

KARNS CITY AREA SCHOOL DISTRICT
BUTLER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Dr. Sherlia Hillwig, Board President
Karns City Area School District
1446 Kittanning Pike
Karns City, Pennsylvania 16041

Dear Governor Rendell and Dr. Hillwig:

We conducted a performance audit of the Karns City Area School District (KCASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 22, 2009 through June 7, 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 KCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. In addition, 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 finding, observation and recommendations have been discussed with KCASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve KCASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the KCASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

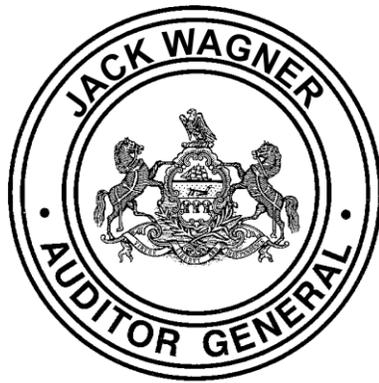
JACK WAGNER
Auditor General

November 29, 2010

cc: **KARNS CITY 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 Karns City Area School District (KCASD). 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 KCASD in response to our prior audit recommendations.

Our audit scope covered the period January 22, 2009 through June 7, 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.

District Background

The KCASD encompasses approximately 125 square miles. According to 2000 federal census data, it serves a resident population of 10,720. According to District officials, in school year 2007-08 the KCASD provided basic educational services to 1,798 pupils through the employment of 127 teachers, 102 full-time and part-time support personnel, and 9 administrators. Lastly, the KCASD received more than \$12.8 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the KCASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, one matter unrelated to compliance is reported as an observation.

Finding: Errors in Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments of

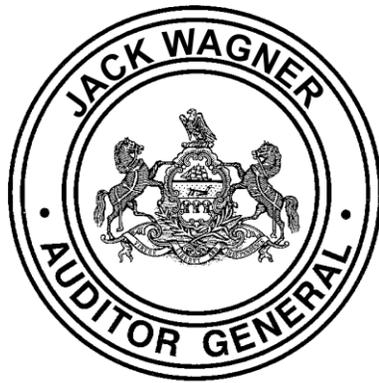
\$24,412. Our audit of the KCASD pupil transportation records and reports submitted to the Department of Education for the 2007-08 and 2006-07 school years found errors in data reported for reimbursement resulting in total underpayments to the KCASD (see page 6).

Observation: Memorandum of Understanding Not Updated Timely.

Our audit found the KCASD had on file a properly signed Memorandum of Understanding (MOU) between itself and the local law enforcement agency; however, the MOU had not been updated since January 14, 2008 (see page 8).

Status of Prior Audit Findings and Observation.

With regard to the status of our prior audit recommendations to the KCASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the KCASD had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored system access and logical access control weaknesses (see page 10).



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 22, 2009 through June 7, 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 KCASD'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.

KCASD 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 KCASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on July 29, 2009, we reviewed the KCASD's response to DE dated October 12, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Errors In Reporting Pupil Transportation Data Resulted in Reimbursement Underpayments of \$24,412

Criteria relevant to the finding:

Instructions for completing DE's End-of-Year Pupil Transportation Reports provides that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils and the largest number of pupils assigned to each vehicle. Additionally, the instructions provide that information and data used by the LEA to support the reports should be retained for audit purposes.

Our audit of the District's 2007-08 and 2006-07 pupil transportation records and reports submitted to the Department of Education (DE) for reimbursement found reporting errors resulting in reimbursement underpayments of \$16,444 and \$7,968, respectively, detailed as follows:

2007-08 School Year

District personnel failed to report one bus for 167 days of service that traveled 31 daily miles with pupils and 32.8 daily miles without pupils. We found another bus provided a mid-day run for part of the school year that traveled 1.8 daily miles with pupils and 13.9 daily miles without pupils, which was not included in the District's weighted average mileage calculations. Additionally, for the same bus District personnel overstated the miles with pupils by .2 daily miles on reports submitted to DE. These reporting errors resulted in a \$16,444 underpayment to the District.

2006-07 School Year

District personnel failed to report one bus that was utilized for 82 days and traveled 43.4 daily miles with pupils and 32.8 daily miles without pupils, resulting in a \$7,968 underpayment to the District.

The inaccuracies identified were caused by clerical errors and a lack of adequate internal control review prior to the reports being submitted to DE.

Recommendations

The *Karns City Area School District* should:

1. Strengthen internal controls to ensure all eligible vehicles and data are reported for reimbursement.
2. Ensure vehicle data, including daily mileage is reported accurately to DE.

3. Review subsequent school years' pupil transportation reports submitted to DE, and resubmit them if necessary.

The *Department of Education* should:

4. Adjust the District's future allocations to resolve the underpayments totaling \$24,412.

Management Response

Management provided a response indicating agreement with the finding and provided no further comment.

Observation →

Memorandum of Understanding Not Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

This memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Additionally, the Basic Educational Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, as well as the Complete All-Hazards School Safety Planning Toolkit disseminated by the Pennsylvania Emergency Management Association, contain a sample MOU to be used by school entities. Section VI, General Provisions item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added)

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and the local law enforcement agency, was not updated since it was signed on January 14, 2008.

The failure to update the MOU with the local law enforcement agency could result in a lack of cooperation, direction, and guidance between District employees and the law enforcement agency if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

The failure to re-execute the MOU within two years of the date of its original execution was a result of a change in District administrative personnel responsible for the oversight of the MOU:

During our current audit District personnel were in the process of obtaining a current signed MOU with the law enforcement agency. However, as of June 7, 2010, a signed copy of the MOU had not yet been provided.

Recommendations

The *Karns City Area School District* should:

1. In consultation with the solicitor, continue to review, update and re-execute the current MOU between the District and the local law enforcement agency.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

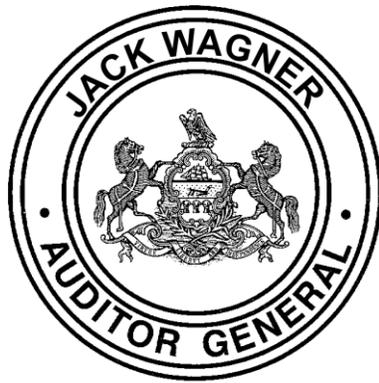
Management provided a response indication agreement with the observation and provided no further comment.

Status of Prior Audit Findings and Observations

Our prior audit of the Karns City Area School District (KCASD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to unmonitored 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 KCASD 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 KCASD did implement the recommendations related to the observation.

| <i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i> | | |
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| <i>Prior Recommendations</i> | <i>Implementation Status</i> | |
| <p><u><i>I. Observation:</i></u> <u><i>Unmonitored System Access and Logical Access Control Weaknesses</i></u></p> <p>1. Generate monitoring reports (including firewall logs) of the Midwestern Intermediate Unit #4 (MIU) and employee remote access and activity on their system. Monitoring reports should include date, time, and reason for access, change(s) made and who made the changes(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.</p> <p>2. Require the MIU to assign unique IDs and passwords to employees authorized to access the District’s system. Further, the District should obtain a list of</p> | <p>Background:</p> <p>The KCASD uses software purchased from the MIU 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 MIU’s servers which are physically located at the MIU. The District has remote access into the MIU’s network servers, with the MIU providing system maintenance and support.</p> <p>Based on our procedures, we determined that a risk existed that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring all MIU activity in its system.</p> | <p>Current Status:</p> <p>Our current audit found that the District implemented our recommendations to help prevent unauthorized changes to the District’s data.</p> <p>We concluded that the KCASD did take appropriate corrective action.</p> |

| | | |
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| <p>MIU employees with access to its data and ensure that changes to the data are made by authorized vendor representatives.</p> <p>3. Allow access to its system only when the MIU needs access to make pre-approved charges/updates or requested assistance. This access should be removed when vendor has completed its work. This procedure would also enable the monitoring of vendor changes.</p> <p>4. Create information technology (IT) policies and procedures for controlling the activities of vendors/consultants, and require the MIU to sign the District's Acceptable Use Policy.</p> <p>5. Establish its own IT security policies and procedures which cover topics such as privacy, logical access controls, accountability, and violations/incidents. The policy should be signed by any vendor or consultant.</p> <p>6. Prepare written procedures for entering membership/ attendance data and prepare and retain supporting documentation to verify reconciliation procedures are performed that would allow the local education agency to detect significant changes in membership/attendance data.</p> | | |
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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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