

PARKLAND SCHOOL DISTRICT
LEHIGH COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2009

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

Mr. Robert E. Bold, Board President
Parkland School District
1210 Springhouse Road
Allentown, Pennsylvania 18104

Dear Governor Rendell and Mr. Bold:

We conducted a performance audit of the Parkland School District (PSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period August 4, 2006 through March 17, 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, as they were the most recent reimbursements subject to audit. 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 PSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We identified 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 PSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

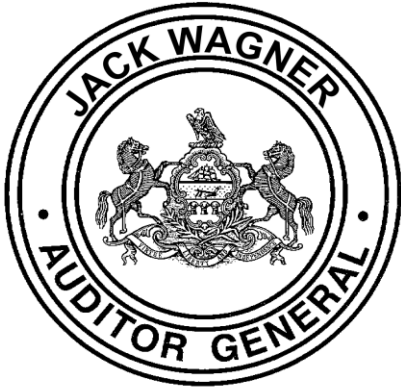
JACK WAGNER
Auditor General

August 17, 2009

cc: **PARKLAND 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 Parkland School District (PSD). 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 PSD in response to our prior audit recommendations.

Our audit scope covered the period August 4, 2006 through March 17, 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 PSD encompasses approximately 72 square miles. According to 2000 federal census data, it serves a resident population of 46,654. According to District officials, in school year 2007-08 the PSD provided basic educational services to 9,290 pupils through the employment of 635 teachers, 1,199 full-time and part-time support personnel, and 60 administrators. Lastly, the PSD received more than \$18.2 million in state funding in school year 2007-08.

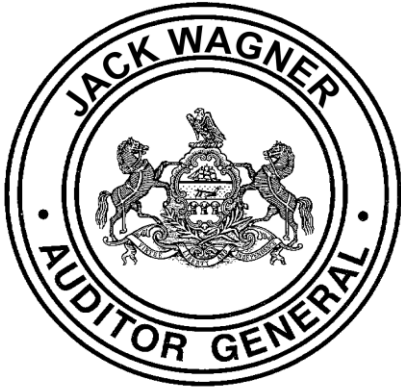
Audit Conclusion and Results

Our audit found that the PSD 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 PSD personnel should improve controls over remote access to its computers. In particular, control should be strengthened over outside vendor access to the 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 PSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the PSD had taken appropriate corrective action in implementing our recommendations pertaining to the areas of certification and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 9).



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 4, 2006 through March 17, 2009, except for the verification of professional employee certification which was performed for the period June 10, 2006 through January 31, 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 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 PSD'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?

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.

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

PSD 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.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 2, 2007, we reviewed the PSD's response to DE dated June 29, 2007. We then 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, authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Parkland 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 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 District does not have current information technology (IT) policies and procedures for controlling the activities of vendor, 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 and include alpha, numeric and special characters; to log off the system after a period of inactivity (i.e., 60 minutes maximum); to maintain a password history (i.e., approximately ten passwords); to lock out users after three unsuccessful attempts.
3. The vendor has unlimited access (24 hours a day/7 days a week) into the District's system.
4. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and district employees). There is no evidence to support that the District is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.

Recommendations

The *Parkland School District* should:

1. 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.
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). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. System should automatically log a user off the system after a period of inactivity (i.e., 60 minutes maximum). 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.

3. 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.
4. 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:

1. We will have our IT vendor sign the District Acceptable Use Policy.
2. Effective March 30, 2009, all new passwords for our student information system will be required by [the vendor] to be at least 8 characters in length. [The vendor] will maintain a password history for accounts. When a password is changed the user will be required to select a password that is different from the user's previous 5 passwords. Additionally, by June 1, 2009, [the vendor] will provide their clients with the ability to request a "maximum password age" setting to apply to all accounts for Parkland. We will have the ability to set our own desired password age.
3. We will require written authorization prior to the vendor accessing our student information system for maintenance or troubleshooting. We will not require written authorization for system upgrades. [The vendor] has always provided this information to us well in advance.
4. We will generate monthly monitoring reports (including audit trail) of vendor and employee access and activity on our system.

Status of Prior Audit Findings and Observations

Our prior audit of the Parkland School District (PSD) for the school years 2003-04 and 2002-03 resulted in one finding and one observation. The finding pertained to certification and the observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. 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 PSD Superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the PSD did implement recommendations related to certification and internal control weaknesses in administrative policies regarding bus driver's qualifications.

<i>School Years 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 Certification Irregularities</u></i></p> <ol style="list-style-type: none"> 1. Assign positions to professional personnel who hold appropriate certification to qualify for the assignment. 2. Implement a system of control that would evidence lapsed or invalid certificates. 3. DE should adjust the District's allocations to recover the subsidy forfeiture. 	<p>Background:</p> <p>Our prior audit of the professional employees' certification and assignments for the period August 1, 2004 through June 1, 2006, found one certification irregularity.</p>	<p>Current Status:</p> <p>We followed up on the PSD certification and found that the PSD <u>did</u> take appropriate corrective action to address this finding.</p> <p>DE adjusted the District's June 2007 payment of the basic education funding to recover the subsidy forfeiture in the amount of \$1,137.</p>

<p><u>II. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <ol style="list-style-type: none">1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.	<p>Background:</p> <p>Our prior audit found that neither the District nor the transportation contractors had written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.</p>	<p>Current Status:</p> <p>We followed up on the PSD bus drivers' qualifications and found that PSD administration adopted a policy that requires all District personnel to notify the District if they are involved in a criminal or child abuse proceeding.</p> <p>We found PSD <u>did</u> take appropriate corrective action to address this finding.</p> <p>Additionally, this policy includes the employees of all contractors that work with the District.</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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173 Main Capitol Building
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Senator Andrew Dinniman
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Senate Education Committee
183 Main Capitol Building
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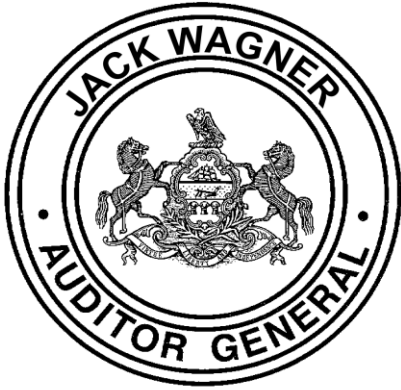
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