

CAPITAL AREA INTERMEDIATE UNIT #15
CUMBERLAND COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Ms. Jean M. Rice, Board President
Capital Area Intermediate Unit #15
55 Miller Street
Enola, Pennsylvania 17025

Dear Governor Rendell and Ms. Rice:

We conducted a performance audit of the Capital Area Intermediate Unit #15 (CAIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 7, 2008 through January 27, 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 CAIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

November 4, 2010

cc: **CAPITAL AREA INTERMEDIATE UNIT #15** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Capital Area Intermediate Unit #15 (CAIU). Our audit sought to answer certain questions regarding the CAIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CAIU in response to our prior audit recommendations.

Our audit scope covered the period March 7, 2008 through January 27, 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 24 participating school districts, nonpublic schools, and institutions in Cumberland, Dauphin, Perry and Northern York counties. The IU is governed by a 19 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 55 Miller Street, Enola, Pennsylvania.

The programs offered by the IU served 3,859 students in public schools and 3,494 students in nonpublic schools. The staff consisted of 28 administrators,

310 teachers, and 116 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 CAIU received more than \$18 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 CAIU received more than \$14 million from the Commonwealth in special revenue funds in school year 2007-08.

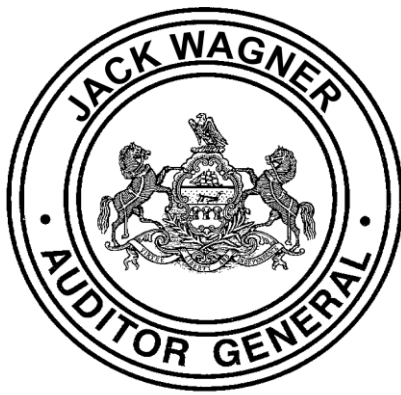
Audit Conclusion and Results

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

Finding: School Bus Driver Lacked Required Clearance. Our audit of the transportation contractors bus driver files for the 2009-10 school year found one driver was transporting students without having all of the minimum required qualifications (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CAIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CAIU had taken appropriate corrective action in implementing our

recommendations pertaining to the failure to obtain a Memorandum of Understanding and unmonitored vendor system access and logical access control weaknesses (see page 11).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

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

Our audit covered the period March 7, 2008 through January 27, 2010, except for the verification of professional employee certification which was performed for the period February 21, 2008 to January 13, 2010.

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 CAIU'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?
- ✓ 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.

CAIU 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.

Our audit examined the following:

- Records pertaining to pupil transportation, 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 CAIU operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 23, 2009, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 111 of the Public School Code requires prospective school employees and independent contractors who would have direct contact with children to submit a report of criminal history record information obtained from the Pennsylvania State Police and the Federal Bureau of Investigation.

School Bus Driver Lacked Required Clearance

Our audit of the Capital Area Intermediate Unit's (CAIU) transportation contractor's bus driver files for the 2009-10 school year found one driver for whom the CAIU did not obtain the federal criminal background check at the time of hire as required by law.

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

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

The first three requirements were set by regulations issued by the Pennsylvania Department of Transportation pursuant to 67 Pa. Code §71.1 *et seq.* As explained further below, the fourth and fifth requirements were set by the Public School Code and the Child Protective Services Law (CPSL), respectively.

Section 111 of the Public School Code requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit reports of criminal history record information obtained from the Pennsylvania State Police and the Federal Bureau of Investigation (FBI). Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, section 6355 of the CPSL requires prospective school employees to submit an official child abuse

clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

We reviewed the personnel records of a random sample of 25 of the 91 drivers currently employed by the transportation contractors. Our review found one driver's file did not contain a criminal history record from the FBI. This driver has been employed since September 2008 but was not fingerprinted for the FBI criminal record check until September 2009. On January 6, 2010, we informed CAIU management of the missing documentation and instructed them to obtain the necessary documents. On January 8, 2010, CAIU personnel provided us with the necessary documentation and we verified that the driver had no convictions that would bar employment.

CAIU personnel noted they obtain criminal background history records for all drivers at the time they are hired; however, due to clerical oversight, this driver worked for one year before being fingerprinted for the FBI check. The CAIU's failure to obtain and retain the criminal history record checks not only violates the provisions of the law detailed previously in this finding, but may also have placed students at unnecessary risk, if the driver had a criminal record which would bar employment.

Recommendations

The *Capital Area Intermediate Unit #15* should:

1. Ensure that files documenting bus drivers' qualifications are up-to-date and complete. Any file found to be lacking required documentation should be updated immediately.
2. The CAIU's master tracking sheet should continue to be used and maintained so that all driver's qualifications are accurately recorded.

Management Response

Management stated the following:

CAIU management agrees with the finding. The CAIU has no transportation vehicles that it owns or leases, or transportation driver employees. All transportation is conducted through contract transportation operators. The CAIU requires all employees of contract transportation

operators to submit verification to the CAIU of all required clearances before driving vehicles that transport school age or pre-school students for the CAIU.

Through a clerical oversight, one clearance on a driver was not obtained for a full year after the driver started transporting students for a contract operator. This was not in compliance with CAIU policies and procedures. The circumstances of this situation have been reviewed with the employees involved and the need for clerical accuracy and 100 percent compliance emphasized.

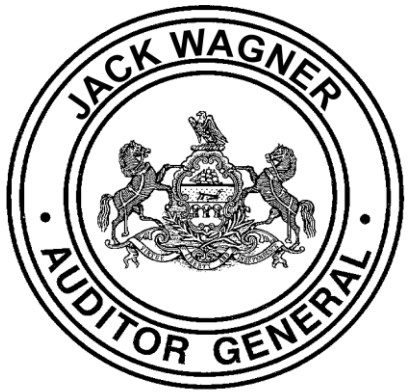
Status of Prior Audit Findings and Observations

Our prior audit of the Capital Area Intermediate Unit #15 (CAIU) for the school years 2005-06 and 2004-05 resulted in one reported finding and one observation. The finding pertained to a failure to obtain a Memorandum of Understanding (MOU), and 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 CAIU to implement our prior recommendations. We performed audit procedures, and questioned CAIU personnel regarding the prior finding and observation. As shown below, we found that the CAIU did implement recommendations related to the failure to obtain a MOU and 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. Finding: Failure to Obtain Memorandum of Understanding</i></u></p> <ol style="list-style-type: none"> Develop and obtain a current MOU with the local law enforcement agency. Adopt a policy requiring the administration to review and re-execute the MOU every two years. 	<p>Background:</p> <p>Our prior audit of the CAIU’s records found that CAIU did not have a MOU with its local law enforcement agency.</p> <p>The lack of a MOU resulted from turnover in personnel who were responsible for safe school procedures and a general lack of awareness of the MOU requirement.</p>	<p>Current Status:</p> <p>Our current audit found that the CAIU did obtain a MOU with the local law enforcement agency, which was signed September 22, 2009.</p> <p>The CAIU did not adopt a policy requiring the administration to review and re-execute the MOU every two years. However, that provision is included in the current MOU.</p>
<p><u><i>II. Observation: Unmonitored Vendor System Access Control Weaknesses</i></u></p> <ol style="list-style-type: none"> Generate monitoring reports (including firewall logs) of the vendor, employee, and user-district access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The CAIU 	<p>Background:</p> <p>CAIU hosted the application environment for eight Pennsylvania school districts’ critical student accounting applications (membership and attendance). The student accounting software was purchased from an outside vendor who had remote access into the CAIU’s network servers. The user-districts’ databases resided on CAIU’s servers at CAIU’s data center, allowing user-district employees to enter all membership and attendance information remotely. CAIU was responsible for certain logical access controls, program change controls, physical access controls, and environmental controls.</p>	<p>Current Status:</p> <p>Our current audit found the CAIU took corrective action on all nine issues, as follows:</p> <ol style="list-style-type: none"> The CAIU has installed an “Intrusion Detection System” that immediately notifies them of unauthorized access or unauthorized changes to the system. They also monitor through the review of monitoring reports.

<p>should review these reports to determine that the access was appropriate and that data was not improperly altered. The CAIU should also ensure it is maintaining evidence to support this monitoring and review.</p> <ol style="list-style-type: none"> 2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the CAIU's system. Further, the CAIU 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. Have the contract with the user-districts reviewed by legal counsel. 4. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner. 5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID. 6. 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>During our prior audit we had determined that a risk existed that unauthorized changes to the data could occur and not be detected because CAIU represented that they did not monitor system activity and would not know if data was changed.</p>	<ol style="list-style-type: none"> 2. The vendor can only gain access after a request is granted by the CAIU and the CAIU monitors the system while the vendor has access and tests the system prior to initialization. Additionally, vendor employees have unique userIDs. 3. A renewal contract between the CAIU and a school district was sent to legal counsel for review in November 2009. 4 & 5. Human Resources sends an email to the information technology department advising them of a termination. The policy states all access will be removed within 48 hours of termination. The same process is used for adding, deleting or changing a userID. 6. Emergency changes for the software are handled the same way as a regular update/troubleshooting session. The system is tested on a secondary server to ensure proper operation. 7. The CAIU does not require the vendor employees to sign the Acceptable Use Policy (AUP) since the contract with the vendor covers similar procedures. Beginning with the 2009-10 school year the CAIU now signs the individual districts' AUPs. 8 & 9. The AUP does not include authentication provisions,
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<p>7. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or CAIU should require the vendor to sign the CAIU’s AUP.</p> <p>8. Include provisions for authentication (password security and syntax requirements) in its Acceptable Use Policy.</p> <p>9. 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 CAIU 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).</p>		<p>these provisions are identified in the “Application Support Guidelines and Procedures” manual. This manual enables the IU to update procedures as technology advances without the arduous process of updating a formal policy. The “Application Support Guidelines and Procedures” manual is used by all technology personnel on a daily basis and dictates the most current procedures in place at the CAIU. The manual states that passwords must be eight characters in length. It does not identify password complexity requirements.</p> <p>The following are the current system parameter settings:</p> <ul style="list-style-type: none"> • Automatic logoff after 20 minutes of inactivity. • Account lockout after three invalid login attempts. <p>The settings for password history and password expiration settings are set by the individual districts, not by the CAIU.</p> <p>We recommend that the procedure manual include the complexity requirements for passwords and that CAIU develop minimum requirements for the individual district settings of password history and password age.</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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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.

