



**NORTHWEST TRI-COUNTY  
INTERMEDIATE UNIT 5  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**DECEMBER 2013**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen

**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

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

Mr. George Trauner, Board President  
Northwest Tri-County Intermediate Unit 5  
252 Waterford Street  
Edinboro, Pennsylvania 16412

Dear Governor Corbett and Mr. Trauner:

We conducted a performance audit of the Northwest Tri-County Intermediate Unit 5 (Intermediate Unit) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period January 14, 2011 through February 15, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012 and June 30, 2011. 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 Intermediate Unit complied, in all significant respects, with relevant requirements, except as detailed in two (2) findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

On December 20, 2012, the Pennsylvania Department of the Auditor General (Department) initiated a special audit of the decision by the Board of School Directors for the Intermediate Unit to prematurely alter its executive director's employment contract. This performance audit covered the period December 14, 2011 through June 30, 2012, and 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. This performance audit was separate and distinct from the Intermediate Unit's cyclical audit, which was conducted simultaneously and the results of which are described in following pages of this audit report. The Department conducts its cyclical performance audits approximately every two (2) years.

The Department's special audit of the premature alteration of the Executive Director employment contract found that the Intermediate Unit complied, in all significant respects, with relevant requirements related to our specific audit objectives. However, the Department still strongly recommends that the Commonwealth's local education agencies try to avoid prematurely altering the employment of their contracted employees. Our audit work has shown that engaging in such changes frequently leads to the inappropriate and/or inefficient use of taxpayer dollars. Consequently, we will continue to monitor these issues.

We appreciate the Intermediate Unit's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,



EUGENE A. DEPASQUALE  
Auditor General

December 6, 2013

cc: **NORTHWEST TRI-COUNTY INTERMEDIATE UNIT 5** Board of School Directors

## Table of Contents

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	4
Findings and Observations .....	7
Finding No. 1 – Certification Deficiency .....	7
Finding No. 2 – Intermediate Unit Failed to Maintain Proper Financial Operations .....	9
Status of Prior Audit Findings and Observations .....	16
Distribution List .....	19

## **Executive Summary**

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Northwest Tri-County Intermediate Unit 5 (Intermediate Unit) in Erie County. Our audit sought to answer certain questions regarding the Intermediate Unit'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 Intermediate Unit in response to our prior audit recommendations.

Our audit scope covered the period January 14, 2011 through February 15, 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 the 2011-12 and 2010-11 school years.

### **Intermediate Unit Background**

The Intermediate Unit is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the seventeen (17) participating school districts, nonpublic schools, and institutions in Erie, Crawford, and Warren counties. The Intermediate Unit is governed by a seventeen (17) member board appointed by the participating school districts on a rotating basis. The administrative office is located at 252 Waterford Street, Edinboro, Pennsylvania.

The programs offered by the Intermediate Unit served 51,821 students in public schools and 6,972 students in nonpublic schools. The staff consisted of 33 administrators, 188 teachers, and 160 full-time and part-time support personnel.

The accounts of the Intermediate Unit are organized on the basis of programs and account groups, each of which are considered a separate accounting entity. Intermediate Unit 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 Intermediate Unit. It is used to account for all financial resources and accounts for the general governmental activities of the Intermediate Unit.

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.
- nonpublic program subsidy - Act 89.

Lastly, the Intermediate Unit received \$6,257,310 from the Commonwealth in general operating funds in the 2011-12 school year.

### **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 Intermediate Unit 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 Intermediate Unit 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.
- multi-handicapped support.

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

Lastly, the Intermediate Unit received \$9,337,773 from the Commonwealth in special revenue funds in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found that the Intermediate Unit complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two (2) compliance related matters reported as findings.

#### **Finding No. 1: Certification Deficiency.**

Our audit of the Northwest Tri-County Intermediate Unit 5's professional employees' certification for the period July 1, 2010 through January 25, 2013, found an employee was assigned to a professional position without holding proper certification (see page 7).

**Finding No. 2: Intermediate Unit Failed to Maintain Proper Financial Operations.**

Our audit found that the Northwest Tri-County Intermediate Unit 5's did not comply with the requirements of the Public School Code regarding budgetary procedures. We also noted other weaknesses in its financial operations (see page 9).

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

With regard to the status of our prior audit recommendations to the Intermediate Unit from an audit released on June 2, 2011, we found the Intermediate Unit had partially taken appropriate corrective action in implementing our recommendations pertaining to information technology (see page 16) and updating its Memorandum of Understanding in a timely manner (see page 18).

## Audit Scope, Objectives, and Methodology

---

### 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 January 14, 2011 through February 15, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2010 through January 25, 2013.

Regarding state subsidies and reimbursements, our audit covered school years 2011-12 and 2010-11.

While all local education agencies (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 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 Intermediate Unit'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 objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ Did the Intermediate Unit 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 Intermediate Unit received transportation subsidies, were the Intermediate Unit, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the Intermediate Unit, 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?
- ✓ Did the Intermediate Unit 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 contracts contain adequate termination provisions?
- ✓ Did the Intermediate Unit take appropriate steps to ensure school safety?
- ✓ Did the Intermediate Unit have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the Intermediate Unit'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 Intermediate Unit take appropriate corrective action to address recommendations made in our prior audit?

## **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 obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

*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.

The Intermediate Unit's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Intermediate Unit 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 Intermediate Unit's internal controls, including any information technology controls, as they relate to the Intermediate Unit'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 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 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 Intermediate Unit's operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 2, 2011, we reviewed the Intermediate Unit's response to PDE dated June 6, 2012. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

---

### **Finding No. 1** →

### **Certification Deficiency**

*Criteria relevant to the finding:*

Section 1202 of 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.”

Section 2518 of 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 Northwest Tri-County Intermediate Unit’s (Intermediate Unit) professional employees’ certification for the period July 1, 2010 through January 25, 2013, found an employee was assigned to a professional position without having the required certification.

The individual was employed as an Employment Skills Trainer and was not certified. According to the Public School Code, this position requires the individual to observe students at job sites and report back to the transition specialist. The deficiency was due to the Intermediate Unit’s belief that no Pennsylvania teaching certificate was required for this position, since the employment skills trainer acted under the direction of a certified teacher.

Information pertaining to the assignments was submitted to the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality (BSLTQ) for its review. On April 5, 2013, BSLTQ confirmed that the position requires certification. As a result, the Intermediate Unit is subject to a subsidy forfeiture of \$1,001 for the 2010-11 school year, \$997 for the 2011-12 school year, and \$502 for the 2012-13 school year.

It is the responsibility of Intermediate Unit’s management to have internal policies and procedures in place to ensure that employees are properly certified to administer the positions to which they are assigned. Without these internal controls, the Intermediate Unit cannot be assured that its educational staff is in compliance with the requirements of the Public School Code.

### **Recommendations**

The *Northwest Tri-County Intermediate Unit* should:

1. Put procedures in place to compare employee’s certification to the certification requirements of the assignments the Intermediate Unit intends to give the employee.

2. Require the employee to obtain proper certification as required for the position or reassign the individual to an area in which proper certification is held.

The *Pennsylvania Department of Education* should:

3. Recover the appropriate subsidy forfeitures.

### **Management Response**

Management stated the following:

“It is the determination of the IU that the position of an Employment Skills Trainer in question does not require PA certification. This is a locally-titled position, which is essentially that of a Job Coach. As the job description states, the Essential Functions of this position are to ‘Assist the Transition Specialist with the following duties and perform them under their direction.’ The person in this position does not function in an instructional capacity, but rather follows the directives of our Transition Specialist (who is a Special Education-certified teacher) in assisting and supporting those students who go out on job sites with the duties of a particular job. As stated under CSPG No. 61, the Special Education teacher ‘may conduct student activities including paid /unpaid work experiences in a community-based operation; involve the business enterprise of the employer in paid or unpaid settings; involve coordination of job training agreements; or appropriate placement of students in a work or community related to their career objectives.’ The Employment Skills Trainer is a support position directly responsible to the teacher, whose duties are to help the students on a job site (much as an aide does in the classroom setting).”

### **Auditor Conclusion**

As previously noted, subsequent to the preparation of management’s response, BSLTQ determined that the individual did need to have appropriate certification for the position. Any further disagreement on the part of the Intermediate Unit must be addressed to PDE.

## Finding No. 2

---

## Intermediate Unit Failed to Maintain Proper Financial Operations

### *Criteria relevant to the finding:*

24 P.S. § 9-914-A of the Public School Code (PSC) provides, in part:

“An intermediate unit board of directors shall have the power and its duty shall be: . . . (6) To adopt and advertise the intermediate unit budget. The budget shall be approved by (i) at least a majority of the school districts comprising the intermediate unit; and (ii) at least a majority of the proportionate votes of all school directors and shall be filed annually with the Secretary of Education and advertised or notice thereof given to the public in each of its component school districts as required of local school district budgets by section 687 of this act on or before the first of May. Budgeted expenditures shall be those expenditures classified as current expenses, capital outlays, debt redemptions and outgoing transfers according to the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems and amendments and supplements thereto published by the Department of Education.”

Section 687 (24 P.S. § 6-687(a)(1)) of the PSC provides, in part:

“The board of school directors . . . shall annually, at least thirty (30) days prior to the adoption of the annual budget, prepare a proposed budget of the amount of funds that will be required by the school district. . . . (2)(i) The proposed budget . . . shall be printed or otherwise made available for public inspection to all persons and shall be available for duplication to any person, on request, at least twenty (20) days prior to the set for the adoption of the budget.”

The Northwest Tri-County Intermediate Unit (Intermediate Unit) provides educational services to seventeen (17) public school districts and nonpublic schools in Erie, Crawford, and Warren counties. Governance responsibility is provided by a seventeen (17) member board appointed by the participating school districts on a rotating basis. Our review of the meeting minutes for the Intermediate Unit’s Board of School Directors (Board) and a forensic audit report, authorized by the Board and prepared by an independent auditing firm, found that the Board did not properly monitor the Intermediate Unit’s financial operations. The forensic audit report was authorized by the member districts after one of the Board members asked about the accumulation of funds in a deferred revenue account. In addition, the Intermediate Unit’s management established inappropriate and ineffective procedures for administering its funds.

The issues noted were:

- Failure to comply with the Public School Code (PSC) regarding the budgetary procedures.
- Failure to have separate individuals in the positions of Board Treasurer and Director of Finance.
- The holding of revenue belonging to participating districts.

### Noncompliance with PSC Budgeting Requirements

According to the PSC, the Board must pass a general fund budget before the first of May. In addition, the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems requires that the board-approved budget include all expenditures.

Our audit found that the Board approved the general fund budgets for the 2011-12 and 2010-11 school years by the first of May. However, these budgets did not include all of the expenditures for the programs operated by the Intermediate Unit. Instead these budgets included expenditures for only three (3) of the Intermediate Unit’s

over 100 programs.

*Criteria relevant to the finding  
(continued):*

24 P.S. § 6-687(b) further provides, in part:

“The board of school directors, after making such revisions and changes therein as appear advisable, shall adopt the budget and the necessary appropriation measures required to put into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation, available for school purposes in that district.”

On February 5, 2013, the auditors asked the Intermediate Unit’s Board Secretary to provide them with copies of the documentation that staff provided to the Board regarding the general fund budget. The board packet provided to the auditors only contained a brief narrative of the programs operated by the Intermediate Unit and offered no supporting financial documentation

Without adequate financial information, such as a detailed general fund budget, and monthly bank and cash reconciliations, the Board did not have an accurate picture of the Intermediate Unit’s finances. Additionally, we noted that the Intermediate Unit did not publicly advertise the general fund budget as required by the PSC.

Lack of an Independent Board Treasurer

During our audit, we noted that the Board approved the Director of Financial Services to also serve as the Intermediate Unit’s Board Treasurer.

The lack of segregation between these two positions, which both have influence over the Intermediate Unit’s financial processes, compromises the Intermediate Unit’s internal controls by placing its financial management in the hands of one (1) individual.

Failure to Appropriately Reimburse School Districts

Our review of the Intermediate Unit’s board meeting minutes found that on June 27, 2012, the Board discussed the fact that the Intermediate Unit was holding more than \$5 million dollars in a deferred revenue account, rather than reimbursing its participating school districts. The account contained unused funds that had been accumulating over time. The minutes noted that some of the superintendents from the participating districts were demanding some of their money back.

Subsequently, on September 26, 2012, the Board authorized the Solicitor to hire an independent auditor to conduct a forensic audit of the Intermediate Unit’s finances. The Board also approved a resolution and action plan to address the financial management at the Intermediate Unit. This plan, which the Board approved on December 12, 2012, addressed some of the issues we identified in this finding, including:

- **Budget Reforms:** Item 4 (a) states that the administration will present a complete Intermediate Unit budget to the superintendents from the participating school districts and the Intermediate Unit Board at least one month prior to submitting them to the participating school districts for approval.
- **Staff Reforms:** Item 5 of the plan states that “the Intermediate Unit Board shall appoint a new independent treasurer with a financial background.” It also states that “this position will be separate from the finance director in order to provide independent financial oversight of the internal accounting department.”

The Intermediate Unit’s Board approved the completed forensic audit on February 20, 2013. Among its findings, the forensic audit found that the Intermediate Unit had three contingency accounts, which totaled \$877,929 as of June 30, 2012. The amounts were divided as follows:

<b>Contingency Accounts as of June 30, 2012</b>	
<b>Education Program</b>	\$117,317
<b>Intermediate Unit Vehicles</b>	\$179,112
<b>Special Education</b>	\$581,500
<b>Total Benefit</b>	\$877,929

**Education Program Funds:** According to the forensic audit, the Director of Finance indicated that, beginning in 2001, the Intermediate Unit was charging participating school districts a fee to fund specialized training for district staff. These Education Program Funds were set aside so that the superintendents could conduct specialized training for their staff without obtaining approval from their boards or requesting funding. The forensic audit found that the

there was no basis for the yearly fees being charged to the participating school districts and that expenses charged to the Education Program account included academic competitions for school districts and a gift to a school district whose superintendent had passed away.

***Intermediate Unit Vehicles:*** The forensic audit also found that, with Board approval, the Intermediate Unit had purchased fifteen (15) vehicles. According to the forensic audit, in 2003, the Intermediate Unit established a contingency fund to support the purchase of future fleet vehicles. The forensic auditors found that the Intermediate Unit used the remaining balances from other programs to finance this contingency account, including Early Intervention, and IDEA funds<sup>1</sup>.

***Special Education:*** The Intermediate Unit's Director of Finance told the forensic auditors that this fund was started in 2000 as a reserve for school districts "to protect themselves if the state of Pennsylvania stopped funding for special education." According to the forensic audit, the Intermediate Unit charged school districts who participated in this program a \$2,500 annual fee. This fee was included as part of the special education expense reconciliation and apparently labeled as "staff development." Once again, the forensic auditors found that there was no basis for this fee. No charges were ever made to this account.

In addition to the contingency funds described above, the forensic auditors also found that the Intermediate Unit maintained several "deferred revenue" accounts, totaling \$2,824,629 as of June 30, 2012. One of these accounts was used for the cyber service program that the Intermediate Unit provided to several school districts. The Intermediate Unit charged the participating school districts \$2,000 for each student's laptop and an \$8,000 consortium membership fee. The forensic auditors found that there was no basis for either of these fees.

In total, the forensic auditors recommended that the Intermediate Unit return \$9,035,485 from its general fund, contingency funds, internal service funds, and deferred revenue accounts to the participating school districts. In

---

<sup>1</sup> While the forensic audit did not define these programs, IDEA usually refers to the Individuals with Disability Education Act, which provides federal special education money.



addition, the forensic auditors indicated that all of the contingency funds and one of the deferred revenue accounts should be eliminated. Furthermore, in cases where there was no basis for a program fee, the forensic auditors recommended that the fees be evaluated “with supporting budget calculations,” and approved by the Board on a yearly basis.

The existence of many of these contingency funds and deferred revenue accounts for nearly twelve (12) years, suggests that the Board, which is comprised of representatives of the participating school districts, was not adequately monitoring the Intermediate Unit’s financial operations. If the Board had been fulfilling this role, it is likely that one of its members would have demanded that the money in these accounts be repaid much sooner.

In addition, by providing inadequate budget detail to the Board, failing to segregate two key financial positions, and systematically withholding money from the participating school districts, the Intermediate Unit’s management failed in its fiduciary responsibilities. Furthermore, the participating school districts also ineffectively administered their funds by not requiring the Intermediate Unit to provide some basis for the program fees it charged. This lack of due diligence on the part of the school districts demonstrates that their administrations were also not effectively monitoring the Intermediate Unit’s activities.

We will evaluate whether the Intermediate Unit has implemented the steps outlined in its action plan, and the recommendations of the forensic audit report during our next regular audit.

### **Recommendations**

The *Northwest Tri-County Intermediate Unit’s Board of School Directors* should:

1. Require that the Intermediate Unit’s finance director provide the Board, at each scheduled meeting, a detailed and updated status of revenues, account balances, and program expenditures, along with a comparison of actual vs. budget for the current year and prior year.

2. Institute a policy that prohibits the Board from voting on an annual budget that does not include all general fund expenditures.
3. Submit to the Pennsylvania Department of Education (PDE) a general fund budget by May 1, as required by the PSC, which should include budgeted expenditures for each program offered by the Intermediate Unit.

The *Northwest Tri-County Intermediate Unit* should:

4. Properly advertise the budget, as required by the PSC.
5. Implement the board-approved action plan, including appointing an independent Board Treasurer.
6. Follow through with the approved forensic audit report's recommended corrective actions, including returning \$9,035,485 to the participating school districts, eliminating inappropriate contingency and deferred revenue funds, and establishing budget calculations for all program fees.
7. Provide periodic status updates to the Board and to the general public regarding the Intermediate Unit's progress in implementing the forensic audit's recommendations.

### **Management Response**

Management stated the following:

“Management agrees to the finding that the IU has not advertised the budget as required.

The IU disagrees to the finding of the General Fund submission of the budget. The IU has complied by submitting the budget (PDE 2054) by May 1<sup>st</sup>. There has been no communication from PDE that the IU's submission is incorrect.”

### **Auditor Conclusion**

We reiterate our concern over the lack of internal controls over the Intermediate Unit's financial operations. While the accumulated account balances may grab the headlines,

the lack of control over the Intermediate Unit's financial operations point to institutional deficiencies in the organization. We will evaluate the steps that the Intermediate Unit has taken to address our recommendations, as well as the recommendations of the forensic auditor during our next audit of the intermediate unit.

In regard to the fact that the Intermediate Unit has not received communication from PDE regarding the submission of the budget, that in itself does not constitute compliance. Our audit determined that the general fund budget, as provided to the Intermediate Unit's Board without detailed expenditures for program accounts, was incomplete, and therefore not in compliance with the PSC. The finding will remain as written.

## Status of Prior Audit Findings and Observations

---

Our prior audit of the Northwest Tri-County Intermediate Unit (Intermediate Unit), released on June 2, 2011, resulted in two (2) reported observations. The first observation pertained to outside vendor access control weaknesses, and the second pertained to the Intermediate Unit's untimely updating of its Memorandum of Understanding. As part of our current audit, we determined the status of corrective action taken by the Intermediate Unit to implement our prior audit recommendations. We analyzed the Intermediate Unit's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed Intermediate Unit personnel regarding the prior observations. As shown below, we found that the Intermediate Unit had partially implemented our recommendations related to both observations.

### Auditor General Performance Audit Report Released on June 2, 2011

---

#### **Observation No. 1: Unmonitored Vendor System Access and Logical Access Control Weaknesses**

##### Observation

##### Summary:

Our prior audit found that the Intermediate Unit uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the Intermediate Unit's entire computer system, including all its data and the above software, are maintained on the vendor's servers, which are physically located at the vendor. The Intermediate Unit has remote access into the vendor's network servers, with the vendor providing system maintenance and support.

We determined that a risk existed that unauthorized changes to the data could occur and not be detected because the Intermediate Unit was unable to provide supporting evidence that it was adequately monitoring system activity.

##### Recommendations:

Our observation recommended that the Intermediate Unit:

1. Generate monitoring reports (including firewall 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 Intermediate Unit should review these reports to determine that access was appropriate and that data was not improperly altered. The Intermediate Unit should also ensure it is maintaining evidence to support this monitoring and review.

2. Develop and maintain a list of vendor users with “change” access to membership/attendance data.
3. Store back-up tapes in a secure, off-site location.
4. Include provisions in the Acceptable Use and Internet Security Policy for accountability (responsibilities of users, auditing, incident handling) and violations/incidents (what is to be reported and to whom).
5. 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). Also, the Intermediate Unit should maintain a password history that will prevent the use of repetitive password (e.g., last ten passwords), and lock out users after three unsuccessful attempts.
6. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contain the membership/attendance data.

Current Status:

During our current audit, we found that the Intermediate Unit partially implemented our prior recommendations. Specifically, the Intermediate Unit followed recommendations four (4) and five (5). It revised its Acceptable Use and Internet Safety Policy on June 27, 2012. This policy also addresses our recommendation by including provisions for accountability and violations/incidents. In addition, the Intermediate Unit currently requires users to change passwords every 180 days and locks out users after ten unsuccessful attempts. However, the Intermediate Unit still does not logoff users after a certain amount of inactivity because of employee complaints.

The Intermediate Unit did not follow recommendations one (1), two (2), three (3), and six (6). The Intermediate Unit stated in its management response from the prior audit that its vendor for membership and the Pennsylvania Information Management System reporting software keeps information internally, which is the vendor’s policy. However, we again recommend that the Intermediate Unit implement our remaining recommendations.

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

Observation

Summary:

Our audit of the Intermediate Unit's records found that the Memorandum of Understanding (MOU) between the Intermediate Unit and two (2) local law enforcement agencies were signed on August 20, 2008 and August 21, 2007, respectively, and had not been updated.

Recommendations:

Our observation recommended that the Intermediate Unit:

1. In consultation with its solicitor, review, update, and re-execute the current MOU between the Intermediate Unit and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status:

During our current audit, we found that the Intermediate Unit partially followed our recommendation by updating its MOU with local law enforcement agencies in fall 2012. However, the Intermediate Unit did not implement our recommendation to adopt a formal policy to re-execute the MOU every two years, although staff indicated that their internal operations procedures now include sending and receiving updated MOUs on a yearly basis. However, we again recommend that the Intermediate Unit implement our remaining recommendation.

## **Distribution List**

---

This report was initially distributed to the Executive Director of the Intermediate Unit, 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  
Room 129 - Finance Building  
Harrisburg, PA 17120

Ms. Lori Graham  
Acting Director  
Bureau of Budget and Fiscal Management  
Pennsylvania 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

Mr. Lin Carpenter  
Assistant Executive Director for Member Services  
School Board and Management Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

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).