

NORTHWEST TRI-COUNTY INTERMEDIATE UNIT #5  
ERIE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JUNE 2011



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

Mrs. Jan Van Tuil, Board President  
Northwest Tri-County Intermediate Unit #5  
252 Waterford Street  
Edinboro, Pennsylvania 16412

Dear Governor Corbett and Mrs. Van Tuil:

We conducted a performance audit of the Northwest Tri-County Intermediate Unit #5 (NWTCIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 22, 2009 through January 14, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the NWTCIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified two matters unrelated to compliance that are reported as observations. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER  
Auditor General

[Actual Release Date]

cc: **NORTHWEST TRI-COUNTY INTERMEDIATE UNIT #5** 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 Northwest Tri-County Intermediate Unit #5 (NWTCIU). Our audit sought to answer certain questions regarding the NWTCIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period May 22, 2009 through January 14, 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 17 participating school districts, nonpublic schools, and institutions in Erie, Crawford, and Warren counties. The IU is governed by a 17 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 252 Waterford Street, Edinboro, Pennsylvania.

The programs offered by the IU served 45,860 students in public schools and 7,328 students in nonpublic schools. The staff consisted of 18 administrators, 192 teachers, and 211 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 NWTCIU received more than \$5 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 NWTCIU received more than \$9 million from the Commonwealth in special revenue funds in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the NWTCIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two matters unrelated to compliance that are reported as observations.

#### **Observation No. 1: Unmonitored Vendor System Access and Logical Access**

**Control Weaknesses.** We noted that NWTCIU personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to the student accounting applications (see page 8).

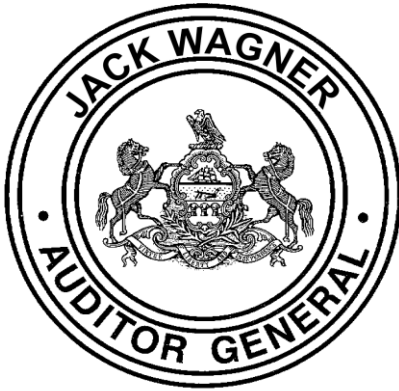
#### **Observation No. 2: Memoranda of Understanding Not Updated Timely.**

Our audit of the NWTCIU's records found that the current Memoranda of Understanding between the NWTCIU and local law



enforcement agencies have not been updated  
(see page 11).

**Status of Prior Audit Findings and  
Observations.** With regard to the status of  
our prior audit recommendations to the  
NWTCIU, we found the NWTCIU did not  
have any prior 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 May 22, 2009 through January 14, 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 NWTCIU'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 and retirement), did it follow applicable laws and procedures?
- ✓ 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?

## 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.

NWTCIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the IU is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report. \

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining 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 NWTCIU's operations.

## Findings and Observations

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### Observation No. 1

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*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, authorization, and authentication to access the computer systems.

### Unmonitored Vendor System Access and Logical Access Control Weaknesses

Northwest Tri-County Intermediate Unit #5 (NWTCIU) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, NWTCIU’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. NWTCIU has remote access into the vendor’s network servers, with the vendor providing system maintenance and support.

We have determined that a risk exists that unauthorized changes to the data could occur and not be detected because NWTCIU was unable to provide supporting evidence that it is adequately monitoring system activity.

Best practices in information technology 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:

1. NWTCIU does not have evidence that it is generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and NWTCIU employees). There is no evidence that the NWTCIU is performing procedures to determine which data the vendor may have altered or which vendor employees accessed the system.
2. NWTCIU was unable to provide a list of vendor users with “change” access to membership/attendance data.
3. NWTCIU does not store data back-ups in a secure, off-site location.

4. NWTCIU's Acceptable Use and Internet Security Policy does not include provisions for accountability (responsibilities of users, auditing, incident handling) and violations/incidents (what is to be reported and to whom).
5. NWTCIU has certain weaknesses in logical access controls. We noted that the NWTCIU's system parameter settings do not require all users to change passwords every 30 days, do not maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords), and do not lock out users after three unsuccessful attempts.
6. NWTCIU does not have a list of vendor personnel with authorized access to the area where the servers with the membership/attendance data reside.

## **Recommendations**

The *Northwest Tri-County Intermediate Unit #5* should:

1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). NWTCIU should review these reports to determine that access was appropriate and that data was not improperly altered. NWTCIU should also ensure it is maintaining evidence to support this monitoring and review
2. Develop and maintain a list of vendor users with "change" access to membership/attendance data.
3. Store back-up tapes in a secure, off-site location.
4. Include provisions in the Acceptable Use and Internet Security Policy for accountability (responsibilities of users, auditing, incident handling) and violations/incidents (what is to be reported and to whom).

5. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days). Also, NWTCIU 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.
6. Develop and maintain a list of authorized individuals with access to the hardware (servers) that contain the membership/attendance data.

**Management Response**

Management stated the following:

#1, 2 ,3, and 6 [T]he IU's current vendor for membership and PIMS reporting software . . . Leader Services keeps information internally and their policy is to keep this internally.

#4 Acceptable Use and Internet Safety Policy #5520 will be revised to include recommendations.

#5 Password changes procedure will be implemented on a gradual basis due to staffing constraints. Effective with the 2011-12 school year, passwords will be required to be changed twice a year. This procedure will be reviewed annually internally and recommendations discussed with the Policy Committee. Repetitive use of passwords will be changed to 10, locks out to 5, again due to staffing constraints. These changes are recommended taking into consideration that IU #5 covers 3 counties, a large geographical area, and employees having limited access during normal work hours.



**Observation No. 2** →

**Memoranda of Understanding Not Updated Timely**

*Criteria relevant to the observation:*

Section 1303A(c) of the Public School Code 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, a Basic Educational Circular (BEC) issued by the Department of Education entitled Safe Schools and Possession of Weapons contains a sample MOU to be used by school entities. Section VI, General Provisions item B of this sample states:

This Memorandum may be amended, expanded or modified at any time upon written consent of 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.

Our audit of the NWTCIU's records found that the current Memoranda of Understanding (MOU) between the NWTCIU and two local law enforcement agencies were signed August 10, 2008, and August 21, 2007, respectively, and have not been updated.

The failure to update the MOU with the local law enforcement agencies could result in a lack of cooperation, direction, and guidance between NWTCIU employees and law enforcement agencies if an incident occurs on school property, at any school-sponsored activity, or on 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.

NWTCIU personnel stated they felt an updated MOU was not necessary unless there were changes in administration at the law enforcement agencies.

**Recommendations**

The *Northwest Tri-County Intermediate Unit #5* should:

1. In consultation with its solicitor, review, update and re-execute the current MOU between the NWTCIU and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOU every two years.

**Management Response**

Management stated the following.

Memorandum of Understanding letters have been mailed and are awaiting responses.

The MOU will be reviewed internally on an annual basis.

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

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**O**ur prior audit of the Northwest Tri-County Intermediate Unit #5 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 Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
Secretary of Education  
1010 Harristown Building #2  
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Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
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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](http://www.auditorgen.state.pa.us).

