

PERFORMANCE AUDIT

Keystone Central School District Clinton County, Pennsylvania

August 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Kelly Hastings, Superintendent
Keystone Central School District
86 Administration Drive
Mill Hall, Pennsylvania 17751

Mr. James Knauff, Board Vice President
Keystone Central School District
86 Administration Drive
Mill Hall, Pennsylvania 17751

Dear Ms. Hastings and Mr. Knauff:

Our performance audit of the Keystone Central School District (District) evaluated the application of best practices in the areas of academics, finance, governance, safety, and bus driver requirements. In addition, this audit determined the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). This audit covered the period May 20, 2011 through March 13, 2015, except as otherwise stated and was conducted pursuant to Section 403 of the Fiscal Code, 72 P.S. § 403, and in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings 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.

Our audit found that the District effectively applied best practices in the areas listed above. In addition, we determined that the District complied, in all material respects, with relevant requirements.

We appreciate the District's cooperation during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

August 27, 2015

cc: **KEYSTONE CENTRAL SCHOOL DISTRICT** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the District. Our audit sought to answer certain questions regarding the District's application of best practices and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period May 20, 2011 through March 13, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 school year.

Audit Conclusion and Results

Our audit found that the District applied best practices and complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit resulted in no findings or observations.

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the District from an audit released on November 9, 2011, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in Social Security and Medicare wages (see page 6). The District had also taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and control weaknesses (see page 7).

Background Informationⁱ

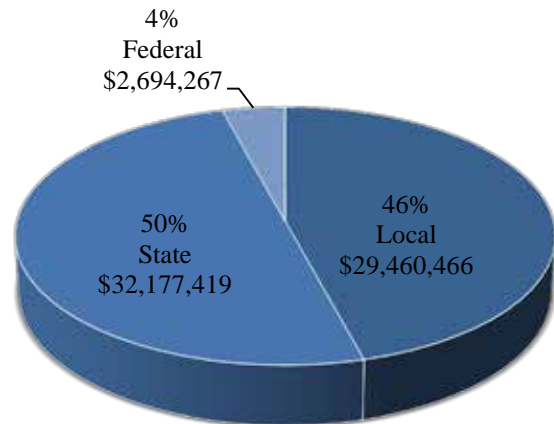
School Characteristics 2014-15 School Year ⁱⁱ	
County	Clinton
Total Square Miles	1,000
Resident Population ⁱⁱⁱ	41,824
Number of School Buildings	10
Total Teachers	346
Total Full or Part-Time Support Staff	180
Total Administrators	42
Total Enrollment for Most Recent School Year	4,063
Intermediate Unit Number	10
District Vo-Tech School	Keystone Central Career and Technology Center

Mission Statement

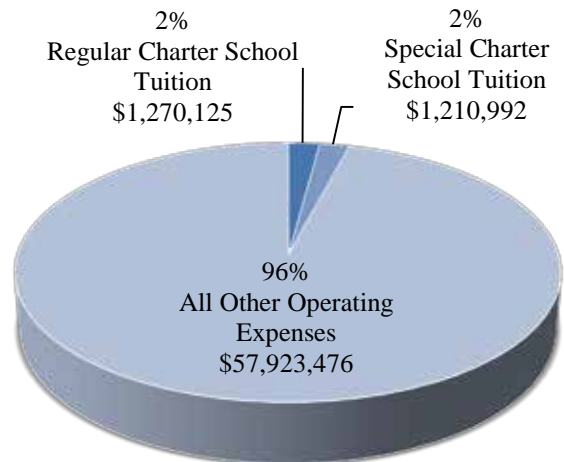
The Keystone Central community will provide an educational environment that develops high levels of academic achievement and promotes respectful citizenship in all students.

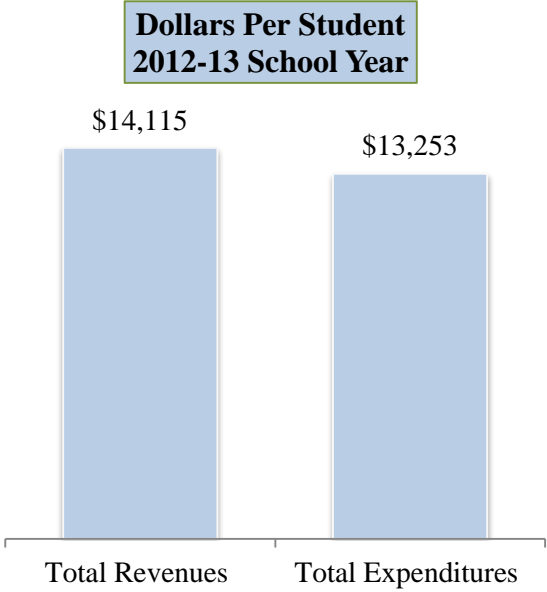
Financial Information

Revenue by Source for 2012-13 School Year



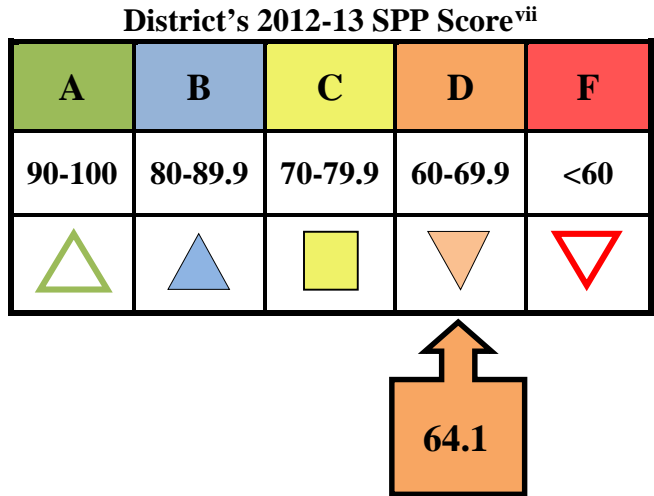
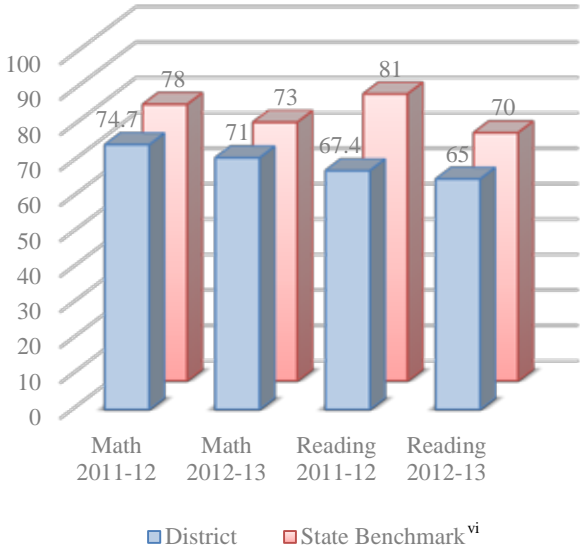
Select Expenditures for 2012-13 School Year





Academic Information

Percentage of District Students Who Scored "Proficient" or "Advanced" on 2011-12 and 2012-13 PSSA^{iv v}



**Individual Building SPP and PSSA Scores^{viii}
2012-13 School Year**

School Building	SPP Score	PSSA % School Proficient and Advanced in Math	PSSA % Statewide Benchmark Proficient and Advanced in Math	PSSA % School Proficient and Advanced in Reading	PSSA % Statewide Benchmark Proficient and Advanced in Reading	Federal Title I Designation (Reward, Priority, Focus, No Designation)^{ix}
Dickey Elementary	61.6	65	73	56	70	No Designation
Liberty-Curtin Elementary	65.5	70	73	59	70	No Designation
Mill Hall Elementary	63.5	66	73	58	70	No Designation
Renovo Elementary	65.0	74	73	61	70	No Designation
Robb Elementary	69.1	70	73	64	70	No Designation
Woodward Elementary	65.3	84	73	75	70	No Designation
Bucktail Area Middle School	70.3	78	73	67	70	Not applicable
Central Mountain Middle School	67.7	76	73	67	70	Not applicable
Bucktail Area High School	69.9	76	73	81	70	Not applicable
Central Mountain High School	71.5	57	73	68	70	Not applicable

Findings and Observations

For the audited period, our audit of the District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the District released on November 9, 2011, resulted in two findings. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We interviewed District personnel and performed audit procedures as detailed in each status section below.

Auditor General Performance Audit Report Released on November 9, 2011

Finding No. 1: Errors in reporting Social Security and Medicare Wages Resulted in an Overpayments of \$30,823

Finding Summary: Our prior audit of Social Security and Medicare wages for the 2008-09 and 2009-10 school years found that wages were incorrectly reported to the Pennsylvania Department of Education (PDE) resulting in reimbursement overpayments of \$30,823.

The errors for the 2008-09 and 2009-10 school years were due to District personnel's failure to accurately report federally funded wages. These errors resulted in erroneous reimbursement paid to the District.

Recommendations: We recommended that the District should:

1. Ensure all employees paid with federal funds are properly coded in their payroll system.
2. Perform a reconciliation of the final expenditure reports to their payroll reports to ensure accuracy.
3. Review reports for years subsequent to the audit period and, if errors are found, submit revised reports to PDE.

We also recommended that the *Pennsylvania Department of Education* should:

4. Adjust the District's allocations to resolve the reimbursement overpayments.

Current Status: During our current audit, we found that the District did implement our prior recommendations by adding a system for review to ensure all federally funded wages were properly coded. Some corrective actions were implemented during the 2009-10 school year. Our review of

Social Security wages for the 2010-11 school year verified all corrective actions were implemented prior to submitting reports to PDE for the 2010-11 school year. As of the release of this report, PDE has not adjusted the District's allocation to recover the overpayments for the 2008-09 and 2009-10 school years. We again recommend PDE recover the overpayments.

Finding No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Finding Summary: The District used software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the District's entire computer system, including all its data and the above software, was maintained on an intermediate unit's (IU) servers, which were physically located at the IU. The District had remote access into the IU's network servers, with the IU providing system maintenance and support.

Based on our prior audit 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 not adequately monitoring vendor activity in its system. Further, the District did not perform formal, documented reconciliations between manual records and computerized records for membership and attendance. Since the District did not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its data base, the risk of unauthorized changes was increased.

Recommendations: We recommended that the District should:

1. Include provisions for authentication (password security and syntax requirements) in the District's Acceptable Use Policy.
2. Establish separate information technology (IT) policies and procedures for controlling the activities of the IU and have the IU sign this policy, or require the IU to sign the District's Acceptable Use Policy.
3. Implement a security policy and system parameter settings to include all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days), and to use passwords that are 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 repetitive password (i.e., last ten passwords).

4. Require the IU to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of IU employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Allow access to its system only 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. The procedure could also enable the monitoring of IU changes.
6. Generate monitoring reports (including firewall logs) of IU and employee access and activity on its 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.
7. In order to mitigate IT control weaknesses, have compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

Our current audit revealed that the District did implement our prior recommendations by implementing the recommended policies and procedures effective January 1, 2010.

Appendix: Audit Scope, Objectives, and Methodology

School performance audits allow the Pennsylvania 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, PDE, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code,¹ is not a substitute for the local annual financial 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on the basis of our audit.

Scope

Overall, our audit covered the period May 20, 2011 through March 13, 2015. In addition, the scope of each individual audit objective is detailed on the next page.

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 PDE 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.

The District's management is responsible for establishing and maintaining effective internal controls² to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with relevant requirements that we consider to be material within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be material within the context of our audit objectives are included in this report.

¹ 72 P.S. § 403

² 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; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel or software vendor changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- ü Academics
- ü Governance
- ü Financial Stability
- ü School Safety
- ü Bus Driver Requirements

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ü Did the LEA's Board of School Directors (Board) and administration maintain best practices in governing academics and student achievement by developing and executing a plan to improve student academic performance at its underperforming school buildings?
 - o To address this objective, we considered a variety of District and school level academic results for the 2007-08 through 2012-13 school years to determine if the District had schools not meeting statewide academic standards established by PDE.³ Since underperforming schools were identified, we selected three of eight underperforming schools for further review. This review consisted of conducting interviews with the Superintendent and any other designated employees and reviewing required School Improvement Plans and/or optional School Level Plans to determine if the selected underperforming schools have established goals for improving academic performance, are implementing goals, and are appropriately monitoring the implementation of these goals.
- ü Did the LEA's Board and administration maintain best practices in overall organizational governance?

³ Academic data for the District and its school buildings included a five year trend analysis of Adequate Yearly Progress (AYP) results from the 2007-08 through 2011-12 school years, Pennsylvania System of School Assessment results in Math and Reading for the "all students" group for the 2011-12 and 2012-13 school years, School Performance Profile scores for the 2012-13 school year, and federal accountability designations (i.e. Priority, Focus, Reward, and No Designation) for Title I schools for the 2012-13 school year. All of the academic data standards and results we examined originated with PDE.

- To address this objective, we surveyed the District’s current Board, conducted in-depth interviews with the current Superintendent and his or her staff, reviewed board meeting books, policies and procedures, and reports used to inform the Board about student performance, progress in meeting student achievement goals, budgeting and financial position, and school violence data to determine if the Board was provided sufficient information for making informed decisions.
- Ü Based on an assessment of fiscal benchmarks, was the District in a declining financial position, and did it comply with all statutes prohibiting deficit fund balances and the over expending of the District’s budget?
- To address this objective, we reviewed the District’s annual financial reports, budget, independent auditor’s reports, summary of child accounting, and general ledger for fiscal years July 1, 2009 through June 30, 2013. The financial and statistical data was used to calculate ratios and trends for 22 benchmarks which were deemed appropriate for assessing the District’s financial stability.
- Ü Did the District take appropriate actions to ensure it provided a safe school environment?
- To address this objective, we reviewed a variety of documentation including, safety plans, training schedules, anti-bullying policies, and after action reports. In addition, we conducted on-site reviews at three out of the District’s ten school buildings (one from each education level) to assess whether the District had implemented basic safety practices.
- Ü Did the District take appropriate corrective action to address findings and implement recommendations made in our prior audit?
- To address this objective, we interviewed District administrators to determine what corrective action, if any, was taken to address prior audit recommendations. Where appropriate, we obtained documentary evidence and/or performed audit procedures to verify that corrective action was actually taken and those actions were sufficient to address the prior findings. We reviewed the accuracy of Social Security and Medicare wages reported to PDE for the 2010-11 school year. In addition, we confirmed the District implemented policies and procedures effective January 1, 2010, to address IT control weaknesses.
- Ü Did the District ensure that bus drivers transporting District students had the required driver’s license, physical exam, training, background checks, and clearances as outline in applicable laws?⁴ Also, did the District have adequate written policies and procedures governing the hiring of new bus drivers?
- To address this objective, we selected 5 of the 56 bus drivers hired by the District bus contractor, from July 1, 2014 to October 23, 2014, and reviewed

⁴ 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 Pa. Code Chapter 8, and 23 Pa.C.S. § 58-6354.

documentation to ensure the District complied with the requirements for bus drivers listed above. We also determined if the District had written policies and procedures governing the hiring of bus drivers and if those procedures were sufficient to ensure compliance with bus driver hiring requirements.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter

Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter

Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

ⁱ Source: School district, PDE, and U.S. Census data.

ⁱⁱ Source: Information provided by the District administration.

ⁱⁱⁱ Source: United States Census <http://www.census.gov/2010census>

^{iv} PSSA stands for the Pennsylvania System of School Assessment (PSSA), which is composed of statewide, standardized tests administered by PDE to all public schools and the reporting associated with the results of those assessments. PSSA scores in the tables in this report reflect Reading and Math results for the “All Students” group for the 2011-12 and 2012-13 school years.

^v PSSA scores, which are Pennsylvania’s mandatory, statewide academic test scores, are issued by PDE. However, the PSSA scores issued by PDE are collected by an outside vendor, Data Recognition Corporation (DRC). The Pennsylvania Department of the Auditor General and KPMG issued a material weakness in internal controls over PDE’s compilation of this academic data in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014, citing insufficient review procedures at PDE to ensure the accuracy of test score data received from DRC.

^{vi} In the 2011-12 school year, the state benchmarks reflect the Adequate Yearly Progress targets established under No Child Left Behind. In the 2012-13 school year, the state benchmarks reflect the statewide goals based on annual measurable objectives established by PDE.

^{vii} SPP stands for School Performance Profile, which is Pennsylvania’s new method for reporting academic performance scores for all public schools based on a scale from 0% to 100% implemented in the 2012-13 school year by PDE.

^{viii} *Id.* Additionally, federal Title I designations of Priority, Focus, Reward, and No Designation are new federal accountability designations issued by PDE to Title I schools only beginning in the 2012-13 school year. Priority schools are the lowest 5%, focus schools are the lowest 10%, and reward schools are the highest 5% of Title I schools. All Title I schools not falling into one of the aforementioned percentage groups are considered “No Designation” schools. The criteria used to calculate the percentage rates is determined on an annual basis by PDE.

^{ix} Title I Federal accountability designations for Title I schools originate from PDE and are determined based on the number of students at the school who receive free and/or reduced price lunches. School lunch data is accumulated in PDE’s CN-PEARS system, which is customized software developed jointly with an outside vendor, Colyar, Inc. The Pennsylvania Department of the Auditor General and KPMG issued a material deficiency in internal controls over the CN-PEARS system in the Single Audit of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2014.