

LUZERNE INTERMEDIATE UNIT #18  
LUZERNE COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2012



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

Mr. Mark Kornoski, Board President  
Luzerne Intermediate Unit #18  
368 Tioga Avenue  
Kingston, Pennsylvania 18704

Dear Governor Corbett and Mr. Kornoski:

We conducted a performance audit of the Luzerne Intermediate Unit #18 (LIU) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period April 13, 2009 through April 4, 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 LIU complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

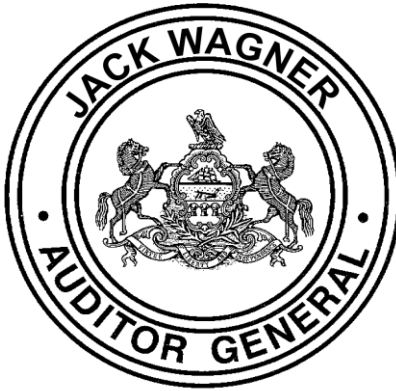
Sincerely,

/s/

JACK WAGNER  
Auditor General

January 31, 2012

cc: **LUZERNE INTERMEDIATE UNIT #18** Board Members



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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Luzerne Intermediate Unit #18 (LIU). Our audit sought to answer certain questions regarding the IU's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the LIU in response to our prior audit recommendations.

Our audit scope covered the period April 13, 2009 through April 4, 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 Luzerne County. 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 368 Tioga Avenue, Kingston, Pennsylvania.

The programs offered by the IU served 45,207 students in public schools and 4,580 students in nonpublic schools. The staff consisted of 29 administrators, 187 teachers, and 198 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 LIU received more than \$3.2 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 LIU received more than \$7.2 million from the Commonwealth in special revenue funds in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the LIU complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two compliance-related matters reported as findings.

**Finding No. 1: Continued Possible Certification Deficiencies.** Our audit of the LIU's professional employees' certificates and assignments for the period February 1, 2009 through April 4, 2011, found an English as a Second Language teacher and a speech pathologist may have been employed without proper certification. Furthermore, a school nurse may have been employed on a lapsed certificate (see page 8).

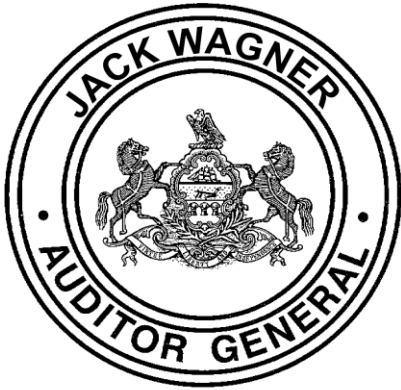
**Finding No. 2: Lack of Memorandum of Understanding.** Our audit of the LIU's records found that the LIU did not have a signed Memorandum of Understanding available for audit for one of the three



municipalities in which students are educated (see page 10).

**Status of Prior Audit Findings and**

**Observations.** With regard to the status of our prior audit recommendations to the LIU from an audit we conducted of the 2007-08 and 2006-07 school years, we found the LIU had not taken appropriate corrective action in implementing our recommendations pertaining to certification (see page 12). We found the LIU had taken appropriate corrective action in implementing our recommendations pertaining to the lack of Memorandums of Understanding (see page 13). We found the LIU had taken appropriate corrective action in implementing two of our eight recommendations pertaining to unmonitored vendor system access and logical access control weaknesses (see page 14). A verbal comment was issued to address the remaining six recommendations.



## Audit Scope, Objectives, and Methodology

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### 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 April 13, 2009 through April 4, 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 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 LIU's compliance with applicable state laws, 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. 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?
- ✓ 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, 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 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.

LIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the IU is in compliance with applicable laws, 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 bus driver qualifications, professional employee certification and financial stability.
- Items such as meeting minutes and reimbursement applications.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 25, 2010, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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*Criteria relevant to the finding:*

Public School Code, Section 1202 provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 mandates that:

. . . has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio. . . .

The Pennsylvania Certification Manual for Educators, revised July 1, 2004, which provides guidance in complying with laws and regulations governing certification and staffing practices in our schools, states, in part:

CSPG No. 68:

. . . Effective with the school year 2004-2005, all individuals providing ESL educational assistance/services must hold the Program Specialist-ESL

### Continued Possible Certification Deficiencies

Our audit of the Luzerne Intermediate Unit #18 (LIU) professional employees' certificates and assignments for the period February 1, 2009 through April 4, 2011, was conducted to determine compliance with the Public School Code, Bureau of School Leadership and Teacher Quality (BSLTQ), and Department of Education's (DE) Certification and Staffing Policies and Guidelines.

Our prior audit found certification deficiencies.

Our current audit found that an English as a Second Language teacher and a speech pathologist were hired during the 2010-11 school year without proper certification for the assignment.

Additionally, we found that the certificate of a school nurse who was appointed during the 2000-01 school year expired in October 2006. The school nurse continues to be employed in the position although her school nurse certificate is lapsed.

Information pertaining to the assignments in question was submitted to BSLTQ for its review. If BSLTQ confirms the deficiencies the LIU will be subject to subsidy forfeitures of \$5,967 for the 2010-11 school year, \$2,248 for the 2009-10 school year and \$1,017 for the 2008-09 school year.

The deficiency resulted from the LIU's failure to adequately monitor non-permanently certified employees certificates.

*Criteria relevant to the finding:*

CSPG No. 80:

... employs an individual in the job title "school nurse," this person must be a certified School Nurse whether employed as a professional or temporary professional.

**Recommendations**

The *Luzerne Intermediate Unit #18* should:

1. Establish procedures to compare a teacher's certification to the certification requirements of the assignments the LIU intends to give the employee.
2. Strengthen controls to help ensure that individuals' certificates are kept current.
3. Develop procedures to determine that applications for permanent certificates have been received by BSLTQ.

The *Department of Education* should:

4. Adjust the LIU's allocations to recover any subsidy forfeiture deemed necessary.

**Management Response**

Management stated the following:

In the two most recent situations the employees believed their undergraduate/graduate work qualified them and did not apply for their certificate. In the case of the school nurse the employee allowed their certification to lapse.

**Finding No. 2**

**Lack of Memorandum of Understanding**

*Criteria relevant to the finding:*

Section 13-1303-A(c) of the Public School Code, 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 Department of Education. The term “biennially” means “an event that occurs every two years.”

Prior to enactment of additional MOU requirements on November 17, 2010, all public schools were required to develop a memorandum of understanding with local law enforcement.

Our audit of the LIU records found that the LIU did not have a signed Memorandum of Understanding (MOU) with one of its three local law enforcement agencies available for audit.

The failure to enter into a MOU with the local/state police law enforcement agencies could result in a lack of cooperation, direction, and guidance between LIU employees and law enforcement agencies if an incident occurs on school property, 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 have a MOU could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Moreover, recently enacted amendments to the safe schools provisions of the Public School Code expand on the requirement to develop a MOU with local law enforcement. Now, beginning with the first filing deadline of June 30, 2011, public schools must biennially update and re-execute these MOUs and file them with the Department of Education’s Office of Safe Schools on a biennial basis. Consequently, future failure to develop a MOU will result in non-compliance with additional MOU requirements enacted November 17, 2010.

**Recommendations**

The *Luzerne Intermediate Unit #18* should:

1. In consultation with the LIU’s solicitor, review new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.



2. Adopt an official board policy requiring the administration to biennially update and re-execute all MOUs with local law enforcement and file a copy with the DE's Office of Safe Schools on a biennial basis.

**Management Response**

Management stated the following:

The LIU was operating on the impression that an MOU for the Plains ALC was not required. Given this finding, the LIU will correct this oversight immediately by obtaining the required MOU.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Luzerne Intermediate Unit #18 (LIU) for the school years 2007-08 and 2006-07 resulted in two reported findings and one observation. The first finding pertained to certification, and the second pertained to the lack of Memorandums of Understanding. The observation pertained to unmonitored vendor system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the LIU to implement our prior recommendations. We performed audit procedures, and questioned LIU personnel regarding the prior findings and observation. As shown below, we found the LIU did not take appropriate corrective action in implementing our recommendations pertaining to certification. We found the LIU did take appropriate corrective action in implementing our recommendations pertaining to the lack of Memorandums of Understanding. We found the LIU did take appropriate corrective action in implementing two of our eight recommendations pertaining to the unmonitored vendor system access and logical access control weaknesses. A verbal comment was issued to address the remaining six recommendations.

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

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#### **Finding No. 1: Possible Certification Deficiencies**

Finding Summary: Our prior audit found that an administrator was appointed to program director at the Alternative Learning Center effective August 31, 2005, with a lapsed provisional principal's certificate. The employee continued to serve in the position on the lapsed certificate and applied for and received permanent certification in March 2009.

Furthermore, our prior audit found that five English as a Second Language (ESL) teachers were hired without proper certification for their assignments. We then found that three of those ESL teachers continued in their assignments without proper certification until two teachers received their ESL certificates in June 2007 and the remaining one in May 2008.

Additionally, our audit found that an administrator was appointed as a supervisor of special education effective November 16, 2005, on an emergency certificate. This certificate expired June 30, 2006, and the administrator continued in the position on the lapsed certificate until February 1, 2007, when a new emergency certificate was issued. The administrator was not employed by the LIU following September 2007.

Recommendations: Our audit finding recommended that the LIU:

1. Establish procedures to compare a teacher's certification to the certification requirements of the assignments the LIU intends to give the employee.
2. Strengthen controls to help ensure that individuals' certificates are kept current.
3. Develop procedures to determine that applications for permanent certificates have been received by the Bureau of School Leadership and Teacher Quality.
4. The Department of Education should adjust the LIU's allocations to recover the subsidy forfeitures of \$9,688.

Current Status: During our current audit procedures, we found that the LIU did not implement the recommendations as noted in the finding in our current report (see Finding No. 1, page 8).

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**Finding No. 2: Lack of Memorandums of Understanding**

Finding Summary: Our prior audit of the LIU's records found that the LIU did not have signed Memorandums of Understanding (MOU) with their local police departments that has jurisdiction over the school buildings within the LIU.

Recommendations: Our audit finding recommended that the LIU:

1. Develop and implement MOUs between the LIU and appropriate local law enforcement agencies and/or the Pennsylvania State Police.
2. Implement board policy to ensure MOUs are updated every two years.

Current Status: During our current audit procedures, we found that the LIU did implement the recommendations by obtaining the required MOUs. However, as noted in Finding No. 2 of this report, the LIU did not obtain a MOU for one additional municipality in which students are educated.

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**Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses**

Observation

Summary:

The LIU uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, LIU's entire computer system, including all its data and the above software are maintained on the vendor's servers which are physically located at the vendor. LIU has remote access into the vendor's network servers, with the vendor providing system maintenance and support.

Recommendations: Our audit observation recommended that the LIU:

1. Generate monitoring reports of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). LIU should review these reports to determine that the access was appropriate and that data was not improperly altered. LIU should also ensure it is maintaining evidence to support this monitoring and review.
2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access LIU's system. Further, LIU should obtain a list of vendor employees with access to its data and ensure that changes to the data are made only by authorized vendor representatives. LIU should remove the vendor's access after their work inside the system is completed. LIU should also require users that had previously given the vendor their userID and password to change their passwords.
3. Ensure that the contract with the vendor should contain a non-disclosure agreement for LIU's proprietary information.
4. Ensure that their data is backed-up in a secure, offsite location on a regular basis.
5. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
6. Establish policies and procedures to ensure upgrades and/or updates to LIU's system are made only after receipt of written authorization from appropriate LIU officials and these changes should be tested to analyze their impact in relation to other business-critical functions.

7. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or LIU should require the vendor to sign LIU's Acceptable Use Policy.
8. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days).

Current Status:

During our current audit procedures, we found that the LIU did take appropriate corrective action in implementing two of our eight recommendations. The LIU did implement our recommendations pertaining to generating and reviewing monitoring reports and off-site back-up. The LIU did not implement the remaining six recommendations. We again encourage the LIU to implement all of our recommendations and will review any additional corrective action during our next audit.



## **Distribution List**

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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](http://www.auditorgen.state.pa.us), and the following:

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

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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](http://www.auditorgen.state.pa.us).

