

FOX CHAPEL AREA SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

SEPTEMBER 2010

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

Mr. Charles R. Burke, Jr. Board President
Fox Chapel Area School District
611 Field Club Road
Pittsburgh, Pennsylvania 15238

Dear Governor Rendell and Mr. Burke:

We conducted a performance audit of the Fox Chapel Area School District (FCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 31, 2007 through January 8, 2010, 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 FCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, we identified a 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 finding, observation and recommendations have been discussed with FCASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve FCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the FCASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

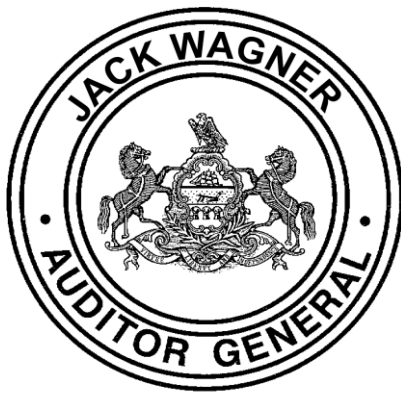
JACK WAGNER
Auditor General

September 20, 2010

cc: **FOX CHAPEL AREA SCHOOL DISTRICT** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Fox Chapel Area School District (FCASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period August 31, 2007 through January 8, 2010, 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 FCASD encompasses approximately 33 square miles. According to 2000 federal census data, it serves a resident population of 29,205. According to District officials, in school year 2007-08 the FCASD provided basic educational services to 4,559 pupils through the employment of 435 teachers, 260 full-time and part-time support personnel, and 25 administrators. Lastly, the FCASD received more than \$11.1 million in state funding in school year 2007-08.

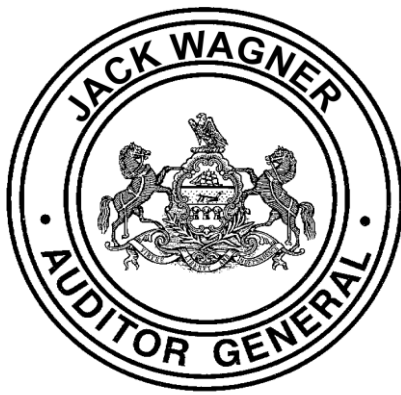
Audit Conclusion and Results

Our audit found that the FCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, we identified one matter unrelated to compliance that is reported as an observation.

Finding: Memoranda of Understanding Not Updated Timely. Our audit found that FCASD had not updated the Memoranda of Understanding with its six local law enforcement agencies since July 31, 2007 (see page 6).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. An outside vendor has remote access into FCASD network servers, which presents a risk that unauthorized changes to FCASD critical student accounting applications (membership and attendance) could occur and not be detected (see page 7).

Status of Prior Audit Findings and Observations. Our prior audit of the 2005-06 and 2004-05 school years resulted in no findings or observations.



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 August 31, 2007 through January 8, 2010, except for the verification of professional employee certification which was performed for the period June 30, 2009 through October 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

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the FCASD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Is the District’s pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?

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.

FCASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

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

Findings and Observations

Finding

Memoranda of Understanding Not Updated Timely

Criteria relevant to the finding:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which 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.

Additionally, Section VI, General Provisions item B of the existing MOU 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)

Our audit found that the Memoranda of Understanding (MOU) between the District and its six local law enforcement agencies have not been updated since July 31, 2007. The provisions of the MOU require review and re-execution of the MOU every two years.

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

Recommendations

The *Fox Chapel School District* should:

1. Review, update and re-execute the MOU's between the District and the six 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:

The School District will update the Memorandum of Understanding in a timely manner.

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Fox Chapel Area 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.

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 all vendor activity in its system. Further, the District does not have evidence to support that they perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does not have evidence to support that it has 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.

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 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.
2. 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; to use passwords that include alpha, numeric and special characters; to log off the system

after a period of inactivity (i.e., 60 minutes maximum); do not lock out users after three unsuccessful access attempts; and do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).

3. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
4. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
5. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and district employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed its system.
6. The District does not store data back-ups in a secure, off-site location.
7. The District does not have any compensating controls that would mitigate the IT weaknesses and support that the District would be alerted 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 *Fox Chapel Area School District* should:

1. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
2. 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); use passwords that are a minimum length of eight characters; use passwords that include alpha, numeric and special characters; log off the system after a period of inactivity (i.e., 60 minutes maximum); lock out users after three unsuccessful access attempts; and maintain a password history that will prevent the use

of a repetitive password (i.e., approximately ten passwords).

3. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
4. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
5. 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.
6. Store back-up tapes in a secure, off-site location.
7. To mitigate IT control weaknesses, have 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:

The School District will implement procedures to monitor system access and insure the security of the student database and its information.

Status of Prior Audit Findings and Observations

Our prior audit of the Fox Chapel Area School District for the school years 2005-06 and 2004-05 resulted in no findings or observations.

Distribution List

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

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