

LAKELAND SCHOOL DISTRICT  
LACKAWANNA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

FEBRUARY 2012



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

Ms. Elizabeth Kogler, Board President  
Lakeland School District  
1355 Lakeland Drive  
Jermyn, Pennsylvania 18433

Dear Governor Corbett and Ms. Kogler:

We conducted a performance audit of the Lakeland School District (LSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period April 29, 2008 through December 10, 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 LSD 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 LSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve LSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the LSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

February 24, 2012

cc: **LAKELAND 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 Lakeland School District (LSD). 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 LSD in response to our prior audit recommendations.

Our audit scope covered the period April 29, 2008 through December 10, 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 LSD encompasses approximately 66 square miles. According to 2000 federal census data, it serves a resident population of 11,966. According to District officials, in school year 2007-08 the LSD provided basic educational services to 1,673 pupils through the employment of 111 teachers, 41 full-time and part-time support personnel, and 9 administrators. Lastly, the LSD received more than \$8.3 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

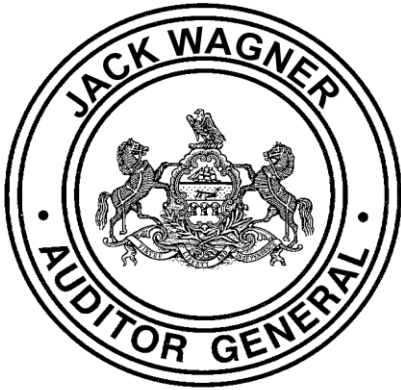
Our audit found that the LSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

#### **Finding: Continued Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement**

**Overpayments.** Our audit of the LSD's Social Security and Medicare tax contributions used to determine the LSD's state reimbursement found that reports submitted to the Department of Education for the 2007-08 and 2006-07 school years were inaccurate, resulting in reimbursement overpayments of \$6,870 (see page 6).

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

**Observations.** With regard to the status of our prior audit recommendations to the LSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LSD had not taken appropriate corrective action in implementing our recommendations pertaining to social security. We found the LSD had taken appropriate corrective action in implementing our recommendations pertaining to transportation, a potential conflict of interest and their child accounting applications (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 April 29, 2008 through December 10, 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 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 LSD'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?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security), 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

*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.

*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.

LSD 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.

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 and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on February 26, 2010, we reviewed the LSD's response to DE dated June 3, 2010. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding →

### **Continued Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Overpayments**

*Criteria relevant to the finding:*

Instructions for the completion of the PDE-2105 state that total taxable Social Security and Medicare wages for “existing” and “new” employees paid during each quarter of the fiscal year were to be reported for reimbursement, as well as Social Security and Medicare wages which were federally funded. The Social Security and Medicare reimbursement is based on a formula which deducts federal wages from total eligible Social Security and Medicare taxable wages.

The total state share of Social Security due to school entities is the sum of 50 percent of the employer’s rate for eligible wages of “existing” employees plus the greater of your Market Value/Personal Income Aid Ratio or 50 percent of the employer’s rate for eligible wages of “new” employees.

Our audit of the Lakeland School District’s (LSD) Social Security and Medicare tax contributions which is used to determine the LSD’s state reimbursement found that reports submitted to the Department of Education (DE) for the 2006-07 school years were inaccurate. This error resulted in reimbursement overpayments of \$6,870. This is a continued error which was cited in the prior audit report for the 2005-06 and 2004-05 school years.

Act 29 of 1994 changed the reimbursement calculation for the Commonwealth’s share of Social Security and Medicare taxes and created two categories of employees that must be tracked by school entities for reimbursement purposes. The two categories of employees are “existing” employees and “new” employees. An “existing” employee is defined as an individual who has an effective date of employment with a school entity prior to July 1, 1994 or an individual who has an effective date of employment with a school entity after June 30, 1994, but who was employed by any other school entity within the Commonwealth prior to July 1, 1994.

A “new” employee is any individual with an effective date of employment with a school entity after June 30, 1994, who has never been employed by another school entity within the Commonwealth prior to July 1, 1994. These two categories are mutually exclusive and comprehensive, so that an employee will fit into only one category. Adding the wages of the two categories together will equal the total Social Security wages and the total Medicare wages of the school entity.

Instructions for completing the application state that wages reported in the “Total Taxable Social Security and Medicare Wages” columns must include wages of federally funded employees. Federally funded wages are then reported in a separate column, to be subtracted from the total to determine wages subject to state reimbursement.

District personnel did not deduct federally funded Social Security and Medicare wages from the “Total Taxable Social Security and Medicare wages” for existing personnel paid during the 2006-07 school year. As a result, eligible Social Security and Medicare wages were over reported resulting in an overpayment of \$6,870. Total eligible Social Security and Medicare wages for new employees were correctly reported.

District personnel did not perform an adequate review of the Social Security and Medicare tax contribution reimbursement application prior to its submission to DE.

## **Recommendations**

The *Lakeland School District* should:

1. Accurately compile and review reports prior to submission to DE.
2. Comply with applicable guidelines, regulations and instructions.
3. Review reports submitted to DE for subsequent school years and, if errors are found, submit revised reports.

The *Department of Education* should:

4. Adjust the District’s allocations to resolve the reimbursement overpayment of \$6,870 for the 2006-07 school year and \$18,950 for the 2005-06 and 2004-05 school years from our prior audit.

## **Management Response**

Management stated the following:

Manager data entry error resulted in overpayment (federally vs. non-federally funded salaries). Corrective action; quarterly maintenance of a list of federally vs. non-federally funded positions to assist accurate data entry.

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

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Our prior audit of the Lakeland School District (LSD) for the school years 2005-06 and 2004-05 resulted in three reported findings and one observation as shown in the following table. 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 LSD superintendent's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings and observation. As shown below, we found that the LSD did not implement recommendations related to social security. We found the LSD did implement recommendations pertaining to transportation, a potential conflict of interest and their child accounting applications.

### *School Years 2005-06 and 2004-05 Auditor General Performance Audit Report*

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**Finding No. 1:           Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$18,950**

Finding Summary:   Our prior audit of the District's Social Security and Medicare tax contributions which is used to determine the District's state reimbursement found that reports submitted to DE for the 2005-06 and 2004-05 school years were inaccurate. This error resulted in reimbursement underpayments of \$9,773 and \$9,177, respectively.

Recommendations:   Our audit finding recommended that the LSD:

1. Accurately compile and review reports prior to submission to DE.
2. Comply with applicable guidelines, regulations and instructions.
3. Review reports submitted to DE for subsequent school years and, if errors are found, submit revised reports.
4. DE should adjust the District's allocations to resolve the reimbursement underpayments of \$18,950.

Current Status:       Our current audit found that LSD personnel did not strengthen controls to ensure accurate reporting of Social Security wages and did not review reports submitted to DE for errors (see the finding on page 6).

As of our fieldwork completion date of December 10, 2010, DE had not adjusted the District's allocations to resolve the underpayment of \$18,950.

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**Finding No. 2: Continued Transportation Reporting Errors Resulted in a Net Subsidy Underpayment of \$25,742**

Finding Summary: Our prior audit of the District's contracted pupil transportation records and financially related data found discrepancies in reports submitted to DE for the 2005-06 and 2004-05 school years, resulting in a net subsidy underpayment to the District of \$25,742.

Recommendations: Our audit finding recommended that the LSD:

1. Develop procedures to ensure bus information, including contractor payments, daily mileage, number of pupils and days transported are accurately recorded and reported to DE.
2. Develop procedures to ensure accurate reporting of nonpublic pupils transported.
3. Thoroughly reconcile all transportation data for accuracy prior to submission of reports to DE.
4. Review reports submitted subsequent to the audit period, and if similar errors are found, submit revised reports to DE.
5. DE should adjust the District's allocations to resolve the net underpayment of \$25,742 for the 2005-06 and 2004-05 school years.

Current Status: Our current audit found that LSD personnel did strengthen controls to ensure accurate reporting of the number of pupils transported.

As of our fieldwork completion date of December 10, 2010, DE had not adjusted the District's allocations to resolve the underpayment of \$25,742.

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**Finding No. 3: Continued Potential Conflict of Interest Transaction**

Finding Summary: Our prior audit found a continued potential conflict of interest during the 2005-06 school year. However, the school board had complied with the following two previous recommendations:

1. Sought the advice of its solicitor regarding the board's responsibility for District employees associated with contracts that they administer.
2. Required District administration to develop a job description to eliminate the transportation Director from the contract award process to help ensure detection of potential conflicts of interest.

Nevertheless, the board did not strengthen controls to help ensure compliance with state laws regarding District employees who conduct business with the District. Consequently, we again recommended that they implement that recommendation.

In addition, our prior audit found that the director of transportation did not file a Statement of Financial Interests (SFI) form for the 2006 calendar year. Furthermore, the prior business manager failed to file his 2005 statement and filed his 2006 statement late.

Recommendations: Our audit finding recommended that the LSD:

1. Seek the advice of the State Ethics Commission in regard to the board's responsibility when a member fails to file a SFI form.
2. Develop procedures to ensure all individuals required to file SFI forms do so in compliance with the Ethics Act.
3. Contact the State Ethics Commission for advice concerning the transportation Director and his relationship with the corporation hired to do business with the District.

Current Status:

The State Ethics Commission reviewed the potential conflict of interest and provided their findings in a separate report. The State Ethics Commission found that the former director of transportation used the authority of his public position for the private pecuniary benefit of himself and/or a business with which he is associated. They found that the former director of transportation participated in the selection of, recommendation of and/or awarding of contracts to a business with which he is associated.

The former employee was directed to make payment in the amount of \$49,529.20 payable to the Commonwealth of Pennsylvania and forwarded to the State Ethics Commission. He was also directed to file full and accurate SFIs for calendar years 2006 and 2007 with LSD and for calendar year 2007 with Carbondale Area School District. He was further directed to neither seek nor hold any position of public office or public employment in the Commonwealth of Pennsylvania, or any political subdivision thereof, where he would possess either actual or implied authority concerning the recommendation, consideration, discussion, authorization, approval, execution or supervision of any contract between the public entity and any contractor/subcontractor. He was not prohibited from rendering services to any governmental body as an independent contractor where he had no involvement in the selection/approval of the initial contract as a public official/public employee.



In August 2011, subsequent to our fieldwork completion, the former transportation coordinator pleaded guilty to conspiracy to obtain by fraud school district funds in connection with transportation contracts he recommended from 2006 through 2009. He was charged with violating the federal statute that prohibits obtaining property by fraud from an organization that receives federal program funds. The charge stemmed from an FBI investigation with the assistance of the Lackawanna County district attorney's office. The former transportation coordinator faces a maximum sentence of 5 years in prison; a \$250,000 fine; 3 years supervised release; and a \$100 special assessment.

Our current audit found that the board complied with two of the recommendations from our prior audit report. Specifically, the board strengthened its controls to help ensure compliance with the state laws regarding District employees who conduct business with the District. In addition, the Board contacted the State Ethics Commission for advice regarding its former transportation director.

However, the board did not comply with our prior recommendations regarding the timely and complete filing of Statements of Financial Interests, as our current audit of District records again found late and missing forms. Therefore, the board still needs to strengthen its procedures to help ensure the timely filing of Statements of Financial Interests forms. The information was sent to the State Ethics Commission, and we will follow-up on this issue during our next regularly scheduled audit.

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

Observation Summary:

Our prior audit found that the LSD uses software purchased from the Central Susquehanna Intermediate Unit #16 (CSIU) for its critical student accounting applications (membership and attendance). The CSIU has remote access into the District's network servers.

Recommendations:

Our audit observation recommended that the LSD:

1. Keep a copy of the fully executed, signed by both parties, maintenance agreement on file.
2. Ensure the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.

3. Ensure the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).
4. Require all employees to sign this policy.
5. Establish separate information technology policies and procedures for controlling the activities of the 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 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.
8. Implement a security policy and system parameter settings to require all users, including the vendor, to change their password on a regular basis (i.e., every 30 days).
9. Ensure the 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 off the system after a period of inactivity (i.e., 60 minutes maximum).
10. Only allow access to their system when the CSIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the IU has completed its work. This procedure would also enable the monitoring of CSIU changes.
11. Generate monitoring reports (including firewall logs) of CSIU 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.
12. Upgrade/update to the District's system made only after receipt of written authorization from appropriate District officials.
13. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.

Current Status: We followed up on the LSD's records and found that the LSD did take appropriate action to correct their child accounting applications.

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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:

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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