCSD did not implement 1 of our 6 recommendations related to their student accounting applications.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report		
Prior Recommendations	**Implementation Status**	
I. Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses 1. Require District employees to sign that they agree to abide by the information technology (IT) Security Policy. 2. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the Carbon-Lehigh Intermediate Unit #21 (IU) sign this policy, or the District should require the IU to sign the District's Acceptable Use Policy. 3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID. 4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.	**Background**: Our prior audit found that the WCSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District utilizes IU to provide them with system maintenance and support. The IU has remote access into the District's network servers.	*Current Status*: We followed up on the WCSD software vendor which has remote access into the District's network servers and found that WCSD did not take corrective action to address 1 of our 6 recommendations of implementing 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.

5. 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. 6. Store back-up tapes in a secure, off-site location.		

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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