

CENTRAL INTERMEDIATE UNIT #10
CLEARFIELD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2012

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

Mr. Larry Putt, Board President
Central Intermediate Unit #10
345 Link Road
West Decatur, Pennsylvania 16878

Dear Governor Corbett and Mr. Putt:

We conducted a performance audit of the Central Intermediate Unit #10 (CIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 11, 2009 through August 15, 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 CIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Sincerely,

/s/

JACK WAGNER
Auditor General

January 20, 2012

cc: **CENTRAL INTERMEDIATE UNIT #10** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Central Intermediate Unit #10 (CIU). Our audit sought to answer certain questions regarding the IU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CIU in response to our prior audit recommendations.

Our audit scope covered the period August 11, 2009 through August 15, 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 12 participating school districts, nonpublic schools, and institutions in Centre, Clearfield, and Clinton counties. The IU is governed by a 13 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 345 Link Road, West Decatur, Pennsylvania.

The programs offered by the IU served 1,024 students in public schools and 1,688 students in nonpublic schools. The staff consisted of 22 administrators, 70 teachers, and 122 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 CIU received more than \$1.6 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 CIU received more than \$7 million from the Commonwealth in special revenue funds in school year 2009-10.

Audit Conclusion and Results

Our audit found that the CIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the CIU from an audit we conducted of the 2007-08 and 2006-07 school years, we found the intermediate unit had taken appropriate corrective action in implementing our recommendations pertaining to errors in billing for contracted services and a Memorandum of Understanding that was not updated timely (see page 7).

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 August 11, 2009 through August 15, 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 (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

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 CIU'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?
- ✓ Did the IU 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.

CIU 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 pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance.
- Items such as meeting minutes, pupil membership records.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 25, 2010, we reviewed the CIU's response to DE dated November 21, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Central Intermediate Unit #10 resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Central Intermediate Unit #10 (CIU) for the school years 2007-08 and 2006-07 resulted in one reported finding and one observation. The first finding pertained to continued errors in billing costs for contracted services, and the observation pertained to a Memorandum of Understanding that was not updated timely. As part of our current audit, we determined the status of corrective action taken by the CIU to implement our prior recommendations. We analyzed the CIU Board's written response provided to the Department of Education, performed audit procedures, and questioned CIU personnel regarding the prior findings. As shown below, we found that the CIU did implement recommendations related to the continued errors in billing costs for contracted services and the Memorandum of Understanding that was not updated timely.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding Continued Errors in Billing Costs for Contracted Services

Finding Summary: Our prior audit of the 2007-08 and 2006-07 school years found that due to clerical errors in computing the average daily membership (ADM), coupled with the failure to bill one participating district for its share of the cost of a class, participating districts were incorrectly billed for their share of services provided by the CIU.

Recommendations: Our audit finding recommended that the CIU:

1. Review membership data for accuracy and refund or bill the member districts.
2. Modify the program used to compute ADM to accurately report ADM.

Current Status: During our current audit procedures, we found that the CIU implemented the recommendations.

Observation: Memorandum of Understanding Not Updated Timely

Observation Summary: Our prior audit of the CIU's records found the CIU had on file a properly signed Memorandum of Understanding (MOU) with its local law enforcement agency; however, the MOU had not been updated since 1998.

Additionally, the CIU had jointly purchased a building for pre-school classes and was leasing space in another building for an alternative education program. These new buildings needed separate MOUs.

During the course of our prior audit, CIU personnel provided us with an updated MOU for the CIU offices and the building where the alternative education classes were located. However, an MOU still needed to be completed for the pre-school building

Recommendations: Our audit observation recommended that the CIU:

1. Continue to review, update and re-execute the current MOUs between the CIU and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.
3. Execute a MOU with local law enforcement to cover the building where the pre-school classes are held.

Current Status: During our current audit procedures we found that the CIU implemented the recommendations.

Distribution List

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, and the following:

The Honorable Tom Corbett
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Harrisburg, PA 17120

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