



READING SCHOOL DISTRICT  
BERKS COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MAY 2013

COMMONWEALTH OF PENNSYLVANIA

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

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

Mr. Pierre V. Cooper., Board President  
Reading School District  
800 Washington Street  
Reading, Pennsylvania 19601

Dear Governor Corbett and Mr. Cooper:

We conducted a performance audit of the Reading School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 23, 2011 through February 22, 2013, except as otherwise indicated in the report. In addition, based on the unique concerns raised by the District's independent financial auditors, and other interested parties, we performed certain procedures related to the District's accounting practices, academic performance, and governance, which covered school years 2005-06 through 2012-13. Compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 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 significant noncompliance with state laws and administrative procedures, as detailed in the five audit findings and one observation within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings include recommendations to the District and the Pennsylvania Department of Education.

Our audit findings 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

May 2, 2013

cc: **READING 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 Reading 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 March 23, 2011 through February 22, 2013, 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 school years 2011-12, 2010-11, 2009-10, and 2008-09.

### **District Background**

The District encompasses approximately 10 square miles. According to 2010 federal census data, it serves a resident population of 88,062. According to District officials, the District provided basic educational services to 17,613 pupils through the employment of 1,173 teachers, 788 full-time and part-time support personnel, and 61 administrators during the 2011-12 school year. Lastly, the District received \$137.7 million in state funding in school year 2010-11. As of our field work completion date, neither the June 30, 2012 annual financial report nor the independent financial auditor's report (also known as the local auditors' report) was available to report state funding for school year 2011-12.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with state laws and administrative procedures, as detailed in the five audit findings and one observation within this report.

**Finding No. 1: The Reading School District's Ineffective Governance Has Prevented It from Meeting Its Primary Mission of Effectively Educating Its Students through the Judicious Use of Citizen Tax Dollars.** The Commonwealth of Pennsylvania established its public education system to effectively educate its students through the judicious spending of citizen tax dollars. Therefore, each school district within that educational system is tasked with those twin goals as its primary mission. Our audit of the Reading School District (District) found that for the last several years, the District lacked the governance necessary to achieve its educational and operational objectives (see page 6).

**Finding No. 2: District Has Failed to Effectively Track Expenditures and Revenues, Leading to a Lack of Financial Accountability for Its Tax Dollars.** Our audit of the District found that it has inadequately tracked its expenditures and revenues. Consequently, the District's management and its school board cannot make sound policy decisions about how to allocate the District's resources. Furthermore, the District cannot properly account for its spending of its tax dollars (see page 18).

**Finding No. 3: Certification Deficiencies.**

Our audit of professional employees' certification for the period February 28, 2011 through January 25, 2013, found three professional employees teaching with lapsed certificates (see page 24).

**Finding No. 4: Memorandum of Understanding with Local Law Enforcement Not Updated Timely.**

As a result of a prior audit, the District updated its MOU as of March 20, 2009. This MOU was still in effect (within the two-year window) during the fieldwork of our prior audit for the years ended June 30, 2008 and June 30, 2007. Therefore, no observation was in our prior audit report. However, our current audit found that the next updated MOU was on July 6, 2011, not in March 2011, as required by law (see page 28).

**Observation: Logical Access Control Weaknesses.**

Our current audit found that the District complied with two of the three recommendations in our prior audit pertaining to unmonitored vendor system access. However, as of February 15, 2013, our current audit found that the District still had weaknesses in logical access control, and specifically, passwords (see page 30).

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

With regard to the status of our prior audit recommendations to the District, we found that the District had not taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 33) and internal control weaknesses regarding the empowerment grant (see page 34). The District partially implemented our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 34).

## 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 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 March 23, 2011 through February 22, 2013, except for the verification of professional employee certification which was performed for the period February 28, 2011 through January 25, 2013. In addition, based on the unique concerns raised by the District's independent financial auditors, and other interested parties, we performed certain procedures related to the District's accounting practices, academic performance, and governance, which covered the 2005-06 through 2012-13 school years.

Regarding state subsidy and reimbursements, our audit covered the 2011-12, 2010-11, 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 the 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:

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

- ✓ 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 state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ 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?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ 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 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**

*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

*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.

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 reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as board meeting minutes, policy and procedures, budgets, annual financial reports, independent financial audit reports, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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 January 20, 2012, we performed additional audit procedures examining the previously reported matters.



## Findings and Observations

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### Finding No. 1

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#### **The Reading School District's Ineffective Governance Has Prevented It from Meeting Its Primary Mission of Effectively Educating Its Students through the Judicious Use of Citizen Tax Dollars**

##### **How to Meet Adequate Yearly Progress (AYP)**

Based on a structure developed by the Pennsylvania Department of Education, for districts and individual schools to meet AYP measures, students must meet goals or targets in three areas: (1) Attendance (for schools that do not have a graduating class) or Graduation (for schools that have a high school graduating class), (2) Academic Performance, which is based on tested students' performance on the Pennsylvania System of School Assessment (PSSA), and (3) Test Participation, which is based on the number of students that participate in the PSSA. A district needs to meet the goals or targets in both Reading and Math in one grade span only to satisfy goals for Academic Performance and Test Participation, and it must meet both measures in Attendance and Graduation to meet AYP. Currently, test results from Grades 3, 4, 5, 6, 7, 8, and 11 determine AYP results.

The Commonwealth of Pennsylvania established its public education system to effectively educate its students through the judicious spending of citizen tax dollars. Therefore, each school district within that educational system is tasked with those twin goals as its primary mission. Our audit of the Reading School District (District) found that for the last several years, the District lacked the governance necessary to achieve its educational and operational objectives.

##### **Inability to Achieve Academic Mission**

As discussed above, the District's primary purpose is to effectively educate its students. This mission is reflected in the District's school board's Code of Conduct, adopted in February 22, 2006, which states that the "Board of Directors share responsibility for ensuring a 'thorough and efficient public education' as required by the Pennsylvania Constitution." Nevertheless, our audit found that the District has not been meeting that goal. The issues are as follows:

- ***Continued Failure to Make Adequate Yearly Progress (AYP):*** AYP is a key measure of school performance established by the federal No Child Left Behind Act (NCLB) of 2001, requiring that all students reach proficiency in reading and math by 2014. (Please see the text box to the left regarding the specific AYP measurements.) While the District did achieve statewide attendance and test preparation goals in the 2011-12 school year, it did not achieve AYP targets for graduation and academic performance in reading and math. In fact, the District's graduation rate was 24 percentage points lower than the state goal (61 percent vs. 85 percent). In addition, the District scored 45 percent in reading proficiency and 57 percent in math proficiency, while the statewide goals were 81 percent and 78 percent, respectively. In addition, of the District's 24 individual school buildings, 22 schools did not meet AYP targets in the 2011-12 school year.

- ***Continued Corrective Action II Status:*** The District has failed to make AYP since 2003. As a result of its repeated inability to achieve those performance goals, the District is in its sixth year of Corrective Action II status. Corrective Action II is the lowest AYP status level. According to the Pennsylvania Department of Education (PDE), this status level requires the District to continue to submit corrective action plans and to provide additional tutoring services at its own expense. In addition, the District is subject to increasing consequences such as changes in curriculum, governance, and leadership. Currently, the District is the only Pennsylvania school district in its 6<sup>th</sup> year of Corrective Action II status. Furthermore, only three Commonwealth school districts have been in a Correction Action II status for more than six years.
- ***Failure to Prepare a Comprehensive AYP Corrective Action Plan:*** As noted above, because the District has failed to make AYP, it must develop a comprehensive corrective action plan aimed at improving its students' performance. However, our audit found that the District did not develop such a plan in school year 2011-12 and that it has significantly delayed its development of a plan for school year 2012-13. While PDE granted the District at least two extensions for completing this document, as of March 2013, the District indicated that the plan remained incomplete. Given that the school year (2012-13) for which this plan is meant to improve students' performance is nearly over, it is difficult to see how the plan, even when completed, will have much impact on the District's ability to meet AYP.

### **Inability to Achieve Operational Mission**

As previously discussed, the Commonwealth provides the District with tax dollars for the sole purpose of effectively educating its students. Our audit found that the District's failure to meet its educational mission has been accompanied by a severe breakdown in the management of its fiscal operations. Consequently, the District cannot demonstrate that it is prudently spending its tax dollars for the education of its students. The issues are as follows:

- ***Repeat Findings in Its Independent Financial Audits:*** The District has had several repeat findings in its last four independent financial reports (fiscal years 2007-08, 2008-09, 2009-10 and 2010-11). The District does not appear to have taken any corrective action to address the financial auditors' issues. Instead, our audit found that the problems brought up in the previous audits still exist. Failing to attend to the repeated recommendations of its financial audits causes management to appear to be imprudently using taxpayers' funds. (Please see Appendix on page 37.)
- ***Lack of Accounting Policies and Procedures:*** The District has not developed policies and procedures for governing its accounting processes. As a result, its accounting system is not reliable and is prone to more errors. In addition, the District is not following at least one requirement of the Generally Accepted Accounting Principles (GAAP). The Commonwealth directs the District to adhere to GAAP as part of its *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools* (Manual), and "as a basis for program evaluation and budgetary planning." The Manual also states that following GAAP gives public schools' financial information a higher level of credibility with outside stakeholders.
- ***Major Accounting Error:*** On October 11, 2011, the District erroneously recorded the receipt of \$15.6 million twice. When the Basic Education Funding (BEF) payment was originally received in August 2011, it was recorded as revenue for the 2011-12 school year. Due to poor accounting procedures and practices, the second recording of the revenue occurred some two months after receipt for a school year that ended four months earlier. This error was not caught until November 2012. Had the District maintained its accounting records in accordance with GAAP, and had appropriate accounting procedures and internal controls been in place the error would not have occurred.
- ***Lack of Documentation:*** The District has repeatedly failed to maintain the documentation necessary to demonstrate how it has spent some of its revenue. For example, over the course of our last two audits, we found

that the District's management could not provide documentation to support how it accounted for the revenue and expenditures associated with its Empowerment Grants. These grants amounted to \$2.8 million over school years 2009-10 and 2008-09 and were meant to assist with implementing the District's plan for improving its academic performance.<sup>1</sup> Without this documentation, the District cannot demonstrate that it spent these funds toward the betterment of its students' education.

- **Poor Budgeting:** The District's budgets have repeatedly projected its state BEF subsidy inaccurately. For example, in the 2009-10 fiscal year, the District over budgeted its BEF by \$14,322,031. In the following fiscal year, 2010-11, the District over budgeted its BEF by \$12,134,624 and with the \$15.6 million accounting error discussed above, this figure rises to \$27,786,842. In addition, the District's independent audit for fiscal year 2010-11 included a finding stating that ". . . although the district's budgeting procedures provide for the preparation of an annual budget, there are several key issues that were not effectively addressed for the 2010-11 annual budget . . . Federal programs were not effectively budgeted, resulting in significant budget variances relating to Federal revenues and expenditures. Also, health care benefits for retirees of approximately \$7 million were not budgeted. As a result the district experienced large variances when actual results of operations were compared to budget results, making it more difficult to effectively manage results of operations."

### **District Unable to Meet Mission Due to Poor Governance**

The District's failure to meet its educational and operational missions is ultimately the result of its poor governance stemming from ineffective administrative management and school board oversight. The District's management failed to establish a strong accountability system for ensuring that the District was effectively implementing the school board's strategies for meeting its overall mission. Likewise, the District's school board failed to establish similar measures

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<sup>1</sup> Pennsylvania Department of Education. "Education Empowerment Annual Report 2007-2008 School Year," pg 2.

for monitoring whether management was accomplishing its goals.

The District's governance was also made worse by the near constant turnover in its upper management. Since July 2005, the District has had four superintendents (two permanent and two acting), four business managers (three permanent and one acting), and two assistant business managers. When the auditors asked the District's current management why such a high amount of turnover took place, they were told that the current management could not provide an answer. Nevertheless, without a strong system for maintaining consistent operations and accountability, this level of turnover in key management positions, especially after the 2010-11 school year, contributed to the District's inability to meet its academic and operational missions. Particularly, the constant yielding of authority to a new set of administrators allowed important issues such as the repeat findings in the independent financial audits and the comprehensive AYP corrective action plan to be ignored. Similarly, the District's school board should have ensured that each new administrative staff member addressed the appropriate operational priorities.

Furthermore, the school board should have evaluated whether it was getting all of the information it needed to make sound operational decisions, particularly with regard to the District's financial position. For example, until recently, the District's management had not been providing the school board with up-to-date cash and bank reconciliation statements, both of which are critically important to tracking the District's overall fiscal situation

### **Serious Short-Term and Long-Term Ramifications**

The District's poor governance has resulted in both short-term and long-term problems. In the short-term, it has contributed to the District's continued failure to achieve important educational goals, such as AYP. Likewise, it has resulted in poor decision making because of inaccurate or unavailable information. For example, because of the \$15.6 million accounting error discussed earlier, the District's management and school board made decisions about how to allocate the District's resources without a clear picture of the cash the District had available for its operations and its expenditures. Therefore, it is very likely that the

District's management and its school board would have made different choices if they had possessed an accurate understanding of the District's financial position.

In the long-term, anticipated and realized funding reductions may intensify the impact of the District's years of poor governance, resulting in even larger ramifications on its operational effectiveness. Since fiscal year 2010-11, the District's overall state revenue has decreased by 9.92 percent or nearly \$13 million. Likewise, based on our audit testing, over the last four fiscal years (2007-08, 2008-09, 2009-10, and 2010-11), the District's local revenue (total property tax revenue) has decreased by approximately \$9 million.

Therefore, the District has much less funding to work with in trying to meet its mission. Furthermore, the District's quick ratio, a financial position benchmark, has decreased over the same period. This benchmark is an indicator of the District's ability to meet its current obligations with cash and assets easily convertible to cash. Consequently, the downward trend of this ratio indicates the District would have a difficult time paying its on-hand bills.

With the District's financial circumstances apparently becoming increasingly tenuous, any bad decisions its management and/or school board have made in the past, because of inaccurate or missing information or any lack luster educational achievements the District has experienced due to an absent improvement plan, will likely make future efforts to weather these fiscal challenges even more difficult. In fact, these funding cuts have already required the District to make difficult decisions regarding its staffing, including furloughing 166 employees in the 2012-13 school year.

More importantly, in both the long and the short-term, the clear losers, as a result of the District's ineffective governance, are its students. The children who have made their way through the District's educational system over the last several years have not benefited from the spending of these state tax dollars. Furthermore, those students may never recover from the loss of an effective education, and in the long run, the District's failure could ultimately prevent them from realizing their true potential.

## **Improving the District's Governance**

To improve its governance, the District must create a more stable operational environment that can withstand changes in its upper management. This objective requires the District's management to create a strong system of accountability that it can use to maintain consistency and meet organizational goals. The elements of this system are commonly referred to as internal controls. In addition, the District's school board must develop mechanisms for determining whether management is being effective and for assessing whether its members are receiving the information needed to make sound operational decisions.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."<sup>2</sup> In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis."<sup>3</sup> With this approach in mind, the District's current management must identify the District's key activities and then ensure that there are written policies and procedures to govern them. In addition, the District's current management must develop a process for monitoring whether staff regularly follows these established protocols.

According to the GAO's strategy, this system of accountability should include:

1. Establishing an organizational reporting structure that clearly defines areas of responsibility and authority, and appropriate lines of reporting.
2. Identifying risks, analyzing their potential consequences, and determining actions to mitigate them.

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<sup>2</sup> U.S. General Accounting Office. *Standards For Internal Control In the Federal Government*. (November 1999), pg 1.

<sup>3</sup> *Ibid*, pgs 5-6.

3. Developing policies and procedures, techniques, and mechanisms that ensure goals are met and the risk of error is reduced.
4. Keeping proper documentation to show the execution of important activities.<sup>4</sup>

To address the District's urgent need for strong internal controls, its management must immediately: (1) implement the recommendations of the independent financial auditors, (2) develop written accounting procedures, (3) conduct monthly bank reconciliations, and (4) establish written procedures for complying with all GAAP principles. In addition, the District's management must complete its current AYP corrective action plan and properly and timely implement it. Furthermore, the District's management must address any issues created by this plans untimeliness, given that the 2012-13 school year is nearly over.

Finally, the District's school board must take steps to oversee the District's management. Its members must hold the District's management accountable for properly implementing the policies that the school board sets. Likewise, the school board must regularly and consistently monitor management's performance to ensure that the District has a sound operational structure. In fact, the District's own policies state that the school board should "hold the superintendent responsible for carrying out [the Board's] policies within established guidelines and for keeping the Board informed about school operations."<sup>5</sup>

For the District's school board to obtain the necessary information to accomplish these goals, it must continue to receive monthly up-to-date cash and bank reconciliation statements. In addition, it must have someone, such as the school board treasurer, sign-off on all monthly bank statements.

## **Recommendations**

The *Reading School District* should:

1. Immediately implement the recommendations in the District's last four independent financial audits.

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<sup>4</sup> Ibid, pgs 8-21.

<sup>5</sup> Reading School District Policy No. 003. "Local Board Procedures: Functions"



2. Immediately prepare and adopt policies and procedures governing its accounting processes.
3. Immediately develop internal control procedures which necessitate monthly bank reconciliations, if that is not already taking place.
4. Establish procedures for ensuring that the District is complying with all GAAP principles.
5. Identify all of the District's key activities and then ensure that there are written policies and procedures to govern them. In addition, the District's management should develop a process for monitoring whether staff regularly follows these established protocols. The District's strategy for implementing a system of accountability should include:
  - i. Establishing an organizational reporting structure that clearly defines areas of responsibility and authority, and appropriate lines of reporting.
  - ii. Identifying risks, analyzing their potential consequences, and determining actions to mitigate them.
  - iii. Developing policies and procedures, techniques, and mechanisms that ensure goals are met and the risk of error is reduced.
  - iv. Keeping proper documentation to show the execution of important activities.
6. Complete its comprehensive AYP corrective action plan and develop procedures for ensuring that this plan is properly implemented and for ensuring future plans are completed on time. The District should also ensure that the completed plan does not need additional revisions given its untimeliness.

The *Reading School District's board* should:

7. Hold management accountable for properly implementing the school board's policies and regularly and consistently monitor management's performance.
8. Continue to ensure that it receives monthly up-to-date cash and bank reconciliation statements.
9. Have someone, such as the school board treasurer, sign-off on all monthly bank statements.

## **Management Response**

**Auditor's note:** The District's responses identified individuals and entities by name. However, the Department of the Auditor General has replaced these names with the more generic position titles and entity types used throughout the report.

Management stated the following:

"The District's failure to make Adequate Yearly Progress is contingent on several factors. A review of the District's data over several years illustrates uneven patterns of performance in student achievement. These uneven patterns in achievement can be attributed to:

- the lack of an aligned curriculum and appropriate resources for teachers to use for instructional delivery.
- the written and taught curriculum not being well-aligned to ensure obtaining improved results on state assessments and other measurements.
- the failure to implement purchased programs, resources and materials with a high level of fidelity.

Additionally, the District has not been able to retain a team of administrative leaders at the district and school level for a period of time to guide and impact consistency in the implementation of curricular programs and other initiatives. Consistency in implementation is also impacted at the classroom level as well, given the large numbers of teachers with fewer than five years of teaching experience. This has significantly impacted building the instructional, organizational and structural capacity needed to improve student achievement, as well as provide overall improvement in the district.

In an effort to address issues noted, several actions have been taken to attempt to improve student achievement and the District's overall academic effectiveness, including:

- Hiring new administrators at the District's level to begin to strategically focus on all the issues noted above as well as other issues.
- Requesting a Curriculum Management Audit by [an international professional education association] to address five specific standards (listed below) for intense focus in improving the District. While curriculum is the main focus of the Audit, other areas of the organization are examined to determine their impact on the implementation of the curriculum and instructional program. The Auditors were in the District April 2-5, 2013. A written report is anticipated before June 30, 2013. [In progress]
  - Control of resources, programs and personnel;
  - Clear and valid objectives for students;
  - Internal consistency and rational equity in programs;
  - Use of results from assessments to adjust, improve, or terminate ineffective practices or programs; and
  - Continual improvement in organizational effectiveness.
- Identifying and purchasing a benchmark assessment (administered quarterly) that is more closely aligned to state standards than the one previously used. [Acuity]
- Implementing, with fidelity, a new instructional technology program with proven success in aiding struggling readers to gain reading skills.
- Developing and implementing the required District-wide School Improvement Plan, which is due in various stages- May 30 (special education), June 30 and November 30. The Administration is working in collaboration with PDE staff as The Plan is being developed.
  - The District's Strategic Plan, which served as a guide for implementing the adopted goals of the Board of Directors, is being incorporated into The Plan.
  - Findings from the [curriculum audit prepared by an international education association] will also be incorporated when relevant to achieving goals and improving the overall effectiveness of the District.

In an effort to improve both student achievement and district performance, all Board policies will be reviewed and updated to ensure there is clear guidance in consistency and expectations for implementation. Additionally, administrative regulations will be developed to ensure there is a process for administrators and other district personnel for adherence.”

## Finding No. 2

### District Has Failed to Effectively Track Expenditures and Revenues, Leading to a Lack of Financial Accountability for Its Tax Dollars

*Criteria relevant to the finding:*

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools (Manual) states that:

“The accounting system of an LEA [local education agency] shall provide the information necessary to: (a) prepare financial reports that present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the LEA in conformity with generally accepted accounting principles (GAAP); (b) determine and demonstrate compliance with finance-related and contractual provisions (such as subsidy calculations).” (Chapter 1, pg 1.7)

In addition, the Manual states that under the modified accrual basis of accounting expenditures/expenses should be recognized when the expenditure is incurred, not when it is paid. (Chapter 3, pg 3.4)

Our audit of the Reading School District (District) found that it has inadequately tracked its expenditures and revenues. Consequently, the District’s management and its school board cannot make sound policy decisions about how to allocate the District’s resources. Furthermore, the District cannot properly account for its spending of its tax dollars.

The following deficiencies demonstrate the District’s inadequate tracking of its expenditures and revenues:

Failure to Perform Account Reconciliations: The issue of unreconciled accounts has been an ongoing problem for the District. Its independent financial audits for fiscal years 2007-08 and 2008-09 included findings related to this issue, stating that some accounts went unreconciled for months. Although these same issues were not identified in the District’s independent financial audits for fiscal years 2009-10 and 2010-11, our review found that the District’s accounts receivable was not reconciled in the 2011-12 fiscal year. Without up-to-date account reconciliations, the District’s management and its school board cannot be fully aware of their available fund balance. (Please see text box to the left for relevant criteria.)

Inability to Obtain Essential Accounting Reports: Under the District’s present accounting procedures, staff does not enter invoices into the computerized accounting system when they are received. Instead, invoices are only entered into the system after they are approved by the appropriate internal department and subsequently ready for payment. This process, including payment of the invoices, can take up to 40 days. Consequently, the District’s accounting staff cannot print a report from the computerized accounting system that shows the age of its invoices or whether they are overdue. (Please see text box on left for relevant criteria.)

*Criteria relevant to the finding:*

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools Chart of Accounts states that:

“Governmental funds are to be reported on the modified accrual basis of accounting. Revenues are recognized when measurable and available to liquidate liabilities of the current period and expenditures are recognized when an event or transaction is expected to draw upon current spendable (not future) resources.” (pg A-1)

Failure to Properly Record Certain State Reimbursements:

Health services reimbursements were not properly recorded. Our review found that the District’s state revenue accounts for health services reimbursement were not properly recorded. For example, the District’s staff improperly recorded two payments from the Pennsylvania Department of Health. Instead of splitting the amounts between the 2009-10 and 2010-11 school years, they recorded both of them for the 2009-10 school year. As a result of this error, the District’s health services reimbursements for subsequent years were also not properly recorded. (Please see text box on previous page for relevant criteria.)

Failure to Consistently Follow the Modified Accrual Basis of Accounting:

The District does not consistently follow the modified accrual basis of accounting, as required by the *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools*. In fact, the last four independent annual financial audits (fiscal year 2007-08 through 2010-11) all found that the District’s accounting staff did not post appropriate journal entries prior to audit fieldwork, as required. Additionally, according to the District’s January 27, 2013, school board meeting minutes, the current chief financial and business officer stated that rather than consistently following the modified accrual method “The District records on a cash basis method. At the end of the year, they . . . correct everything so it complies with . . . modified accrual.” (Please text box to the left for relevant criteria.)

*Criteria relevant to the finding:*

The Manual of Accounting and Financial Reporting for Pennsylvania Public Schools Chart of Accounts states:

“Funding Source dimension permits LEAs to accumulate expenditures to meet a variety of specialized reporting requirements at Local, State and Federal levels. The first two digits of this dimension identify the funding source . . . or expenditure purpose.” (pg A-3)

Failure to Use Funding Source Codes: The District’s accounting staff did not enter the funding source codes into its computerized accounting system. Without these codes, the District cannot follow specific revenue streams, such as grants and federal money. Consequently, the District cannot demonstrate that it correctly spent these funds. (Please see the text box to the left for relevant criteria.)

The audit found that there are a number of reasons why the District has not been properly accounting for its revenues and expenditures, including:

Inadequate Use of the Computer Accounting System: Our audit found that the District's current computerized accounting system has the capacity to prepare the financial reports necessary to provide the District with comprehensive and accurate financial data. In fact, many other school districts throughout the Commonwealth successfully use this same system. However, the District's accounting staff is not using the system effectively. In some cases, its accounting processes are preventing the system from tracking important information, such as the age of invoices. In other instances, the staff has not entered the necessary information into the system to permit the compiling of essential reports, including an accounting of how certain revenues were spent. According to the current chief financial and business officer, these breakdowns originate from the prior District management's failure to ensure that the staff set up the system correctly when the District initially installed it.

Lack of Accounting Procedures: As discussed in Finding No. 1, the District has a long history of failing to implement procedures related to its accounting processes. The absence of such procedures has significantly contributed to the District's failure to properly account for its revenues and expenditures.

Lack of Consistent Management: As detailed in Finding No. 1, the impact of the District's failure to implement consistent accounting procedures was compounded by its repeated changes in upper management. (Please see Finding No. 1 page 6 for more detail.) Without strong written procedures to ensure consistency in the accounting staff's activities, this repeated change in management contributed to inaccuracies, oversights, and missteps that plagued the District's operations.

The District's continued failure to effectively administer and track its revenues and expenditures makes it impossible for taxpayers and the government to hold it accountable for how it uses its public funding. These lapses impede the District's governance because without the benefit of accurate, convenient, and timely information regarding the

District's financial position, the District's management and its school board cannot make sound decisions about how to allocate its resources.

In addition, the District's failure to maintain accurate financial information could negatively impact its overall monetary position. For example, the District's failure to properly track the use of grant money could make other entities less likely to approve them for future funding.

To correct the serious accounting problems, the District must develop written policies and procedures on: (1) the posting and reconciliation of cash receipts and revenue accounts, (2) cash disbursements and expenses, and (3) capturing and recording activity between funds and payroll related benefits and expenditures.

In addition, the District's management must evaluate its current accounting system and determine how to ensure that it has all of the necessary information to track the District's revenues and expenditures. In addition, the District must develop a mechanism for verifying that all its bills are being paid timely, and if necessary, obtain training for its accounting staff on how to properly use its accounting system.

## **Recommendations**

The *Reading School District* should:

1. Implement written policies and procedures on: (1) the posting and reconciliation of cash receipts and revenue accounts, (2) cash disbursements and expenses, and (3) capturing and recording activity between funds and payroll related benefits and expenditures.
2. Evaluate its current accounting system and determine how to ensure that it has all of the necessary information to track the District's revenues and expenditures. In addition, the District should develop a mechanism for verifying that all of its bills are being paid timely, and if necessary, obtain training for its accounting staff on how to properly use its accounting system.



## Management Response

**Auditor's note:** The District's responses identified individuals and entities by name. However, the Department of the Auditor General has replaced these names with the more generic position titles and entity types used throughout the report.

Management stated the following:

“Audited financial statements for the Fiscal Years Ending June 2010, 2011, and 2012 did indicate the District had operating deficits and relied upon Fund Balance to compensate for the deficits. Several factors have been identified that contributed to the negative operating results. They include but are not limited to:

1. A flawed systems implementation. The District converted from the use of [one accounting software to another] beginning with FY 08-09. The District did not perform the necessary due diligence to ensure a successful conversion. Additionally, the District failed to fully utilize the capacity of the new financial system and still maintained unofficial, off-line electronic spreadsheets for several accounting functions.
2. The District primarily relied upon an Incremental Budgeting Process. As a result, the alignment between Budgeted and Actual Revenues and Expenditures were misaligned, inaccurate, and unreliable for management purposes.
3. During the Audited Period, the District did not have a dedicated position with a primary responsibility to effectively and regularly monitor the Budget.
4. During the Audited Period, the District primarily performed accounting operations on a cash-basis method rather than the modified-accrual method.
5. Staff turnover, primarily in the Business/Finance function, was excessive contributing to inconsistent practices.
6. The District failed to encumber obligations to permit for effective financial accountability.

Effective June 1, 2012, several corrective measures were taken including but not limited to the following:

1. The hiring of a Director of Budget with a primary function to development, implement and monitor all Budgets.

2. Training on [new software] was conducted for Business/Finance/HR staff.
3. An independent evaluation of budgeting and accounting processes was conducted with recommendations to enhance internal controls and to mitigate weaknesses.
4. All procurement transactions exceeding \$200 are encumbered.
5. The adoption of a Fund Balance Policy has been recommended.
6. The adoption of a Debt Service Management Policy has been recommended.
7. Several measures to mitigate escalating costs including but not limited to healthcare have been implemented.
8. Monthly cash flow statements are provided to the Board.
9. All bank statements are reconciled timely.
10. The District has initiated a process of publishing financial information on the District's website to increase transparency.”

### Finding No. 3

### Certification Deficiencies

*Criteria relevant to the finding:*

The Public School Code (PSC), 24 P.S. § 12-1202, provides, in part:

“No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.”

The PSC, 24 P.S. § 25-2518, provides, in part:

“[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district’s market value/income aid ratio.”

Our audit of the Reading School District’s (District) professional employees’ certification for the period February 28, 2011, through January 25, 2013, found three professional employees teaching with lapsed certificates. One served as an elementary teacher and two served as English teachers. This violation was caused by District management’s failure to properly monitor its usage of Instructional I certificates.

The information pertaining to these deficiencies was submitted to the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. On April 29, 2013, the Department received confirmation that BSLTQ had upheld these deficiencies and that the District would be subject to subsidy forfeiture. However, the aid ratio data necessary to calculate this possible subsidy forfeiture was not yet available from PDE. In addition to subsidy forfeiture, by having individuals with lapsed certificates on staff, the District is risking not having qualified professionals educating its students.

### Recommendations

The *Reading School District* should:

1. Take the necessary action required to ensure compliance with certification regulations.
2. Implement procedures to track years of service for all individuals who are not permanently certified.

The *Pennsylvania Department of Education* should:

3. Apply the appropriate aid ratio information, and then adjust the District’s allocation to resolve any subsidy forfeiture that should be levied.

## Management Response

**Auditor's note:** The District's responses identified individuals and entities by name. However, the Department of the Auditor General has replaced these names with the more generic position titles and entity types used throughout the report.

Management stated the following:

“With regard to the . . . certification discrepancies uncovered by the auditors for the period outlined above, the Management Team of the Reading School District offers these additional comments to the information contained in the attached.

Specifically, although District HR staff has attempted to educate themselves and certificated employees on the TIMS system, the rollout of this system was not without challenges. In fact, there still exists a great deal of confusion as to the status of applications that have been submitted as well as how applications are to be processed, as evidenced by applicants being told by PDE that, notwithstanding an LEA's verification of their work history online, they still had to have a Form 338P completed and signed by the chief school administrator. While we were under the impression pursuant to a PDE Webinar on Thursday, February 21, 2013, that an identified glitch in the TIMS system, which had resulted in this erroneous information, has been rectified, we just received a copy of an email generated to an employee from PDE dated February 22, 2013, that still requires employees to download this form, have it completed, signed by the superintendent, and submitted to PDE via mail. Such conflicting information has resulted in District personnel having to spend a great deal of time working through the problem as employees consistently insist that they have done everything they were told to do, yet we have difficulty verifying the same.

In light of this and other issues that have arisen with TIMS since its inception, the Reading School District Department of Human Resources would respectfully request some leniency in the certification discrepancies uncovered as it is clear that everyone was simply attempting to adjust to a new way of doing business at the same time the District was dealing with unprecedented furloughs and all the tasks associated therewith.

In the meantime, please be assured that now that we understand most of the nuances of the TIMS system, we will be establishing better protocols to track and verify certification status, including, but not limited to, immediately suspending an employee whose Applicant Profile does not reflect that a certificate has been approved prior to the expiration of the employee's Instructional I. While we acknowledge that we may be taking a risk with such action, we would rather err on the side of caution when necessary.

In response to [three] certification discrepancies uncovered by the auditors, Reading School District Management [agrees with] three [discrepancies] as follows:

Areas of Agreement

[English Teacher No. 1]

Level II Certificates issued with an effective date of August 1, 2012 (ESL Program Specialist) and October 1, 2012 (Instructional II).

Although employee had timely met all requirements for an Instructional II, she apparently mistakenly thought that her application for a Program Specialist certificate also would result in the conversion of her Instructional I to an Instructional II. Upon realizing that her Instructional I would not be converted with her Program Specialist application, employee applied for the same on October 2, 2012. HR personnel, however, failed to catch that her Instructional II had not been converted by August 2012, in part, because of staff unfamiliarity with the TIMS system and problems associated therewith.

[Elementary Teacher]

District HR personnel had followed up with this employee regarding her Instructional II in a timely manner, and employee did apply for the same on July 16, 2012, as indicated on the TIMS Applicant Profile with a status report of "Pending Additional Docs or Scanning." When contacted, employee indicated that she had the Instructional II certificate in hand and would provide the HR office with the same. Because employee had not provided the certificate by the end of the day, February 22, 2013, she

was suspended without pay at that time pending further investigation into her certification status and her conflicting statements that (1) she has the Instructional II certificate "in hand," and (2) that she does not understand why the PDE site indicates that she is missing paperwork, because she "had everything sent in long ago."

Employee did submit an "Instructional II" certificate on Monday, February 25, 2013; however, a review of the document raised some concern amongst members of the HR staff who scanned and forwarded same to PDE for verification. It appears that the certificate may have been forged, and PDE has indicated that it has forwarded the issue to its legal counsel Employee remains suspended without pay pending further investigation and possible termination of employment.

[English Teacher No. 2]

Although [English Teacher No. 2] was given incorrect information by a prior District HR employee regarding the conversion date of her Instructional I certificate, she was notified by current staff in July 2012 that she needed to convert her Instructional I immediately. [English Teacher No. 2] informed HR that she had done so through TIMS, but she did not follow through on all other expectations, including downloading the cover sheet and providing all necessary documents – particularly transcripts. As of the end of the day, February 21, 2013, employee has been suspended without pay pending the resolution of her certification status.”

**Auditor Conclusion**

Since PDE has upheld the Department’s findings, any further discussions regarding the circumstances surrounding these deficiencies should be directed to the BSLTQ.

## Finding No. 4

## Memorandum of Understanding with Local Law Enforcement Not Updated Timely

### *Criteria relevant to the finding:*

The Public School Code, as amended November 17, 2010, 24 P.S. § 13-1303-A(c), provides, in part:

“[E]ach chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis.”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means “an event that occurs every two years.”

Our prior audit of the District found that it had updated its Memorandum of Understanding (MOU) with local law enforcement on March 20, 2009, which was within the recommended biennial update period. However, our current audit found that the MOU was not subsequently updated until July 6, 2011, rather than by March 20, 2011, as required by law. (Please see text box to the left.) The reason for this oversight appears to be that the District did not have an official policy requiring the biennial update. In addition, this new statutory requirement may not have been brought to the District’s attention.

The failure to update MOUs with all pertinent local law enforcement could result in a lack of cooperation, direction, and guidance between the District’s employees and the police departments if an incident occurs on school property, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to biennially update and re-execute a MOU could have an impact in local law enforcement notification and response, and ultimately the resolution of a problem situation.

## Recommendations

The *Reading School District* should:

1. In consultation with the District’s solicitor, review the new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
2. Adopt an official board policy requiring the District’s administration to biennially update and re-execute all MOUs with local law enforcement having jurisdiction over school property and file a copy with the Pennsylvania Department of Education’s Office of Safe Schools on a biennial basis, as required by law.

**Management Response**

Management stated the following:

“During the Audit Period addressed by this finding, the District did enter into a MOU in June 2011 to comply with the requirements of having a MOU with Local Law Enforcement on a timely basis.”

**Auditor Conclusion**

While the Department concurs that the District did update its MOU in 2011, it again reiterates that this update was not timely. Based on the legal requirement that these agreements be updated biennially, the District should have had its MOU re-executed by March 20, 2011. However, the records the auditors reviewed indicated that this task was not completed until July 6, 2011.



## Observation

*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.

## Logical Access Control Weaknesses

The Reading School District (District) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The District’s entire computer system, including all of its data and the above software, are maintained on the District’s servers which are physically located at the District. The District and the vendor have remote access into the network servers, with the vendor providing system maintenance and support.

Our current audit found that the District complied with two of the three recommendations in our prior audit pertaining to unmonitored vendor system access. However, as of February 15, 2013, we found that the District still had the following weaknesses in logical access control, and specifically, passwords:

- Passwords are established by the director of information technology. When District employees forget their passwords, they contact the director of information technology.
- There is no requirement to change passwords every 30 days. Passwords never have to be changed.
- Since the District’s employee passwords are not required to be changed, the District does not maintain a password history that would prevent the use of a repetitive password.
- The system does not lock out District employees after three unsuccessful attempts.

Logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the state funds to which it is entitled.

## Recommendations

The *Reading School District* should:

1. Implement a security policy and system parameter settings requiring that:

- i. Users establish their own passwords.
  - ii. Forgotten passwords are reset and a new one created by the user.
  - iii. All users change passwords on a regular basis (e.g., every 30 days).
  - iv. Users are locked out after three unsuccessful login attempts.
2. Maintain a password history that will prevent the use of a repetitive password (e.g., last ten passwords).

### **Management Response**

Management stated the following:

“Maintaining effective Management Information Systems Security, specifically Cyber Security, for all entities utilizing technology to ensure privacy and safety is quite challenging. The security of the District's computers, networks, Internet services, users, and data is a high priority and is taken very seriously by the District. As such, the District routinely evaluates current security measures for their strengths and weaknesses and implements cost-effective and needed improvements to make all systems more secure and less vulnerable.

As part of this finding, the frequency of password changes appeared to be a primary concern. It was suggested by the Auditors that passwords needed to be changed every thirty (30) days. We find this suggestion to be unreasonable and impractical. The District does however agree that the creation of secured passwords, the protection of those passwords, and the frequency of password changes is part of an effective and secured IT policy. As a result, the District will evaluate all system-level passwords and all-user level passwords for effectiveness and make changes as deemed necessary, including but not limited to, the frequency of password changes.”

### **Auditor Conclusion**

The Department is pleased that the District will be evaluating the effectiveness of its information systems security, including all system level and user level passwords. The auditors’ suggestion that the District change its passwords every 30 days was made based on industry best practices for maximizing password security.

However, the District must ultimately decide upon the frequency with which passwords are changed. The auditors will evaluate any revisions to the District's password security during its next audit.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Reading School District (District) resulted in two reported findings and one observation. The first finding pertained to certification deficiencies and the second finding pertained to internal control weaknesses regarding the Empowerment Grant. The 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 audit recommendations. We performed audit procedures and interviewed the District's personnel regarding the prior findings and observation. As shown below, we found that the District did not implement recommendations related to the findings and only partially implemented our recommendations to the observation.

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

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**Finding No. 1: Certification Deficiencies**

Finding Summary: Our prior audit of professional employees' certification and assignments for the period February 11, 2009 through February 28, 2011, found 14 certification deficiencies. As a result, the District was subject to subsidy forfeitures of \$7,265.

Recommendations: Our audit finding recommended that the District:

1. Ensure that all professional employees have current certificates.
2. Require all professional employees to obtain the proper certifications for a position before accepting appointment to that position.

We also recommended that the Pennsylvania Department of Education (PDE) should:

3. Adjust the District's allocations to recover the subsidy forfeitures.

Current Status: Our current audit found that the District took action to correct the specific deficiencies related to our prior 14 citations. However, we again report certification deficiencies in our current audit (see Finding No. 3, page 24). Additionally, PDE recovered the subsidy forfeitures of \$7,265 on June 1, 2012.

**Finding No. 2: Internal Control Weaknesses Regarding the Empowerment Grant**

Finding Summary: Our prior audit found internal control weaknesses in accounting for revenues and expenditures as well as in record retention for the District's Empowerment Grants for the 2007-08 and 2006-07 school years. The District received \$1,816,486 and \$1,788,079 for the 2007-08 and 2006-07 school years, respectively. However, the District's management could not provide documentation to support the accounting for revenue and associated expenses. Additionally, the District could not provide copies of reports filed with PDE.

Recommendations: Our audit finding recommended that the District:

1. Require the business office to maintain, retain, and provide all pertinent grant documentation for audit.
2. Properly record grant revenue and expenditures in its financial accounting system.

Current Status: Our current audit found that the District did not implement our recommendations (see Finding No. 1, page 6).

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**Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation Summary: During our prior two audits, we determined 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 all vendor activity in its system.

In the prior audit, we found the District continued to have the following weaknesses over vendor access to the District's system:

- There is no requirement to change passwords every 30 days. Passwords do not have to be changed.
- Minimum password length is not at least eight characters consisting of a combination of alpha, numeric, and special characters. Minimum password length is five characters, with no specified character combination.
- The system does not automatically log off a user after a maximum of 60 minutes of inactivity. Automatic logoff only occurs once every 24 hours, when the server reboots.

- A potential user is not locked out of the system after three unsuccessful logon attempts. A potential user has unlimited attempts to log in to the system.
- No password history is maintained.
- The vendor enters the system using a group userID and password rather than individual userIDs and passwords. Additionally, the District does not maintain a list of vendor employees who may access the District's data.
- A log of vendor activity (server log) is not routinely generated and reviewed. This currently occurs only if a problem is suspected.

Recommendations:

Our audit observation recommended that the District:

1. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (e.g., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (e.g., last ten passwords), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (e.g., 60 minutes maximum).
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District's system. Further, the District should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Generate monitoring reports (server logs) of vendor and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made, and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Current Status:

Our current audit found that the District implemented two of our three recommendations pertaining to outside vendor access, but none of those pertaining to passwords and logical access controls (see Observation, page 30).

# **APPENDIX**

### Repeat Findings in Independent Financial Audits

<u>Finding Title and Condition</u>	Fiscal Years Ended June 30, <sup>6</sup>			
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Establish and Implement Accounting Policies and Procedures</u> – Well defined accounting policies and procedures have either not been established or, when established, have not been consistently or continuously maintained.	X	X	X	X
<u>Modified Accrual Basis Financial Information</u> – The business office did not post appropriate journal entries prior to audit fieldwork to report financial information in accordance with generally accepted accounting principles.	X	X	X	X
<u>Budget</u> – Although the District’s budgeting procedures provide for the preparation of an annual budget, there are several key issues that were not effectively addressed. As a result, the District experienced large variances when actual results of operations were completed to budget results, making it more difficult to effectively manage results of operations.	X			
<u>Fixed Assets</u> – The District does not maintain an adequate system of tracking capital assets.	X			
<u>Account Reconciliations</u> – Many accounts on the general ledger go unreconciled for months.			X	X

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<sup>6</sup> The local auditors’ report for the fiscal year ended June 30, 2012, is not available as of February 22, 2013.



## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

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The Honorable Senator Judith Schwank  
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