



**COLONIAL INTERMEDIATE UNIT 20
NORTHAMPTON COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

DECEMBER 2013

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

Ms. Susan Baxter, Board President
Colonial Intermediate Unit 20
6 Danforth Drive
Easton, Pennsylvania 18045

Dear Governor Corbett and Ms. Baxter:

We conducted a performance audit of the Colonial Intermediate Unit 20 (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 1, 2011 through May 23, 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, 2012 and June 30, 2011. 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, 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 Intermediate Unit's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the Intermediate Unit's operations and facilitate compliance with legal and administrative 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 2, 2013

cc: **COLONIAL INTERMEDIATE UNIT 20** 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 Colonial Intermediate Unit 20 (Intermediate Unit) in Northampton 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 and to determine the status of corrective action taken by the Intermediate Unit in response to our prior audit recommendations.

Our audit scope covered the period February 1, 2011 through May 23, 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 2011-12 and 2010-11 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 thirteen (13) participating school districts, nonpublic schools, and institutions in Northampton, Monroe, and Pike counties. The Intermediate Unit is governed by a thirteen (13) member board appointed by the participating school districts on a rotating basis. The administrative office is located at 6 Danforth Drive, Easton, Pennsylvania.

The programs offered by the Intermediate Unit served 75,448 students in public schools and 5,919 students in nonpublic schools. The staff consisted of 38 administrators, 207 teachers, and 781 full-time and part-time support personnel.

The accounts of the Intermediate Unit are organized on the basis of 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.

Lastly, the Intermediate Unit received \$3.7 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 a pupil who's 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.

Lastly, the Intermediate Unit received \$3.7 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, except one (1) compliance related matter reported as a finding.

Finding: Memoranda of Understanding with Local Law Enforcement Not Updated Timely. Our audit of the Colonial Intermediate Unit 20 (Intermediate Unit) found that the Memoranda of Understanding between the Intermediate Unit and local law

enforcement agencies have not been updated timely (see page 7).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the Colonial Intermediate Unit 20 from an audit released on June 2, 2011, we found that the Intermediate Unit had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers' qualifications (see page 9).

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 1, 2011 through May 23, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through March 27, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2011-12 and 2010-11 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 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 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?
- ✓ In areas where the Intermediate Unit received transportation subsidies, was the Intermediate Unit, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the Intermediate Unit, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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?
- ✓ Were votes made by the Intermediate Unit's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the Intermediate Unit take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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.

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.

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 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 meeting minutes and policies and procedures.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 2, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Memoranda of Understanding with Local Law Enforcement Not Updated Timely

Public School Code and criteria relevant to this observation:

Section 1303-A(c) of the Public School Code (PSC), 24 P.S. § 13-1303-A(c), as amended November 17, 2010, provides, in part:

“ . . . each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the Memorandum of Understanding to the office by June 30, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis. . . . ”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means “an event that occurs every two years.”

Our audit of the Colonial Intermediate Unit 20’s (Intermediate Unit) Memoranda of Understanding (MOU) with local law enforcement agencies found that they were signed in 2010 but had not been updated until 2013. The Public School Code (PSC) requires public schools to update and re-execute MOUs with local law enforcement every two (2) years.

The Intermediate Unit has three (3) different MOUs, one (1) for each of its three (3) building locations. At the time of our audit, the Intermediate Unit was in the process of updating one (1) of its MOUs because a program had changed building locations, but a newly executed MOU was still not available at the end of our fieldwork. The other two (2) MOUs were updated during the first quarter of 2013.

MOU Updates		
MOU	Original Date	Date Updated
MOU 1	December 21, 2010	February 26, 2013
MOU 2	December 22, 2010	March 1, 2013
MOU 3	December 21, 2010	Still In Process in May 2013

The failure to update MOUs with local law enforcement in a timely manner could result in a lack of cooperation, direction, and guidance between Intermediate Unit employees and local law enforcement if an incident occurs on school grounds, at any school-sponsored activity, or on any public conveyance providing transportation to or from a school or school-sponsored activity. Non-compliance with the statutory requirement to biennially update and re-execute a MOU could have an impact on law enforcement notification and response, and ultimately, the resolution of a problem situation.

Recommendations

The *Colonial Intermediate Unit 20* should:

1. In conjunction with the Intermediate Unit's solicitor, review requirements for MOUs and other school safety areas under the PSC to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.
2. Adopt an official board policy requiring Intermediate Unit administration to biennially update and re-execute all MOUs with local law enforcement agencies and file a copy with the Pennsylvania Department of Education's Office of Safe Schools on a biennial basis as required by law.

Management Response

Management stated the following:

“Deadline was missed; program location move beginning July 1, 2013 and desire to have all MOUs on the same schedule for revision/updates.

Three of the four MOUs have been updated, signed and submitted for Board approval for the May 2013 Board Meeting. The fourth, Early Intervention program location which is relocating as of July 1 has been delivered to the appropriate law enforcement agency and will be submitted for Board approval upon its return.”

Auditor Conclusion

The finding noted that only three (3) MOUs were not updated timely. The fourth MOU referred to in the management response is for a transportation building that does not house students. Therefore, no MOU is needed.

Status of Prior Audit Findings and Observations

Our prior audit of the Colonial Intermediate Unit 20 (Intermediate Unit) released on June 2, 2011, resulted in one (1) observation. The observation pertained to internal control weaknesses in administrative policies regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the Intermediate Unit to implement our prior audit recommendations. We performed audit procedures and interviewed Intermediate Unit personnel regarding the prior observation. As shown below, we found that the Intermediate Unit did implement recommendations related to internal control weaknesses in administrative policies regarding bus drivers' qualifications.

Auditor General Performance Audit Released on June 2, 2011

Observation:	Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications
<u>Observation Summary:</u>	Our prior audit found that the Intermediate Unit did not have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses, which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.
<u>Recommendations:</u>	Our audit observation recommended that the Intermediate Unit should: <ol style="list-style-type: none">1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the Intermediate Unit have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children.2. Implement written policies and procedures to ensure the Intermediate Unit are notified when current employees of the Intermediate Unit are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children and to ensure that the Intermediate Unit considers on a case-by-case basis whether any conviction of a current employee should lead to an employment action.
<u>Current Status:</u>	During our current audit, we found that the Intermediate Unit did implement the recommendations by executing a policy which requires all employees to report to the Director of Human Resources, within 72 hours, any arrest or conviction graded at

felony level or any arrest or conviction of driving under the influence or any related offense.

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
Acting Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
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