

KUTZTOWN AREA SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MAY 2012

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

Ms. Carl Ziegler, Board President
Kutztown Area School District
251 Long Lane
Kutztown, Pennsylvania 19530

Dear Governor Corbett and Mr. Ziegler:

We conducted a performance audit of the Kutztown Area School District (KASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 14, 2009 through November 23, 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 KASD complied, in all significant respects, with applicable state laws, contracts, grant requirements and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

May 7, 2012

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

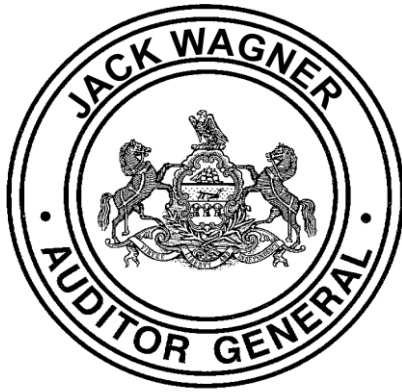


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Kutztown Area School District (KASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, 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 14, 2009 through November 23, 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 KASD encompasses approximately 100 square miles. According to 2000 federal census data, it serves a resident population of 16,774. According to District officials, in school year 2009-10 the KASD provided basic educational services to 1,610 pupils through the employment of 149 teachers, 132 full-time and part-time support personnel, and 15 administrators. Lastly, the KASD received more than \$6.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the KASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: Memorandum of Understanding with Local Law Enforcement Not Updated Timely. Our audit of KASD records found that the Memorandum of Understanding (MOU) between the KASD and one law enforcement agency was last signed and dated January 16, 2008, and has not been updated, until currently. This MOU is in place now, and was signed and updated November 4, 2011 (see page 6).

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 2007-08 and 2006-07 school years, we found the KASD had not taken appropriate corrective action in implementing our recommendations pertaining to its student accounting applications (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 August 14, 2009 through November 23, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2011 through October 27, 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 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the KASD's compliance with applicable state laws, 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?
- ✓ Does the LEA have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ 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, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with Local Law Enforcement?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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, 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, 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. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes and pupil membership records.

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 January 22, 2010, we performed additional audit procedures, targeting the previously reported matters.

Findings and Observations

Finding

Memorandum of Understanding with Local Law Enforcement Not Updated Timely

Relevant Statutory Provisions and Related Criteria:

Section 13-1303-A(c) of the Public School Code (PSC), 24 P.S. § 13-1303A(c), as amended November 17, 2010 with an effective date of February 15, 2011, provides, in part:

“ . . . each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and **biennially update and re-execute** a memorandum of understanding with local law enforcement and file such memorandum with the office on a **biennial** basis. . . . ”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools established within the Department of Education through Section 1302-A(a) of the PSC. 24 P.S. §13-1302-A(a). The term “biennially” means “an event that occurs every two years.”

Prior to the effective date of the above referenced enactment of the MOU requirements, all public schools were required to **develop** a memorandum of understanding with local law enforcement.

Our audit found that the Memorandum of Understanding (MOU), between the District and one police department with jurisdiction over school property, setting forth agreed upon procedures to be followed should an incident involving an act of violence or possession of a weapon occur on school property was not updated until November 4, 2011. This MOU was previously signed and dated January 16, 2008. The Public School Code requires public schools to update and re-execute MOUs with local law enforcement every two years.

The failure to update MOUs with all pertinent police departments could result in a lack of cooperation, direction, and guidance between District employees and the police departments if an incident occurs on school grounds, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to biennially update and re-execute a MOU could have an impact on police department notification and response, and ultimately, the resolution of a problem situation.

Recommendations

The *Kutztown Area School District* should:

1. In consultation with the District’s solicitor, continue to review, update and re-execute the current MOU between the District and all the police departments having jurisdiction over school property.
2. In consultation with the District’s solicitor, review new requirements for MOUs and other school safety areas under the PSC to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
3. Adopt an official board policy requiring District administration to biennially update and re-execute all MOUs with police departments having jurisdiction over school property and file a copy with the Department of Education’s Office of Safe Schools on a biennial basis as required by law.

Management Response

Management stated the following:

Corrective action is being taken. The LEA will obtain an MOU from [the local law enforcement agency]. KASD was compliant in the year of the audit, but the law changed to a biennial MOU submission.

Auditor Conclusion

The KASD should continue to update the MOU on a biennial basis, ensuring cooperation, direction and guidance if an incident would occur on school property.

Status of Prior Audit Findings and Observations

Our prior audit of the Kutztown Area School District (KASD) for the school years 2007-08 and 2006-07 resulted in one observation. The observation pertained to vendor access to student accounting applications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the KASD did not implement all recommendations related to the strengthening of controls over outside vendor access to student accounting applications.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Observation: Unmonitored IU System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found that the KASD 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 software servers.

Recommendations: Our audit observation recommended that the KASD:

1. Include in their Acceptable Use Policy provisions for authentication (password security and syntax requirements).
2. Establish separate information technology policies and procedures for controlling the activities of the Carbon Lincoln Intermediate Unit # 21 (CLIU) and have the CLIU sign this policy, or the District should require the CLIU to sign the District's Acceptable Use Policy.
3. Implement a security policy and system parameter settings to require all users, including the CLIU 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 to lock out users after three unsuccessful attempts.
4. Allow only access to their system when the CLIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CLIU has completed its work. This procedure would also enable the monitoring of CLIU changes.

5. Generate monitoring reports (including firewall logs) of CLIU 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.

Current Status:

During our current audit procedures we found that the KASD did implement one of the five recommendations. The recommendation implemented was to include in their Acceptable Use Policy provisions for authentication (password security and syntax requirements). We encourage the District to implement the four remaining recommendations. We will review any additional implementation during our next audit.



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:

The Honorable Tom Corbett
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