

EAST PENN SCHOOL DISTRICT
LEHIGH COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Alan Earnshaw, Board President
East Penn School District
800 Pine Street
Emmaus, Pennsylvania 18049

Dear Governor Rendell and Mr. Earnshaw:

We conducted a performance audit of the East Penn School District (EPSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period March 23, 2007 through June 2, 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 EPSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observations and recommendations have been discussed with EPSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve EPSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the EPSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 19, 2010

cc: **EAST PENN SCHOOL DISTRICT** Board Members

Table of Contents

| | Page |
|---|------|
| Executive Summary | 1 |
| Audit Scope, Objectives, and Methodology | 3 |
| Findings and Observations | 6 |
| Observation No. 1 – Memorandums of Understanding Not Updated Timely | 6 |
| Observation No. 2 – Unmonitored Vendor System Access and Logical Access Control Weaknesses | 8 |
| Status of Prior Audit Findings and Observations | 13 |
| Distribution List | 15 |



Executive Summary

Audit Work

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

Our audit scope covered the period March 23, 2007 through June 2, 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 EPSD encompasses approximately 45 square miles. According to 2009 local census data, it serves a resident population of 55,582. According to District officials, in school year 2007-08 the EPSD provided basic educational services to 8,069 pupils through the employment of 522 teachers, 502 full-time and part-time support personnel, and 40 administrators. Lastly, the EPSD received more than \$20.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the EPSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

Observation 1: Memorandums of Understanding Not Updated Timely. Our audit of the EPSD's records found that the current Memorandums of Understanding between the EPSD and the Macungie and Alburtis Borough police departments were signed on May 12, 1999, and the Borough of Emmaus Police Department was signed on May 13, 1999, and have not been updated (see page 6).

Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that EPSD 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 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the EPSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the EPSD had taken appropriate corrective action in implementing our recommendations pertaining to the reporting of retirement wages (see page 13).



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 23, 2007 through June 2, 2009, except for the review of outside vendor access to the district's student accounting applications which was completed on May 26, 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 EPSD'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 payroll (e.g. Social Security and retirement), 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

EPSD 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, and financial stability.
- Items such as Board meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 17, 2007, we reviewed the EPSD's response to DE dated May 21, 2008. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Public School Code Section and criteria relevant to this finding:

Section 1303-A(c) requires:

All school entities to develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property.

Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU format to be used by school entities.

Section VI, General Provisions item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.
(Emphasis added)

Memorandums of Understanding Not Updated Timely

Our audit of the District's records found that the current Memorandums of Understanding (MOU) between the East Penn School District (EPD) and the Macungie and Alburdis Borough police departments were signed on May 12, 1999, and the Borough of Emmaus Police Department was signed on May 13, 1999, and have not been updated.

The failure to obtain current MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or any public conveyance providing transportation to or from a school or school sponsored activity. This internal control weakness could have an impact in law enforcement notification and response, and ultimately the resolution of a problem situation.

Recommendations

The *East Penn School District* should:

1. In consultation with the solicitor, review, update and re-execute the current MOU between the District and all appropriate local law enforcement agencies.

2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

East Penn will meet with the appropriate local police enforcement agencies to update the MOUs.

Observation No. 2 →

Unmonitored Vendor System Access and Logical Access Control Weaknesses

Criteria relevant to the 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.

The EPSD 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 contract with the vendor did not contain a non-disclosure agreement for the District’s proprietary information.
2. 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.

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 include alpha, numeric and special characters; and to lock out users after three unsuccessful attempts.
4. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
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 evidence they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and District employees). There is no evidence that the District is performing procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

Recommendations

The *East Penn School District* should:

1. The contract with the vendor should contain a non-disclosure agreement for the District's proprietary information.
2. 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.
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). Passwords should include alpha, numeric and special characters and lock out users after three unsuccessful attempts.

4. 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.
5. Only allow access to their system 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.
6. Generate monitoring reports (including firewall logs) of vendor and employee 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.

Management Response

Management stated the following:

Sunguard Pentamation, our student software vendor, hosts our database on their servers, so they have constant access to the data. This is beneficial for their backup of the data, as well as ability to support their software and make necessary programming changes. Other controls for user ID's and password changes are expected to be available shortly. See [below] for details.

1. Non-disclosure agreement:

Pentamation does not currently have a non-disclosure agreement with any of its subscribers. We were told during the May 14th state-wide meeting that SunGard Pentamation will be providing a non-disclosure agreement for all subscribers.

2. Activity policy:

SunGard Pentamation has an extensive Business Conduct & Compliance Program all employees must follow. It also maintains an IT security policy. SunGard Pentamation also maintains it is a confidential document and does not release the document to external entities. All SunGard employees are required to read and sign a corporate acceptable use policy. In addition, periodic mandatory employee training on topics such as IT security and confidentiality are required by SunGard.

The East Penn School District Acceptable Use Policy does not apply to SunGard Pentamation employees because they do not access the database from inside the district's network, hence the policy does not apply in this situation.

3. Password management policy:

Additional capabilities for password management are expected to be added beginning in June 2009. This will be dependent on SunGard Pentamation ability to get all domain controllers upgraded to Windows Server 2008. 2008 allows for password group policy settings to be applied at the group level. This will allow SunGard Pentamation to give sites the ability to enforce password policy that is aligned with the districts internal requirements. Currently password policy is global to a domain which means the same set of policy settings would have to be applied to all hosted customers. District policy of alpha numeric passwords, password changing and password attempts can be enforced for the beginning of the 2009-2010 school year.

4. Vendor user IDs:

Currently SunGard Pentamation does not have unique IDs for employees. They will move to that model, for all system access, by May 25, 2009. This access will be by named user account. Access to run the application with the shared support account will still be available, but all backend access will be by named account and the access will be logged and monitored. Hosted customer accounts are added/changed/deleted using the user maintenance pages of the Application Hosting site. All users add requests entered on the page generate a mail to admin staff at the district notifying the site of the request. Completion of the request by the ASP team also generates an automated mail to the

admin user that the request has completed. The mails provide the district admin users with evidence of all new account requests to ensure that they are valid.

5. Database access for the vendor:

The vendor does have 24/7 access to the East Penn School District database. SunGard Pentamation hosts our database on their servers in their buildings and offer 24/7 support and updates/programming changes that are implemented after hours in order to not interfere with our daily use. Backups are also performed nightly and require this access. The East Penn School District cannot remove access rights from their equipment and database.

6a. Employee reports:

East Penn School District employees are limited to modify individual classroom data, as per their unique user ID. This is set with user rights. Our daily attendance process reconciles any user errors per individual user.

6b. Vendor reports:

The vendor is moving to a new version of their database in June 2009. This will create unique user IDs for all SunGard Pentamation employees. However, the East Penn School District was told during the May 14th state-wide meeting that SunGard Pentamation would not provide the firewall logs or system logs that had been requested by school districts. SunGard Public Sector considers release of system and firewall logs to customers or customer auditors to be confidential and a security risk for all customers on the hosted systems. SunGard is obligated to protect that information from release. SAS 70 Certification should help satisfy these requirements. They stated this would be a security breach if they distributed firewall logs that contained information from multiple user accounts across multiple districts.

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 East Penn School District (EPSD) for the school years 2005-06, 2004-05, 2003-04 and 2002-03 resulted in one reported finding pertaining to retirement. 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 EPSD superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the EPSD did implement recommendations related to reporting retirement wages.

| <i>School Years 2005-06, 2004-05, 2003-04 and 2002-03 Auditor General Performance Audit Report</i> | | |
|--|--|---|
| <i>Prior Recommendations</i> | <i>Implementation Status</i> | |
| <p><i><u>I. Finding: Possible Inaccurate Reporting of Retirement Wages</u></i></p> <ol style="list-style-type: none"> 1. Ensure that District personnel report to the Pennsylvania State Employees' Retirement System (PSERS) only those wages eligible for retirement purposes. 2. PSERS should review the compensation reported for the administrator in the 2004-05 school year and render an opinion on the propriety of the wages reported by the District. 3. Make the necessary correction to pension benefits and contributions. 4. DE should determine if the District's retirement subsidy was overpaid, and make the necessary adjustments. | <p>Background:</p> <p>Our prior audit of the District's employment contracts including Act 93 administrators' contracts, the professional employees' contracts, and payroll and retirement records, found that retirement wages for one administrator may have been overstated in reports submitted to the PSERS for the 2004-05 school year. The total possible ineligible payment reported was \$4,933.</p> | <p>Current Status:</p> <p>We followed up on the EPSD's retirement records and found that the District <u>did</u> take appropriate corrective action to ensure that District personnel reported to PSERS only those wages eligible for retirement purposes.</p> <p>In February 2007, the District adjusted wages reported to PSERS during the 2004-05 school year for the administrator in question resulting in a credit to the District of \$209 and \$370 to the employee. The employee was reimbursed \$370 for PSERS contributions erroneously withheld from pay.</p> <p>No adjustments to the District's retirement subsidy were necessary.</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
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