



KEYSTONE SCHOOL DISTRICT  
CLARION COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

**MARCH 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

Mr. John Slagle, Board President  
Keystone School District  
451 Huston Avenue  
Knox, Pennsylvania 16232

Dear Governor Corbett and Mr. Slagle:

We conducted a performance audit of the Keystone School District (KSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 1, 2010, through July 18, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 KSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

March 4, 2013

cc: **KEYSTONE SCHOOL DISTRICT** Board Members



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Keystone School District (KSD). 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 KSD in response to our prior audit recommendations.

Our audit scope covered the period July 1, 2010, through July 18, 2012, 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 2009-10 and 2008-09.

### **District Background**

The KSD encompasses approximately 122 square miles. According to 2010 federal census data, it serves a resident population of 7,615. According to District officials, in school year 2009-10 the KSD provided basic educational services to 1,132 pupils through the employment of 87 teachers, 74 full-time and part-time support personnel, and 6 administrators. Lastly, the KSD received more than \$9.1 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the KSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

**Finding: Failure to Have All School Bus Drivers' Qualifications on File.** Our audit of the KSD's school bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of audit (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the KSD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the KSD had taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare wages (see page 8) and internal control and logical access control weaknesses (see page 10). However, we found the KSD had not taken appropriate corrective action in implementing our recommendations pertaining to bus driver qualifications (see page 9).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period July 1, 2010, through July 18, 2012, except for the verification of professional employee certification which was performed for the 2011-12 school year.

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

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 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 KSD'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:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ 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?
- ✓ In areas where the District receives transportation subsidies, are 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 are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose 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 does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?
- ✓ 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, 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, observations and conclusions based on our audit objectives.

KSD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as board meeting minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 4, 2011, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding

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### Failure to Have All School Bus Drivers' Qualifications on File

*Criteria relevant to the finding:*

Pennsylvania Department of Transportation bus driver regulations require the possession of a valid driver's licenses and passing a physical examination.

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

Additionally, Section 111(7)(b) provides, in part:

“Administrators shall maintain a copy of the required information. Administrators shall require contractors to produce a report of criminal history record information for each prospective employee of such contractor prior to employment. A copy of the report of criminal history record information from the Pennsylvania State Police shall be made available to the applicant in a manner prescribed by the Department of Education.”

Section 111 also requires an FBI fingerprint record check for all employees hired on or after April 1, 2007.

Our audit of the Keystone School District's school bus drivers' qualifications for the 2011-12 school year found that not all records were on file at the time of audit.

Several different state statutes and regulations establish the minimum required qualifications for school bus drivers. The purpose of these requirements is to ensure the safety and welfare of the students transported in school buses.

We reviewed the personnel records of the 22 bus drivers currently employed by the District pupil transportation contractor.

Our audit found that of the 22 drivers reviewed, one driver had an expired commercial driver's license on file, one driver did not have a state criminal history record on file, one driver did not have a child abuse clearance on file, and four drivers did not have a federal criminal history record on file.

District personnel stated that the failure to have the drivers' license and clearances on file was due to the District taking over the van transportation that was previously handled by the intermediate unit. The District did not integrate the requirements for van drivers into the current bus driver checklist.

By not having required bus drivers' qualification documents on file at the District, the District was not able to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of students.

*Criteria relevant to the finding:*

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

Chapter 23 of the State Board of Education Regulations indicates that the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

On May 1, 2011, we informed the District's management of the missing documentation and instructed them to immediately obtain the necessary documents, so they could ensure all drivers are properly qualified to have direct contact with children. The District's transportation contractors provided the necessary documentation on May 1, 2011, prior to the completion of the audit. The clearances provided to the auditor showed no situations that would put the drivers' suitability to transport District students in question.

The failure to have the records on file at the District was result of the District's system administrator's failure to ensure the transportation contractor complied with provisions of the Public School Code.

## **Recommendations**

The *Keystone School District* should:

1. Ensure that the District's transportation coordinator reviews each drivers' qualifications prior to that person transporting students.
2. Maintain files, separate from the transportation contractors, for all District drivers, and work with the contractor to ensure that the District's files are up-to-date and complete.

## **Management Response**

Management stated the following:

"The cause of this problem occurred when the District took over van transportation that was previously arranged and accounted for by the Intermediate Unit. We neglected to integrate the van driver requirements into the current bus driver reports checklist. Currently, all van drivers are accounted for just as bus drivers."

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Keystone School District (KSD) for the school years 2007-08 and 2006-07 resulted in two reported findings and one reported observation. The first finding pertained to Social Security and Medicare wages, the second finding pertained to school bus drivers' qualifications, and the observation pertained to internal control 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 questioned District personnel regarding the prior findings and observation. As shown below, we found that the KSD did implement recommendations related to Social Security and Medicare wages and internal control and logical access control weaknesses. However, the KSD did not implement recommendations related to bus drivers' qualifications.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Finding No. 1: Internal Control Weakness and Errors in Reporting Social Security and Medicare Wages**

Finding Summary: Our prior audit of Social Security and Medicare wages reported for the 2007-08 and 2006-07 school years found internal control weaknesses and reporting errors that resulted in inaccurate reports being submitted to the Pennsylvania Department of Education (PDE) for reimbursement. Reliance on these inaccurate reports resulted in overpayments to the District of \$4,630 in 2007-08 and \$5,175 in 2006-07, totaling \$9,805.

Recommendations: Our audit finding recommended that the KSD:

1. Retain all Quarterly Reports of Social Security and Medicare Tax Contributions on file in the District's business office for a period of six years.
2. Establish controls to ensure that personnel hired by the District are correctly reported as "new" or "existing" employees for computation of Social Security and Medicare wages reported to PDE for reimbursement.
3. Ensure the accuracy of total taxable wages reported each quarter.
4. Review reports submitted after the audit period for correctness and resubmit to PDE, if necessary.

We also recommended that PDE:

5. Recover the overpayments of \$9,805.

Current Status: During our current audit procedures we found that the KSD immediately began to implement our recommendations during our prior audit, and no problems were noted during the current audit. As of July 18, 2012, PDE had not made the adjustments to KSD's reimbursement. PDE personnel stated this finding was still pending resolution.

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**Finding No. 2: Failure to Have all School Bus Drivers' Qualifications on File and Transportation Contractors Fail to Comply with Transportation Contracts**

Finding Summary: Our prior audit of the District's school bus/van driver's qualifications for the 2009-10 school year found that not all records were on file at the time of our audit. Additionally, six of the nine did not comply with the contract provisions requiring them to submit required bus/van driver current documentation to the District prior to the start of the school year.

Recommendations: Our audit finding recommended that the KSD:

1. Ensure that the District's transportation personnel review each driver's qualifications prior to that person transporting students at the beginning of or during each school year.
2. Maintain files at the District, separate from the transportation contractors, for all District drivers, and work with the contractors to ensure that the District's files are up-to-date and complete.
3. Require the transportation contractors to adhere to provisions of the contracts and provide the District with the documents identified in the contract prior to the beginning of the school year.
4. Require District administrative personnel to ensure all bus drivers' qualifications are on file, and if not, mandate that the contractors do not use the bus drivers until documents are provided to District administrative personnel.

Current Status: During our current audit procedures we found that the KSD did not implement the recommendations. The failure to have all bus drivers' qualifications on file is again the topic of the finding in our current audit report (see page 6).

**Observation: Internal Control and Logical Access Control Weaknesses**

Observation

Summary:

The KSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor does not have remote access into the District's network servers located within the District. Therefore, no risk existed that unauthorized changes to the District's data by the vendor could occur and not be detected. However, during our review, we found that the District had numerous internal control and logical access control weaknesses in the District's system.

Recommendations: Our audit observation recommended that the KSD:

1. Prepare and retain a fully executed (signed by both parties) original contract and maintenance agreement on file for its membership and attendance software program.
2. Prepare a written information technology security policy (or Acceptable Use Policy) for its employees, including vendors and consultants, and require all District employees, vendors and consultants to sign and adhere to this policy.
3. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
4. Develop policy and maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
5. Implement a security policy and system parameter settings to require all users to change passwords every 30 days; to use passwords that are minimum length of eight characters and include alpha, numeric, and special characters; to lock out users after three unsuccessful attempts; and to log off the system after a period of inactivity (i.e., maximum of 60 minutes).
6. Ensure that updates to the software program are approved by District personnel prior to implementation by personnel from the contracted service provider. Additionally, written specific procedures should be developed in case an emergency change/update is needed.



7. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room.
8. Develop written procedures for entering membership and attendance information into the District's system and to support the District's reconciliation procedures.

Current Status:

During our current audit procedures we found that the KSD did implement the recommendations. On June 15, 2011, the District signed a contract with the student information system provider. Additionally, the District now has an Acceptable Use Policy that must be signed. The policy also appears on the computer screen when users log in, and they must agree to it in order to proceed any further. The District now retains emails for adding, deleting or changing userIDs. Updates to the software program are downloaded and updated by the District. We also noted there is now a fire extinguisher in the server room, and the District is working on adding fire suppression equipment.



## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following:

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

The Honorable Ronald J. Tomalis  
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. Nichole Duffy  
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

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