

KEYSTONE CENTRAL SCHOOL DISTRICT  
CLINTON COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

NOVEMBER 2011



The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Jack Peters, Board President  
Keystone Central School District  
110 East Bald Eagle Street  
Lock Haven, Pennsylvania 17745

Dear Governor Corbett and Mr. Peters:

We conducted a performance audit of the Keystone Central School District (KCSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 17, 2009 through May 20, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 KCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with KCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve KCSD's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

/s/

JACK WAGNER  
Auditor General

November 9, 2011

cc: **KEYSTONE CENTRAL 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 Keystone Central School District (KCSD). 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 KCSD in response to our prior audit recommendations.

Our audit scope covered the period June 17, 2009 through May 20, 2011, 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 2009-10 and 2008-09.

### **District Background**

The KCSD encompasses approximately 1,048 square miles. According to 2000 federal census data, it serves a resident population of 36,950. According to District officials, in school year 2009-10 the KCSD provided basic educational services to 4,369 pupils through the employment of 382 teachers, 175 full-time and part-time support personnel, and 43 administrators. Lastly, the KCSD received more than \$31.4 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the KCSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

#### **Finding No. 1: Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments of \$30,823.**

KCSD personnel failed to deduct federally funded wages on reports submitted to the Department of Education when filing for Social Security and Medicare reimbursement (see page 6).

#### **Finding No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses.**

We determined that unauthorized changes to the KCSD's data could occur and not be detected because the KCSD is not adequately monitoring vendor activity on its system (see page 9).

#### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the KCSD, we found the KCSD had taken appropriate corrective action in implementing our recommendations pertaining to Memoranda of Understanding that were not updated timely (see page 12).





## 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 June 17, 2009 through May 20, 2011, except for:

- The verification of professional employee certification which was performed for the period July 1, 2010 through June 30, 2011.
- The review of outside vendor access to the District's student accounting applications which was completed on April 18, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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

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 KCSD'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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ 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, observations 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.

KCSD 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 KCSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2010, we reviewed the KCSD's response to DE dated March 4, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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### Errors in Reporting Social Security and Medicare Wages Resulted in Overpayments of \$30,823

*Criteria relevant to the finding:*

Local education agencies (LEA's) are to deposit Social Security tax contributions for wages earned on or after January 1, 1987, directly to their authorized depositories or Federal reserve banks. LEAs are required to pay the full amount of the employer's tax due, including the Commonwealth's matching share, which is 50 percent of the employer's share of tax due for employees employed by the LEA prior to July 1, 1994, (existing employees). For employees who have never been employed by an LEA prior to July 1, 1994 (new employees), the Commonwealth's matching share is based on the LEA's aid ratio or 50 percent of the employer's share of tax due, whichever is greater. LEAs are subsequently reimbursed the Commonwealth's matching share based on wages reported to DE services, excluding wages paid with the federal funds.

Our audit of Social Security and Medicare wages for the 2009-10 and 2008-09 school years found that wages were incorrectly reported to the Department of Education (DE), resulting in reimbursement overpayments of \$30,823.

The errors for the 2009-10 and 2008-09 school years were due to District personnel's failure to accurately report federally funded wages. These errors resulted in erroneous reimbursement paid to the District.

Reimbursement is not paid for taxes on wages paid with federal funds. Reported federal wages are deducted from total wages when reimbursement is calculated.

Federal wages were understated in reports submitted to DE, with resulting overpayments of reimbursement, as follows:

<u>Reporting Period</u>		<u>Federal Wages Audited</u>	<u>Federal Wages Reported</u>	<u>Federal Wages Understated</u>	<u>Rate</u>	<u>Reimbursement Overpayments</u>
<u>Existing</u>						
<u>Employees:</u>						
7/09 – 6/10	*	\$359,888	\$336,061	\$23,827	.03100	\$ 739
7/09 – 6/10	**	359,888	336,061	23,827	.00725	173
7/08 – 6/09	*	257,917	132,914	125,003	.03100	3,875
7/08 – 6/09	**	257,917	132,914	125,003	.00725	906
<u>New</u>						
<u>Employees:</u>						
7/09 – 6/10	*	598,061	481,858	116,203	.0395	4,590
7/09 – 6/10	**	598,061	481,858	116,203	.0092	1,069
7/08 – 6/09	*	640,353	240,528	399,825	.0395	15,793
7/08 – 6/09	**	640,353	240,528	399,825	.0092	<u>3,678</u>
					Total	<u>\$30,823</u>

\*Social Security Wages    \*\*Medicare Wages

**Recommendations**

The *Keystone Central School District* should:

1. Ensure all employees paid with federal funds are properly coded in their payroll system.
2. Perform a reconciliation of the final federal expenditure reports to their payroll reports to ensure accuracy.
3. Review reports filed for years subsequent to the audit period and, if errors are found, submit revised reports to DE.

The *Department of Education* should:

4. Adjust the District’s allocations to resolve the reimbursement overpayments.

**Management Response**

Management stated the following:

Corrective action is being taken to resolve the issue.

**Finding No. 2** →

**Unmonitored Vendor System Access and Logical Access Control Weaknesses**

*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 system.

The Keystone Central School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District’s entire computer system, including all its data and the above software are maintained on the Capital Area Intermediate Unit #15’s (CAIU) servers, which are physically located at CAIU. The District has remote access into the CAIU’s network servers, with the CAIU providing system maintenance and support.

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 is not adequately monitoring vendor activity in its system. Further, the District does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District does 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 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 to have the following weaknesses over remote vendor access:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of the CAIU, nor does it require the CAIU to sign the District’s Acceptable Use Policy.

3. 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 passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; and to maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
4. The CAIU uses a group userID rather than requiring that each employee has a unique userID and password.
5. The CAIU has unlimited access (24 hours a day/7 days a week) into the District's system.
6. The District does not have evidence that it is reviewing monitoring reports of user remote access and activity on the system (including CAIU and District employees). There is no evidence that the District is performing procedures to determine which data the CAIU may have altered or which CAIU employees accessed its system.
7. The District does not have any compensating controls that would mitigate the IT weaknesses or alert the District 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 *Keystone Central School District* should:

1. Include provisions for authentication (password security and syntax requirements) in the District's Acceptable Use Policy.
2. Establish separate IT policies and procedures for controlling the activities of the CAIU and have the CAIU sign this policy, or require the CAIU to sign the District's Acceptable Use Policy.



3. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days), and to use passwords that are 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).
4. Require the CAIU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of CAIU employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Allow access to its system only when the CAIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CAIU has completed its work. This procedure would also enable the monitoring of CAIU changes.
6. Generate monitoring reports (including firewall logs) of CAIU and employee access and activity on its 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.
7. In order 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:

Acceptable Use Policy has been signed and year-end reconciliation of data will be performed.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Keystone Central School District (KCS D) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to Memoranda of Understanding that were not updated timely. 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 KCS D Board's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the KCS D did implement recommendations related to the observation.

### **School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report**

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**Observation:** **Memoranda of Understanding Not Updated Timely**

Observation

Summary:

Our prior audit of the KCS D's records found that the Memoranda of Understanding between the KCS D and five local law enforcement agencies had not been updated in over three years.

Recommendations:

Our audit observation recommended that the KCS D:

1. Review, update and re-execute the current MOU between the District and the five local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit procedures we found that the KCS D implemented the recommendations.

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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.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
Secretary of Education  
1010 Harristown Building #2  
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The Honorable Robert M. McCord  
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