

SOUTH ALLEGHENY SCHOOL DISTRICT  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

DECEMBER 2009



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

Mr. Luke Riley, Board President  
South Allegheny School District  
2743 Washington Boulevard  
McKeesport, Pennsylvania 15133

Dear Governor Rendell and Mr. Riley:

We conducted a performance audit of the South Allegheny School District (SASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period November 7, 2006 through May 15, 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, 2007, 2006, and 2005. 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, except as detailed in 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 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

December 3, 2009

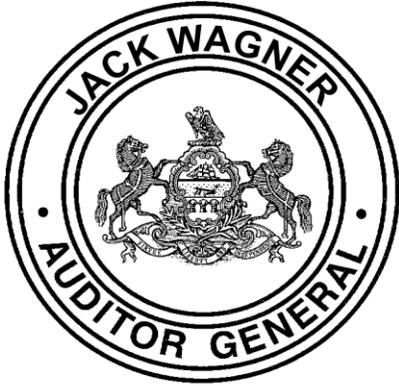
cc: **SOUTH ALLEGHENY SCHOOL DISTRICT** Board Members

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the South Allegheny 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 November 7, 2006 through May 15, 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, 2006-07, 2005-06 and 2004-05.

### **District Background**

The SASD encompasses approximately 9 square miles. According to 2000 federal census data, it serves a resident population of 13,109. According to District officials, in school year 2007-08 the SASD provided basic educational services to 1,608 pupils through the employment of 133 teachers, 22 full-time and part-time support personnel, and 12 administrators. Lastly, the SASD received more than \$12.5 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

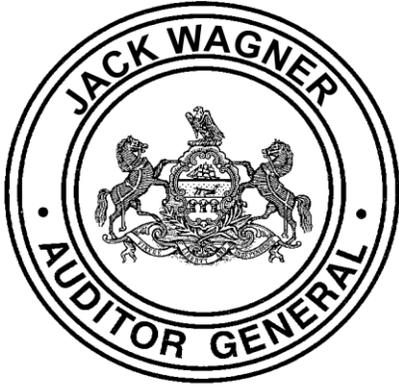
Our audit found that the SASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

#### **Observation: Unmonitored Vendor System Access and Logical Access**

**Control Weaknesses.** We determined that a risk exists that unauthorized changes to the SASD's data could occur and not be detected because the SASD was unable to provide supporting evidence that it is adequately monitoring vendor activity in its system (see page 5).

#### **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 2003-04 and 2002-03 school years, we found the SASD had taken appropriate corrective action in implementing our recommendations pertaining to the failure of a board member to file a Statement of Financial Interests and inadequate provisions in employment contracts for district superintendents (see page 8).



## Audit Scope, Objectives, and Methodology

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### 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 7, 2006 through May 15, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 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:

- ✓ 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?

- ✓ 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 and comparative financial information.

Our audit examined the following:

- Records pertaining to state ethics compliance, 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 June 13, 2008, we reviewed the SASD's response to DE dated May 12, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation

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*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 Control Weaknesses

The South Allegheny 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 it is adequately monitoring vendor activity in its system.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into a paperless future with decentralized direct entry of data into their systems. 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 following weaknesses over vendor access to the District’s system:

1. The District does not have a formal contract with the vendor to provide student accounting applications and related information technology services.
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; and to maintain a password history to prevent the use of a repetitive password (i.e., approximately ten passwords). In addition, the District's system parameter settings do not lock out users after three unsuccessful access attempts.
4. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
5. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
6. The District does not have any compensating controls that would mitigate the IT weaknesses and alert the District to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.

## **Recommendations**

The *South Allegheny School District* should:

1. Develop an agreement with the vendor to provide student accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
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; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; and to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords). In addition, the District should implement a security policy and system parameter settings to lock out users after three unsuccessful access attempts.
4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Implement compensating controls that would mitigate the IT weaknesses and alert the District to unauthorized changes to the membership database, i.e., reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc.
6. Allow access to its 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.

**Management Response**

Management stated the following:

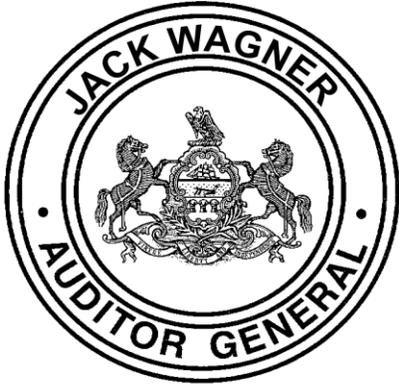
District will have software installed onto Student Accounting Server that will log all vendor access by user, date, time and reason. District will implement stronger password controls such as 8 character lengths and alpha/numeric requirement. Future plans include purchasing new firewall with VPN [virtual private network] capabilities. This will allow logging of all outside access and provide an additional layer of security for remote access. District will implement an electronic Acceptable Use Policy effective beginning of 09-10 school year that must be agreed to on initial login to system and upon any subsequent revisions to the policy.

## Status of Prior Audit Findings and Observations

Our prior audit of the South Allegheny School District (SASD) for the school years 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to a board member that failed to file the required Statement of Financial Interests, and the second finding pertained to inadequate provisions in employment contracts for District superintendents. 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 SASD Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the SASD did implement recommendations related to both of the two reported findings.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Board Member Failed to File Statement of Financial Interests</i></u></p> <p>1. Strengthen procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act.</p>	<p><b>Background:</b></p> <p>Our prior review of District records for the 2005 calendar year found that one board member failed to file the required Statement of Financial Interests.</p>	<p><b>Current Status:</b></p> <p>Our review indicated that all board members filed the required Statement of Financial Interests.</p> <p>Based on the results of our current audit, we concluded that the SASD <u>did</u> take appropriate corrective action to address this finding.</p>
<p><u><i>II. Finding 2: Inadequate Provisions in Employment Contracts for District Superintendents Led to a Confidential Buy-Out of Two Contracts, Costing the District’s Taxpayers Over \$375,000 and Continue to Place District Funds at Risk.</i></u></p> <p>1. Enter into employment contracts with prospective superintendents at the three-year minimum term permitted by state law, in order to limit potential financial liability by the District and its taxpayers.</p>	<p><b>Background:</b></p> <p>Our prior audit found that the SASD school board entered into a second five-year contract, for the period September 2004 through September 2009, with its Superintendent; however, on March 9, 2004, the board voted to enter into a “Separation and Release Agreement” with the Superintendent. The total cost to the District of buying out the Superintendent’s contract exceeded \$375,000.</p> <p>In addition, we noted that the new Superintendent’s contract was also for a five-year period and did not discuss the compensation and benefits payable to the Superintendent in the event of a premature termination of the contract.</p>	<p><b>Current Status:</b></p> <p>There has not been a new Superintendent’s contract since our prior audit. The current board’s May 12, 2009, response to our prior audit, after noting that a majority of current board members were not in office at the time of the buy-out, stated that the board agreed with our recommendations and would follow them for future contracts.</p>

<p>2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and justifying the District's expenditure of public funds to buy out his two contracts.</p> <p>3. Ensure that future employment contracts contain adequate termination provisions sufficient to protect the interests of the District and its taxpayers in the event that the employment ends prematurely for any reason.</p> <p>4. Work with the current Superintendent to include in her current contract, and any future contracts, a provision that addresses the compensation and benefits payable to, or on behalf of, the current Superintendent in the event of a premature termination of her contract.</p> <p>5. Avert paying multiple individuals to do the same job for the same period of time.</p>		
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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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The Honorable Robert M. McCord  
State Treasurer  
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Harrisburg, PA 17120

Senator Jeffrey Piccola  
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Senator Andrew Dinniman  
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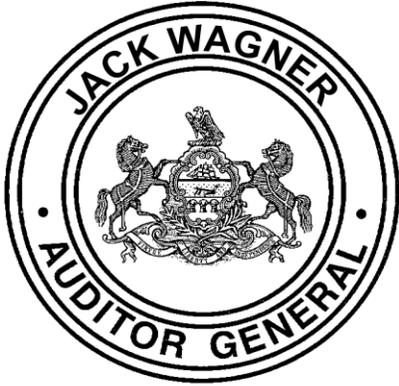
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