



**POTTSGROVE SCHOOL DISTRICT  
MONTGOMERY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**DECEMBER 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. B. Scott Fulmer, Board President  
Pottsgrove School District  
1301 Kauffman Road  
Pottstown, Pennsylvania 19464

Dear Governor Corbett and Mr. Fulmer:

We conducted a performance audit of the Pottsgrove School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period April 29, 2010 through December 31, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements.

We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE DEPASQUALE  
Auditor General

December 6, 2013

cc: **POTTSGROVE SCHOOL DISTRICT** Board of School Directors

## Table of Contents

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	2
Findings and Observations .....	5
Status of Prior Audit Findings and Observations .....	7
Distribution List .....	9

## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Pottsgrove School District (District) in Montgomery County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, 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 April 30, 2010 through December 31, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately seventeen (17) square miles. According to 2010 federal census data, it serves a resident population of 21,158. According to District officials, the District provided basic educational services to 3,317 pupils through the employment of 247 teachers, 176 full-time and part-time support personnel, and seventeen (17) administrators during the 2009-10 school year. Lastly, the District received \$14.2 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

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

**Observations.** With regard to the status of our prior audit recommendations to the Pottsgrove School District (District) from an audit released on February 17, 2011, we found that the District has taken appropriate corrective action in implementing our recommendations pertaining to a lack of bus driver qualification documentation (see page 7), the failure to update its Memorandum of Understanding timely, and unmonitored vendor system access and logical access control weaknesses (see page 8). However, the District did not take appropriate corrective action in implementing our recommendations pertaining to their internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 8).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

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

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 April 29, 2010 through December 31, 2012, except for:

- The verification of retirement wages which was performed for the 2010-11 and 2011-12 school years.
- Certification which was performed for the period July 1, 2012 to November 30, 2012.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (PDE) reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with certain relevant 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:

- ✓ 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, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?

- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## Methodology

### *What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant state 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). 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 relevant requirements 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 controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on February 17, 2011, we reviewed the District's response to PDE dated May 24, 2011. We then performed additional audit procedures targeting the previously reported matters.



## **Findings and Observations**

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**F**or the audited period, our audit of the Pottsgrove School District resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Pottsgrove School District released on February 17, 2011, resulted in one (1) finding and three (3) observations. The finding pertained to lack of documentation necessary to verify bus drivers' qualifications. The first observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications, the second pertained to Memorandum of Understanding, and the third pertained to continued 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. As shown below, we found that the District did implement our recommendations related to lack of bus driver qualification documentation, the failure to update its Memorandum of Understanding timely, and unmonitored vendor system access and logical access control weaknesses. However, the District did not take appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications.

### Auditor General Performance Audit Report Released on February 17, 2011

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**Finding:** **Lack of Documentation Necessary to Verify Bus Drivers' Qualifications**

Finding Summary: Our prior audit found that the District failed to obtain the required documentation for six (6) individuals.

Recommendations: Our audit finding recommended that the District:

1. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
2. Maintain files for all drivers to ensure that the District's files are up to date.

Current Status: During our current audit, we found that the District did implement the recommendations by maintaining the required documentation.

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

Observation Summary: Our prior audit found that there were other crimes of a serious nature that are not on the list and were within the five-year look back period that called into question the driver's suitability to have direct contact with children.

Recommendations: Our audit observation recommended that the District develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.

Current Status: During our current audit, we found that the District did not implement our recommendation. However, legislative amendments to Act 24 of 2011, updated the crimes that would have barred one's employment with a district, or with a contracted entity. Subsequently, the requirement upon which this observation was based no longer applies.

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**Observation No. 2: Memorandum of Understanding Continued to Not be Updated Timely**

Observation

Summary: Our prior audit found that the Memorandum of Understanding (MOU) between the District and the local law enforcement was not reviewed and re-executed every two (2) years, as required by the Pennsylvania Department of Education.

Recommendations: Our audit observation recommended that the District:

1. In consultation with the solicitor, review, update, and re-execute the current MOU between the District and local law enforcement.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two (2) years.

Current Status: During our current audit, we found that the District had executed its MOU in a timely manner.

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**Observation No. 3: Continued Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation

Summary: Our prior audit found that the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers.

Recommendations: Our audit observation recommended that the District:

1. Ensure that the District's Acceptable Use Policy includes provisions for authentication (password security and syntax requirements).

2. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight (8) characters and include alpha, numeric, and special characters. In addition, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten (10) passwords).

Current Status:

During our current audit, we found that the District did implement our recommendations.

## **Distribution List**

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

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

The Honorable Carolyn Dumaesq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
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Harrisburg, PA 17120

Ms. Lori Graham  
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).