

BLaST INTERMEDIATE UNIT #17
LYCOMING COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

OCTOBER 2011

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

Ms. Karen Brennan, Board President
BLaST Intermediate Unit #17
2400 Reach Road
Williamsport, Pennsylvania 17701

Dear Governor Corbett and Ms. Brennan:

We conducted a performance audit of the BLaST Intermediate Unit #17 (BIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 6, 2009 through March 22, 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, 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 BIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We appreciate the BIU's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

October 12, 2011

cc: **BLaST INTERMEDIATE UNIT #17** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	9



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the BLaST Intermediate Unit #17 (BIU). Our audit sought to answer certain questions regarding the IU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BIU in response to our prior audit recommendations.

Our audit scope covered the period April 6, 2009 through March 22, 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 2009-10 and 2008-09.

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 19 participating school districts, nonpublic schools, and institutions in Bradford, Lycoming, Sullivan and Tioga counties. The IU is governed by a 19 member board appointed by the participating school districts on a rotating basis. The administrative offices are located at 2400 Reach Road, Williamsport and 33 Springbrook Drive, Canton, Pennsylvania.

The programs offered by the IU served 33,431 students in public schools and 1,224 students in nonpublic schools. The staff consisted of 23 administrators, 123 teachers, and 92 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 BIU received \$943,042 from the Commonwealth in general operating funds in school year 2009-10.

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 BIU received more than \$4.8 million from the Commonwealth in special revenue funds in school year 2009-10.

Audit Conclusion and Results

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

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the BIU from an audit we conducted of the 2007-08 and 2006-07 school years, we found the BIU 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 April 6, 2009 through March 22, 2011.

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

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 (DE) 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 BIU'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?
- ✓ Does the IU ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ 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?
- ✓ 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

BIU 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 bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on December 11, 2009, we reviewed the BIU's response to DE dated February 22, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the BLaST Intermediate Unit #17 resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the BLaST Intermediate Unit #17 (BIU) for the school years 2007-08 and 2006-07 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 BIU to implement our prior recommendations. We analyzed the BIU Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned BIU personnel regarding the prior observation. As shown below, we found that the BIU did implement recommendations related to unmonitored vendor system access and logical access control weaknesses.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

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

Observation

Summary:

BLaST Intermediate Unit #17 (BIU) hosts the application environment for four Pennsylvania school districts' critical student accounting applications (membership and attendance). The student accounting software was purchased from an outside vendor. The user-districts' databases reside on BIU's servers at BIU's data center and user-district employees enter all membership and attendance information remotely. BIU is responsible for certain program change controls, physical access controls, and environmental controls. BIU also uses internally developed software for its own student's critical student accounting applications (membership and attendance).

We have determined that limited risk exists that unauthorized changes to the data could occur and not be detected because BIU was unable to provide supporting evidence that they are adequately monitoring system activity.

Recommendations: Our audit observation recommended that the BIU:

1. Generate monitoring reports (including firewall logs) of BIU and user-district employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, changes(s) made and who made the change(s). BIU should also ensure it is maintaining evidence to support this monitoring and review.

2. The contracts with the local education agencies should contain non-disclosure agreements for the districts' and BIU proprietary information.
3. BIU should require their employees to sign the BIU Acceptable Use Policy.
4. BIU should 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.

Current Status: During our current audit procedures we found that the BIU did implement the recommendations.

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:

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.

