

ELLWOOD CITY AREA SCHOOL DISTRICT
LAWRENCE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010

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

Mr. Leroy Cortez, Board President
Ellwood City Area School District
501 Crescent Avenue
Ellwood City, Pennsylvania 16117

Dear Governor Rendell and Mr. Cortez:

We conducted a performance audit of the Ellwood City Area School District (ECASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 2, 2007 through December 18, 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 ECASD 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 ECASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve ECASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the ECASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

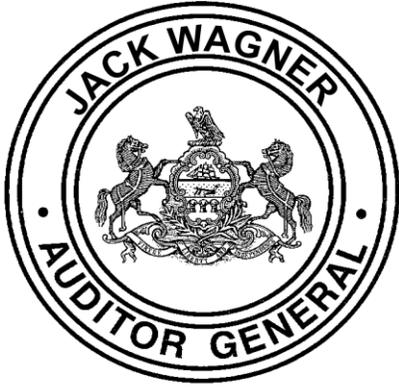
JACK WAGNER
Auditor General

September 3, 2010

cc: **ELLWOOD CITY 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 Ellwood City Area School District (ECASD). 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 ECASD in response to our prior audit recommendations.

Our audit scope covered the period November 2, 2007 through December 18, 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

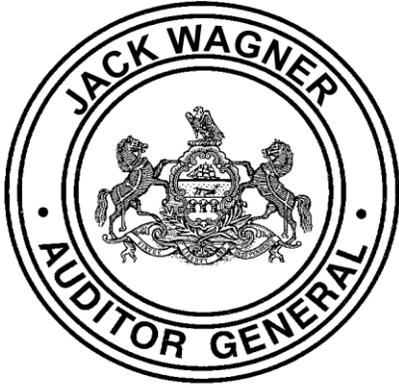
The ECASD encompasses approximately 49 square miles. According to 2000 federal census data, it serves a resident population of 14,040. According to District officials, in school year 2007-08 the ECASD provided basic educational services to 2,006 pupils through the employment of 145 teachers, 78 full-time and part-time support personnel, and 8 administrators. Lastly, the ECASD received more than \$14.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the ECASD 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. Our review found that the ECASD has weaknesses in permitting unmonitored vendor system access and weaknesses in logical access controls (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the ECASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the ECASD is in the process of implementing our recommendations pertaining to transportation contractor payments in excess of the Department of Education's final formula allowance (see page 8).



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 November 2, 2007 through December 18, 2009, except for the verification of professional employee certification which was performed for the 2009-10 school year.

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 ECASD'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?

- ✓ 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

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.

ECASD 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.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 3, 2008, we reviewed the ECASD's response to DE dated May 14, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation



Unmonitored Vendor System Access and Logical Access Control Weaknesses

Criteria relevant to the finding:

Best practices in information technology security include:

limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring of the system to ensure integrity of key databases and applications; regulating changes to software; restricting physical access; implementing and maintaining minimum environmental controls; and planning for contingencies

The Ellwood City Area School District uses software purchased from an outside vendor for its critical student accounting application (membership and attendance). The software vendor has remote access in 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 providing 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.

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 in logical access controls and over vendor access to the District's system:

The District has the following weaknesses in logical access controls:

1. The District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days. Furthermore, the District's system parameter settings do not require all users to use passwords that are a minimum length of eight characters.

2. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
3. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
4. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.

Recommendations

The *Ellwood City Area School District* should:

1. Implement a security policy and system parameter settings to require all users, including the vendor, to:
 - change their passwords every 30 days; and
 - use passwords that are a minimum length of eight characters.
2. 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.
3. Allow 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.
4. Make upgrades/updates to the District's system only after receipt of written authorization from appropriate District officials.

Management Response

Management stated the following:

The District will discuss with the vendor and staff to make the necessary adjustments and corrections as recommended in the observation.

Status of Prior Audit Findings and Observations

Our prior audit of the Ellwood City Area School District (ECASD) for the school years 2005-06 and 2004-05 resulted in one observation. The observation addressed that fact that the amount paid to the District’s transportation contractor greatly exceeded the Department of Education (DE) final formula allowance. 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 ECASD Board’s written response provided to DE, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the ECASD is in the process of implementing our recommendations.

<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. Observation: Amount Paid Pupil Transportation Contractor Greatly Exceeded Department of Education Final Formula Allowance</i></u></p> <p>1. Prior to negotiating a new contract, the board and District administrators should be cognizant of the state’s final formula allowance for the District.</p> <p>2. Consider routinely seeking competitive bids for the District’s pupil transportation services to ensure the most efficient cost to the District and its taxpayers.</p>	<p>Background:</p> <p>Our prior audit of the District’s pupil transportation costs for the 2003-04 through 2005-06 school years found that the District’s contracted pupil transportation costs exceeded the DE final formula allowance.</p>	<p>Current Status:</p> <p>Our current audit found that the District reviewed the current transportation contract to determine if it could be terminated prior to its scheduled end date of June 30, 2010. After solicitor review, no legally acceptable rationale for early termination was identified.</p> <p>Therefore, the District will prepare specifications and will seek competitive bids for the 2010-11 school year and every three or four years thereafter.</p> <p>In addition, the District will review various transportation reporting software packages so that routes, rosters and changes can be more easily monitored and to improve the District’s reporting and monitoring capabilities.</p> <p>In our next audit we will review the status of the District’s implementation of these plans.</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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Representative James Roebuck
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