

LANCASTER-LEBANON INTERMEDIATE UNIT #13

LANCASTER COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Dr. Richard Frerichs, Chairman
Lancaster-Lebanon Intermediate Unit #13
1020 New Holland Avenue
Lancaster, Pennsylvania 17601

Dear Governor Rendell and Dr. Frerichs:

We conducted a performance audit of the Lancaster-Lebanon Intermediate Unit #13 (LLIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 14, 2008 through March 17, 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 LLIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 29, 2010

cc: **LANCASTER-LEBANON INTERMEDIATE UNIT #13** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Lancaster-Lebanon Intermediate Unit #13 (LLIU). 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 LLIU in response to our prior audit recommendations.

Our audit scope covered the period August 14, 2008 through March 17, 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 22 participating school districts, nonpublic schools, and institutions in Lancaster and Lebanon counties. The IU is governed by a 22 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 1020 New Holland Avenue, Lancaster, Pennsylvania.

The programs offered by the IU served 2,203 students in public schools and 8,411 students in nonpublic schools. The staff consisted of 124 administrators, 487 teachers, and 667 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 LLIU received more than \$13.3 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 LLIU received more than \$16.4 million from the Commonwealth in special revenue funds in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LLIU 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 LLIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LLIU had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 7) and unmonitored vendor system access and logical control weaknesses (see page 8).

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 August 14, 2008 through March 17, 2010, except for the verification of professional employee certification which was performed for the period July 3, 2008 to February 24, 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 (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 LLIU'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 audit?

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.

LLIU 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 LLIU operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 24, 2009, we reviewed the LLIU's response to DE dated June 17, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Lancaster-Lebanon Intermediate Unit #13 resulted in no findings or observations.

Status of Prior Audit Finding and Observation

Our prior audit of the Lancaster-Lebanon Intermediate Unit #13 (LLIU) for the school years 2005-06 and 2004-05 resulted in one reported finding and one reported observation. The finding pertained to certification deficiencies 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 LLIU to implement our prior recommendations. We analyzed the LLIU Board’s written response provided to the Department of Education (DE), performed audit procedures, and questioned LLIU personnel regarding the prior finding and observation. As shown below, we found that the LLIU did implement recommendations related to certification deficiencies 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: Certification Deficiencies</i></u></p> <ol style="list-style-type: none"> 1. Ensure that all professional employees have current, valid certificates. 2. Require all professional employees to obtain the required certifications for a position before accepting appointment to that position. 3. DE should adjust the LLIU’s allocations to recover the subsidy forfeitures of \$5,457. 	<p>Background:</p> <p>Our prior audit of the professional employees’ certification for the period April 25, 2006 through July 2, 2008, found two professional employees were teaching with lapsed certificates. In addition, one individual, certified in elementary education, was teaching without proper certification for her special education assignment from September 2006 through October 2006. The individual obtained special education certification in November 2006.</p>	<p>Current Status:</p> <p>Our current audit found that the previously cited individual teaching on a lapsed certificate was temporarily reassigned, on August 25, 2008, to a support position that did not require certification. This individual subsequently obtained current certification and was assigned to a teaching position on February 23, 2009.</p> <p>The second individual previously cited for teaching with a lapsed certificate received permanent certification in July 2008.</p> <p>The individual that was previously cited for teaching special education without proper certification obtained special education certification in November 2006.</p> <p>There were no additional deficiencies found in our current audit of certification.</p>

		<p>As of March 26, 2010, DE had not recovered the subsidy forfeitures to resolve this finding. However, per correspondence dated May 13, 2010, DE was to withhold the subsidy forfeitures from the June 2010 special education funding allocations.</p>
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<p><u>II. Observation:</u> <u>Unmonitored Vendor</u> <u>System Access and Logical Access Control Weaknesses</u></p> <ol style="list-style-type: none"> 1. Research and implement an appropriate solution to ensure that system logs (including firewall logs) are monitored and that any highly unusual activity would be detected in a timely manner (including LLIU, vendor and user-district employees). The LLIU should implement these procedures to determine whether any user-district system has been accessed inappropriately. The LLIU should maintain evidence of their monitoring. 2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the LLIU's system. Further, the LLIU 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. 	<p>Background:</p> <p>The LLIU hosts the application environment for 22 Pennsylvania school districts' critical student accounting applications (membership and attendance). The student accounting software was purchased from an outside vendor who has remote access into the LLIU's network servers. The user-districts' databases reside on the LLIU's servers at the LLIU's data center and user-district employees enter all membership and attendance information remotely. The LLIU is responsible for certain logical access controls, program change controls, physical access controls, and environmental controls.</p> <p>During our prior audit, we determined that a limited risk existed that unauthorized changes to the data could occur and not be detected because the LLIU was unable to provide supporting evidence that it was adequately monitoring system activity.</p>	<p>Current Status:</p> <p>Our current audit found that the LLIU complied with our recommendations as follows:</p> <ol style="list-style-type: none"> 1. As of December 2008, the LLIU began monitoring activity by all groups with access to the system. Activity is monitored with a network monitor and intermapper which send them pages when unusual activity occurs. The LLIU also uses a threat inspector to identify and classify issues after they occur. A log was provided that displays activity by all users on the system. 2. The current child accounting vendor will not assign unique userIDs and passwords to vendor employees authorized to access the LLIU's system. The vendor does maintain this information in their ticket system so they can identify who worked on a particular issue and they will provide this information to the LLIU when requested. The LLIU drafted a Request for Proposal (RFP) for student information systems to be released on a target date of May 2010. This RFP will require the vendor to
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<p>3. Allow access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.</p> <p>4. Develop and maintain a list of vendor users with “change” access to membership/attendance data.</p> <p>5. Establish a process for defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process.</p> <p>6. Include in its Acceptable Use Policy (AUP) provisions for authentication (syntax requirements).</p> <p>7. Develop formal, documented methodology for systems development and change management procedures.</p> <p>8. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy.</p> <p>9. Implement a security policy and system parameter settings to</p>		<p>assign unique userID’s and passwords to the vendor’s employees with access to LLIU data and if the current vendor chooses not to sign this document they will no longer be the vendor for the LLIU.</p> <p>3. The vendor can only log in to the LLIU’s system when the LLIU permits the access and the LLIU is terminating this access at the end of the session. The LLIU also has the vendor sign a vendor AUP.</p> <p>4. The LLIU’s RFP requires the vendor to maintain a list of employees with access to LLIU data while ensuring that changes to data are made only by authorized vendor representatives. This list is to be provided to the LLIU at its request.</p> <p>5. The LLIU’s RFP requires that a copy of vendor policies and procedures surrounding defining, raising, testing, documenting, assessing and authorizing emergency changes to systems or programs that do not follow the established change process is required to be provided to the LLIU at its request.</p> <p>6. The LLIU’s RFP and Vendor AUP address authentication issues.</p> <p>7. The LLIU developed a documented procedure for system development and change management.</p> <p>8. The LLIU developed a vendor AUP and requires all vendors to sign this</p>
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<p>require all users to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters. In addition, the LLIU should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords) and lock out users after three unsuccessful attempts.</p>		<p>document.</p> <p>9. The LLIU's system parameters are being adjusted effective May 1, 2010, to require passwords of a minimum of eight characters, including alpha and numeric characters, changing of passwords every thirty days with a password history of the last 24 passwords used and an account lockout after three invalid password attempts.</p>
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Distribution List

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

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The Honorable Robert M. McCord
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