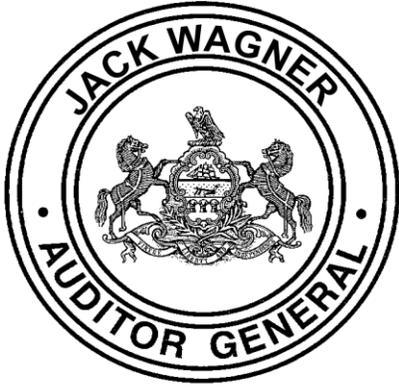


SCHOOL DISTRICT OF THE CITY OF MONESSEN
WESTMORELAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2010

SCHOOL DISTRICT OF THE CITY OF MONESSEN
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Roberta C. Bergstedt, Board President
School District of the City of Monessen
1275 Rostraver Street
Monessen, Pennsylvania 15062

Dear Governor Rendell and Ms. Bergstedt:

We have conducted a performance audit of the School District of the City of Monessen for the years ended June 30, 2004 and 2003, and in certain areas extending beyond June 30, 2004. 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 was limited to the following objectives:

- Objective No. 1 - To determine if the School District of the City of Monessen complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the School District of the City of Monessen took appropriate corrective action to address the observation and recommendations contained in our prior audit report.

To plan and perform our audit of the School District of the City of Monessen, we considered the district's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the district's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

Independent Auditor's Report (Continued)

The results of our tests indicated that, in all significant respects, the School District of the City of Monessen was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the finding in our report. We also identified continuing internal control weaknesses as discussed in the observation. The finding and observation are discussed further in the Conclusions section of this report:

Objective No. 1

Finding No. 1 – Errors in Reporting Nonresident Membership Resulted in Overpayments of \$64,503

Objective No. 2

Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses

We believe that our recommendations, if implemented by the district, will improve the internal control weaknesses identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

Sincerely,

June 17, 2010

/s/
JACK WAGNER
Auditor General

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

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The School District of the City of Monessen is located in Westmoreland County and encompasses an area of approximately 2 square miles. The school district has a population of 8,670, according to the 2000 federal census. The administrative offices are located at 1275 Rostraver Street, Monessen, Pennsylvania.

According to school district administrative officials, during the 2003-04 school year, the district provided basic educational services to 1,096 pupils through the employment of 5 administrators, 87 teachers, and 40 full-time and part-time support personnel. Special education was provided by the district and the Westmoreland Intermediate Unit #7. Occupational training and adult education in various vocational and technical fields were provided by the district and the Mon Valley Career and Technology Center.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year in which the school district incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school district throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 13 through 15 of this report for a listing of the state revenue the district received during the 2003-04 and 2002-03 school years and for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. School district annual financial reports and the related certified audits of the payments are not available before October 31st of the following fiscal year.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

Our audit objectives were:

- Objective No. 1 - To determine if the School District of the City of Monessen complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and
- Objective No. 2 - To determine if the School District of the City of Monessen took appropriate corrective action to address the observation and recommendations contained in our prior audit report.

The scope of our audit covered the years ended June 30, 2004 and 2003, and in certain areas extending beyond June 30, 2004.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended (Public School Code).

The proper administration of a school district requires school board members to establish and maintain internal controls to provide reasonable assurance that specific school district objectives will be achieved. School board members are responsible for the adoption and use of policies and procedures that promote the economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the school district's internal controls as they relate to the district's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a school district's operations for a given year until after this information becomes available.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

CONCLUSIONS – OBJECTIVE NO. 1

The first objective of our audit was to determine if the School District of the City of Monessen complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the School District of the City of Monessen complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the finding listed below. The finding and recommendations were reviewed with representatives of the School District of the City of Monessen, and their comments have been included in this report.

Finding - Errors in Reporting Nonresident Membership Resulted in Overpayments of \$64,503

Our audit of pupil membership reports submitted to the Department of Education (DE) for the 2003-04 and 2002-03 school years found that nonresident membership days for children placed in private homes was overstated by 180 days in elementary and 14 days in secondary for the 2003-04 school year, and by 179 days in full-time kindergarten and 1,522 days in secondary for the 2002-03 school year. The errors resulted in overpayments of \$5,631 and \$58,872, respectively.

Section 2503(c) of the Public School Code provides that the Commonwealth will pay tuition to districts providing education to nonresident children placed in private homes. The payments are based on the membership days reported for such children.

District personnel incorrectly classified some resident alternative education students as children placed in private homes for the 2002-03 school year, and also incorrectly classified a tuition waiver student as a child placed in a private home for the 2003-04 school year. They also made mathematical errors in the calculation of membership days for secondary nonresident children placed in private homes for the 2003-04 school year.

Nonresident pupil membership data must be maintained and reported in accordance with DE guidelines and instructions, since it is a major factor in determining the Commonwealth's payments of tuition for children placed in private homes.

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

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

Finding (Continued)

Recommendations

The board should require district personnel to:

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

DE should adjust the district's allocations to recover the overpayments of \$64,503 in tuition for children placed in private homes.

Response of Management

Management provided a written response agreeing with the finding and noting that the misclassification of resident students was an isolated incident limited to the 2003-04 school year, and that the other overstatements of nonresident membership were due to clerical errors.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 2

The second objective of our audit was to determine if the School District of the City of Monessen took appropriate corrective action to address the observation and recommendations contained in our prior audit report for the years ended June 30, 2002 and 2001, and in certain areas extending beyond June 30, 2002. The status of this observation, along with a description of the school board's disposition of each recommendation, was determined by one or more of the following procedures:

- reviewing the board's written response, dated October 11, 2005, to the Department of Education, replying to the Department of the Auditor General's audit report for the years ended June 30, 2002 and 2001, and in certain areas extending beyond June 30, 2002;
- performing tests as a part of, or in conjunction with, the current audit; and
- questioning appropriate district personnel regarding the prior years' observation and recommendations.

Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses

The School District of the City of Monessen uses software purchased from an outside vendor for its critical applications (i.e., membership/attendance, accounts payable/budgetary, and payroll). The vendor has remote access into the district's network servers. Follow-up procedures performed during the fiscal year ended June 30, 2005, in conjunction with our prior audit of the fiscal years ended June 30, 2002 and 2001, found continuing weaknesses in the information technology (IT) controls over the district's computer system.

We determined that a continuing 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. 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.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

Observation (Continued)

The following recommendations were made in our prior audit based on weaknesses identified as of December 2004:

- the district should generate monitoring reports of the vendor's activity on the district's 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 access was appropriate and that data was not improperly altered. Further, this review should be evidenced by initialing and dating the monitoring reports reviewed;
- vendor changes to the district's data should be made only after receipt of written authorization from appropriate district officials;
- the district should require the vendors to assign unique userIDs and passwords to vendor employees authorized to access the district's system. Further, we recommend that the district obtain a list of vendor employees with remote access to their data and ensure that changes to the data are made only by authorized vendor representatives;
- the district should only allow the software vendor access to the system when a scheduled task is to be performed. When access is granted, the active connection should be monitored;
- the district should consider implementing strong authentication techniques for remote access such as one-time passwords or token devices (i.e., smart cards). If strong authentication is not considered cost-beneficial, the district should consider changing the vendor's password after each vendor log-in;
- the district should develop and implement policies and procedures for monitoring/controlling the activities of IT contractors;
- for contracts with information technology vendors, the district's legal counsel should consider how to protect the district's interests in the event that errors or fraud occur as a result of vendor employees accessing the district's data; and

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

Observation (Continued)

- the district should implement a security policy and system parameter settings to require all users, including the software vendor during their remote access, to 1) change their passwords on a regular basis (i.e., every 30 days); 2) use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; and 3) log off the system after a period of inactivity (i.e., 60 minutes maximum).

In its October 11, 2005, written response to our prior observation, the board stated:

The District is working with the software vendor to implement controls.

Our current year procedures consisted of inquiries of district personnel. The district's legal counsel now reviews contracts with outside information technology vendors. However, the district was unable to provide sufficient evidence that they addressed the remaining prior year recommendations as of our review on August 1, 2007. We are therefore re-issuing these recommendations. Furthermore, our current year procedures revealed six new weaknesses. We are therefore issuing six additional recommendations to address these new weaknesses.

Recommendations

We recommend the district implement the following to correct continuing vulnerabilities identified in prior audits:

- the district should generate monitoring reports (including firewall logs) of the vendor and employee remote 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;
- the upgrades/updates to the district's system should be made only after receipt of written authorization from appropriate district officials;
- the district should require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the district system;

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

Observation (Continued)

- the district should only allow remote access to their system when the vendor needs access to make pre-approved change/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;
- the district should 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; and
- the district should 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).

Further, we recommend the district implement the following to correct additional vulnerabilities identified during our current year audit:

- the district should maintain evidence that it performs reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner;
- the district should maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner;
- the district should analyze the impact on the system of any software updates/patches/changes before implementing the change;
- the district should develop policies and procedures to require written authorization when adding, deleting, or changing a userID;
- the district's Acceptable Use Policy should include provisions for authentication (e.g., password security and syntax requirements); and

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

Observation (Continued)

- the district should keep a listing of all employees with access to the school district's server room.

Response of Management

Management provided the following comments in response to our finding:

- The District will work with ProSoft to generate monitoring reports that will be reviewed by the appropriate District personnel. These reports will be retained for 36 months and available for further review and inspection.
- Vendor data changes will be initiated through written request signed by Superintendent.
- Vendor will be required to send a list of users to the District and assign unique user ID.
- The District will work to establish IT policies and procedures for controlling vendor activities.
- The District will implement security protocol for changes to passwords.
- Manual membership and attendance records are not maintained. Student attendance is verified on a daily basis between the teachers and the Principal's Office secretary.
- Documentation will be prepared by the Network Administrator and forwarded to the Superintendent evidencing that separated employees have been removed from the system. These reports will be maintained for 36 months.
- The District will keep a listing of employees with a key to the dark room.
- Other items not specifically referred to in this response will be addressed in a timely manner.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

Observation (Continued)

Auditor's Conclusion

Since all membership information is kept within the system and there are no manual records with which to make a comparison, we recommend periodically searching for unauthorized changes in the database using a “rollforward” technique. Using this methodology, district personnel would periodically roll the balance of student membership forward by taking the number of students at the beginning of the period, adding new students, and subtracting students leaving the district. The calculated ending balance would then be compared to the number of students in the database as of that date. Differences from the calculated balance would indicate possible unauthorized changes to the database and should be investigated.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Schedule of State Revenue Received

The district reported it received state revenue of \$6,003,306 and \$5,726,149, respectively, for the years ended June 30, 2004 and 2003, as detailed in the following schedule:

| STATE REVENUE | <u>2004</u> | <u>2003</u> |
|---|---------------------------|---------------------------|
| Basic Education | \$4,549,764 | \$4,305,947 |
| Read to Succeed | - | 66,447 |
| Charter Schools | 2,539 | 2,724 |
| Tuition for Orphans and Children Placed in Private Homes | 101,227 | 104,879 |
| Homebound Instruction | 92 | 2,880 |
| Alternative Education | 26,856 | 36,630 |
| Driver Education | 525 | 700 |
| Special Education | 560,259 | 529,175 |
| Transportation | 149,051 | 155,729 |
| Rental and Sinking Fund Payments | 261,394 | 257,550 |
| Health Services | 21,465 | 22,776 |
| Social Security and Medicare Taxes | 218,563 | 208,895 |
| Retirement | <u>111,571</u> | <u>31,817</u> |
| <u>TOTAL STATE REVENUE</u> | <u>\$6,003,306</u> | <u>\$5,726,149</u> |

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Description of State Revenue Received (Source: Pennsylvania Accounting Manual)

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Driver Education

Revenue received from the Commonwealth as subsidy for conducting a standardized driver education program. Payments are made in accordance with Section 2504.1 of the Public School Code.

SCHOOL DISTRICT OF THE CITY OF MONESSEN
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school-age special education students.

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

Health Services

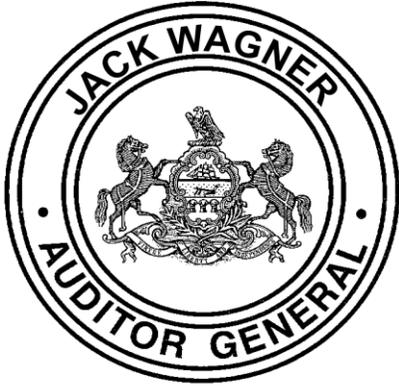
Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.



BUREAU OF SCHOOL AUDITS
AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.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
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Harrisburg, PA 17126

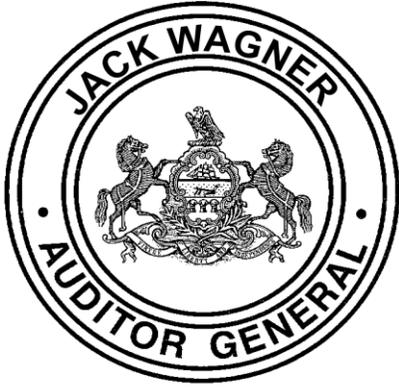
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