



**KEYSTONE OAKS SCHOOL DISTRICT
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

AUGUST 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

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

Dear Governor Corbett and Ms. Randazzo:

We conducted a performance audit of the Keystone Oaks School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period October 8, 2009 through December 20, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

August 2, 2013

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

Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	2
Findings and Observations	5
Observation – The District Lacks Sufficient Internal Controls Over Its Student Data	5
Status of Prior Audit Findings and Observations	9
Distribution List	12

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Keystone Oaks School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, 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 October 8, 2009, through December 20, 2012, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 5 square miles. According to 2010 federal census data, it serves a resident population of approximately 20,963. According to District officials, the District provided basic educational services to 2,175 pupils through the employment of 178 teachers, 92 full-time and part-time support personnel, and 11 administrators during the 2009-10 school year. Lastly, the District received \$8.9 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation.

Observation: The District Lacks Sufficient Internal Controls Over Its Student Data. Our review of the Keystone Oaks School District's controls over data integrity found that internal controls need to be improved (see page 5).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Keystone Oaks School District (District) from an audit we released on August 27, 2010, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 9). We found the District did not implement all of our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 10).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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, the Pennsylvania 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 8, 2009 through December 20, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 school years.

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 Pennsylvania Department of Education (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.

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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the District's compliance with applicable state laws, 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:

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received transportation subsidies, were the District, and any contracted vendors in compliance with applicable state laws and procedures?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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, 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, contracts, grant requirements, and administrative procedures that we consider to be significant within the

context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 27, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation →

Criteria relevant to the observation:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The District Lacks Sufficient Internal Controls Over Its Student Data

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review of the Keystone Oaks School District's (District) controls over data integrity found that internal controls need to be improved.

Specifically, our review found that:

- The District does not maintain adequate evidence of manual compensating controls (i.e. supporting documentation) to support its student registrations.
- The District did not have documentation of residence for the natural parents of one nonresident foster student. The student attended class at the District for 24 days.
- The District did not completely upload the registration for one student who was registered in the District for a period of time, then withdrew, and then subsequently re-registered with the District. In this instance the District failed to upload the student's second registration into PIMS.

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

- The District's calendar reports did not reconcile. For example, two summary reports from the District's Student Information System (SIS) listed the days in session for Dormont Elementary School as 182. However, the two other reports, The Child Accounting Vendor Data Base report and the PIMS Student Calendar Fact Template, listed the days in session for that school as 180.
- Keystone Oaks Middle School and Dormont Elementary School do not maintain permanent record folders for students that transfer to another school district within the state of Pennsylvania.
- The District does not have adequate documented procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

It is the responsibility of District management to have appropriate policies and procedures in place to ensure that student data is collected, recorded, and reported accurately and timely. Without these proper internal controls, the District cannot be assured it is receiving the correct state subsidy.

Recommendations

The *Keystone Oaks School District* should:

1. Maintain adequate evidence of manual compensating controls (i.e. supporting documentation) to support its student registration.
2. Develop documented procedures (e.g. procedures manual, policies or other written instructions) to ensure continuity over PIMS data submission if those involved persons were to leave the LEA suddenly or otherwise be unable to upload PIMS to PDE.
3. Review membership reports submitted to PDE for years subsequent to the audit, and if similar errors are found, submit reviewed reports to PDE.

Management Response

Management stated the following:

“Since the 2009/2010 school year, the District has begun to put practices in place to assure the proper accounting of Child Reporting.

1. With regards to the 1305 nonresident foster student status, the District has put into place the practice of receiving copies of agency placement letters at registration. This is noted on the District’s registration form, *Parents’ Declaration and Authorization for Admission of Non-Resident Student*. The Central Register will complete PDE Form 4507 upon registration of nonresident foster students and forward that information to Child Accounting personnel. Agency placement letters and the PDE 4057 will be retained in LEA files for audit purposes.
2. With regards to students who transferred out of the District and then back into the District and their membership days when they transferred back into the District not being reported in PIMS, the District will establish a procedure to check internal school reports before such data is reported in the PIMS system. The Child Accounting person will collaborate with the central registration person and the building secretarial staff on a period[ic] basis to assure that this information is being recorded properly.
3. With regards to the inconsistency between the number of days in session reported for Dormont Elementary and the PIMS Student Calendar Fact Template for Dormont Elementary school, this was an error on the District’s part. To correct this error, each Building Principal will collaborate with the Child Accounting person to assure that the number of days in session is accurately reported in all systems.
4. With regards to the Keystone Oaks Middle School and Dormont Elementary School not maintaining manual student registration records for students that transfer to another school district, the District has established a practice of maintaining such records in

each building. Attached to these comments is the Administrative Procedure that was put into place effective January 1, 2013.

In addition, the District has determined that it is vital for at least two people to be familiar with the reporting of information in the PIMS system. The Child Accounting person and the secretary to the Technology Department have been and will continue to be trained in submitting data into the PIMS system. For this process, both positions will report to the Assistant Superintendent who will oversee this process. For the future, the District will be reviewing the process of student registration and will be making necessary changes to the process to assure accuracy and consistency with student data and records.”

Auditor Conclusion:

We are pleased that the District has taken corrective action to address the deficiencies identified in this finding. We will evaluate these new procedures during our next audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Keystone Oaks School District (District) released on August 27, 2010, resulted in two reported observations. The first observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications, and the second observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and interviewed District personnel regarding the prior observations. As shown below, we found that the District did implement our recommendations related to internal control weaknesses in administrative policies regarding bus drivers' qualifications, but did not implement all of our recommendations related to unmonitored vendor system access and logical access control weaknesses.

Auditor General Performance Audit Report Released on August 27, 2010

Observation No. 1: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation Summary: Our prior audit found that neither the District nor the contractors had written policies or procedures in place to ensure that they were notified if current employees were 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.

Recommendations: Our audit observation recommended that the District:

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.

Current Status: During our current audit, we found that the District did implement the recommendations. The board adopted a policy regarding driver clearances during our audit. We did not note any drivers with crimes in our current audit test.

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

Observation Summary: Our prior audit found that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was adequately monitoring vendor activity in its system.

Recommendations: Our audit observation recommended that the District:

1. Require District employees to sign and agree to abide by the information technology (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 passwords on a regular basis. Also, the District should implement a security policy and system parameter settings to maintain a password history that will prevent the use of a repetitive password.
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, changes made, and who made the changes. The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should ensure it is maintaining evidence to support this monitoring and review.
6. To mitigate IT control weaknesses, develop and document compensating controls that would allow the District to detect unauthorized changes to the membership database in a timely manner.

Current Status:

During our current audit, we found that the District implemented recommendations one, four, and five. The District did not implement recommendations two, three, and six.

We again recommend that the District consider implementing the recommendations to ensure the District membership information is properly safeguarded against unauthorized changes.

It should be noted that the IT coordinator retired in July 2012, and was not replaced. The District currently uses a consultant that is at the District three days a week.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable William E. Harner
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Lori Graham
Acting 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. Tom Templeton
Assistant Executive Director
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.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

