

POTTSTOWN SCHOOL DISTRICT
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2013



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

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

Mrs. Judyth Zahora, Board President
Pottstown School District
230 Beech Street
Pottstown, Pennsylvania 19464

Dear Governor Corbett and Mrs. Zahora:

We conducted a performance audit of the Pottstown School District (PSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 25, 2009 through January 31, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the PSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding in this report. A summary of this is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 14, 2013

cc: **POTTSTOWN SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Pottstown School District (PSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the PSD in response to our prior audit recommendations.

Our audit scope covered the period June 25, 2009 through January 31, 2012 except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10 and 2008-09.

District Background

The PSD encompasses approximately 5 square miles. According to 2000 federal census data, it serves a resident population of 21,348. According to District officials, in school year 2009-10 the PSD provided basic educational services to 3,084 pupils through the employment of 273 teachers, 225 full-time and part-time support personnel, and 25 administrators. Lastly, the PSD received more than \$17.3 million in state funding in school year 2009-10.

Audit Conclusion and Results

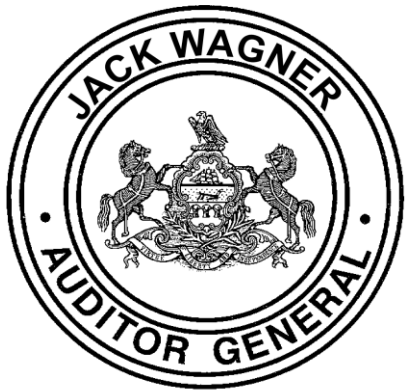
Our audit found that the PSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: School Bus Driver Qualification Deficiencies.

Our audit of the personnel records for current bus drivers found that one PSD bus driver and six of the contractor's bus drivers did not possess the Act 114 Federal Bureau of Investigation criminal history record information as required by Public School Code Section 111 (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the PSD from an audit we conducted of the 2007-08, 2006-07, 2005-06 and 2004-05 school years, we found the PSD had taken appropriate corrective action in implementing our recommendations pertaining to Memorandum of Understanding not updated timely (see page 9), unmonitored vendor system access and logical access control weaknesses (see page 10), and internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 11).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period June 25, 2009 through January 31, 2012 except for the verification of professional employee certification which was performed for the period July 1, 2011 through January 18, 2012.

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

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

Objectives

What is the difference between a finding and an observation?

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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the PSD'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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

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

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

PSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal

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.

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

Any significant deficiencies found during the audit are included in this report.

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

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 1, 2010 we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

School Bus Driver Qualification Deficiencies

Criteria relevant to the finding:

Section 111 of the Public School Code, 24 P.S. § 1-111 (Act 34 of 1985, as amended) requires prospective school employees who have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended, (see 24 P.S. § 1-111(c.1), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by PDE. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

Our audit of the personnel records for current bus drivers found that one District bus driver and six of the contractor's bus drivers did not possess the Act 114 Federal Bureau of Investigation criminal history record information as required by Public School Code (PSC) Section 111.

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

1. Possession of a valid driver's license;
2. Completion of school bus driver skills and safety training;
3. Passing a physical examination;
4. Lack of convictions for certain criminal offenses;
5. Federal Criminal History Record; and
6. Official child abuse clearance statement.

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation. As explained further under criteria, the fourth and fifth requirements were set by the PSC of 1949, as amended. The sixth requirement was set by the Child Protective Services Law.

Criteria relevant to the finding:

Similarly, Section 6355 of the Child Protective Services Law, 23 Pa C.S. § 6355, known as Act 151, requires prospective school employees to submit an official clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

We initially reviewed the personnel records of a random sample of 5 bus drivers hired since our prior audit. Our review found that two drivers did not possess the federal criminal history record as required by PSC, commonly known as the Act 114 clearance. Testing was expanded to include the remaining 14 individuals hired since our prior audit. As a result, a total of seven individuals were found to not have this clearance at the time of the audit. On January 20, 2012, we informed District management of the missing documentation and instructed them to obtain the necessary documents. As of our fieldwork completion date of January 31, 2012, District personnel were not able to provide us with the necessary documentation.

The transportation coordinator stated that the District is requiring all of their drivers to resubmit all of the clearances to the District to have on file immediately and for the next audit cycle.

Recommendations

The *Pottstown School District* should:

1. Immediately obtain from the District's employed driver and the transportation contractor, the missing documentation referred to in our finding in order to ensure that drivers transporting students in the District possess proper qualifications.
2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the transportation contractors, for all District drivers and work with the contractors to ensure that the District's files are up-to-date and complete.

Management Response

Management stated the following:

Management is in agreement with the finding of incomplete clearances for the bus drivers employed by [the contractor] and (1) employee of the District. The clearances in question were the FBI fingerprint checks. The results of the fingerprint checks can only be accessed by the District. The busing company cannot access the results. As such the busing company was to provide the District with the receipt

of the fingerprint check from the employee. The results are only available for one year. The receipts were not forwarded to the District and as such there were no results available at this time. The year when the results were available had lapsed. This was the same for the (1) District employee [who] had performed the clearance but the District misfiled the report. As a result the District required all drivers from the busing company to re-obtain their clearances. All 15 drivers have registered for their clearances and all but three drivers' results have been obtained at this time. The remaining three have registered and are in the process of being fingerprinted.

In the future, the District's Supervisor of Transportation will closely monitor new bus drivers and the need to obtain their clearances in a timely manner. The District has communicated with the [contractor] and they are in agreement that clearance receipts will be provided within 30 days of any new hire's start date so that results can be obtained by the District. The District Supervisor will also maintain files on the clearances for all drivers.

Documentation of all clearances will be filed in the office of the Supervisor of Transportation.

Auditor Conclusion

We will review the bus driver qualifications of the individuals cited in this finding during our next regularly scheduled audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Pottstown School District (PSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in three observations. The first observation pertained to Memorandum of Understanding not updated timely, the second observation pertained to unmonitored vendor system access and logical access control weaknesses and the third pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior observations. As shown below, we found that the PSD did implement recommendations related to all the observations.

School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report

Observation No. 1: Memorandum of Understanding Not Updated Timely

Observation Summary: Our prior audit of the PSD records found that the Memorandum of Understanding (MOU) between the District and local law enforcement has not been updated since January 17, 1996.

Recommendations: Our audit observation recommended that the PSD:

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

Current Status: Our current audit found that the PSD did review, update and re-execute the current MOU between the District and the local law enforcement agency on July 14, 2009 and July 14, 2011. Additionally, Act 104 of 2010 required that the current MOU was to be submitted to the Office of Safe Schools by June 30, 2011, and then biennially updated, re-executed and filed with the Office of Safe Schools. We found that the PSD submitted their MOU to the Office of Safe Schools.

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

Observation Summary: Our prior audit found that the PSD uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the PSD's network servers. We determined that a risk exists that unauthorized changes to the PSD's data could occur and not be detected because the PSD was unable to provide supporting evidence that it is adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the PSD:

1. Require the CSIU to assign unique userIDs and passwords to its employees authorized to access the PSD system. Further, the PSD should obtain a list of CSIU employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives.
2. Store back-ups in a secure off-site location.
3. Require all PSD employees to sign an agreement to abide by the information technology Security Policy (or Acceptable Use Policy).
4. Implement a security policy and system parameter settings that require all users to change their passwords on a regular basis of every 30 days; to include the use of special characters in their passwords; to maintain a password history of approximately ten passwords; and to log off the system after a period of inactivity of 60 minutes maximum.
5. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contains the membership/attendance data.
6. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the PSD should install fire suppression equipment.
7. Maintain the servers with the membership/attendance data in a completely restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data.

Current Status: Our current audit found that the PSD implemented all of our recommendations.

Observation No. 3: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation Summary: Our two prior audits found that neither the District nor the transportation contractors had adopted written policies or procedures, to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.

Recommendations: Our audit observation recommended that the PSD:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the District or the District's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure that the District is notified when current employees of the District's transportation contractors are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the District considers on a case-by-case basis whether any convictions of a current employee should lead to an employment action.

Current Status: Our current audit found that the PSD developed a form for the bus drivers to complete on an annual basis verifying that they were not convicted of any crimes, misdemeanor or felony. Currently PSD utilizes the PDE-6004, Arrest/Conviction Report and Certification Form, developed pursuant to Act 24 of 2011.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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