

CHESTER COUNTY INTERMEDIATE UNIT #24

CHESTER COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

DECEMBER 2010

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

Ms. Bonnie Wolff, Board President
Chester County Intermediate Unit #24
455 Boot Road
Downingtown, Pennsylvania 19355

Dear Governor Rendell and Ms. Wolff:

We conducted a performance audit of the Chester County Intermediate Unit #24 (CCIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 8, 2008 through January 8, 2010, 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 CCIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We appreciate the CCIU's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

December 29, 2010

cc: **CHESTER COUNTY INTERMEDIATE UNIT #24** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Chester County Intermediate Unit #24 (CCIU). Our audit sought to answer certain questions regarding the CCIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CCIU in response to our prior audit recommendations.

Our audit scope covered the period July 8, 2008 through January 8, 2010, 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.

Intermediate Unit Background

The intermediate unit (IU) is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the 12 participating school districts, nonpublic schools, and institutions in Chester County. The IU is governed by a 12 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 455 Boot Road, Downingtown, Pennsylvania.

The programs offered by the IU served 75,509 students in public schools and 14,540 students in nonpublic schools. The staff consisted of 37 administrators, 369 teachers, and 663 full-time and part-time support personnel.

The accounts of the IU are organized on the basis of programs and account groups, each of which are considered a separate accounting entity. IU resources are allocated to, and accounted for, in individual programs based on purposes for which the funds are to be spent and the means by which spending activities are controlled.

The various programs which receive Commonwealth funds are accounted for in the following:

General Fund

The general fund is the primary operating fund of the IU. It is used to account for all financial resources and accounts for the general governmental activities of the IU.

Services provided to participating school districts through the general fund included:

- . administration;
- . curriculum development and instructional improvement;
- . educational planning;
- . instructional materials;
- . management services;
- . continuing professional education;
- . pupil personnel;
- . state and federal liaison; and
- . nonpublic program subsidy - Act 89.

Lastly, the CCIU received more than \$15.9 million from the Commonwealth in general operating funds in school year 2007-08.

Special Revenue Fund

The special revenue fund accounts for the financial resources received to provide, maintain, administer, supervise and operate schools, classes, service programs, and transportation for exceptional children in accordance with the school laws of Pennsylvania and the approved IU plan for special education. The special revenue fund accounts for financial resources available for programs and services for exceptional children in state centers, state hospitals, private licensed facilities, and other child care institutions.

The special education program offered services at all grade levels for pupils whose physical, mental, or emotional needs required such services. If appropriate facilities were not available in a neighborhood school, the IU provided the necessary transportation.

Special education programs included:

- gifted support;
- learning support;
- life skilled support;
- emotional support;
- deaf or hearing impaired support;
- blind or visually impaired support;
- speech and language support;
- physical support;

- autistic support; and
- multi-handicapped support.

Act 25 of 1991 amended the Public School Code regarding the funding of special education services. IUs received direct funding for certain institutionalized children programs, CORE services, special payments to certain IUs, and a contingency fund.

Lastly, the CCIU received more than \$13.8 million from the Commonwealth in special revenue funds in school year 2007-08.

Audit Conclusion and Results

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

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the CCIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CCIU had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 7).

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 July 8, 2008 through January 8, 2010, except for the verification of professional employee certification which was performed for the period July 6, 2008 through December 10, 2009.

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

While all LEAs have the same school years, some LEAs 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 CCIU'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 objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ Is the IU'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 IU?

- ✓ Did the IU 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 IU taking appropriate steps to ensure school safety?
- ✓ Did the IU use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the IU 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.

CCIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the IU 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 transportation, and comparative financial information.

Our audit examined the following:

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

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 2, 2009, we performed audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of Chester County Intermediate Unit #24 resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Chester County Intermediate Unit #24 (CCIU) for the school years 2005-06 and 2004-05 resulted in one reported observation. 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 CCIU to implement our prior recommendations. We performed audit procedures and questioned CCIU personnel regarding the prior findings. As shown below, we found that the CCIU did implement our recommendations related to unmonitored vendor system access and logical access control weaknesses.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Observation:</i></u> <u><i>Unmonitored Vendor System Access and Logical Access Control Weaknesses</i></u></p> <ol style="list-style-type: none"> 1. Generate monitoring reports (including firewall logs) of CCIU, user-districts, and vendor employee access and activity on its system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). CCIU should review these reports to determine that the access was appropriate and that data was not improperly altered. CCIU should also ensure it is maintaining evidence to support this monitoring and review. 2. Allow vendor access to their system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the 	<p>Background:</p> <p>Our prior audit found that an outside vendor has remote access into CCIU's network servers to provide updates and problem resolution services. We determined that a limited risk existed that unauthorized changes to the data could occur and not be detected.</p>	<p>Current Status:</p> <p>Our current audit found that the CCIU has implemented the following recommendations:</p> <ol style="list-style-type: none"> 1. CCIU implemented log-monitoring designed to detect unusual activity via firewall and data server logs. All data changes are logged in the database with a timestamp, noting who made the changes, and what the old and new values are. 2. The vendor must now send an email requesting access, including details on why access is needed, the start date and the end date. The vendor is permitted into the system during those dates, and must re-request access if additional time is needed. 3. The CCIU, with its legal advisors, has developed a draft agreement to address this item but it has not been finalized. Therefore, we again recommend that

<p>vendor has completed its work. This procedure would also enable the monitoring of vendor changes.</p> <p>3. Develop agreements with the user-districts to provide student accounting applications and related information technology (IT) services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.</p> <p>4. Obtain written authorization before updating user-district applications or data.</p> <p>5. Establish a process for defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process.</p> <p>6. Develop formal, documented methodology for systems development and change management procedures.</p> <p>7. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the</p>		<p>the CCIU finalize the agreements with user-districts to provide students accounting applications and related IT services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.</p> <p>4. Before changes are made to either data or database system, the CCIU emails the responsible district's contact person with the proposed changes and asks for any concerns or objections by a deadline. If no concerns or objections are received, it is considered authorization and the changes proceed.</p> <p>5. The CCIU now has formal policies and procedures in place.</p> <p>6. The CCIU has established formal documented methodology for systems development and change procedures.</p> <p>7. The vendor has signed the CCIU's Acceptable Use Policy and general IT Usage Agreement.</p> <p>8. The CCIU now requires all users and vendors to change passwords on a regular basis, and maintains a password history log.</p>
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<p>vendor to sign CCIU's Acceptable Use Policy.</p> <p>8. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular bases (i.e., every 30 days). Passwords should include alpha, numeric and special characters. Also CCIU should maintain a password history that will prevent the use of repetitive password (i.e., last ten passwords) and lock out users after three unsuccessful attempts.</p>		
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Distribution List

This report was initially distributed to the executive director of the intermediate unit, the Board members, our website address at www.auditorgen.state.pa.us, and the following:

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