

EASTON AREA SCHOOL DISTRICT
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Ms. Patricia Fisher, Board President
Easton Area School District
1801 Bushkill Drive
Easton, Pennsylvania 18040

Dear Governor Rendell and Ms. Fisher:

We conducted a performance audit of the Easton Area School District (EASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 13, 2008 through August 7, 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 EASD 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 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

January 26, 2010

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

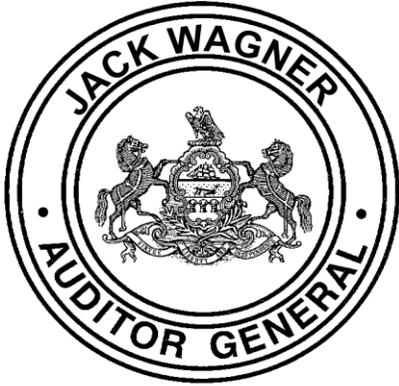
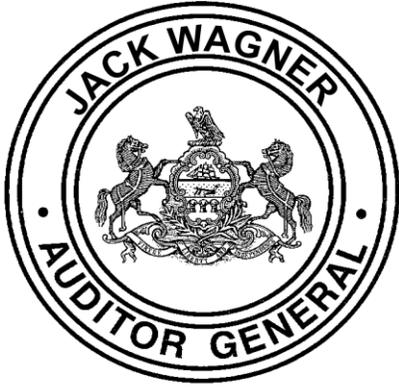


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Easton Area 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 March 13, 2008 through August 7, 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

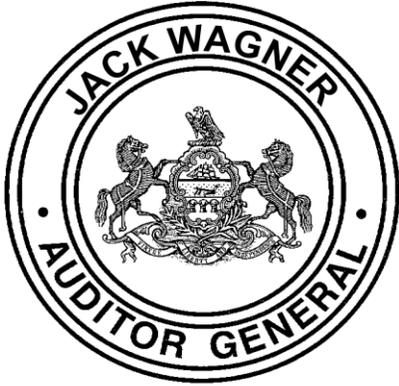
The EASD encompasses approximately 28 square miles. According to 2005 local census data, it serves a resident population of 63,195. According to District officials, in school year 2007-08 the EASD provided basic educational services to 9,047 pupils through the employment of 767 teachers, 408 full-time and part-time support personnel, and 36 administrators. Lastly, the EASD received more than \$31.3 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; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that EASD 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 EASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the EASD did take appropriate corrective action in implementing our recommendations pertaining to the EASD's Memorandum of Understanding with local police departments (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 March 13, 2008 through August 7, 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

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:

- ✓ 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?
- ✓ 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?

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.

- ✓ 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 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.

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 and pupil transportation.

Our audit examined the following:

- Records pertaining to 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 EASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 29, 2009, we reviewed the EASD's response to DE. 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 Vendor System Access and Logical Access Control Weaknesses

The Easton Area 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 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 does not have current information technology (IT) policies and procedures for controlling the activities of the vendor, nor does it require the vendor to sign the District’s Acceptable Use Policy.
2. 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 passwords include alpha, numeric and special characters.

3. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
4. The District does not store data back-ups in a secure, off-site location.

Recommendations

The *Easton Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of the vendors and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.
2. 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 that are a minimum length of eight characters; and passwords should use include alpha, numeric and special characters.
3. 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 access to its data and ensure that changes to the data are made only by authorized vendor representatives.
4. Store back-up tapes in a secure, off-site location.

Management Response

Management stated the following:

1. The District DOES have procedures in place for controlling the activities of the vendor. There is a checkbox in PowerSchool that has to be enabled by the district each time the vendor needs access to the system. Without this box enabled, the vendor cannot access our database. The district will require the vendor to sign our Acceptable Use Policy.
2. There would be no way to assure that users would change their passwords every 30 days, even if they could change their own password. We don't allow them to change their passwords. If they feel their

password has been breached, procedures are in place to have it changed. We currently change all user passwords every 3 years which coincides with our lease refresh. The District does not have the staff and it is not economically feasible to change passwords every 30 days. We will be instituting the 8-character, alpha, numeric, special character password configuration next school year.

3. The suggestion is just not practical. Each time you call PowerSchool tech support you get a different support person that may or may not need to log into the system for technical reasons. This would mean that every single tech support person at Person would need to be a user in our system. Currently, tech support at Person has one log in for any tech support person that needs to help us through issues.
4. The District is making provisions for off-site backup to be instituted this school year.

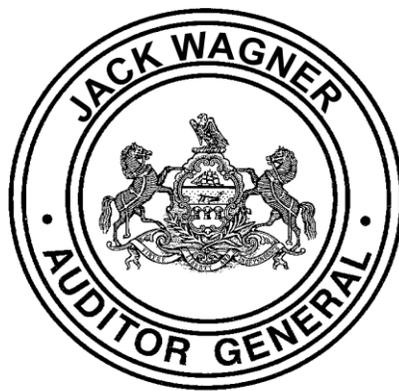
Auditor Conclusion

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 Easton Area School District (EASD) for the school years 2005-06 and 2004-05 resulted in one reported finding pertaining to Memorandum of Understanding (MOU). 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 finding. As shown below, we found that the EASD did 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>I. Finding: District Failed to Obtain and/or Update Memorandum of Understanding</i></u></p> <ol style="list-style-type: none"> 1. Develop and implement a MOU between the two elementary and one middle school and appropriate local law enforcement agency(ies) and/or the Pennsylvania State Police as required by Section 13-1303-A(c) of the Public School Code. 2. Review, update and re-execute the current MOU between the two elementary, alternative and high schools and Palmer Police Department. 3. Adopt a policy requiring the administration to review and re-execute the MOUs every two years. 	<p>Background:</p> <p>Our prior audit of the District’s records found that the District did not have a signed MOU with the Forks Township Police Department and the MOU with the Palmer Police Department was signed September 3, 1998, and had not been updated.</p>	<p>Current Status:</p> <p>We followed up on the EASD’s records and found that the EASD <u>did</u> take appropriate corrective action to ensure a MOU between the EASD and the Forks Township Police Department was implemented and the MOU between the EASD and the Palmer Police Department was current.</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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The Honorable Gerald Zahorchak, D.Ed.
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The Honorable Robert M. McCord
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Senator Jeffrey Piccola
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173 Main Capitol Building
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Senator Andrew Dinniman
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Senate Education Committee
183 Main Capitol Building
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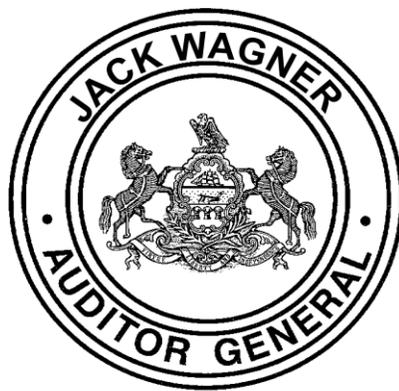
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