

DALLAS SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Bruce M. Goeringer, Board President
Dallas School District
Conyngham Avenue
P.O. Box 2000
Dallas, Pennsylvania 18612

Dear Governor Rendell and Mr. Goeringer:

We conducted a performance audit of the Dallas School District (DSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 28, 2008 through July 14, 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 DSD 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 this result is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with DSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve DSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the DSD'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: **DALLAS SCHOOL DISTRICT** Board Members

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses	6
Status of Prior Audit Findings and Observations	10
Distribution List	13



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Dallas School District (DSD). 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 DSD in response to our prior audit recommendations.

Our audit scope covered the period March 28, 2008 through July 14, 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 DSD encompasses approximately 46 square miles. According to 2000 federal census data, it serves a resident population of 19,482. According to District officials, in school year 2007-08 the DSD provided basic educational services to 2,760 pupils through the employment of 160 teachers, 103 full-time and part-time support personnel, and 11 administrators. Lastly, the DSD received more than \$8.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the DSD 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 DSD personnel have limited controls over remote access to their membership data. In particular, the DSD has limited control over outside vendor access to 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 DSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the DSD had taken appropriate corrective action in implementing our recommendations pertaining to controls of the student activity fund (see page 10) and reporting of nonresident membership (see page 12).



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 28, 2008 through July 14, 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 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 DSD'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?

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.

- ✓ 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?
- ✓ 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

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.

DSD 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.

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.

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 bus driver qualifications and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 21, 2009, we 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 to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Dallas School District employs the West Side Area Career and Technology Center (WSACTC) as an outside vendor for its critical student accounting applications (membership and attendance). The WSACTC found that software purchased from an outside vendor is used in processing data for the District and the vendor does have remote access through the WSACTC to this data. All software and hardware utilized by District is housed at the WSACTC.

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 is unable to monitor vendor activity and does not have documented procedures to perform formal 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 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.

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 a formal contract with the vendor to provide student accounting applications and related information technology services.
2. The District does not have a fully executed maintenance contract on file.

3. Due to the lack of a contract with the vendor, the District does not have a non-disclosure agreement for the District's proprietary information.
4. The District's Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
5. 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.
6. 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, require all users, including the vendor to use passwords that include alpha, numeric and special characters, lock out users after three unsuccessful access attempts and maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
7. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.
8. The District does not have any compensating controls that would mitigate the IT weaknesses and would support that the District would be alerted to unauthorized changes to the membership database, i.e., data entry procedures and review documentation.

Recommendations

The *Dallas 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 changes should be reviewed by legal advisors.

2. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file.
3. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
4. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
5. 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.
6. 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 include alpha numeric and special characters, lock out users after three unsuccessful access attempts and maintain a password history to prevent use of a repetitive password (i.e., approximately last ten passwords).
7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
8. Mitigate IT control weaknesses, by having written documentation for compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Management Response

Management stated the following:

1. Agreement document has been referred to West Side Career and Technical Center's solicitor for review and completion.
2. District will receive a copy of the consortium fully executed document signed by all members.

3. There is a non-disclosure agreement with Harris Tenex, our vendor, in the consortium contract, and Dallas School District will have a copy on file.
4. The District will have stronger security requirements for the student information system user name and passwords for enhanced security.
5. The data processing department members of the West Side Career and Technical Center will sign our Dallas School District Acceptable Use Policy.
6. West Side Career and Technical Center Data Processing has forwarded password termination issue to Harris School Solutions and will do manual password expiration.
7. The 60-Day, 120-Day, 180-Day and a Transaction History Reports are first reviewed and verified at West Side Career and Technical Center and then with Dallas School District's Child Accounting personnel (Assistant Superintendent).
8. The District will develop policies and procedures to follow the registration process to ensure the student is correctly entered in appropriate enrollment category.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditor's during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Dallas School District (DSD) for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to student activity funds and the second identified incorrect reporting of nonresident membership. 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 findings. As shown below, we found that the DSD did implement recommendations related to student activity funds and nonresident membership.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>I. Finding 1: Inadequate Control of Student Activity Funds</i></u></p> <ol style="list-style-type: none"> 1. Develop adequate controls, including a periodic historical review of club transactions and balances, must be adopted and maintained to provide assurance that student activity accounts are managed appropriately to ensure there are no differences between the District's books and bank reconciliations and there are adequate controls over segregation of duties. 2. Verify that general fund transactions, such as the library account, hourly teacher salaries and practice standard achievement testing are not run through any student activity fund (SAF). 3. Require two or more persons sign checks for SAF payments. The principal should be one of those persons. The 	<p>Background:</p> <p>Our prior audit of District records for the 2006-07 school year found that District personnel did not have a thorough understanding of SAF guidelines, and that the board did not establish adequate guidelines to provide sufficient control over the SAF. The lack of control resulted in deficiencies in general fund purchases, disbursements, fundraising and Public School Code compliance.</p>	<p>Current Status:</p> <p>We followed up on the DSD student activity reports for the 2008-09 school year and found the DSD <u>did</u> take corrective actions to address our prior audit recommendations requiring the board to develop adequate controls over student activity accounts.</p>

<p>persons signing checks should require and maintain invoices or other evidence of obligation, properly approved by the treasurer or other officer of the student organization, faculty, advisor, and fund custodian by the use of pre-numbered purchase orders, before signing the check. No check should be signed until they are filled out completely, including the date, name of payee and amount.</p> <p>4. The faculty advisor of each fundraising activity must be accountable for each fundraiser and maintain consistent, detailed documentation regarding collections made from students, and the financial success of student fundraising activities.</p> <p>5. The treasurer or custodian should submit a financial statement to the board quarterly or more often, at the direction of the board.</p>		
---	--	--

<p><u>II. Finding 2: Continued Incorrect Reporting of Nonresident Membership Resulted in the District Being Overpaid</u></p> <ol style="list-style-type: none">1. Board should provide regular in-service training to staff responsible for recording and reporting membership.2. Perform an internal review of membership reports and summaries prior to submission of final reports to the Department of Education (DE).3. Review subsequent years' report and, if errors are found, submit revised reports to DE.	<p>Background:</p> <p>Our prior audit found that the District overreported secondary membership days for nonresident children placed in private homes by 396 days in 2005-06 and by 895 days in the 2004-05 school years. Additionally kindergarten days were understated by 113 and elementary days were overstated by 136 days for the 2004-05 school year.</p> <p>These errors resulted in net overpayments to the District of \$16,114 for the 2005-06 school year and \$36,695 for the 2004-05 school year.</p>	<p>Current Status:</p> <p>We followed up on DSD child accounting reports and found that the DSD <u>did</u> take appropriate corrective action to address the finding in our prior audit. As of our fieldwork completion date, July 14, 2009, DE had not adjusted the DSD's allocations to resolve the overpayment.</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:

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

The Honorable Gerald Zahorchak, D.Ed.
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



This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

