

PITTSTON AREA SCHOOL DISTRICT
LUZERNE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2010

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

Mr. Mark Singer, Board President
Pittston Area School District
5 Stout Street
Pittston, Pennsylvania 18640

Dear Governor Rendell and Mr. Singer:

We conducted a performance audit of the Pittston Area School District (PASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period January 11, 2007 through February 4, 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, 2006, and June 30, 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 PASD 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 PASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve PASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the PASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

June 30, 2010

cc: **PITTSTON 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 Pittston Area School District (PASD). 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 January 11, 2007 through February 4, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The PASD encompasses approximately 42 square miles. According to 2000 federal census data, it serves a resident population of 30,034. According to District officials, in school year 2005-06, the PASD provided basic educational services to 3,147 pupils through the employment of 196 teachers, 159 full-time and part-time support personnel, and 10 administrators. Lastly, the PASD received more than \$12.5 million in state funding in school year.

Audit Conclusion and Results

Our audit found that the PASD 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 PASD 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. PASD management is in agreement with this observation (see page 6).

Status of Prior Audit Findings and Observations. With regard to our prior audit we conducted of the 2003-04 and 2002-03 school years, we reported no audit 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 January 11, 2007 through February 4, 2009, except for the verification of professional employee certification which was performed for the period November 7, 2006 through October 31, 2008.

Regarding state subsidy and reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 PASD'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 and 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 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?
- ✓ 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 audit?

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.

PASD 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 PASD operations.

Findings and Observation

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 Pittston Area School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The District receives support and uses a server located at the Wilkes-Barre Area Vocational-Technical School (WBAVTS) for its critical student accounting applications. The software vendor and the WBAVTS have 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 have a formal contract with the vendor to provide student accounting applications and related information technology (IT) services. However, the District does not have a formal contract with the WBAVTS who houses the server and assists with student accounting applications and related IT services.

2. The District does have a fully executed maintenance agreement on file for the software vendor. However, the District does not have a fully executed maintenance agreement on file for the WBAVTS who houses the server.
3. The contract with the vendor did contain a non-disclosure agreement for the District's proprietary information. However, without a contract with the WBAVTS, 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). Further, the employees are not required to sign the policy.
5. The District does require the WBAVTS to sign the District's Acceptable Use Policy. However, the District does not have current 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 was unable to provide evidence that they require written authorization for adding, deleting, or changing a userID.
7. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
8. 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 maintain a password history (i.e., approximately ten passwords); and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
9. The District was able to provide a list of WBAVTS users with "change" access to membership/attendance data. However, the District was unable to provide a list

of vendor users with “change” access to membership/attendance data.

10. The vendor uses a group userID rather than requiring that each employee has a unique userID and password.
11. The vendor and the WBAVTS has unlimited access (24 hours a day/7 days a week) into the District’s system.
12. 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, WBAVTS and District employees). There is evidence to support that the District is performing procedures in order to determine which data the vendor may have altered, but there are no procedures to determine which vendor employees accessed their system.

Recommendations

The *Pittston Area School District* should:

1. Develop an agreement with the WBAVTS to provide student accounting 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 contract changes should be reviewed by legal advisors.
2. Maintain on file a copy of the fully executed maintenance agreement signed by the WBAVTS and the District.
3. Maintain on file a copy of the fully executed non-disclosure agreement signed by the WBAVTS and the District.
4. Ensure that the District’s Acceptable Use Policy includes provisions for authentication (password security and syntax requirements). Further, the employees should be required to sign the policy.

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. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
7. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
8. 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); and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
9. Develop and maintain a list of vendor users with "change" access to membership/attendance data.
10. 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.
11. Only allow access to their system when the vendor or WBAVTS need 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.

12. 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.

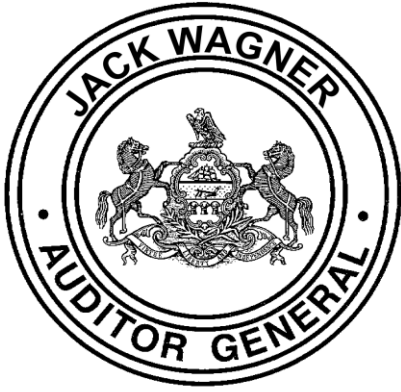
Management Response

Management stated the following:

The District will implement the recommendations in the near future.

Status of Prior Audit Findings and Observations

Our prior audit of the Pittston Area School District for the school years 2003-04 and 2002-03 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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