

READING SCHOOL DISTRICT
BERKS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Ms. Yvonne Stroman, Board President
Reading School District
800 Washington Street
Reading, Pennsylvania 19601

Dear Governor Corbett and Ms. Stroman:

We conducted a performance audit of the Reading School District (RSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 6, 2009 through March 23, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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 RSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. In addition, one matter unrelated to compliance is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **READING SCHOOL DISTRICT** Board Members

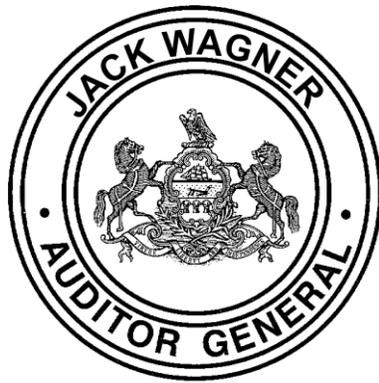
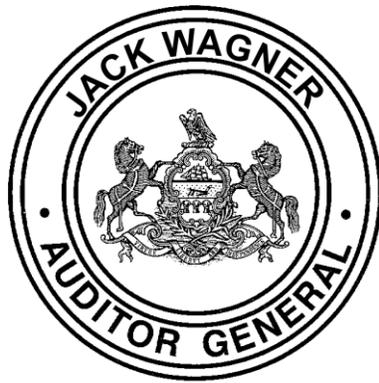


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Executive Summary

Audit Work

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

Our audit scope covered the period March 6, 2009 through March 23, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The RSD encompasses approximately 10 square miles. According to 2000 federal census data, it serves a resident population of 81,207. According to District officials, in school year 2007-08 the RSD provided basic educational services to 17,464 pupils through the employment of 1,171 teachers, 810 full-time and part-time support personnel, and 74 administrators. Lastly, the RSD received more than \$119 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the RSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

Finding No. 1: Certification Deficiencies.

Our audit of professional employees' certifications and assignments found that 14 individuals were teaching without proper certification (see page 6).

Finding No. 2: Internal Control Weaknesses Regarding the

Empowerment Grant. Our audit of the Empowerment grant for the 2007-08 and 2006-07 school years found that the RSD did not properly account for or retain records for grant receipts and expenditures (see page 10).

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

We determined during our prior audit that a risk existed that unauthorized changes to the RSD's data could occur and not be detected because the RSD was unable to provide supporting evidence that it was adequately monitoring all vendor activity in its system. Our current audit found that the RSD had not yet implemented any of our recommendations to address this risk as of March 23, 2011, the fieldwork completion date for our current audit (see page 11).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the RSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the RSD had not taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 14), and had not yet addressed our recommendations regarding unmonitored vendor system access and logical access control weaknesses (see page 15). However, we found the RSD had taken appropriate corrective action in implementing our recommendations pertaining to a Memorandum of Understanding that was not updated timely (see page 15).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period March 6, 2009 through March 23, 2011, except for the verification of professional employee certification which was performed for the period February 11, 2009 through February 28, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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

Objectives

What is the difference between a finding and an observation?

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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the RSD's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

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

- ✓ Is the District’s pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

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

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements and administrative procedures.

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

RSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the RSD is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

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

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 minutes, pupil membership records, and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

Section 1202 of the Public School Code provides, in part:

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

Public School Code, Section 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 certified 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.

Certification Deficiencies

Our audit of professional employees' certification and assignments for the period February 11, 2009 through February 28, 2011, was performed to determine compliance with the Public School Code and the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education's (DE) Certification and Staffing Policies and Guidelines. We found 14 certification deficiencies, as follows:

- Two professional employees, including one elementary teacher and one special education teacher, were teaching with lapsed certificates.
- Twelve professional employees, including one administrator, one elementary school counselor, one secondary school counselor, three special education teachers, one English language acquisition teacher, one school nurse, and four home and school visitors were teaching without proper certification.

Information pertaining to the certification deficiencies was submitted to the BSLTQ for their review. BSLTQ subsequently determined that the individuals were not properly certified; the District is therefore subject to the following subsidy forfeitures:

<u>School Year</u>	<u>Subsidy Forfeiture</u>
2010-11	\$3,833
2009-10	2,767
2008-09	<u>665</u>
Total Subsidy Forfeitures	<u>\$7,265</u>

Recommendations

The *Reading School District* should:

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.

The *Department of Education* should:

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

Management Response

Management stated the following:

Please accept the following issues found during our recent audit and the corrective action that took place or has been planned for each individual are as follows:

[Individual] took and passed his Praxis in October 2010. The University submitted the application to the state. Cert approved December 1, 2010.

[Individual] passed Praxis; submitted application to PDE; waiting for approval.

[Individual]'s application for his Level II certification was received by PDE on February 10, 2011. PDE processed the information and on March 7, 2011 returned his information stating that his post baccalaureate credits were not verified. [Individual] submitted to PDE his Bachelors Transcript. This should clear up the issue. No response was received or processed as of [May 20, 2011] by PDE.

[Individual]'s information was sent to PDE for approval.

[Individual]: Per the BEC [Basic Education Circular] – Attendance Officers are not required to hold a certificate.

[Individual]: Per the BEC – Attendance Officers are not required to hold a certificate.

[Individual] was required to submit a letter on College letterhead that stated he was currently in a Program of Study for Special Education. This letter was received and forwarded to PDE. Emergency permit was processed on December 1, 2009.

[Individual]: The current job description does state that a Principal certificate is required. [Individual] is in the process of submitting his paperwork to PDE for such cert.

In August 2009 [the Individual] submitted her application. In September 2009, PDE submitted the information back stating they required the individual to submit a letter on College letterhead stating that she was currently in a program of study for Special Education. In August 2010, the individual submitted her application to PDE. In late August PDE submitted the information back to the individual stating they required once again for her to submit yet another letter on college letterhead showing proof that she is in a program. Both years the required information was sent and approved.

[Individual]'s cert lapsed because [she] did not complete the application correctly. Certification approved December 2010.

[Individual]'s application for her certification was received by PDE on August 12, 2010. PDE approved the application in November 2010.

[Individual]'s credits were questioned by PDE. [The] university was required to send a letter on her behalf stating that the credits earned would be transferred into the program.

[Individual] took and passed his praxis in October 2010. [The] university submitted the application to the state. Certificate was approved December 1, 2010.

[Individual] received dual certification from [her] University. Her Elementary certification application was submitted to the state for approval and she was given an Attestment of Certification, Act 36 letter for ESL [English as a Second Language]. We utilized this letter to employ her as a Long Term Substitute; however she was not aware that she had to complete the Add on ESL application to

have Program Specialist added to her cert. The individual submitted the information and as of January 2011 is now properly certified.

Auditor Conclusion

Management prepared its response prior to BSLTQ's determination. Any further disagreements on the part of the District must be addressed to DE.

Finding No. 2

Internal Control Weaknesses Regarding the Empowerment Grant

Criteria relevant to the finding:

Section 518 of the Public School Code states:

Every board of school directors shall retain as a permanent record of the district, the minute book, each annual auditor's report, and each annual financial report. All other financial records of the district, including financial account books, orders, bills, contracts, invoices, receipts and purchase orders shall be retained by the district for a period of not less than six years.

Our 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.

We determined the District received \$1,816,486 and \$1,788,079 for the 2007-08 and 2006-07 school years, respectively. District 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 DE.

Internal controls are the responsibility of management. Good internal controls provide management with assurance that data is collected, recorded, and reported accurately in accordance with management's intent. Weaknesses in internal controls do not provide management with those assurances.

Recommendations

The *Reading School District* should:

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.

Management Response

Management stated the following:

Management agrees that certain internal control weaknesses existed regarding the Empowerment Grant for the 2006-2007 and 2007-2008 school years. Since the 2009-2010 school year, the current administration has been accounting for and separately identifying empowerment grant expenditures by use of revenue source codes for all empowerment grant expenditures. Documentation has been retained for audit purposes. It is management's position that the internal control weaknesses that existed in previous school years have been addressed since July of 2009.

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.

Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Reading School 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 its data and the above software, are maintained on District 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.

We determined during our prior audit 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.

Our current audit found that the RSD had not implemented any of our recommendations to address this risk as of March 23, 2011, the fieldwork completion date for our audit.

During our current 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 District data.
- A log of vendor activity (server log) is not routinely generated and reviewed. This currently occurs only if a problem is suspected.

Recommendations

The *Reading School District* should:

1. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., 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 (i.e., last ten passwords), lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 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.

Management Response

Management stated the following:

Corrective action has been taken on vendor access to systems. [Security] software was installed in May of 2011. The Management Information Systems [MIS] Department of the Reading School District now has the ability to allow or disallow vendor access to systems. The [security] software is setup [so] that the MIS department needs to turn on access for the vendor. Once access has been granted, MIS receives an email with a detailed log of vendor's staff member's name, reason to access client servers, time accessed and what servers were accessed. Also within the [security] software, the same log is generated for MIS review.

Corrective action has been taken on Reading School District employee passwords. All new employees are given a nine position password that contains randomly generated numbers and letters. We do not force password changes at this time due to the number of staff; however, instructions on how to change users passwords was distributed.

Auditor Conclusion

Management's response indicates that corrective action was taken subsequent to the conclusion of our current fieldwork. We will follow up on the District's implementation of our recommendations during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Reading School District (RSD) for the school years 2005-06 and 2004-05 resulted in two reported findings and one matter unrelated to compliance that was reported as an observation. The first finding pertained to certification deficiencies and the second finding pertained to a Memorandum of Understanding not being updated timely. 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 RSD to implement our prior recommendations. We performed audit procedures, and questioned RSD personnel regarding the prior findings and observation. As shown below, we found that the RSD did not implement recommendations related to certification deficiencies and unmonitored vendor system access and logical access control weaknesses. However, the RSD did implement recommendations related to the Memorandum of Understanding not being updated timely.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Certification Deficiencies

Finding Summary: Our prior audit of professional employees' certification and assignments for the period April 30, 2005 through February 10, 2009, was performed to determine compliance with the Public School Code and the Bureau of School Leadership and Teacher Quality's Certification and Staffing Policies and Guidelines. Our review found 12 certification deficiencies.

Recommendations: Our audit finding recommended that the RSD:

1. Require all professional employees to have appropriate Pennsylvania certification prior to employment.
2. Ensure all professional employees maintain valid Pennsylvania certification throughout their term of employment.

We also recommended that the Department of Education (DE):

3. Adjust the District's allocations to recover the subsidy forfeitures of \$6,914.

Current Status: Our current audit found that the RSD did not adequately implement our recommendations. Two professional employees cited previously continued teaching without proper certification. The other ten professional employees cited obtained the proper certification for the

positions they held. However, our current audit found 12 additional certification deficiencies, which along with the two continued possible deficiencies are addressed in Finding No. 1 of this report (see page 6).

On June 1, 2010, DE deducted revised subsidy forfeitures of \$6,781 from the District's allocations.

Finding No. 2: Memorandum of Understanding Not Updated Timely

Finding Summary: Our prior audit of the District's records found that the District had on file a properly signed Memorandum of Understanding (MOU) between itself and its local law enforcement agency; however, the MOU had not been updated since August 2004. As a result of our prior audit, the District and the local law enforcement agency updated their MOU as of March 20, 2009.

Recommendations: Our audit finding recommended that the RSD:

Adopt a policy requiring the administration to continue to review and re-execute the MOU every two years, as required by the terms of the MOU.

Current Status: Our current audit found that the RSD implemented our recommendations.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary: Our prior audit of the District's records found that the District uses software purchased from an outside vendor for its critical student accounting application.

We determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was not able to provide supporting evidence that it was adequately monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the RSD:

1. 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 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 (i.e., last ten passwords), lock out users after three unsuccessful attempts, and log users off the system after a period of inactivity (i.e., 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 activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the determination 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 RSD had not yet implemented any of our recommendations as of March 23, 2011, the fieldwork completion date for our audit (see the current observation beginning on page 11).

Distribution List

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

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

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

