# COMMONWEALTH OF PENNSYLVANIA

JACK WAGNER
AUDITOR GENERAL

ERIE COUNTY TECHNICAL SCHOOL

ERIE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

OCTOBER 2009

## JACK WAGNER, AUDITOR GENERAL

PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

**Commonwealth of Pennsylvania**
**Department of the Auditor General**
**Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER**
**AUDITOR GENERAL**

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

Mr. James Bucksbee, Joint Operating Committee Chairperson
Erie County Technical School
8500 Oliver Road
Erie, Pennsylvania 16509

Dear Governor Rendell and Mr. Bucksbee:

We conducted a performance audit of the Erie County Technical School (ECTS) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 21, 2007 through April 22, 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, as they were the most recent reimbursements subject to audit. 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 ECTS 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.

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

Sincerely,

Jack Wagner

JACK WAGNER
Auditor General

October 8, 2009

cc: **ERIE COUNTY TECHNICAL SCHOOL** Joint Operating Committee Members

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JACK WAGNER

AUDITOR GENERAL

## Executive Summary

### Audit Work

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

Our audit scope covered the period February 21, 2007 through April 22, 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.

### School Background

According to school officials, in school year 2007-08 the ECTS provided basic educational services to 740 pupils through the employment of 28 teachers, 25 full-time and part-time support personnel, and 11 administrators.

The operation, administration and management of the school are directed by a joint operating committee (JOC) which is comprised of 11 members from the following school districts:

| | |
|---|---|
| Fairview | Fort LeBoeuf |
| Harbor Creek | Iroquois |
| Millcreek Township | North East |
| General McLane | Girard |
| Northwestern | Union City Area |
| Wattsburg Area | |

The JOC members are appointed by the individual school boards at the December meeting, each to serve a three year term. Lastly, the ECTS reserved more than $934,000 in state funding in school year 2007-08.

### Audit Conclusion and Results

Our audit found that the ECTS 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: Unmonitored Vendor System Access and Logical Access Control Weaknesses.** Based on our current year procedures, we determined that a risk exists that unauthorized changes to ECTS's data could occur and not be detected because ECTS was not able to provide supporting evidence that they are adequately monitoring vendor activity in their system (see page 6).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the ECTS from an audit we conducted of the 2005-06 and 2004-05 school years, we found that ECTS had taken appropriate corrective action in implementing our recommendations pertaining to billing and reporting errors associated with the school's alternative education program (see page 9), and JOC members failing to file Statements of Financial Interests (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 February 21, 2007 through April 22, 2009, except for the verification of professional employee certification which was performed for the period January 1, 2007 through February 28, 2009.

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

While all LEAs have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with 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

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 ECTS'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 audit objectives:

✓ Were professional employees certified for the positions they held?

> *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.

- ✓ In areas where the School receives state subsidy and reimbursements based on pupil membership (e.g. vocational education), did it follow applicable laws and procedures?

- ✓ In areas where the School receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

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

- ✓ Is the School's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Does the School ensure that Joint Operating Committee (JOC) 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 School?

- ✓ Did the School 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 School taking appropriate steps to ensure school safety?

- ✓ Did the School 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.

ECTS management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the school 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 professional employee certification, state ethics compliance, and financial stability, along with items such as JOC meeting minutes.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 24, 2008, we reviewed the ECTS's response to DE dated May 22, 2008. We then performed additional audit procedures targeting the previously reported matters.

# Observation

**Observation**

## Unmonitored Vendor System Access and Logical Access Control Weaknesses

*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.

The Erie County Technical School uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the School's network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the School's data could occur and not be detected because the School was not able to provide supporting evidence that they are adequately monitoring vendor activity in their system. However, since the School has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the School would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the School's membership information and result in the School not receiving the funds to which it was entitled from the state.

During our review, we found the School had the following weaknesses over vendor access to the School's system:

1. The School does not have a non-disclosure agreement with the vendor.

2. The School's information technology (IT) security policy does not address syntax requirements for passwords.

3. School employees and students are not required to sign that they agree to abide by the IT security policy.

4. The School does not require that the vendor employees sign that they agree to abide by the IT security policy.

5. The School does not use written forms to add, delete, or change a userID.

6. The software system does not require users to change their passwords every 30 days; rather it requires the change every 70 days.

7. The School's technology manager reviews the log of vendor activity in the system, but there is no written documentation of the review.

8. There is not a formal complete list of personnel who have access to the physical location of the server.

9. There are no formal written procedures regarding membership data reconciliation procedures.

**Recommendations**

The *Erie County Technical School* should enact the following:

1. Execute a non-disclosure agreement with their membership software vendor.

2. Revise the School's IT security policy to address syntax requirements for passwords.

3. Require School employees and students to sign that they agree to abide by the IT security policy.

4. Require vendor employees to sign that they agree to abide by the IT security policy.

5. Develop policies and procedures to require written authorization when adding, deleting or changing a userID.

6. Require users to change their passwords every 30 days.

7. Ensure that the School's technology manager produces written documentation of the review of the log of vendor activity in the system.

8. Ensure that there is a formal complete list of personnel who have access to the physical location of the server.

9. Ensure that there are formal written procedures regarding membership data reconciliation procedures.

**Management Response**

Management stated the following:

That the school has issued an ISO Quality Management continual action form to review the auditor's recommendations. An investigative committee will be selected by management to review the recommendations and that will determine the short term and long term suggested actions to be taken.

## Status of Prior Audit Findings and Observations

Our prior audit of the ECTS for the school years 2005-06 and 2004-05 resulted in two reported findings. The first finding pertained to billing and reporting errors associated with the School's alternative education program, and the second pertained to the failure of some joint operating committee (JOC) members to file Statements of Financial Interests. As part of our current audit, we determined the status of corrective action taken by the School to implement our prior recommendations. We analyzed the ECTS Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned School personnel regarding the prior findings. As shown below, we found that the ECTS did implement recommendations related to the findings.

| *School Years 2005-06 and 2004-05 Auditor General Performance Audit Report* | | |
|---|---|---|
| ***Prior Recommendations*** | **Implementation Status** | |
| *I. Finding No. 1: Billing and Reporting Errors Associated with the School's Alternative Education Program*<br><br>1. Develop internal attendance/membership procedures to adhere to the disruptive youth grant requirements.<br><br>2. Make appropriate adjustments as needed to subsequent quarterly reports submitted to DE for reimbursement.<br><br>3. Revise tuition billings to correct over/under billings.<br><br>4. DE should adjust the School's future allocations to recover the reimbursement overpayment of $2,029. | **Background**:<br><br>Our audit of the School's alternative education program for disruptive youths found that membership was inaccurately reported to DE for the 2005-06 school year.<br><br>Also, errors were noted in the tuition billings to neighboring school districts for students attending the alternative education program. | ***Current Status***:<br><br>We followed up on the billing errors and found that the School has developed reporting procedures that deal with the reconciliations done with sending districts to eliminate reporting and billing errors.<br><br>Adjustments for subsequent years are unable to be made with DE for reporting of this program.<br><br>ECTS administrators revised the tuition billings on May 8, 2008, to adjust the over and under billings.<br><br>As of April 22, 2009, the overpayment of $2,029 is still pending final adjustment by DE.<br><br>Based on our current audit, we determined that the School did take corrective actions to address our prior audit recommendations. |

| | | |
|---|---|---|
| II. *Finding No. 2: JOC Members Failed to File Statements of Financial Interests in Violation of the Ethics Act*<br><br>1. Seek the advice of its solicitor in regard to the JOC's responsibility when an elected JOC member fails to file a Statement of Financial Interest.<br><br>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act. | **Background:**<br><br>Our audit of the School's records found that two members of the JOC failed to file Statements of Financial Interests for the year ended 2004 and one failed to file for the year ended 2005. | ***Current Status:***<br><br>We followed up on the Statements of Financial Interests finding and found that all members filed properly for the years ended 2006 and 2007.<br><br>Based on our current audit, we determined that the School did take corrective action to address our prior audit recommendations. |

## Distribution List

This report was initially distributed to the technical school's superintendent of record, the joint operating committee 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.