

POTTSTOWN SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2010

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

Mr. Richard C. Huss, Board President
Pottstown School District
230 Beech Street
P.O. Box 779
Pottstown, Pennsylvania 19464

Dear Governor Rendell and Mr. Huss:

We conducted a performance audit of the Pottstown School District (PSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period September 28, 2006 through June 25, 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 PSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified three matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

June 1, 2010

cc: **POTTSTOWN 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 Pottstown School District (PSD). 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 PSD in response to our prior audit recommendations.

Our audit scope covered the period September 28, 2006 through June 25, 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 PSD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 21,859. According to District officials, in school year 2007-08 the PSD provided basic educational services to 3,146 pupils through the employment of 271 teachers, 315 full-time and part-time support personnel, and 25 administrators. Lastly, the PSD received more than \$15.7 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the PSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified three matters unrelated to compliance that are reported as observations.

Observation No. 1: Memorandum of Understanding Not Updated Timely. Our audit of the PSD's records found that the Memorandum of Understanding between the PSD and local law enforcement has not been updated (see page 6).

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We determined that a risk exists that unauthorized changes to the PSD's data could occur and not be detected because the PSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system (see page 8).

Observation No. 3: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications. Our current audit found that the PSD had not implemented our prior audit recommendations regarding bus drivers' qualifications (see page 12).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the PSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the PSD had taken appropriate corrective action in implementing our recommendations pertaining to board members failing to file Statements of Financial Interests (see page 14).

We found the PSD had not taken appropriate corrective action in implementing our recommendations pertaining to bus drivers' qualifications (see page 15).

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 September 28, 2006 through June 25, 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

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.

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 PSD'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:

- ✓ 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?
- ✓ 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.

PSD 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.

Our audit examined the following:

- Records pertaining to bus driver qualifications, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 12, 2007, we reviewed the PSD's response to DE dated September 20, 2007. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Observation No. 1

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides, in part:

All school entities shall develop a memorandum of understanding with local law enforcement which 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.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons contains a sample MOU format 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 be reviewed and re-executed within two years of the date of its original execution and every two years thereafter.

Memorandum of Understanding Not Updated Timely

Our audit of the Pottstown School District's (PSD) records found that the Memorandum of Understanding (MOU) between the District and the local law enforcement has not been updated. The MOU with the Pottstown Police Department is dated January 17, 1996.

The failure to update MOUs with the local law enforcement agency 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.

Recommendations

The *Pottstown School District* should:

1. In consultation with the District's solicitor, review, update and re-execute the current MOU between the District and the Pottstown Police Department.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management stated the following:

The District is in agreement with the observation as the current Memorandum of Understanding was executed many years ago and is outdated. Prior to the audit being initiated, the Superintendent had been in collaboration with the other Superintendents of Montgomery County and the County District Attorney in developing a current and comprehensive Memorandum of Understanding between the Districts and the Police Department. A draft Memorandum of Understanding is currently being reviewed by District personnel and should be approved and executed in the very near future. Procedures will be established to update the Memorandum of Understanding on a biannual basis.

Observation No. 2

Unmonitored Vendor System Access and Logical Access Control Weaknesses

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 computer systems.

The PSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the PSD utilizes Central Susquehanna Intermediate Unit #16 (CSIU) to provide them with system maintenance and support. The software vendor has remote access into the PSD's network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the PSD's data could occur and not be detected because the PSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system. However, since the PSD has some manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated. 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 PSD would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the PSD's membership information and result in the PSD not receiving the funds to which it was entitled from the state.

During our review, we found the PSD had the following weaknesses over vendor access to the PSD's system:

1. The CSIU uses a group userID rather than requiring that each employee has a unique userID and password.
2. The PSD does not store data back-ups in a secure, off-site location.
3. All PSD employees are not required to sign that they agree to abide by the information technology (IT) Security Policy (or Acceptable Use Policy).
4. The PSD has certain weaknesses in logical access controls. We noted that the PSD's system parameter

settings do not require all users to change their passwords every 30 days (current requirement is every 180 days); to include the use of special characters in their passwords which are currently a minimum length of eight alpha and numeric characters; to maintain a password history of approximately ten passwords (current requirement is two passwords); and to log off the system after a period of inactivity of 60 minutes maximum (current setting for automatic log off is two hours).

5. The PSD does not have a list of personnel with authorized access to the area where the servers with the membership/attendance data reside.
6. The PSD has certain weaknesses in environmental controls in the room that contains the server that houses all of the PSD's data. We noted that the specific location does not have fire suppression equipment.
7. The PSD does not maintain the server with membership/attendance data in a completely restricted/secure area. The server is located in a room with PIN access control for entry; however, the server room is still accessible through another door that has no lock and leads to an adjacent conference room which is open during normal working hours and occasionally unoccupied.

Recommendations

The *Pottstown School District* should:

1. Require the CSIU to assign unique userIDs and passwords to its employees authorized to access the PSD system. Further, the PSD should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
2. Store back-ups in a secure, off-site location.
3. Require all PSD employees to sign an agreement to abide by the IT Security Policy (or Acceptable Use Policy).

4. Implement a security policy and system parameter settings that require all users to change their passwords on a regular basis of every 30 days; to include the use of special characters in their passwords; to maintain a password history of approximately ten passwords; and to log off the system after a period of inactivity of 60 minutes maximum.
5. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
6. 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 PSD should install fire suppression equipment.
7. Maintain the servers with the membership/attendance data in a completely restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.

Management Response

Management stated the following:

The District is in agreement with the recommendations presented. Many have been resolved or are in the process of final resolution.

The Central Susquehanna Intermediate Unit (IU) has changed their practice of using one user ID and password for support to providing individual user ID's and passwords.

Back up data will be stored in a secure, off-site location in the near future. The Information Technology Director is in the process of making arrangements for the storage.

Upon approval of the newly updated Technology Utilization policy all employees will be required to read and sign off their agreement to abide by the Information Technology Security Policy.

The logical access controls for the IU system previously did not allow for the usage of special characters in the password field. That has been upgraded by the IU and special characters can now be used in this field. The Information Technology Director is currently working on procedures and processes that will enable employees to change passwords on a more frequent basis in a secure environment, while utilizing special characters along with alpha and numeric characters.

The District is in the process of determining if the server room should have an additional lock installed on the door between the server and the conference room or if the door should be closed off. This will be completed in the near future, thereby limiting access to authorized personnel only. This will also enable a list to be provided of those individuals with access. This will provide a completely restricted/secure area in order to deter unauthorized physical access to the membership/attendance data.

The fire suppression equipment will be reviewed to determine the most cost effective manner to provide protection for the server room and implementation will follow shortly thereafter.

Observation No. 3 →

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Criteria relevant to the observation:

Public School Code Section 111 (24 P.S. § 1-111) 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 of certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa. C.S. § 6355, requires prospective school employees to provide 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 committed child abuse.

Our current audit found that the District had not implemented our prior audit recommendations regarding bus drivers' qualifications (see page 15). We made our recommendations in the interest of the protection of students, and here reiterate those recommendations.

The ultimate purpose of the requirements of the Public School Code and CPSL cited in the box to the left is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, we believe there are other serious crimes that school districts should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. School districts should also consider implementing written policies and procedures to ensure that the district is immediately informed of any charges and convictions that may have occurred after the commencement of employment.

Neither the District nor the transportation contractors had adopted written policies or procedures, as we recommended in the prior audit, to ensure that they are notified if current employees have been 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. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

Recommendations

The *Pottstown School District* should:

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 that the District is notified when current employees of the District's transportation contractors 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 conviction of a current employee should lead to an employment action.

Management Response

Management stated the following:

This observation was based on expected procedure, not prescribed school code.

The District maintains current clearances on all drivers and makes every effort to ensure no infractions have occurred since the clearances were received. The district's active oversight of school bus drivers through news media and community involvement for potential infractions is far more reliable than a signature from the driver claiming not to have any infractions. Having drivers sign a disclaimer that they have not had any infractions which would prohibit them from driving a bus does nothing to stop an offender from signing under false pretenses. The Pottstown School District takes its responsibility to monitor and maintain safe drivers for their schools very seriously.

Auditor Conclusion

We recognize that the District and transportation contractors complied with minimum legal requirements. For that reason, we address this not as a finding but rather as an observation. We continue to consider the lack of written procedures or policies addressing criminal convictions subsequent to the date of hire, although not legally required, to be an internal control weakness that could result in the continued employment of individuals who may nonetheless pose a risk if allowed to continue to have direct contact with children. Therefore, this observation will stand as presented.

Status of Prior Audit Findings and Observations

Our prior audit of the Pottstown School District (PSD) for the school years 2003-04 and 2002-03 resulted in one reported finding and one observation. The finding pertained to board members that failed to file their Statements of Financial Interests and the observation pertained to internal control weaknesses regarding bus drivers' qualifications. 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 PSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that PSD did implement recommendations related to the finding but did not implement recommendations related to the observation.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Board Members Failed to File Statements of Financial Interests</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of the District's solicitor in regard to the board's responsibility when a member fails to file a Statement of Financial Interests. 2. Develop procedures to ensure all individuals required to file a Statement of Financial Interests do so in compliance with the Public Official and Employee Ethics Act. 	<p>Background:</p> <p>Our prior audit of District records found that three, four, three and two board members failed to file their Statements of Financial Interests for the calendar years ending December 31, 2005, 2004, 2003 and 2002, respectively.</p>	<p>Current Status:</p> <p>Our current audit found that the District implemented our recommendations. However, the former board president failed to file his Statement of Financial Interests for the 2007 calendar year. The District has sent letters requesting completion of the form but did not receive any response.</p> <p>We have reported this information to the State Ethics Commission for its review and determination if any further action is necessary.</p>

<p><u>II. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <ol style="list-style-type: none"> 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 contractor 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 that the District is notified when current employees of the District's transportation contractor 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 conviction of a current employee should lead to an employment action. 	<p>Background:</p> <p>Our prior audit found that neither the District nor the transportation 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. We also noted that there was no process in place for consideration of serious crimes that would not prohibit employment but which should be considered for the purpose of determining an individual's suitability to be in direct contact with children.</p>	<p>Current Status:</p> <p>Our current audit found that the District has not implemented our prior audit recommendation regarding written policies and procedures. In its response to DE the board stated that the District's oversight through news media and community involvement was more reliable than individual driver's attestations.</p> <p>The failure of the District to implement our recommendations is addressed in Observation No. 3 of our current report (see page 12).</p>
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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:

The Honorable Edward G. Rendell
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