

LAKELAND SCHOOL DISTRICT
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FEBRUARY 2010

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

Mr. John Brennan, Board President
Lakeland School District
1593 Lakeland Drive
Jermyn, Pennsylvania 18433

Dear Governor Rendell and Mr. Brennan:

We conducted a performance audit of the Lakeland School District (LSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period June 20, 2006 through April 29, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. 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, regulations, contracts, grant requirements, and administrative procedures, except as detailed in three findings 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 findings, observation 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.

Sincerely,

/s/

JACK WAGNER
Auditor General

February 26, 2010

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

Our audit scope covered the period June 20, 2006 through April 29, 2008, 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 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

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 2005-06 the LSD provided basic educational services to 1,648 pupils through the employment of 115 teachers, 50 full-time and part-time support personnel, and 11 administrators. Lastly, the LSD received more than \$7 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the LSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified three compliance-related matters reported as findings and one matter unrelated to compliance that is reported as an observation.

Finding 1: Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$18,950. 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 (DE) for the 2005-06 and 2004-05 school years were inaccurate, resulting in reimbursement underpayments of \$18,950 (see page 6).

Finding 2: Continued Transportation Reporting Errors Resulted in a Net Subsidy Underpayment of \$25,742. Our audit of the LSD'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 LSD of \$25,742 (see page 9).

Finding 3: Continued Potential Conflict of Interest Transaction. Our audit found that the director of transportation did not file a Statement of Financial Interests Form for the 2006 calendar year. Furthermore, the prior business manager failed to file his 2005 statement and filed his 2006 statement late. The administrators' failure to file the Statement of Financial Interests forms violated the Ethics Act. Failure to file financial disclosure statements prevents determination if any potential conflicts of interests exist. Furthermore, failure to file by the director of transportation prevents us from determining if he has/had any financial interest in a corporation to which he has significant ties. The State Ethics Commission continues to investigate this potential conflict of interest (see page 11).

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the LSD's data could occur and not be detected because the LSD was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. Further, the LSD does not perform formal, documented reconciliations between manual records and computerized records for membership and attendance (see page 14).

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 2003-04 and 2002-03 school years, we found the LSD had not taken appropriate corrective action in implementing our recommendations pertaining to transportation errors (see page 18) and a possible conflict of interest (see page 19).

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 June 20, 2006 through April 29, 2008, except for the verification of professional employee certification which was performed for the period May 18, 2006 through January 31, 2008.

Regarding state subsidy reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

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 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 LSD'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 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?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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 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, regulations, 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 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.

LSD 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 meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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 January 18, 2007, we reviewed the LSD's response to DE dated August 3, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Social Security and Medicare Wages Resulted in Reimbursement Underpayments of \$18,950

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 District's Social Security and Medicare tax contributions which is used to determine the District's state reimbursement found that reports submitted to the Department of Education (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.

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.

District personnel responsible for reporting Social Security and Medicare wages understated taxable wages eligible for reimbursement, as follows:

<u>2005-06 Wages Subject to State Reimbursement</u>						
<u>Reporting Period</u>		<u>Audited</u>	<u>Reported</u>	<u>Wages Understated</u>	<u>Reimbursement Rate</u>	<u>Reimbursement Overpayments</u>
<u>Existing Employees:</u>						
7/05 – 6/06	*	\$5,029,865	\$4,855,644	\$174,221	.03100	\$5,401
7/05 – 6/06	**	\$5,036,125	\$4,861,904	\$174,221	.00725	1,263
<u>New Employees:</u>						
7/05 – 6/06	*	\$2,520,131	\$2,446,196	\$73,935	.06200 x .5497	2,520
7/05 – 6/06	**	\$2,520,131	\$2,446,196	\$73,935	.01450 x .5497	<u>589</u>
Total						<u>\$9,773</u>
*Social Security Wages **Medicare Wages						

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.

<u>2004-05 Wages Subject to State Reimbursement</u>						
<u>Reporting Period</u>		<u>Audited</u>	<u>Reported</u>	<u>Wages Understated</u>	<u>Reimbursement Rate</u>	<u>Reimbursement Overpayments</u>
<u>Existing Employees:</u>						
7/04 – 6/05	*	\$5,138,295	\$4,971,176	\$167,119	.03100	\$5,181
7/04 – 6/05	**	\$5,149,657	\$4,982,538	\$167,119	.00725	1,212
<u>New Employees:</u>						
7/04 – 6/05	*	\$1,944,852	\$1,881,469	\$63,383	.06200 x .5742	2,256
7/04 – 6/05	**	\$1,944,852	\$1,881,469	\$63,383	.01450 x .5742	<u>528</u>
Total						<u>\$9,177</u>
* Social Security Wages ** Medicare Wages						

In addition, District personnel erroneously deducted total federally funded wages for Social Security and Medicare from the total taxable Social Security and Medicare wages for existing and new employees paid during the 2005-06 and 2004-05 school years. As a result, federally funded Social Security and Medicare wages were deducted twice. Clerical errors in reporting eligible wages also contributed to the underpayment.

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 underpayments of \$18,950.

Management Response

Management stated the following:

There was an underreporting of Social Security Wages which resulted in reimbursement underpayment. The current business manager has rectified reporting procedures and now accurately represents social security wages.

Finding No. 2

Continued Transportation Reporting Errors Resulted in a Net Subsidy Underpayment of \$25,742

Public School Code (PSC) Section relevant to the finding:

Section 2509.3 of the PSC provides, in part:

That each school district shall be paid the sum of \$385 for each nonpublic school pupil transported.

Additionally, instructions provided by DE to complete the Summary of Pupils Transported Form (PDE-2089) specify that districts are to report the total number of nonpublic pupils transported to and from school.

Our 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.

The discrepancies reported to DE in the contracted data were as follows:

- . payments made to one contractor were not reported for the 2005-06 and 2004-05 school years;
- . vehicle data for one contractor was not reported for the 2005-06 and 2004-05 school years;
- . daily miles traveled for regular transportation during the 2005-06 and 2004-05 school years were not reported for one bus; and
- . students transported during the 2005-06 and 2004-05 school years were not reported for one bus.

Furthermore, our audit of the nonpublic and charter school pupil transportation records and reports submitted to DE for the 2005-06 school year found District personnel incorrectly reported:

- . six alternative education pupils as nonpublic pupils;
- . overreported nonpublic pupils transported by 20; and
- . underreported charter school students transported by one.

Reports submitted to DE for the 2004-05 school year found District personnel overreported nonpublic pupils transported by three.

Clerical errors and District personnel's failure to review the final reports submitted to DE caused the omission of data for one contractor resulting in net reimbursement underpayments of \$17,667 and \$18,855 for the 2005-06 and 2004-05 school years, respectively.

Clerical errors in reporting nonpublic and charter school pupils transported resulted in a net reimbursement overpayments of \$9,625 for the 2005-06 school year and \$1,155 for the 2004-05 school year.

DE has been provided a report detailing the errors for use in recomputing the District's transportation reimbursements.

Recommendations

The *Lakeland School District* should:

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.

The *Department of Education* should:

5. Adjust the District's allocations to resolve the net underpayment of \$25,742 for the 2005-06 and 2004-05 school years.

Management Response

Management stated the following:

Error in reporting pupil transportation data that resulted in a net reimbursement underpayment of \$25,742 was a result of a clerical error.

The error was corrected by identifying the proper categorization of public and non-public schools as well as review of all vehicles that transport students for the district. The Director of Transportation will review all vehicles to ensure all are reported for reimbursement.

Finding No. 3 →

State Ethics Act Section relevant to the finding:

Section 1102, 65 Pa.C.S. § 1102, defines "conflict of interest" as:

Use by public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.

Continued Potential Conflict of Interest Transaction

Our prior audit found that the District's current director of transportation owns two vans that were used to transport District pupils during the 2005-06 school year.

Furthermore, our prior audit of District records found that neither of the two vans used by the transportation director's girlfriend to transport District pupils during the 2005-06 school year were used during the 2006-07 school year. Also, effective the 2006-07 school year, the District entered into a signed contract with a corporation owned by the director's girlfriend. Effective August 18, 2006, the girlfriend formed this corporation with checks payable to the corporation.

Our current audit found that the school board:

- sought the advice of its solicitor regarding the board's responsibility for District employees associated with contracts that they administer; and
- 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.

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

The administrators' failure to file the Statement of Financial Interests forms violated the Ethics Act. Failure to file financial disclosure statements prevents determination if any potential conflicts of interests exist. Furthermore, failure to file by the director of transportation prevents determining if he has/had any financial interest in a corporation to which he has significant ties.

State Ethics Act Section relevant to the finding:

Section 1103, 65Ps.C.S. § 1102 provides, in part:

Contract. – No public official or public employee of his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract valued at \$500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract. . . .

Upon request from the transportation director, his attorney provided the school district an opinion which states in part:

After reviewing the definition of Public Employee as set forth in requirements of 65 § Pa.C.S. Section 1102 together with job description for Transportation Director; It is my opinion that my client's duties do not involve the "taking or recommending" of any actions of a non-ministerial nature and as such would make him exempt from any such filing requirements. With that opinion I have advised my client not to complete the requested form pending your determination. I respectfully request that you undertake your own analysis and inform me if my interpretation of the facts, as applied to the law are correct. If your determination is inconsistent with mine my client will comply with the original request.

As a result of our prior audit finding, the State Ethics Commission continues to investigate this potential conflict of interest. A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

Recommendations

The *Lakeland School District* should:

1. Seek the advice of the State Ethics Commission in regard to the board's responsibility when a member fails to file a Statement of Financial Interest form.
2. Develop procedures to ensure all individuals required to file Statements of Financial Interests 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.

Management Response

Management stated the following:

Historically the district director of transportation did not file a Financial Interest Statement. All contracts are board approved and are on the state formula rate. In light of the past audit, the current director of transportation did file the 2005 financial interest statement with the understanding that no financial statement was required for 2006 forward. As this is a requirement of the Auditor General Office, the director of transportation will be required to timely file a Financial Interest Statement.

Auditor Conclusion

The Pennsylvania State Ethics Act, Act 170 of 1978, requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interest form annually, every May 1st, for the preceding calendar year. The Department of the Auditor General serves as a reporting agency to the State Ethics Commission. Therefore, any further discussion should be addressed with the State Ethics Commission.

Observation

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 system.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Lakeland School District uses software purchased from an outside vendor for its critical student accounting applications. 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 they are adequately monitoring vendor activity in their system. However, since the District has manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, that risk is mitigated. Attendance and membership reconciliations are performed between manual records and reports generated from the Student Accounting System.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever move into a paperless future with decentralized direct entry of data into their systems. 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 vendor access to the District’s system:

1. The District does not have a fully executed maintenance agreement on file.
2. The contract with the vendor, maintained by the District did not contain a non-disclosure agreement for the District’s proprietary information.
3. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).

4. The non-professional employees are not required to sign the policy.
5. The District does not have current information technology policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District's Acceptable Use Policy.
6. The District does not require written authorization before adding, deleting, or changing a userID.
7. The District does not maintain proper documentation to evidence that terminated employees were removed from the system.
8. 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.
9. Passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); and to log off the system after a period of inactivity (i.e., 60 minutes maximum).
10. The intermediate unit (IU) has unlimited access (24 hours a day/7 days a week) into the District's system.
11. The District does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including IU and District employees). There is no evidence to support that the District is performing any procedures in order to determine which IU employees accessed their system.
12. The District does not require written authorization prior to the updating/upgrading of key applications or changing user data.
13. The District does not have current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions.

Recommendations

The *Lakeland School District* should:

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 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 and procedures 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 passwords 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 (ie., 60 minutes maximum).
10. Only allow access to their system when the IU 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 IU changes.

11. Generate monitoring reports (including firewall logs) of IU 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.

Management Response

Management stated the following:

The district contracts with CSIU #16 for Membership Data Management software. The district believes that many of its manual controls are adequate to mitigate some of the potential logical access weaknesses as mentioned in the observation, especially given the District's membership level.

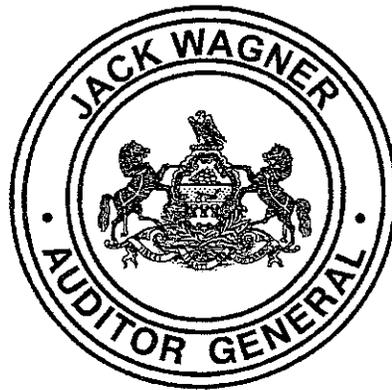
Notwithstanding, the District will review recommendations and implement all necessary security enhancements in a cost-effective and timely manner.

Status of Prior Audit Findings and Observations

Our prior audit of the Lakeland School District (LSD) for the school years 2003-04 and 2002-03 resulted in two findings. As part of our current audit, we determined the status of corrective action taken by the LSD to implement our prior recommendations. We analyzed the LSD's written response provided to the Department of Education (DE), performed audit procedures, and questioned LSD personnel regarding the prior findings. As shown below, we found that the LSD did not implement recommendations related to transportation reporting errors and a possible conflict of interest.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
Prior Recommendations	Implementation Status	
<p><u><i>1. Finding 1: Errors in Reporting the Number of Nonpublic Pupils Transported Resulted in a Reimbursement Overpayment of \$6,545</i></u></p> <ol style="list-style-type: none"> 1. Strengthen controls to ensure accurate reporting of the number of nonpublic pupils transported. 2. Review reports submitted subsequent to the audit period and, if similar errors are found, submit revised reports to DE. 	<p>Background:</p> <p>Our prior audit of the District's pupil transportation reports submitted to DE for the 2003-04 and 2002-03 school years found reporting errors in the number of nonpublic pupils transported during the 2003-04 school year.</p>	<p>Current Status:</p> <p>As of our fieldwork completion date of April 29, 2008, DE had not adjusted the District's allocations to resolve the overpayment of \$6,545. We again recommend that DE correct the overpayment to the District.</p> <p>Our current audit found that district personnel <u>did not</u> strengthen controls to ensure accurate reporting of the number of pupils transported and did not review reports submitted to DE for errors. (see Finding No. 2 on page 9).</p>

<p><i>II. Finding 2: Possible Conflict of Interest</i></p> <ol style="list-style-type: none"> 1. Seek the advice of its solicitor regarding the board's responsibility for District employees associated with contracts that they administer. 2. Require District administration to strengthen controls over its contract award process to help ensure detection of potential conflicts of interest. 3. Strengthen controls to help ensure compliance with state laws regarding District employees who conduct business with the District. 	<p>Background:</p> <p>Our prior audit of the District records, school board meeting minutes and an interview with a District employee found a possible conflict of interest transaction.</p> <p>The District's current director of transportation was hired in that position as a part-time employee in 2005. Our prior audit found that this individual owned two vans that were used by his girlfriend to transport District pupils during the 2005-06 school year. In January of 2006, the director's girlfriend was approved by the school board to operate as a transportation contractor for the District. However, we found no evidence of a signed contract between the District and the director's girlfriend or the director. We further learned that the director provided insurance for both vans and served as a driver of one of them. Checks from the District for payment of services were made payable to the girlfriend and endorsed by the girlfriend and the director. Payments were in the amount of \$15,500 for the period January through June of 2006.</p>	<p>Current Status:</p> <p>Our current audit of District records found that neither of the two vans used by the transportation director's girlfriend to transport District pupils during the 2005-06 school year were used during the 2006-07 school year. Also, effective with the 2006-07 school year, the District entered into a signed contract with a corporation owned by the director's girlfriend.</p> <p>Effective August 18, 2006, the girlfriend formed this corporation with checks payable to the corporation.</p> <p>However, the board <u>did not</u> strengthen controls to help ensure compliance with state laws regarding District employees who conduct business with the District. (See Finding No. 3 on page 11).</p>
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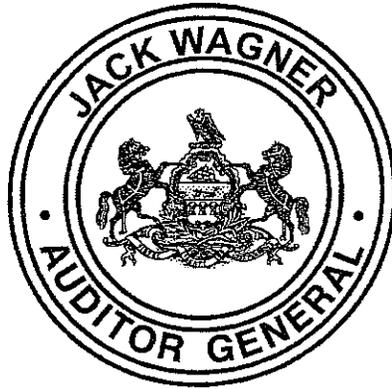
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