

NORTHEASTERN EDUCATIONAL INTERMEDIATE UNIT #19

LACKAWANNA COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

JANUARY 2010



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

Mr. Alvin Hollister, Board President  
Northeastern Educational Intermediate Unit #19  
1200 Line Street  
Archbald, Pennsylvania 18403

Dear Governor Rendell and Mr. Hollister:

We conducted a performance audit of the Northeastern Educational Intermediate Unit #19 (NEIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period April 7, 2007 through April 12, 2009, 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 NEIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified 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 finding, observation and recommendations have been discussed with NEIU management and their responses are included in the audit report. We believe the implementation of our recommendations will improve NEIU's operations and facilitate compliance with legal and administrative requirements. We appreciate the NEIU cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 25, 2010

cc: **NORTHEASTERN EDUCATIONAL INTERMEDIATE UNIT #19** Board Members

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Northeastern Educational Intermediate Unit #19 (NEIU). Our audit sought to answer certain questions regarding the NEIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period April 7, 2007 through April 12, 2009, 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 20 participating school districts, nonpublic schools, and institutions in Lackawanna, Susquehanna, Wayne, and parts of Pike and Wyoming counties. The IU is governed by a 20 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 1200 Line Street, Archbald, Pennsylvania.

The programs offered by the IU served 47,089 students in public schools and 4,841 students in nonpublic schools. The staff consisted of 6 administrators, 140 teachers, and 243 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 IU received more than \$3.8 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 and a contingency fund.

Lastly, the NEIU received more than \$7.7 million from the Commonwealth in special revenue funds in school year 2007-08.

### **Audit Conclusion and Results**

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

**Finding: Lack of Memorandum of Understanding.** Our audit of the NEIU records found that the NEIU did not have a current signed Memorandum of Understanding with the Dunmore Police Department available for audit (see page 8).

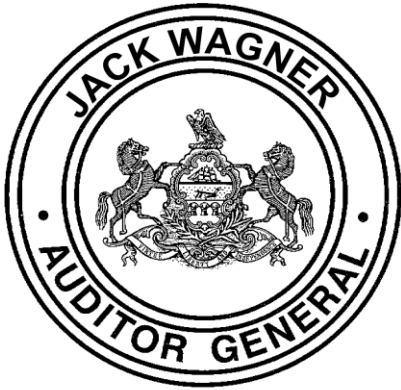


**Observation: Vendor System Access and Logical Access Control Weaknesses.**

NEIU uses internally developed software for its own students' critical student accounting applications (membership and attendance). We have determined that a risk exists that unauthorized changes to the NEIU's data could occur and not be detected because NEIU was unable to provide supporting evidence that they are adequately monitoring system activity (see page 10).

**Status of Prior Audit Findings and**

**Observations.** Our prior audit of the NEIU that was conducted of the 2005-06 and 2004-05 school years reported no findings or observations.



## Audit Scope, Objectives, and Methodology

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### 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 7, 2007 through April 12, 2009, except for:

- The verification of professional employee certification which was performed for the period January 1, 2007 through April 3, 2009.
- The review of outside vendor access to the IU's student accounting applications which was completed on August 4, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 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

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 NEIU'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?
- ✓ In areas where the IU receives state subsidy and reimbursements based on payroll (e.g. Social Security

*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.

and retirement), did it follow applicable laws and procedures?

- ✓ Did the IU follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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?

## **Methodology**

*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.

NEIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the NEIU 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.

*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.

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 to bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes and reimbursement applications.
- Tuition receipts and deposited state funds.

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

## Findings and Observations

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### Finding

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*Criteria relevant to the finding:*

Section 13-1303-A(c) provides:

All school entities shall develop a memorandum of understanding with local law enforcement which sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used for school entities. Section VI, General Provisions, item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added).

### Lack of Memorandum of Understanding

Our audit of the Northeastern Educational Intermediate Unit #19's (NEIU) records found that the NEIU did not have a signed Memorandum of Understanding (MOU) with the Dunmore Police Department available for audit. However, the NEIU did have an updated MOU with the Archbald Borough Police Department.

NEIU administrative personnel failed to develop and implement a MOU between the NEIU and Dunmore Police Department.

The failure to obtain and update a signed MOU with the local law enforcement agencies could result in a lack of cooperation, direction, and guidance between NEIU employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or any public conveyance providing transportation to or from a school or school sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

On April 17, 2009, after our fieldwork completion date, the NEIU obtained a signed MOU from the Dunmore Police Department.

### Recommendations

The *Northeastern Educational Intermediate Unit #19* should:

1. In consultation with the solicitor, continue to review, update and re-evaluate the current MOU between the NEIU and appropriate law enforcement agencies and/or the Pennsylvania State Police.
2. Adopt a policy requiring the administration to review and re-execute all MOUs every two years.

**Management Response**

Management stated the following:

NEIU had thought that it was covered by an MOU with the Borough of Archbald. When informed that one was required for the Borough of Dunmore, we contacted the local police chief who will have the standard MOU in place at the time of the ARC. It will be renewed every two years from now on.

**Observation**



*What is logical access control?*

“Logical Access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification to access the computer systems.

**Vendor System Access and Logical Access Control Weaknesses**

The NEIU uses internally developed software for its own students’ critical student accounting applications (membership and attendance). The student accounting application and databases are housed on NEIU’s servers at NEIU’s data center. Separately, NEIU acts as a reseller for another intermediate unit’s information technology (IT) services to 17 other local educational agencies (LEA).

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

Best practices in IT security include: limiting access to authorized users; ensuring individual accountability for actions; managing vendor services; monitoring the system to ensure integrity of key databases and applications; regulating changes to software; restricting physical access; implementing and maintaining minimum environmental controls; and planning for contingencies.

We noted the following general computer control weaknesses at NEIU:

1. Does not have evidence they are generating or reviewing monitoring reports of user access and activity on the system. There is no evidence that NEIU is performing procedures in order to determine which data may have been altered or which employees accessed their system.
2. Does not require written authorization prior to the updating/upgrading of key applications.
3. Agreements with its user-LEAs to provide data processing services do not mention that NEIU is acting as a reseller of another intermediate unit's services and do not outline specific rights and responsibilities of the parties providing the information technology services.



4. Does not store data back-ups in a secure, off-site location.
5. Has certain weaknesses in logical access controls. We noted that the NEIU's system parameter settings do not require all users to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters and to lock out users after three unsuccessful attempts.
6. Has certain weaknesses in environmental controls in the room that contains the server that houses all of NEIU's data. We noted that the specific location does not have fire detection or fire suppression equipment.

## **Recommendations**

The *Northeastern Educational Intermediate Unit #19* should:

1. Generate monitoring reports of 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). NEIU should review these reports to determine that the access was appropriate and that data was not improperly altered. NEIU should also ensure it is maintaining evidence to support this monitoring and review.
2. Ensure the upgrades/updates to the NEIU's system be made only after receipt of written authorization from appropriate NEIU officials.
3. NEIU and its user-LEAs should consider more formal contractual relationships that outline specific responsibilities of the parties involved. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
4. Store back-up tapes in a secure, off-site location.

5. Implement a security policy and system parameter settings to 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 and include alpha, numeric and special characters. Also, the intermediate unit should lock out users after three unsuccessful attempts.
6. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, NEIU should install fire detectors and fire extinguishers in the computer room.

### **Management Response**

Management stated the following:

On April 28, 2009, the Board of Directors of NEIU 19 approved a contract between [the company] and NEIU 19 for student applications including child accounting. Our target date for implementation is August 2009. In response to your concerns:

1. [The Company's] system has triggers in the database that fire anytime changes are made to the data. NEIU will have access to history reports that show when data was altered in the system, and by whom. Also, [the company] services can only be accessed by their key personnel. A badge is required to access the server room. NEIU will continue to manually verify membership reports, as done in the past, to insure the accuracy of their data.
2. Since [the company's] system is a comprehensive package, it is updated on a yearly basis or more often if changes are dictated by PDE. All changes are first put to a Beta site for testing by users.
3. While it is true that our agreements with our member districts do not mention the fact that NEIU is reselling the other IU's services, it is equally true that our districts have understood for the past 25 years that the software and mainframe are from the other IU. Any new districts coming aboard are also fully aware of this. Any specific rights and responsibilities are in the

contract between NEIU 19 and CSIU 16. A copy of this contract was provided on April 1, 2009.

4. [The company's] system is backed up daily, and backups are stored in a secure, off-site location.
5. [The company's] software will handle your password recommendations for minimum length, character requirements, and locking users out after 3 unsuccessful attempts. They do not require passwords to be changed after 30 days, feeling that practice makes systems less secure with users writing passwords down near their computers.
6. [The company's] servers are kept in a secure room and meet fire detection and suppression requirements.

In addition:

All of [the company's] employees have signed a nondisclosure agreement.

[The company] will sign our Acceptable Use Policy.

[The company] does maintain a history of password changes.

IU 19's child accounting manager will be responsible for removing terminated employees from the system in a timely manner.

Users are assigned unique IDs and passwords, not group IDs.

Users are logged off the system after 60 minutes of inactivity.

The plans to implement this system were being made prior to the IT audit meeting of April 1, 2009.

### **Auditor Conclusion**

In reference to the instances where NEIU acts as a reseller for another intermediate unit's IT services, management indicated that their user-districts understand that the software and mainframe used are from another intermediate unit. However, we continue to recommend that NEIU and its user-LEAs consider more formal contractual

relationships that outline specific responsibilities of the parties involved. The agreements should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.

Our review of computer controls over NEIU's internally developed software for its own student accounting applications was performed as of April 1, 2009, for the school years ended June 30, 2007 and 2008. The management response describes controls to be implemented with the conversion to the [company] system in August 2009. Any improvements in controls will be considered in the next audit.

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

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**O**ur prior audit of the Northeastern Educational Intermediate Unit #19 for the school years 2005-06 and 2004-05 resulted in no findings or observations.



## **Distribution List**

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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](http://www.auditorgen.state.pa.us), and the following:

The Honorable Edward G. Rendell  
Governor  
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The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
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The Honorable Robert M. McCord  
State Treasurer  
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Senator Jeffrey Piccola  
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Senator Andrew Dinniman  
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Senate Education Committee  
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