

ALLEGHENY INTERMEDIATE UNIT #3  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

DECEMBER 2012





**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER  
AUDITOR GENERAL**

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

Mr. James Giel, Jr., Board President  
Allegheny Intermediate Unit #3  
475 East Waterfront Drive  
Homestead, Pennsylvania 15120

Dear Governor Corbett and Mr. Giel:

We conducted a performance audit of the Allegheny Intermediate Unit #3 (AIU) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period November 13, 2009 through February 24, 2012, 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 AIU complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

**JACK WAGNER**  
Auditor General

December 20, 2012

cc: **ALLEGHENY INTERMEDIATE UNIT #3** 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 Allegheny Intermediate Unit #3 (AIU). Our audit sought to answer certain questions regarding the AIU's compliance with applicable state laws, contracts, grant requirements, and administrative procedures, and to determine the status of corrective action taken by the AIU in response to our prior audit recommendations.

Our audit scope covered the period November 13, 2009 through February 24, 2012, 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 42 participating school districts, nonpublic schools, and institutions in Allegheny 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 475 East Waterfront Drive, Homestead, Pennsylvania.

The programs offered by the IU served 122,167 students in public schools and 17,015 students in nonpublic schools. The staff consisted of 190 administrators, 569 teachers, and 352 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 AIU received more than \$26.3 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 pupil who's 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 AIU received more than \$4.4 million from the Commonwealth in special revenue funds in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the AIU complied, in all significant respects, with applicable state laws, 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 AIU from an audit we conducted of the 2007-08 and 2006-07 school years, we found the AIU had taken appropriate corrective action in implementing our recommendations pertaining to certification deficiencies (see page 7).

## 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 November 13, 2009 through February 24, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2009 through June 30, 2010.

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 Pennsylvania 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 AIU'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 pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the IU, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the IU's fiscal viability?
- ✓ Did the IU pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does 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?
- ✓ Is the IU taking appropriate steps to ensure school safety?
- ✓ Did the IU have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the IU's Board members free from apparent conflicts of interest?
- ✓ Did the IU take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

*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.

AIU 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

*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.

designed and implemented. Additionally, we gained a high-level understanding of the IU's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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, pupil membership records, and reimbursement applications.

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

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

## **Findings and Observations**

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**F**or the audited period, our audit of the Allegheny Intermediate Unit #3 resulted in no findings or observations.

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

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Our prior audit of the Allegheny Intermediate Unit #3 (AIU) for the school years 2007-08 and 2006-07 resulted in one reported finding. The finding pertained to certification deficiencies. As part of our current audit, we determined the status of corrective action taken by the AIU to implement our prior recommendations. We performed audit procedures and questioned AIU personnel regarding the prior finding. As shown below, we found that the AIU did implement recommendations related to certification deficiencies.

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

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**Finding:**                      **Certification Deficiencies**

Finding Summary:      Our prior audit of professional employee's certifications found two individuals with lapsed provisional certifications. The AIU was subject to subsidy forfeitures as a result of the deficiencies.

Recommendations:      Our audit finding recommended that the AIU:

Put procedures in place to ensure all professionals hold valid certifications throughout their tenure with the AIU.

We also recommend that the Pennsylvania Department of Education (PDE):

Adjust the AIU's allocations to recover the appropriate subsidy forfeitures.

Current Status:              During our current audit procedures we found that the AIU did implement our recommendations. The two individuals cited in our prior audit subsequently obtained permanent certification.

PDE adjusted the AIU's June 2011 special education subsidy payment to assess subsidy forfeitures of \$8,213.



## **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

The Honorable Ronald J Tomalis  
Secretary of Education  
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The Honorable Robert M. McCord  
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