

COLONIAL INTERMEDIATE UNIT #20
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2011

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

Ms. Sharon L. Spadoni, Board President
Colonial Intermediate Unit #20
6 Danforth Drive
Easton, Pennsylvania 18045

Dear Governor Corbett and Ms. Spadoni:

We conducted a performance audit of the Colonial Intermediate Unit #20 (CIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 8, 2009 through January 31, 2011, except as otherwise indicated in the report. Additionally, the 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 CIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

June 2, 2011

cc: **COLONIAL INTERMEDIATE UNIT #20** Board Members

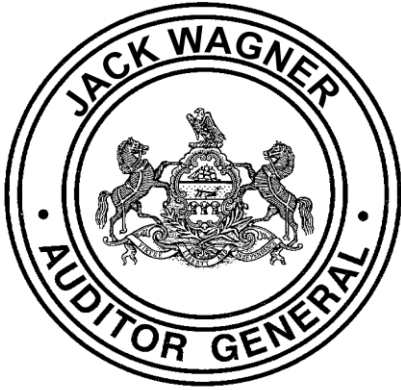
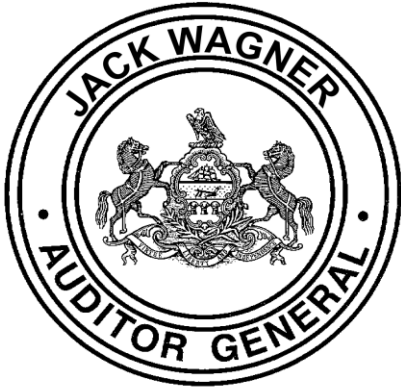


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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Colonial Intermediate Unit #20 (CIU). 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 CIU in response to our prior audit recommendations.

Our audit scope covered the period April 8, 2009 through January 31, 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 13 participating school districts, nonpublic schools, and institutions in Northampton, Monroe and Pike counties. The IU is governed by a 13 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 6 Danforth Drive, Easton, Pennsylvania.

The programs offered by the IU served 85,756 students in public schools and 7,109 students in nonpublic schools. The staff consisted of 25 administrators, 237 teachers, and 763 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 CIU received more than \$3.0 million 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 CIU received more than \$3.1 million from the Commonwealth in special revenue funds in school year 2009-10.

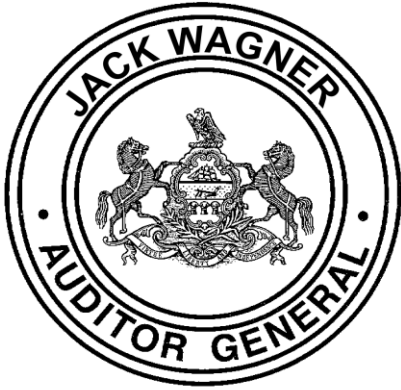
Audit Conclusion and Results

Our audit found that the CIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.

Our audit found that the CIU did not have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children (see page 8).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CIU from an audit we conducted of the 2007-08 and 2006-07 school years, we found the CIU had taken appropriate corrective action in implementing our recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 10).



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 8, 2009 through January 31, 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 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 CIU'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 observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observation and conclusions based on our audit objectives.

CIU 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 membership, pupil transportation, and comparative financial information.

Our audit examined the following:

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

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

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

Findings and Observations

Observation

Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Public School Code and criteria relevant to the observation:

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 a report of criminal history record information obtained from the Pennsylvania State Police. 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 Child Protective Services Law (CPSL) requires prospective school employees to provide 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.

Our review of the personnel records of the five bus drivers who are currently employed by the Colonial Intermediate Unit #20 (CIU) found that these individuals possessed the minimum requirements to be employed as drivers and that the CIU had on file the required report of criminal history record information and an official child abuse clearance statement for all drivers' files. There was no information contained in these reports that would have prohibited the CIU from hiring any of the drivers. Therefore, we concluded that the CIU has satisfied the minimum legal requirements set forth in both the Public School Code and the CPSL. Additionally, there were no serious crimes identified or other information that called into question the applicant's suitability to have direct contact with children.

However, our audit found that the CIU did not have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

The ultimate purpose of these requirements is to ensure the protection of the safety and welfare of the students transported in school buses. To that end, there are other serious crimes that CIUs should consider, on a case-by-case basis, in determining a prospective employee's suitability to have direct contact with children. Such crimes would include those listed in Section 111 but which were committed beyond the five-year look-back period, as well as other crimes of a serious nature that are not on the list at all. CIUs should also consider reviewing the criminal history and child abuse reports for current bus drivers on a periodic basis in order to learn of incidents that may have occurred after the commencement of employment.

Recommendations

The *Colonial Intermediate Unit #20* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the CIU have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure the CIU is notified when current employees of the CIU are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the CIU considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.

Management Response

Management stated the following:

Colonial Intermediate Unit #20 is currently in the process of reviewing and revising many of its Transportation policies, including a process for criminal history reporting, post hire. As this and the others are developed they will be included in the staff Transportation Handbook and reviewed with the transportation employees prior to the start of the school year when they return to work in August.

Status of Prior Audit Findings and Observations

Our prior audit of the Colonial Intermediate Unit #20 (CIU) for the school years 2007-08 and 2006-07 resulted in one reported observation pertaining 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 CIU to implement our prior recommendations. We performed audit procedures, and questioned CIU personnel regarding the prior observation. As shown below, we found that the CIU 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:

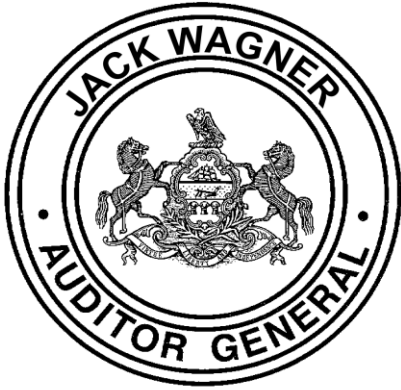
The CIU uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, CIU's entire computer system, including all its data and the above software are maintained on the vendor's servers which are physically located at the vendor.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

Recommendations: Our audit observation recommended that the CIU:

1. Generate monitoring reports (including firewall logs) of vendor and employee 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). CIU should review these reports to determine that the access was appropriate and that data was not improperly altered. CIU should also ensure it is maintaining evidence to support this monitoring and review.
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the CIU system. Further, CIU 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. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.

4. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
5. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
6. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or CIU should require the vendor to sign CIU's Acceptable Use Policy.
7. 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, CIU 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).

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



Distribution List

This report was initially distributed to the Executive Director of the IU, 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. Barbara Nelson
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.

