



**LAWRENCE COUNTY CAREER AND
TECHNICAL CENTER**

LAWRENCE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

APRIL 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mrs. Debra Allebach
Joint Operating Committee Chairperson
Lawrence County Career and Technical Center
750 Phelps Way
New Castle, Pennsylvania 16101

Dear Governor Corbett and Mrs. Allebach:

We conducted a performance audit of the Lawrence County Career and Technical Center (Center) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period August 3, 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, 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.

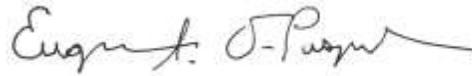
Our audit found that the Center complied, in all significant respects, with relevant requirements. However, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

During our audit fieldwork, we became aware of concerns surrounding the Center's business office through irregularities reported in the financial audits conducted by the Center's independent auditors for the 2010-11 and 2011-12 school years. After the completion of our audit fieldwork, the Center commissioned a forensic audit to review for unusual or unauthorized transactions in its business office. The irregularities identified by the independent auditors included a deficit operating balance in the Center's adult practical nursing program and serious internal control weaknesses over its payroll process. As a result of the forensic audit, the Pennsylvania State Police charged the Center's former assistant business manager on March 7, 2014, with stealing \$92,412.92. The specific charges were theft by unlawful taking, theft by deception, and receiving stolen property.

During our next audit of the Center, we will follow-up on the Center's corrective action efforts regarding both the practical nursing program, which was ended effective February 18, 2014, and the issues identified by the independent auditors. We will also review the conclusions of the forensic accounting review and determine if the Center has taken appropriate corrective actions to address any recommendations made in that report.

Our audit observation 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. We appreciate the Center's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

April 3, 2014

cc: **LAWRENCE COUNTY CAREER AND TECHNICAL CENTER**
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 Lawrence County Career and Technical Center (Center) in Lawrence 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 August 3, 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 2010-11 and 2011-12 school years.

Center Background

According to Center officials, the Center provided educational services to 398 secondary pupils and 75 post-secondary pupils through the employment of 35 teachers, eighteen (18) full-time and part-time support personnel, and two (2) administrators during the 2011-12 school year. A joint operating committee (JOC), which is comprised of twelve (12) members from the following school districts, directs the operation, administration, and management of the school:

Ellwood City Area
Laurel
Mohawk Area
Neshannock Township
New Castle Area
Shenango Area
Union Area
Wilmington Area

The JOC members are appointed by the individual school boards at the December meeting, each to serve a one (1) year term. The Center received \$781,315 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. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

Observation: The Lawrence County Career and Technical Center Lacks Sufficient Internal Controls Over Its Student Record Data. Our review of the Lawrence County Career and Technical Center's 2011-12 school year controls over data integrity found the need for internal controls to be improved to ensure that possible errors in the processing of data into the student information system would be detected (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 August 3, 2011 through May 23, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2011 through April 4, 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?
- ✓ In areas where the Center receives 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 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 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, 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

Observation

The Lawrence County Career and Technical Center Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate these risks to erroneous reporting. Without such controls, LEAs cannot be assured they receive the proper state subsidy.

Our review of the Lawrence County Career and Technical Center's (Center) 2011-12 school year controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

1. The Center does not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.
2. The Center's enrollment procedures lack provisions for identification if the students are resident or non-resident status at the home districts.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states than "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity an achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government* (November 1999), pg. 1.

Recommendations

The *Lawrence County Career and Technical Center* should:

1. Prepare documented procedures (e.g. procedure manuals, policies, written instructions, etc.) to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors are maintained.
2. Revise enrollment procedures to ensure documentation is obtained and retained to support the reporting of each student as a resident or non-resident pupil, including the non-resident classification, as reported for the student's LEA, which is responsible to provide the student's education.

Management Response

Management agreed with the observation and provided no further comment.

Auditor Conclusion

We are encouraged that the Center agrees with our observation. We will follow up on our recommendations during our next cyclical audit of the Center.

Status of Prior Audit Findings and Observation

Our prior audit of the Lawrence County Career and Technical Center 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
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

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

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Lori Graham
Acting Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter
Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

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.