



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

APRIL 2014

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

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 (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 August 15, 2011 through May 3, 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 Intermediate Unit 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.

Our audit observation 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 and their willingness to implement our recommendations.

Sincerely,

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

April 3, 2014

cc: **CENTRAL INTERMEDIATE UNIT 10** 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 Central Intermediate Unit 10 (Intermediate Unit) in Clearfield 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 August 15, 2011 through May 3, 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.

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 twelve (12) participating school districts, nonpublic schools, and institutions in Center, Clearfield and Clinton counties. The Intermediate Unit is governed by a twelve (12) 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 Intermediate Unit served 800 students in public schools and 1,998 students in nonpublic schools during the 2011-12 school year. The staff consisted of nineteen (19) administrators,

71 teachers, and 67 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.

The Intermediate Unit received \$1,250,262 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 \$7,420,488 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. However, we identified one (1) matter unrelated to compliance that is reported as an observation.

Observation: Internal Controls Over Student Record Data are Lacking. Our review of the Central Intermediate Unit 10's controls over data integrity found that internal controls need to be improved (see page 6).

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 15, 2011 through May 3, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through April 22, 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 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?
- ✓ Does 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?

- ✓ 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?
- ✓ Is the Intermediate Unit taking appropriate steps to ensure school safety?
- ✓ Did the Intermediate Unit have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ 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 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 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 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

Observation

Internal Controls Over Student Record Data are Lacking

Criteria relevant to the observation:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) 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 call 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.

Our review of the Central Intermediate Unit 10's (Intermediate Unit) controls over data integrity found that internal controls need to be improved.

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 the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review of the Intermediate Unit's controls over data integrity found that, for the 2010-11 school year, the Intermediate Unit staff reported child accounting data incorrectly for over ten (10) percent, or 25 of the 238 students, for which data was reported. The errors are broken out as follows:

- ✓ The Residence Status Code was incorrect for nineteen (19) students.
- ✓ The Residence Status Code, Funding District Code, and the District Code of Residence were incorrect for one (1) student.
- ✓ The Funding District Code was incorrect for three (3) students.

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 (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 that an "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 and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government* (November 1999) pg 1.

- ✓ The Funding District Code and District Code of Residence were incorrect for one (1) student.

However, we noted that improvements were made in the 2011-12 school year with only one (1) student having an incorrect Residency Status Code.

The errors were a result of Intermediate Unit staff being unfamiliar with the PIMS residency coding guidelines. The errors had no significant impact on state subsidy for the Intermediate Unit's affected member districts.

Additionally, the Intermediate Unit 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.

It is the responsibility of Intermediate Unit management to have in place proper internal policies and procedures to ensure that student data is accurately collected and timely reported. Without these internal controls, the Intermediate Unit is not assured that it is reporting its data correctly to PDE or that it is receiving the proper subsidy reimbursement.

Recommendations

The *Central Intermediate Unit 10* should:

1. Ensure that employees responsible for data entry into the membership system are familiar with PIMS coding guidelines.
2. Document membership reporting procedures to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Management Response

Management stated the following:

“The Central Intermediate Unit is developing procedures for continuity over PIMS data. These procedures include: The addition of personnel who are:

- Able to access and enter PIMS data, run error checks and prepare data for PIMS uploads.
- Familiar with resources that are available, both locally and through PDE and the PIMS Helpdesk.
- Adequately trained.
- Written guidelines/procedures for personnel responsible for PIMS data submission.
- Special Education and Child Accounting staff who are trained so that even a change in vendor would result in a smooth transition and accurate data submission to PIMS.”

Auditor Conclusion

We are encouraged that the Intermediate Unit is taking steps to address the deficiencies in internal controls over the student data reporting process. We will follow up on the issue during our next cyclical audit of the Intermediate Unit.

Status of Prior Audit Findings and Observations

Our prior audit of the Central Intermediate Unit 10 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
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