

KANE AREA SCHOOL DISTRICT  
MCKEAN COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2010



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

Ms. Stephanie Eckstrom, Board President  
Kane Area School District  
400 West Hemlock Avenue  
Kane, Pennsylvania 16735

Dear Governor Rendell and Ms. Eckstrom:

We conducted a performance audit of the Kane Area School District (KASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 30, 2007 through April 28, 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 KASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 29, 2010

cc: **KANE AREA SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Kane Area School District (KASD). 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 KASD in response to our prior audit recommendations.

Our audit scope covered the period August 30, 2007 through April 28, 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 KASD encompasses approximately 250 square miles. According to 2000 federal census data, it serves a resident population of 8,152. According to District officials, in school year 2007-08 the KASD provided basic educational services to 1,262 pupils through the employment of 92 teachers, 78 full-time and part-time support personnel, and 12 administrators. Lastly, the KASD received more than \$9.5 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the KASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the KASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the KASD had taken appropriate corrective action in implementing our recommendations pertaining to administrative policies regarding bus drivers' qualifications (see page 7) and unmonitored vendor system access and logical access control weaknesses (see page 8).





## Audit Scope, Objectives, and Methodology

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### 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 30, 2007 through April 28, 2010, except for the verification of professional employee certification which was performed for the period August 1, 2007 through March 26, 2010.

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

*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 KASD'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?

- ✓ 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?
- ✓ 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

*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.

*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.

KASD 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 KASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 23, 2009, we reviewed the KASD's response to DE dated November 16, 2009. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Kane Area School District resulted in no findings or observations.

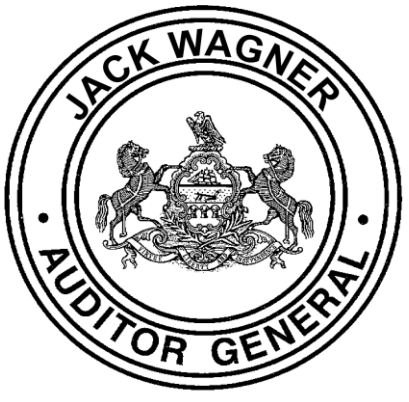
## Status of Prior Audit Findings and Observations

Our prior audit of the Kane Area School District (KASD) for the school years 2005-06 and 2004-05 resulted in two observations. The first observation pertained to administrative policies regarding bus driver qualifications, and the second observation pertained to 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 KASD Board’s written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the KASD did implement recommendations related to the weaknesses in administrative policies regarding bus drivers’ qualifications and the unmonitored vendor system access and logical access control weaknesses.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Observation No. 1: Continued Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications</i></u></p> <p>1. In consultation with the KASD’s solicitor, develop a process to determine on a case-by-case basis, whether prospective and current employees of KASD and the independent contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.</p> <p>2. Implement written policies and procedures to ensure that the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to have direct contact with children.</p>	<p><b>Background:</b></p> <p>Our prior audit found that neither the KASD nor the transportation contractors had written policies or procedures in place to ensure that they were notified if current employees were charged with or convicted of serious criminal offenses.</p> <p>This was a continued finding from the audit of the 2003-04 and 2002-03 school years.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the board adopted new policy requiring notification if a current employee is convicted of or charged with a crime. The requirement is also included in the current bus contract.</p> <p>Based on the results of our current audit, we concluded that the KASD did take appropriate corrective action to address this observation.</p>

<p><u>II. Observation 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"> <li>1. Generate monitoring reports (including firewall logs) of Central Susquehanna Intermediate Unit #16 (CSIU) and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). Review these reports to determine that the access was appropriate and that data was not improperly altered. Ensure the District is maintaining evidence to support this monitoring and review.</li> <li>2. Allow access to the system only when CSIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when CSIU has completed its work. This procedure would also enable the monitoring of vendor changes.</li> <li>3. Keep a copy of the fully executed maintenance agreement, signed by both parties, on file.</li> <li>4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.</li> <li>5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.</li> </ol>	<p><b>Background:</b></p> <p>The KASD uses software purchased from CSIU for its critical student accounting applications (membership and attendance). The KASD’s student membership and attendance database is maintained on CSIU’s servers which are physically located at CSIU.</p> <p>During our prior audit we determined that a risk existed that unauthorized changes to the KASD’s data could occur and not be detected because the KASD was unable to provide supporting evidence that it was adequately monitoring all CSIU activity in the student membership and attendance database.</p>	<p><b>Current Status:</b></p> <ol style="list-style-type: none"> <li>1. The District has established a policy requiring weekly monitoring reports which will be stored electronically to ensure evidence is maintained. Monitoring reports include the date, time, reason for access, change(s) made and who made the change(s). Reports are reviewed to determine that access was appropriate and that data was not improperly altered.</li> <li>2. The District’s technical director enables and disables CSIU access to the system. The District is able to monitor any vendor changes. The District maintains a list of CSIU employees that may be granted access to District’s system.</li> <li>3. The District maintains a fully executed maintenance agreement, signed by both parties. CSIU has possession of the software and servers.</li> <li>4. Documentation is maintained to evidence that terminated employees are properly removed from the system in a timely manner.</li> <li>5. The District has developed policies and procedures requiring written authorization when adding, deleting, or changing a userID.</li> <li>6. The District’s technology director gives CSIU written authorization to make upgrades/updates to the system.</li> </ol>
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<p>6. Make upgrades to the system only after receipt of written authorization from appropriate KASD officials.</p> <p>7. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.</p> <p>8. Establish separate information technology policies and procedures for controlling the activities of the vendor/consultants and have CSIU sign this policy, or require CSIU to sign the KASD's Acceptable Use Policy.</p> <p>9. Include provisions for authentication (e.g., password syntax requirements) in the Acceptable Use Policy.</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). Require passwords to be a minimum of length of eight characters and include alpha, numeric, and special characters. Maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and log user off the system after a period of inactivity (i.e., 60 minutes maximum).</p>		<p>7. CSIU provided a copy of their "Version Control" manual that outlines the lock-step procedure to show that the District's data is kept separate from other client's data.</p> <p>8. CSIU, in lieu of signing an Acceptable Use Policy, signs an "Information Security Specifications" agreement, which describes the security controls in place. The controls are in agreement with the District's Acceptable Use Policy.</p> <p>9. The District's new Acceptable Use Policy includes provisions for authentication.</p> <p>10. The District has implemented a security policy and system parameter setting to require all users to change their passwords on a regular basis. District maintains a password history that prevents the use of a repetitive password and logs users off the system after a period of inactivity.</p>
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## **Distribution List**

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

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