

PERFORMANCE AUDIT

Allegheny Intermediate Unit 3 Allegheny County, Pennsylvania

December 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mrs. Shauna D'Alessandro, Board President
Allegheny Intermediate Unit 3
475 East Waterfront Drive
Homestead, Pennsylvania 15120

Dear Governor Corbett and Mrs. D'Alessandro:

We conducted a performance audit of the Allegheny Intermediate Unit 3 (Intermediate Unit) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period February 24, 2012 through September 30, 2014, 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 Intermediate Unit complied, in all significant respects, with relevant requirements.

We appreciate the Intermediate Unit's cooperation during the conduct of the audit.

Sincerely,

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

Eugene A. DePasquale
Auditor General

December 18, 2014

cc: **ALLEGHENY INTERMEDIATE UNIT 3** Board of School Directors

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Allegheny Intermediate Unit 3 (Intermediate Unit) in Allegheny County. Our audit sought to answer certain questions regarding the Intermediate Unit's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period February 24, 2012 through September 30, 2014, 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.

Intermediate Unit Background

The Intermediate Unit is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the 42 participating school districts, nonpublic schools, and institutions in Allegheny County. A thirteen-member board appointed by the participating school districts on a rotating basis governs the Intermediate Unit. The administrative office is located at 475 East Waterfront Drive, Homestead, Pennsylvania.

The programs offered by the Intermediate Unit served 119,302 students in public schools and 19,536 students in nonpublic schools. The staff consisted of 157 administrators, 522 teachers, and 304 full-time and part-time support personnel.

The accounts of the Intermediate Unit are organized based on programs and account groups, each of which are considered a separate accounting entity. Intermediate Unit 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 Intermediate Unit. It is used to account for all financial resources and accounts for the general governmental activities of the Intermediate Unit.

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.

- nonpublic program subsidy - Act 89.

The Intermediate Unit received \$26.8 million from the Commonwealth in general operating funds in the 2011-12 school year.

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 intermediate unit 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 Intermediate Unit 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.
- multi-handicapped support.

Act 25 of 1991 amended the Public School Code regarding the funding of special education services. Intermediate units received direct funding for certain institutionalized children programs, CORE services, special payments to certain intermediate units, and a contingency fund.

The Intermediate Unit received \$16.4 million from the Commonwealth in special revenue funds in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the Intermediate Unit complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit resulted in no findings or observations.

Status of Prior Audit Findings and Observations. There were no findings or observations 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 February 24, 2012 through September 30, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through June 30, 2014.

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 LEAs 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 Intermediate Unit'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 audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the Intermediate Unit received state subsidies and reimbursements based on pupil membership (e.g., basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the Intermediate Unit, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were votes made by the Intermediate Unit’s Board of School Directors free from apparent conflicts of interest?
- ✓ Did the Intermediate Unit 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 Intermediate Unit’s fiscal viability?
- ✓ Did the Intermediate Unit take appropriate steps to ensure school safety?
- ✓ Did the Intermediate Unit have a properly executed and updated Memorandum of Understanding with local law enforcement?

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 Intermediate Unit’s management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Intermediate Unit 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 Intermediate Unit’s internal controls, including any information technology controls, as they relate to the Intermediate Unit’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 membership, bus driver qualifications, professional employee certification, and state ethics compliance.
- Items such as board meeting minutes and policies and procedures.

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

Findings and Observations

For the audited period, our audit of the Allegheny Intermediate Unit 3 resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Allegheny Intermediate Unit 3 resulted in no findings or observations.

Distribution List

This report was initially distributed to the Executive Director of the Intermediate Unit, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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

The Honorable Carolyn Dumaesq
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1010 Harristown Building #2
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The Honorable Robert M. McCord
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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.