

KEYSTONE OAKS SCHOOL DISTRICT  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2010



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

Ms. Marian Randazzo, Board President  
Keystone Oaks School District  
1000 Kelton Avenue  
Pittsburgh, Pennsylvania 15216

Dear Governor Rendell and Ms. Randazzo:

We conducted a performance audit of the Keystone Oaks School District (KOSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period January 31, 2008 through October 8, 2009, 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 KOSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

August 27, 2010

cc: **KEYSTONE OAKS 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 Oaks School District (KOSD). 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 KOSD in response to our prior audit recommendations.

Our audit scope covered the period January 31, 2008 through October 8, 2009, 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 KOSD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 22,580. According to District officials, in school year 2007-08 the KOSD provided basic educational services to 2,295 pupils through the employment of 188 teachers, 98 full-time and part-time support personnel, and 13 administrators. Lastly, the KOSD received more than \$8.3 million in state funding in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the KOSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

#### **Observation 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.**

Neither the KOSD nor the KOSD's transportation contractor have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children (see page 6).

#### **Observation 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses.**

We determined that a risk exists that unauthorized changes to the KOSD's data could occur and not be detected because the KOSD was unable to provide supporting evidence that it is adequately monitoring vendor activity in its system (see page 9).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the KOSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the KOSD had taken appropriate corrective action in implementing our recommendations pertaining to the updating of the Memoranda of Understanding (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 January 31, 2008 through October 8, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2008 through June 30, 2009.

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 KOSD'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.

KOSD 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 KOSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 12, 2009, we reviewed the KOSD's response to DE dated May 20, 2009. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Observation No. 1

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### Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

*Criteria relevant to this observation:*

Section 111 of the Public School Code, as amended, requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

The ultimate purpose of the requirements of the Public School Code and CPSL detailed on the left is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. Districts should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Our review of the personnel records of the 52 bus drivers currently employed by the Keystone Oaks School District's (KOSD) transportation contractors found that these individuals possessed the minimum requirements to be employed as bus drivers and that the District had on file the required report of criminal history record information and an official clearance statement for all drivers' files that we reviewed. There was no information contained in these reports that would have prohibited the District from using any of the drivers. Therefore, we concluded, the KOSD has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. However, we did identify serious crimes that called into question the applicant's suitability to have direct contact with children.

Specifically we found that six of the drivers had been convicted of crimes that, while not disqualifying crimes, were nonetheless serious, as follows:

<u>Number of Convictions Stratified Over Time Period</u>		
<u>Criminal Convictions</u>	<u>Less than 5 Years</u>	<u>Over 5 Years</u>
<b>Section 111 Crime – but over five years:</b>		
Controlled Substance Drug, Device and Cosmetic Act	--	1
<b>Not Under Section 111, but Serious:</b>		
Criminal Conspiracy	1	--
Retail Theft	--	1
Disorderly Conduct	--	1
Driving Under the Influence	--	<u>2</u>
Total	<u>1</u>	<u>5</u>

Furthermore, neither the District nor the contractors have written policies and procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to have direct contact with children.

**Recommendations**

The *Keystone Oaks School District* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation 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.

2. Implement written policies and procedures to ensure the District is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any convictions of a current employee should lead to an employment action.

**Management Response**

Management stated the following:

Bus drivers are not employees of the District, but rather are employees of the District's contractors.

Management will meet with both transportation providers to stress the importance of proper employee screening with regard to DUIs. Management will ask the Board to adopt a policy regarding contractor's hiring practices.

**Observation 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 KOSD 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 network servers.

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 was unable to provide supporting evidence that it is adequately monitoring vendor activity in its system.

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 following weaknesses over vendor access to the District’s system:

1. The District employees are not required to sign an agreement to abide by the information technology (IT) Security Policy.
2. The District does not require written authorization before adding, deleting, or changing a userID.
3. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
4. 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 their passwords every 30 days. We also noted that the District’s system parameter settings do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).

5. The District does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and district employees). There is no evidence that the District is performing procedures to determine which data the vendor may have altered or which vendor employees accessed their system.
6. The District does not have evidence that it has any compensating controls that would mitigate the IT weaknesses and 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 Oaks School District* should:

1. Require District employees to sign and agree to abide by the IT Security Policy.
2. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
3. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
4. 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). Also District should implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the District's 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.
6. To mitigate IT control weaknesses, the District should develop and document 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:

Management agrees that it could do a better job controlling and monitoring access to its technology databases, however, many of the suggested fixes are costly either in actual dollars or time spent. With limited financial and personnel resources and no State financial support towards implementing tighter controls, the District has no plans to address the identified weaknesses.

**Auditor Conclusion**

Due to the sensitive nature of the information in the system, we continue to recommend the corrective actions detailed in our observation.

## Status of Prior Audit Findings and Observations

Our prior audit of the Keystone Oaks School District (KOSD) for the school years 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to the lack of timely updating of the Memoranda of Understanding. 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 KOSD 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 KOSD did implement recommendations related to the update of the Memoranda of Understanding.

<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: Memoranda of Understanding Not Updated Timely</i></u></p> <ol style="list-style-type: none"> <li>In consultation with the District’s solicitor, review, update and re-execute the current Memoranda of Understanding (MOU) between the District and the three local law enforcement agencies.</li> <li>Require a MOU with the all municipalities that have District buildings within their borders.</li> <li>Adopt a policy requiring the administration to review and re-execute the MOU every two years.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit found that the MOU between the District and three local law enforcement agencies had not been updated since July 16, 1996.</p> <p>Additionally, the District’s middle and high schools are located in a fourth municipality, although that municipality is not part of the District. The District had no MOU with the law enforcement agency of that municipality, even though it would be the first responder in any crisis situation at these schools.</p>	<p><b>Current Status:</b></p> <p>Our current audit found that the District did implement the recommendations in our previous audit.</p> <p>After the completion of our prior audit the District received signed MOU’s from the three municipalities referred to in our audit report. All MOU’s were signed in 2008.</p> <p>Furthermore, as of August 2009, a more detailed MOU was signed by the police departments of three municipalities, including the one that was not part of the District, and the District was in the process of updating the final MOU before the February 4, 2010 deadline.</p>

## **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 Edward G. Rendell  
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The Honorable Robert M. McCord  
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Senator Jeffrey Piccola  
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