



**CENTRAL PENNSYLVANIA INSTITUTE OF
SCIENCE AND TECHNOLOGY**

CENTRE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

APRIL 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. Henry Yeagley
Joint Operating Committee Chairperson
Central Pennsylvania Institute of
Science and Technology
540 North Harrison Road
Pleasant Gap, Pennsylvania 16823

Dear Governor Corbett and Mr. Yeagley:

We conducted a performance audit of the Central Pennsylvania Institute of Science and Technology (Center) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period January 24, 2011 through August 7, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 Center complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

April 15, 2014

cc: **CENTRAL PENNSYLVANIA INSTITUTE OF SCIENCE AND TECHNOLOGY**
Joint Operating Committee Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Central Pennsylvania Institute of Science and Technology (Center) in Centre County. Our audit sought to answer certain questions regarding the Center's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period January 24, 2011 through August 7, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

Center Background

According to Center officials the Center provided educational services to 443 secondary pupils and 517 post-secondary pupils through the employment of nineteen (19) teachers, ten (10) full-time and part-time support personnel, and four (4) administrators during the 2011-12 school year. A joint operating committee (JOC), which is comprised of five (5) members from the following school districts, directs the operation, administration, and management of the school:

Bald Eagle Area
Bellefonte Area
Penns Valley Area

The JOC members are appointed by the individual school boards at the December meeting, each to serve a two (2) year term. The Center received \$869,344 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the Center complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding.

Finding: Errors Noted in the Reporting of State Revenues. Our audit of the Central Pennsylvania Institute of Science and Technology's (Center) state revenues reported to the Pennsylvania Department of Education found errors in its reporting of vocational education, Social Security, and retirement funding for the 2009-10, 2010-11, and 2011-12 school years (see page 5).

Status of Prior Audit Findings and Observations. There were no findings or observations included in our prior audit report.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 January 24, 2011 through August 7, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through July 19, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

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 Pennsylvania Department of Education (PDE) 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 statute, regulation, policy, 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 and defined business practices. Our audit focused on assessing the Center's compliance with certain relevant 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?
- ✓ Did the Center have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the Center's fiscal viability?

- ✓ Did the Center take appropriate steps to ensure school safety?
- ✓ Did the Center have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the Center’s Joint Operating Committee members free from apparent conflicts of interests?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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 certain relevant state 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The Center’s management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Center is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the Center’s internal controls, including any information technology controls, as they relate to the Center’s compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives 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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as Joint Operating Committee meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the Center's operations.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1850.1 of the Public School Code (PSC), 24 P.S. § 18-1850.1 (15), provides:

(15) “To make an annual report, in writing, to the Department of Instruction, and such other reports as the department may require.”

Pennsylvania Department of Education instructions for the Annual Financial Report (AFR) User Manual states that it is imperative that the initial report be submitted as accurate as possible so as to ensure that anyone retrieving data from the AFR on file at the state will be assessing the most accurate figures.

Errors Noted in the Reporting of State Revenues

Our audit of the Central Pennsylvania Institute of Science and Technology’s (Center) state revenues reported on its Annual Financial Reports (AFR) to the Pennsylvania Department of Education (PDE) found errors in its reporting of vocational education, Social Security, and retirement funding for the 2009-10, 2010-11, and 2011-12 school years.

The incorrect reported revenue was found when we compared the Center’s state subsidy revenues on its AFRs to the *Audit Confirmation of Subsidy Payments* reports generated by PDE’s Office of Comptroller Operations. It is important to note that the *Audit Confirmation of Subsidy Payments* report details actual state revenues paid to education agencies and is available several months prior to the AFR reporting deadline. The comparison of the two (2) documents yielded the following variances:

Errors in Reported State Revenues <i>(Vocational Education, Social Security, Retirement Funding)</i>			
School Year	Actual Reported to Center	Reported by Center in AFR	Difference
2009-10	\$ 775,900	\$ 852,573	\$ 76,673
2010-11	844,648	893,051	48,403
2011-12	869,344	874,577	5,233

When the auditors asked the Center why these differences existed, the Center’s current business manager provided a written response dated August 5, 2013, which explained that the variances between the AFRs and the *Audit Confirmation of Subsidy Payments* reports may have occurred at the Center’s internal accounting level and/or by an outside accounting firm (no longer retained by the Center) hired to make year-end adjusting entries. The current business manager went on to explain that the prior business manager maintained the Center’s accounting records manually, which also may have led to the reporting variances.

Nevertheless, it is clear that the Center failed to have internal policies and procedures in place to ensure that state

revenue data was verified and correct before it was reported to PDE. No matter how the Center kept its accounting records, or who it hired to assist in financial reporting, there is no reason to erroneously reporting state revenue data when PDE provides the numbers directly to the reporting entity.

Improper fund accounting could lead to funds being expended for uses other than designated and could lead to possible budgeting errors by the Center's business office.

It is the responsibility of Center management to have in place appropriate internal policies and procedures to ensure data is accurate and collected and reported timely to PDE. Without such internal controls, the Center cannot be assured it is receiving the correct state subsidy.

Recommendations

The *Central Pennsylvania Institute of Science and Technology* should:

1. Provide accounting training for staff responsible for data entry coding into the Center's accounting system.
2. Review the AFRs for the years subsequent to our audit, and, if necessary, resubmit revised reports to PDE.
3. Adopt internal policies and procedures to ensure the accuracy of data reported on the AFR.

Management Response

Management stated the following:

“After a careful review of all information, we have concluded that the variances between the PDE FAIV2RP11 [audit confirmation] reports and AFRs in the aforementioned years may have occurred at the CPI [Center] internal accounting level and/or by an outside CPA [independent auditor] firm retained to make year-end adjusting entries as required. That firm is not longer retained by the CPI.

Regarding the internal accounting processes prior to employment of [the current business manager] on

January 1, 2012, a significant number of internal records were processed and maintained manually with end-of-year, hand written worksheets provided to the CPA firm. This manual process may have easily led to the variances. In addition, it appears there may have been inconsistent treatment of accruals and subsequent receipts across school years for reporting as a result of the manual processes.

New processes have now been put in place to properly record all transactions in the consolidated financial software package. All receipts are being posted to the correct PDE revenue code and revenues expected to be received after the end of the fiscal year are being properly recognized and reconciled through accounts receivable entries.

By using the capabilities of the CSIU [Center] software, we have significantly improved reporting accuracy with the objective of minimizing variances to the extent possible when considering actual reimbursements received from the state after the end of the fiscal year. As an example, CPI received VoEd reimbursement on May 30, 2013 for the 2011-12 school year making it impossible to reflect reimbursement amount exactly on the AFR required to be filed by October 31, 2012. The new process has been reviewed by our CPAs and they agree the new structure is a dramatic improvement.

Immediately after being employed, [the current business manger] was directed by [Executive Director] to integrate all internal accounting functions into the single financial software program. We are confident the proper steps have been taken to eliminate errors due to hand tabulated accounting. The corrective actions already in place effectively address both of the recommendations in the finding. As an indication of the progress realized with the new procedures, the overall variance in the 2011-2012 year is down significantly. Each of the reimbursement accounts were very close to actual receipts with the overall variance being only \$5,232.83 on total reimbursements reported of nearly \$870,000. This variance is only six-tenths of a percent (.6%), a minimal variance.”

Auditor Conclusion

We are encouraged that the Center's administrators have implemented corrective actions to prevent any further misstatements in the reporting of the Center's revenues. While the errors may currently be minimal, without proper internal controls like the steps that the administration has implemented larger reporting errors could occur without being noticed. We will follow up on the issue during our next cyclical audit of the Center.

Status of Prior Audit Findings and Observations

Our prior audit of the Central Pennsylvania Institute of Science and Technology resulted in no findings or observations.

Distribution List

This report was initially distributed to the Center's Superintendent of Record, the Joint Operating Committee, our website at www.auditorgen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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The Honorable Carolyn Dumaresq
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.