

MCKEESPORT AREA SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Wayne Washowich, Board President
McKeesport Area School District
3590 O'Neil Boulevard
McKeesport Pennsylvania 15132

Dear Governor Rendell and Mr. Washowich:

We conducted a performance audit of the McKeesport Area School District (MASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 30, 2007 through September 11, 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 MASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the MASD's cooperation during the conduct of the audit.

Sincerely,

/s/
JACK WAGNER
Auditor General

January 29, 2010

cc: **MCKEESPORT 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 McKeesport Area School District (MASD). 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 MASD in response to our prior audit recommendations.

Our audit scope covered the period April 30, 2007 through September 11, 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 MASD encompasses approximately 7 square miles. According to 2000 federal census data, it serves a resident population of 36,567. According to District officials, in school year 2007-08 the MASD provided basic educational services to 4,132 pupils through the employment of 342 teachers, 235 full-time and part-time support personnel, and 37 administrators. Lastly, the MASD received more than \$33.1 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the MASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audited period, our audit of the MASD resulted in no findings or observations.

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the MASD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the MASD had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting nonresident membership (see page 7) and weaknesses in unmonitored vendor system access and logical access control (see page 8).



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 April 30, 2007 through September 11, 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

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 MASD'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?
- ✓ 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?

- ✓ 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 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.

MASD 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 comparative financial information.

Our audit examined the following:

- Records pertaining to 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 MASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 13, 2008, we reviewed the MASD's response to DE dated March 25, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the McKeesport Area School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the McKeesport Area School District (MASD) for the school years 2003-04 and 2002-03 resulted in two reported findings. The first finding pertained to errors in reporting nonresident membership, and the second pertained to unmonitored vendor system access and logical access control weaknesses. 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 MASD 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 MASD did implement our recommendations related to errors in reporting nonresident membership and weaknesses in vendor system access and logical access control.

<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 No. 1: Errors in Reporting Nonresident Membership Resulted in an Underpayment of \$56,813 in Tuition for Children Placed in Private Homes</i></u></p> <ol style="list-style-type: none"> 1. Review membership data thoroughly to ensure students are properly classified prior to submitting reports to DE. 2. Review reports submitted subsequent to the years audited and submit revised reports to DE if errors are found. 3. DE should adjust the District’s allocations to correct the \$56,813 underpayment of tuition for children placed in private homes. 	<p>Background:</p> <p>Our prior audit of pupil membership reports submitted to DE for the 2003-04 school year revealed nonresident membership for children placed in private homes was understated by 1,567 days. The error resulted in an underpayment of \$56,813 in tuition for children placed in private homes. No errors were found in the 2002-03 school year.</p>	<p>Current Status:</p> <p>Based on the results of our current audit, we concluded that the District took appropriate corrective action to address the recommendations contained in this finding. Nonresident membership days reported to DE were in agreement with the results of our current audit.</p> <p>As of the completion of our audit, DE had not adjusted the District’s allocations for the \$56,813 underpayment for the 2003-04 school year. We again recommend that DE take action to resolve this underpayment.</p>

<p><u>II. Finding No. 2:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical</u> <u>Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. 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. 2. Maintain evidence that the District 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. 3. Require the vendor to assign unique userID's 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 	<p>Background:</p> <p>Our prior audit found the 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.</p> <p>Based on our audit procedures, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide evidence that it was adequately monitoring all vendor activity in their system. Further, the District did perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District did 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 increased.</p>	<p>Current Status:</p> <p>Based on the results of our current audit, we concluded that the District did take appropriate corrective action to address the recommendations contained in this finding. The corrective action taken is shown below, along with the number of the recommendation to which it relates.</p> <ol style="list-style-type: none"> 1. The vendor now utilizes unique logins for its employees. The District grants access to the vendor only after a specific request for access has been made by the vendor. When the vendor finishes the work their access is removed. The District then reviews the logs. 2. The District has corrected this by having meetings between the information technology department and the membership/attendance staff. 3. The vendor now utilizes unique logins for its employees. 4. The District grants access to the vendor only after a specific request for access has been made by the vendor. When the vendor finishes the work their access is removed. 5. The District does have proper documentation showing the removal or employees.
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<p>only by authorized vendor representatives.</p> <p>4. Allow remote access to the District’s 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.</p> <p>5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</p> <p>6. Upgrades/updates to the District’s system should be made only after receipt of written authorization from appropriate District officials.</p> <p>7. Establish separate information technology 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.</p> <p>8. Include in the District’s Acceptable Use Policy provisions for privacy (monitoring of electronic mail, access to files), authentication (e.g. password security and syntax requirements), and</p>		<p>6. The District grants access to the vendor only after a specific request for access has been made by the vendor.</p> <p>The District keeps backups of personal data after removing or changing user data in case a problem is encountered.</p> <p>7. The District does require vendors to sign the District’s Acceptable Use Policy</p> <p>8. The District has made significant improvements to the authentication of users.</p> <p>The District’s e-mail privacy policies are controlled by the Right-to-Know law.</p> <p>9. Backups are performed nightly, and when major changes are scheduled. If a problem is encountered it can be corrected very quickly.</p> <p>10. The District has increased password identification significantly. A history is kept, password length has been corrected, alpha numeric passwords are used, passwords do expire, and the vendors access has been greatly restricted.</p> <p>11. The server room does have a fire suppression system.</p>
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<p>violation/incidents (what is to be reported and to whom).</p> <p>9. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>10. 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).</p> <p>11. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire extinguishers in the computer room.</p>		
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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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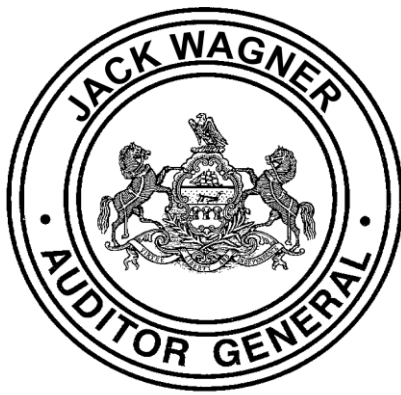
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