

KEYSTONE CENTRAL SCHOOL DISTRICT
CLINTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2010

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

Mr. Jack Peters, Board President
Keystone Central School District
110 East Bald Eagle Street
Lock Haven, Pennsylvania 17745

Dear Governor Rendell and Mr. Peters:

We conducted a performance audit of the Keystone Central School District (KCS D) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period October 16, 2006 through June 17, 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, 2007, 2006 and 2005. 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 KCS D complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we indentified 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 observation and recommendations have been discussed with KCSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve KCSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the KCSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 11, 2010

cc: **KEYSTONE CENTRAL 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 Keystone Central School District (KCS D). 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 KCS D in response to our prior audit recommendations.

Our audit scope covered the period October 16, 2006 through June 17, 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, 2006-07, 2005-06 and 2004-05.

District Background

The KCS D encompasses approximately 1,048 square miles. According to 2000 federal census data, it serves a resident population of 36,950. According to District officials, in school year 2007-08 the KCS D provided basic educational services to 4,447 pupils through the employment of 408 teachers, 198 full-time and part-time support personnel, and 43 administrators. Lastly, the KCS D received more than \$31 million in state funding in school year 2007-08.

Audit Conclusion and Results

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

Observation: Memorandum of Understanding Not Updated Timely. Our audit of the KCS D's records found that the current Memorandum of Understanding between the KCS D and five local law enforcement agencies has not been updated in over three years (see page 6).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the KCS D from an audit we conducted of the 2003-04 and 2002-03 school years, we found the KCS D had taken appropriate corrective action in implementing our recommendations pertaining to Statements of Financial Interests (see page 8).



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 October 16, 2006 through June 17, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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

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 KCSD'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:

- ✓ 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?

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.

- ✓ 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.

KCSD 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 and state ethics compliance.
- Items such as Board meeting minutes.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 26, 2007, we reviewed the KCSD's response to DE dated July 19, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation

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 that 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.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains 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 reviewed and re-executed with two years of the date of its original execution and every two years thereafter. (Emphasis added)

Memorandum of Understanding Not Updated Timely

Our audit of the District's records found that the current Memorandum of Understanding (MOU) between the District and five local law enforcement agencies, including the Clinton County Sherriff Department, Lamar Township Police Department, City of Lock Haven Police Department, Renovo Borough Police Department, and the Pennsylvania State Police, were signed May 18, 2006, May 6, 2006, May 11, 2006, May 10, 2006 and May 9, 2006, respectively, and have not been updated.

The failure to update MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between District employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or 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.

District personnel were unaware that the MOU needed to be updated within a two year period.

Recommendations

The *Keystone Central School District* should:

1. Continue to review, update and re-execute the current MOU between the District and the five local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

MOU will be approved by the School Board on September 1, 2009.

Status of Prior Audit Findings and Observations

Our prior audit of the Keystone Central School District (KCS D) for the school years 2003-04 and 2002-03 resulted in one reported finding. The finding pertained to filing of Statements of Financial Interests. 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 KCS D Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding. As shown below, we found that the KCS D did implement recommendations related to Statement of Financial Interests.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>I. Finding: Board Members Failed to File Statement of Financial Interests in Violation of Ethics Act</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of its solicitor in regard to the board’s responsibility when an elected board member fails to file Statements of Financial Interests. 2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of District records found that one current board member and one ex-board member failed to file their Statements of Financial Interests for the year ended December 31, 2003, and one board member failed to file their Statements of Financial Interests for the year ended December 31, 2004. Additionally, two board members filed their Statements of Financial Interests late for the year ended December 31, 2005.</p>	<p>Current Status:</p> <p>Our current audit noted that all Statements of Financial Interests were submitted on time.</p> <p>Therefore, we concluded that the District <u>had</u> taken corrective action pertaining to this finding.</p>

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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