



**MIDWESTERN INTERMEDIATE UNIT 4  
MERCER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**MARCH 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

Mr. Cedric Butchy, Board President  
Midwestern Intermediate Unit 4  
435 Maple Street  
Grove City, Pennsylvania 16127

Dear Governor Corbett and Mr. Butchy:

We conducted a performance audit of the Midwestern Intermediate Unit 4 (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 March 25, 2011 through February 22, 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 significant noncompliance with relevant requirements, as detailed in the six (6) findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

In March 2013, after the auditors completed their fieldwork, the Intermediate Unit began an internal investigation into whether its Executive Director had made personal purchases with her employee credit card. As a result of this internal investigation, the Executive Director resigned, and the Intermediate Unit turned over information related to its findings to the proper criminal authorities. The credit card expenditures were not within the scope of our audit. Nevertheless, we conducted a thorough review of our audit working papers to ensure that the results of this investigation, and the subsequent resignation of the Executive Director, did not impact our conclusions. We determined that our conclusions were sound based on the evidence presented in our working papers.

Our audit findings 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 black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

March 7, 2014

cc: **MIDWESTERN INTERMEDIATE UNIT 4** Board of School Directors

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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 Midwestern Intermediate Unit 4 (Intermediate Unit) in Mercer 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 March 25, 2011 through February 22, 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 Midwestern Intermediate Unit 4 is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the 27 participating school districts, 26 non-public schools, and five (5) serviced institutions in Butler, Lawrence, and Mercer counties. The Intermediate Unit is governed by a thirteen (13) member board elected by the participating school districts' boards of directors at an annual convention. The administrative office is located at 453 Maple Street, Grove City, Pennsylvania.

The programs offered by the Intermediate Unit served 7,984 students in public schools and 3,893 students in non-public schools. During the 2011-12 school year, the Intermediate Unit's staff consisted of 63 administrators, 195 teachers, and

160 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 as follows:

### 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.
- non-public program subsidy-Act 89.

The Intermediate Unit received \$5.1 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 offer 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 \$7.2 million from the Commonwealth in special revenue funds in the 2011-12 school year.

**Audit Conclusion and Results**

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the six (6) compliance related matters reported as findings.

**Finding No. 1: Improperly Comingled State and Federal Funds Resulted in Reimbursement Overpayments of \$18,633.**

Our audit of the Midwestern Intermediate Unit’s (Intermediate Unit) Act 89 Program for the 2010-11 and 2011-12 school years found internal control weaknesses that resulted in federal money for staff providing special education services to non-public students being comingled with Act 89 Commonwealth funding. This error caused the Intermediate Unit to submit inaccurate reports to the Pennsylvania Department of Education, and therefore,

receive excess reimbursement in the amount of \$18,633 (see page 7).

**Finding No. 2: Failure to Provide Adequate Financial Information to the Intermediate Unit Board.** Our audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) found that the administration failed to provide the Intermediate Unit's Board of School Directors (Board) with a monthly treasurer's report, as required by the Pennsylvania School Code. In addition, the Intermediate Unit's Board failed to publicly vote on line-item budgetary adjustments and amendments. As a result, the Board's approval for these changes were not documented in the board meeting minutes (see page 9).

**Finding No. 3: Contracting Policy Violated the Public School Code and Contributed to Lax Contractor Oversight.** Our audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) found that the only contracts actually approved by the Intermediate Unit's Board of School Directors (Board) were contracts for pupil transportation. All other contracts and agreements were processed through a Board resolution, which is in violation of the Pennsylvania Public School Code (see page 12).

**Finding No. 4: Failure to Obtain Required Non-Resident Student Information for Membership Reporting and Incorrect Reporting of Special Education Time.** Our audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) found that the Intermediate Unit incorrectly reported its non-resident membership data for of the 26 non-resident students who are either under guardianship, foster children, or institutionalized. In addition, our audit also

revealed that the Intermediate Unit incorrectly reported the percentage of time students spent in special education instruction versus the time they spent in mainstream classes (see page 16).

**Finding No. 5: Intermediate Unit Failed to Effectively Manage Its Transportation Program.** Our audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) revealed that the Intermediate Unit did not effectively manage its transportation program, including its associated contractors (see page 20).

**Finding No. 6: Failure to Have All School Bus Drivers' Qualifications on File.** Our audit of the Midwestern Intermediate Unit 4's (Intermediate Unit) bus drivers' qualifications current to November 14, 2012, revealed that the Intermediate Unit did not have all required criminal background clearances on file and did not fully comply with Act 24's Arrest/Conviction Report and Certification Form requirements (see page 24).

**Status of Prior Audit Findings and Observations.** There were no findings and observations included in our prior audit report.

## Audit Scope, Objectives, and Methodology

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### 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 March 25, 2011 through February 22, 2013, except for the verification of professional employee certification, which was performed for the period January 31, 2011 to November 9, 2012.

Regarding state subsidies and reimbursements, our audit covered school years 2010-11 and 2011-12.

While all Intermediate Units have the same school years, some Intermediate Units 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 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?
- ✓ Did the Intermediate Unit have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Department of Education through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?



- ✓ In areas where the Intermediate Unit received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ 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?
- ✓ 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?

## 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 membership, pupil transportation, 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, reimbursement applications, and financial stability.
- 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

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### Finding No. 1

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### Improperly Comingled State and Federal Funds Resulted in Reimbursement Overpayments of \$18,633

*Criteria relevant to the finding:*

**Chapter 24, Section 8329 (a) of the Public School Code states that “Payments by Commonwealth.--** Where the Secretary of Education enters into an agreement with the Commonwealth to place under the Federal Social Security Act members who have elected coverage, the Commonwealth shall pay to the employers one-half of the contributions payable under the employer's tax established by the Social Security Act (Public Law 74-271, 42 U.S.C. § 301 et seq.) on all covered wages which are not federally funded.”

Instructions for completing the PDE-2105 Reconciliation of Social Security and Medicare Tax Contributions states that wages reported in the “Total Taxable Social Security and Medicare Wages” columns must include wages of federally funded employees. Federally funded wages are then reported in a separate column, to be subtracted from the total to determine wages subject to state reimbursement.

Our audit found that in the 2010-11 and 2011-12 school years the Midwestern Intermediate Unit (Intermediate Unit) received an \$18,633 overpayment in the state subsidy for Social Security, Medicare, and retirement costs because it improperly co-mingled state and federal funding for non-public special education services.

Pennsylvania’s intermediate units provide special education services to non-public students using both state and federal funding, much of which goes towards the payment of teacher salaries. Under the Public School Code (PSC), intermediate units are eligible to receive a state subsidy to assist in paying their employees’ Social Security and Medicare taxes and their retirement costs. However, the PSC does not allow for this reimbursement if the wages were paid with federal funds.

Our audit found that the Intermediate Unit’s budgetary process placed the costs attributed to the non-public school students into one (1) program budget and did not differentiate between those paid with state monies and those paid with federal monies. As a result, the Intermediate Unit inappropriately included \$18,633 of taxes and retirement costs for federally paid non-public school special education teachers in its state Social Security/Medicare and retirement subsidy request. Because wages paid with federal funds are not eligible for this reimbursement, the Intermediate Unit received an overpayment from the Pennsylvania Department of Education (PDE) in the 2010-11 and 2011-12 school years.

### Recommendations

The *Midwestern Intermediate Unit 4* should:

1. Revise its budgetary process to ensure costs/expenses attributed to non-public school students are not combined into a single account.

*Criteria relevant to the finding (continued):*

22 Pa Code 112.1 defines auxiliary services to include guidance, counseling and testing services, psychological services; . . . services for exceptional children; remedial services; speech and hearing services; services for the improvement of the educationally disadvantaged...and are presently or hereafter provided for public school children . . .”

22 Pa Code 112.24 states that each Intermediate Unit shall establish a program for non-public school students consisting of those auxiliary services, which are provided to public school students. . . .

22 Pa Code 112.26 states that auxiliary services may be provided only in public school buildings, facilities leased by the Intermediate Unit in accordance with Act, non-public nonsectarian schools, mobile units leased by and under the control of the Intermediate Unit . . . other appropriate areas, excluding churches, synagogues, or areas under the control thereof or facilities under the control of a sectarian school.

2. Contact PDE or its local independent auditor to obtain training for its staff regarding appropriate budgeting processes, and establish internal controls to ensure that all program budgets are in compliance with applicable state and federal requirements.
3. Comply with PDE instructions when reporting wages paid by federal funds.
4. Perform an internal review of reports submitted after the 2010-11 and 2011-12 school years to see if additional errors were made.

The *Pennsylvania Department of Education* should:

5. Withhold the over-reimbursement of \$18,633 from the Midwestern Intermediate Unit 4.

### **Management Response**

Management stated the following:

The overpayment was a result of a misunderstanding of the receipt of Title I and IDEA funding of the Act 89 program. It was believed that the dollars generated from the non-public schools based on the students served were meant to reimburse the Act 89 program for dollars spent to provide auxiliary services to identified Title 1 and IDEA students. The Title 1 and IDEA reimbursement were treated as revenues to fund the overall Act 89 budget. The reimbursement was not believed to be based on Title I or IDEA expenditures but on an allocation for students serviced. As a consequence, the State was billed for Social Security and Medicare wages on federal wages.

In 2012-13, Intermediate Unit will adopt separate budgets to cover Act 89 Title I deliver expenditures and IDEA delivery expenditures. The budgets will be in addition to the Act 89 budget that will govern expenditures funded by the State.”

### **Auditor Conclusion**

We are encouraged that the Intermediate Unit has taken steps to address the deficiencies outlined in this finding. We will determine the effectiveness of these latest changes during our next cyclical audit.

## Finding No. 2

### Failure to Provide Adequate Financial Information to the Intermediate Unit Board

#### *Criteria relevant to the finding:*

*Public School Code (PSC) and Sunshine Act (Act 84 of 1986).*

Section 433 of the PSC provides:

The secretary of the boards of school directors shall perform the following duties:

- (1) He shall keep a correct and proper record of all the proceedings of the board, and shall prepare such reports and keep such accounts as are required by the provisions of this act . . .
- (2) He shall attest, in writing, the execution of all deeds, contracts, reports and other instruments that are to be executed by the board; . . .

24 P.S. 4-440 states: “the treasurer of each school district shall deposit the funds belonging to the school district . . . and shall at the end of each month make a report . . . to the secretary of the board of school directors . . .”

24 P.S. 6-631 states: “each bank or trust company designated as a depository for school funds . . . at the end of every month, make a report to . . . to the board of school directors...stating the amount of school funds deposited with it during the month . . . the balance on hand at the beginning of the month . . . funds disbursed during the month, any accrued interest paid, or due, and the balance remaining . . .”

Our audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) found that the administration failed to provide the Intermediate Unit’s Board of School Directors (Board) with a monthly treasurer’s report, as required by the Pennsylvania School Code (PSC). In addition, the Intermediate Unit’s Board failed to publicly vote on line-item budgetary adjustments and amendments. As a result, the Board’s approval for these changes was not documented in the board meeting minutes.

#### No Board Treasurer’s Report

The treasurer’s report ensures that Intermediate Unit board members receive a statement that reflects the financial condition of the institution on a monthly basis and includes available cash for operations and expenses. Our audit revealed that while the Board did receive limited investment information, it did not receive the PSC prescribed information. Without the presentation of appropriate financial information, the Board cannot properly analyze and render appropriate decisions on the Intermediate Unit’s current and future operations. The lack of presentation of an appropriate treasurer’s report was attributed to the Intermediate Unit’s misunderstanding of what constituted a proper treasurer’s report and their reliance on prior practice as being sufficient to meet the required PSC requirements.

#### No Approval of Line-Item Budgetary Adjustments

Our audit also found that the Intermediate Unit’s Board failed to publicly vote on budgetary line-item adjustments and amendments when the Intermediate Unit exceeded its approved budgetary amounts. Thus, although the Intermediate Unit’s independent auditors stated in their annual report that “Budgetary transfers among various expenditure line-items are performed as needed by the Intermediate Unit and approved by the Board in compliance with the Public School Code,” such approvals were not documented in the Intermediate Unit’s board meeting minutes. Without documentation of the Board’s approvals of these budgetary line-item adjustments and

*Criteria relevant to the finding (continued):*

24 P.S. 6-609 states: “no work shall be hired to be done, no materials purchased, and contracts made by any board . . . which will cause the sums appropriated to specific purposes in the budget to be exceeded.”

amendments, the Intermediate Unit was in reality expending funds that were designated for other purposes, which is a violation of the PSC.

According to Intermediate Unit personnel, the Board did not publically vote on these budgetary adjustments and amendments because they believed that as long as the total budget amount was not exceeded, overspending individual line items was acceptable. The Intermediate Unit also inappropriately relied on the practice of approving a generic board resolution at the June board meeting allowing the independent auditors to make any and all necessary budgetary corrections. However, as discussed above, the approval of each line-item budget adjustment or amendment requires a properly documented public vote. In addition, Intermediate Unit staff acknowledged that the limited involvement of its solicitor in board meeting proceedings and recordkeeping requirements may have contributed to its failure to comply with the PSC.

### **Recommendations**

The *Midwestern Intermediate Unit 4* should:

1. Review the applicable sections of the PSC to develop an appropriate treasurer’s report for Board presentation and approval.
2. Implement the necessary procedures to ensure that budgetary adjustments and/or amendments are timely presented and approved by the Board, and that this approval is documented in the board meeting minutes.

### **Management Response**

Management stated the following:

“1. Financial Report to the Board

Commencing with the November 30, 2012 financial report provided to the M[idwestern] Intermediate Unit #4’s board of directors at its January 23, 2013 meeting, the report was modified to meet the informational requirements provided in PA Public School Code Section 624 to include monthly beginning balance, deposits, disbursements and ending balance by depository.

## 2. Budget Transfers

Midwestern Intermediate Unit IV complies with board policy and PA Public School Code Sections 609 and 687(d) in the transfer of unencumbered funds from one class of expenditure to another in the General Fund (Major Governmental Fund). Expenditures against line items that exceed the General Fund budget will not be permitted until after the budget transfer has received Board of Director authorization.”

### **Auditor Conclusion**

We are encouraged that the Intermediate Unit has taken steps to improve the financial information it provides to the Board. We will evaluate the effectiveness of these changes during our next cyclical audit.

### Finding No. 3

### Contracting Policy Violated the Public School Code and Contributed to Lax Contractor Oversight

*Criteria relevant to the finding:*

Section 427 of the Public School Code (PSC), 24 P.S. § 4-427, states, in part:

Duties of the President

“ . . . He shall in no case, except as this section otherwise provides, sign any order for any sum unless the same has first been acted upon and approved by the board, . . . Any orders which shall be for the payment of amounts owing under any contracts which shall previously have been approved by the board . . . ”

Section 508 of the PSC, 24 P.S. § 5-508, provides:

“The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following:

. . . Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100) . . . ”

Our audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) found that the only contracts actually approved by the Intermediate Unit’s Board of School Director’s (Board) were contracts for pupil transportation. All other contracts and agreements were processed through a Board resolution, which authorized the Executive Director (Director) to execute contracts on the Intermediate Unit’s behalf, without Board review or approval. This process violated the Pennsylvania Public School Code (PSC), which requires the Board to vote when entering into contracts of any kind and mandates that the results of the vote are documented in the board meeting minutes. In addition, the resolution created an internal control weakness because it permitted the Director to have total authority over the Intermediate Unit’s contracting process, without any safeguards to ensure that she acted appropriately.

Our audit also found that Intermediate Unit personnel failed to maintain the documentation necessary to demonstrate that the Intermediate Unit executed its contracts or agreements properly. The absence of this information prevented Intermediate Unit personnel from effectively monitoring the contracts or agreements to ensure that the Intermediate Unit was receiving the appropriate goods or services. For example, the auditors requested a list of all Intermediate Unit contracts for \$10,000 or more that were applicable during the 2012-13 school year. The auditors then reviewed ten (10) of the thirty-two (32) contracts or agreements on the list provided by Intermediate Unit personnel. This examination revealed several issues, including:

- **Missing or Inappropriate Signatures:** Three (3) of the ten (10) contracts/agreements the auditors reviewed were missing the signatures of either the Director or a vendor representative. In addition, in one (1) instance, the Intermediate Unit’s program director had signed the contracts/agreements instead of the Director.



*Criteria relevant to the finding (continued):*

Board Policy No. 616:

“it shall be the responsibility of the Executive Director or designee upon receipt of an invoice to verify that the purchase invoice is in order, goods were received in acceptable condition or services were satisfactorily rendered, funds are available to cover the payment, the Board has budgeted for the item, and invoice is for the amount contracted. Should the invoice vary from the acknowledged purchase order, the originator of the purchase order shall document on the purchase order the reason for such variance.”

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 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.

- **Lack of Quotes or Bids:** No quotes or bids were provided for two (2) of the ten (10) vendors and one (1) vendor’s Request for Proposal could not be provided.
- **Failure to Confirm Billings:** The business office did not keep a copy of the Director authorized contracts or agreements on file, so payments were made to vendors without verification that the amounts billed conformed to the terms of the contracts or agreement.

Contracts are not considered final until they receive the appropriate signatures. Therefore, the Intermediate Unit personnel should have maintained current and final versions of all contracts and agreements to ensure that their terms did not change between the draft and final versions and to verify that the contract or agreement was still applicable. In addition, the Intermediate Unit should have kept bids or quotes on file to demonstrate that all contracts were entered into properly and to demonstrate compliance with bidding requirements.

To test the completeness of the Intermediate Unit’s contractor list, the auditors also requested an inventory of all Intermediate Unit vendors. Of the total vendors provided, 118 had done \$10,000 or more in business with the Intermediate Unit in the 2012-13 school year. The auditors reviewed information associated with 30 of the 118, which they selected at random. This review revealed the following deficiencies:

- **Missing Documentation and Signatures:** Nine (9) of these thirty (30) vendors had contracts or agreements, but these contracts or agreements were not on file at the Intermediate Unit and were not included on the original list of thirty-two (32) contracts that the Intermediate Unit provided. When Intermediate Unit personnel finally did obtain copies of these nine (9) contracts or agreements, five (5) of them had not been signed by the Director.
- **Lack of Contracts:** Six (6) of the thirty (30) vendors had no contracts or agreements, even though the Intermediate Unit had done \$10,000 or more in business with them. In addition, one (1) vendor had no documentation on file in the business office, but Intermediate Unit personnel were able to find a signed

copy of a 2005 agreement and an unsigned copy of a 2011 agreement, which revised the original agreement.

At the time of our fieldwork, the Intermediate Unit's Business Manager could not provide a clear explanation for why the 118 vendors had not been included on the Intermediate Unit's original contract and agreement list. He only stated that the Intermediate Unit functioned as a "middle-man" for those transactions, and he did not think having copies of the contracts or agreements at the Intermediate Unit was necessary. However, by not having current copies of these contracts or agreements on file, the Intermediate Unit's business office personnel could not compare them to the vendor bills to ensure that the payments they were making were appropriate. Likewise, good business practice dictates that if the Intermediate Unit was responsible for paying \$10,000 or more to a single vendor, it should have some sort of written contract or agreement with that entity.

By delegating the contract execution and approval function to the Director, the Intermediate Unit's Board not only violated the PSC, but also abdicated a portion of its fiduciary responsibility. Furthermore, without the requirement that the Board approve all Intermediate Unit contracts, there was no check on the Director's authority. As a result, she could have easily entered into inappropriate contracts or agreements without the Board's knowledge. The absence of such a safeguard may also have contributed to the Intermediate Unit's lax internal control environment as evidenced by its failure to properly monitor and execute its contracts and agreements. The poor condition of the Intermediate Unit's contract records and vendor information was also due in part to the fact that the Board did not establish specific policies to govern the monitoring and execution of these agreements. Likewise, the Intermediate Unit's administration should have instituted procedures to ensure that the policies were properly implemented.

### **Recommendations**

The *Midwestern Intermediate Unit 4* should:

1. Require the Director to present, for Board review and approval, all Intermediate Unit contracts, thus ensuring

that the Intermediate Unit is in compliance with Pennsylvania School Code, and that the Board is properly overseeing the Intermediate Unit's contracting process.

2. Establish policies governing appropriate contract execution and monitoring and institute procedures to properly carry out those policies. These procedures should include the comparison of all invoices to the terms of the corresponding contract, prior to payment, in order to ensure the Intermediate Unit was billed for the correct amount.
3. Ensure all contracts/agreements are properly executed, including having all the appropriate signatures from the Intermediate Unit and the vendor.
4. Ensure all contracts/agreements are current and on file at the Intermediate Unit.

### **Management Response**

Management stated the following:

“Beginning with the 2013-2014 school year, board approval is sought for all contracts greater than \$100. This brings the intermediate unit into compliance with PA Public School Code Section 508.

Beginning in the 2013-2014 fiscal year, all contracts are maintained in the office of the Executive Director.

During annual training and in-service days, staff will be reminded and re-trained in policies and procedures regarding the proper execution and monitoring of contracts.”

### **Auditor Conclusion**

We are encouraged that the Intermediate Unit has taken steps to improve its contract execution and monitoring. We will evaluate the effectiveness of these changes during our next cyclical audit.

## Finding No. 4

### Failure to Obtain Required Non-Resident Student Information for Membership Reporting and Incorrect Reporting of Special Education Time

*Criteria relevant to the finding:*

22 Pa. Code 11.11 states a school age child is entitled to attend the public schools of the child's district of residence. A child's district of residence is that in which the parents or the guardian resides.

Section 1302 of the Public School Code (PSC) states in part that ". . . Before such child may be accepted as a pupil, such resident shall file with the secretary of the board: (1) appropriate legal documentation to show dependency or guardianship, or (2) a sworn statement that he is a resident of the district, that he is supporting the child gratis, that he will assume all personal obligations relative to school requirements . . . support the child continuously . . . be submitted by the resident to substantiate the sworn statement. . . ."

Section 1305 PSC states in part that: "When a non-resident child is placed in the home of a resident of any school district by order of court or by arrangement with an association, agency, or institution having the care of neglected and dependent children, such resident being compensated for keeping the child. . . shall be entitled to all free school privileges . . ."

Section 1306 PSC states in part that: ". . . there is located any orphan asylum, home for the friendless, children's home, or other institution . . . shall permit any children who are inmates of such homes . . . to attend the public schools."

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 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 audit of the Midwestern Intermediate Unit 4 (Intermediate Unit) found that it incorrectly reported its non-resident membership data for the 26 students who are either under guardianship, foster children, or institutionalized. . . In addition, our audit also revealed that the Intermediate Unit incorrectly reported the percentage of time students spent in special education instruction versus the time they spent in mainstream classes. These errors were caused by the Intermediate Unit staff's lack of familiarity with the Pennsylvania School Code's requirements for reporting nonresident students to PDE. Furthermore, the Intermediate Unit staff did not keep residency and funding district verification information on file to ensure it was being reported accurately.

While the reporting errors we identified in the audit did not impact Intermediate Unit's state subsidy payments, they did affect the reimbursements that the non-resident students' home school districts received. Consequently, those home school districts were either under or over paid by PDE.

*Criteria relevant to the finding, (continued):*

Section 1308 states in part that: “the district in which the institution is located shall obtain a blank acknowledgement or disclaiming residence, signed by the secretary of the school district in which the institution declares the legal residence of the child to be . . .”

Section 2503 of the PSC states in part that each school district . . . which accepts any non-resident child in its school under the provision of . . . Section 1305 or 1306 . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per high school pupil . . .

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.

As a result of our audit, the Intermediate Unit’s staff took the following action to address the errors in its non-resident membership reporting:

- Notified PDE of the deficiencies identified in our audit.
- Began to complete an internal review of all non-resident students for both the 2010-11 and 2011-12 school years.
- Began to work with PDE to correct the identified errors for any required school district subsidy adjustments.

In addition, the Intermediate Unit contacted the home school districts of the non-resident students whose information it had misreported to PDE and requested copies of non-resident back-up documentation. Also, the Intermediate unit staff sent out “Determination of Residency” forms to the non-resident students so that they could verify the students’ district of residence. The staff began to develop internal policies and procedures to ensure the accuracy of future PIMS reports. As of February 7, 2013, the Intermediate Unit stated that approximately seventeen (17) of twenty-five (25) requested residency forms had been received for the 2011-12 school year. .

### **Recommendations**

The *Midwestern Intermediate Unit 4* should:

1. Continue to follow-up with the identified school districts to obtain all required documentation for non-resident students that are under guardianship, foster children, or institutionalized.
2. Work in conjunction with the school districts to ensure that regular and special education time percentages are accurately reported and do not exceed 100 percent.
3. In conjunction with PDE, prepare and upload the identified corrections for proper subsidy adjustment.
4. Continue to develop written procedures to ensure that all required student registration information is timely received and that regular and special education time percentages are correctly computed.

5. Review and implement corrective action for the 2012-13 school year regarding student registration reporting to ensure that PIMS submitted information is accurate.

The *Pennsylvania Department of Education* should:

6. Assist the Intermediate Unit in correcting their non-residency membership errors for appropriate amendments to involve school districts' subsidiaries.

### **Management Response**

Management stated the following:

- “1. Failure to Obtain Required Non-Resident Student Information for Membership Reporting

The Administrative Secretary regularly obtained the non-resident 4605 forms for all 1302, 1305, 1306 students outside of the Intermediate Unit #4's area. As of January 31, 2013, 4605 forms were requested for all applicable students within the Intermediate Unit #4 area. All of the 4605 forms (outside Intermediate Unit #4 and within Intermediate Unit #4) for non-resident students are in collection.

The Director of Special Education has implemented an electronic management system with the Administrative Secretary in charge of forms management. The Director of Special Education will receive a monthly report of all non-resident students and conduct a review of records to ensure that the 4605 forms have been sent for all applicable students and are on record.

2. Incorrect Reporting of Mainstream Time

The Administrative Secretary in charge of forms management and data submission accurately reports the data received from the instructional staff. In order to ensure correct reporting, the Director of Special Education in coordination with the Intermediate Unit #4 PIMS Specialists will utilize the smart student software to monitor and review the student data forms submitted by the instructional staff. This dual management

system will ensure that the Administrative Secretary reports the correct mainstream time.”

### **Auditor Conclusion**

We are very encouraged that the Intermediate Unit has immediately taken steps to improve the accuracy of its process for reporting non-resident students. We will continue to evaluate the Intermediate Unit’s progress toward correcting its errors in reporting non-resident membership in future audits

## Finding No. 5

### Intermediate Unit Failed to Effectively Manage Its Transportation Program

#### *Criteria relevant to the finding:*

Chapter 22 of the State Board of Education Regulations, Section 23.4 states, in part:

The board of directors of a school district shall be responsible for all aspects of pupil transportation programs, including the following:

- (2) The selection and approval of appropriate vehicles . . . and eligible operators who qualify under the law and regulations.
- (3) The establishment of routes, schedules and loading zones which comply with laws and regulations. . . .
- (5) The furnishing of rosters of pupils to be transported on each school bus run and trip.
- (6) The maintenance of a record of pupils transported to and from school, including determination of pupils' distances from home to pertinent school bus loading zones.
- (7) The negotiation and execution of contracts or agreements with contractors . . .

Board Policy No. 810, Transportation states in part: "the Midwestern Intermediate Unit No. 4 is responsible to obtain and provide transportation upon request from the 27 member school districts and to contact the requesting school district to identify price trends and then to negotiate an acceptable contract to provide the required transportation services."

Our audit revealed that the Midwestern Intermediate Unit 4 (Intermediate Unit) did not effectively manage its transportation program, including its associated contractors.

#### Lack of Appropriate Policies and Procedures

Our audit found that the Intermediate Unit did not have the necessary procedures in place to ensure that its transportation program, including the activities of its associated contractors, was properly managed. For example, the Intermediate Unit's administration failed to follow the provisions outlined in its Board Policy No. 810. These requirements included asking member school districts to make transportation requests in writing and consulting with the requesting district to determine price trends. Likewise, once the Intermediate Unit established the level of transportation it needed to provide to its participating school districts, it did not negotiate with the contractors to ensure it got the lowest price. Furthermore, after the billing rates were set, the administration did not require the contractors to submit a total fee breakdown to ensure their charges were appropriate.

In addition, the Intermediate Unit's Board did not enter into a formalized agreement with the contractors involved in transporting students to destinations other than to and from school, also known as "community based runs." Without a formal agreement, the Intermediate Unit administration could not hold the contractors to set terms, conditions, and costs. For example, the verbal agreements the Intermediate Unit had with the transportation contractors for these routes included compensation for the layover period incurred between dropping the students off at their destination and picking them up. However, our audit discovered that one (1) contractor had removed the layover time by utilizing two (2) vehicles, but it did not notify the Intermediate Unit's staff so that the rate could be adjusted. Without a formal contract, it was difficult to get any money back from this contractor, even though it had likely been overpaid. Furthermore, the Intermediate Unit's administration did not identify the contractor's use of two (2) vehicles when the



*Criteria relevant to the finding (continued):*

Section 508 of the Public School Code provides:

The affirmative vote of a majority of all the members of the board of school directors in every school district, duly recorded, showing how each member voted, shall be required in order to take action on the following:

. . . Entering into contracts of any kind, including contracts for the purchase of fuel or any supplies, where the amount involved exceeds one hundred dollars (\$100). . . .

Instructions for completing PDE's End-of-Year Pupil Transportation Reports provides that the local education agency (LEA) must maintain records of miles with pupils, miles without pupils and the largest number of pupils assigned to each vehicle. Additionally, the instructions provide that information and data used by the LEA to support the reports should be retained for audit purposes.

According to the *Federal Information System Controls Audit 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.

staff processed its data and drafted an invoice for payment. This oversight was caused by the Intermediate Unit's failure to establish procedures for verifying the data it received from its contractors and by failing to require managerial sign-off before payment was made.

The lack of written contractual agreements exposed the Intermediate Unit to legal risks, liabilities, and damages had any type of event or accident occurred that involved the transported students. In addition, the Board was placed in a precarious situation as it was unaware of the activity associated with the community based runs and did not meet its obligation of reviewing and approving all contracts in excess of \$100. Furthermore, according to the administration, the solicitor did not review the Intermediate Unit's formal contracts, which also increased its risk of having unforeseen and unnecessary liabilities. .

#### Lack of Board Approval For Required Transportation Elements

The Intermediate Unit's Board did not review and approve all transportation program components, as required by the PSC. These elements included contracts, vehicles, routes, mileage, and student rosters. For example, our audit found that the Intermediate Unit's transportation staff did not seek Board approval to add or delete students from the rosters. Instead, they made these changes on an as-needed basis and did not inform the Board.

#### Inaccurate and Incomplete Transportation Documentation

Our review of the Intermediate Unit's 2011-12 school year transportation records for to/from school routes revealed that it did not require its contractors to record information in compliance with the PSC and permitted them to submit incomplete documentation to support the data they reported. For example, the Intermediate Unit's administration did not require its contracted drivers to complete log sheets to support the mileage and route information the contractor reported. We also identified the following additional deficiencies in the contractor's data:

- Mileage was not reported by tenth of mile or on a stop-by-stop basis.

*Criteria relevant to the finding (continued):*

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 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.

- Mileage log sheets were not signed or dated attesting to the validity of the information.
- Corrections to the log sheets were not initialed, dated, or documented.
- Mileage discrepancies were not questioned or resolved by the Intermediate Unit's administration.
- Multiple vehicles were reported on a single vehicle mileage log.
- Intermediate Unit administration failed to require the contractors to provide it with copies of vehicle registration cards to verify that it was reporting the correct vehicles to PDE.
- Intermediate Unit administration did not review the contractor data before they submitted it to PDE for use in the calculation of its subsidy.

In addition, to/from transportation records did not include supporting student calendars verifying the number of days transported. This information is important because transportation for special education students can vary depending on the student's needs. Similarly, students in the Intermediate Unit's early intervention program only attend a part-time morning or afternoon program for one (1) to five (5) days a week depending on the need. Therefore, without specific student calendars, we were unable to determine whether or not contractor costs were computed correctly.

## **Recommendations**

The *Midwestern Intermediate Unit 4* should:

1. Require that it enter into written contracts for all transportation services and that these contracts be reviewed by the solicitor and approved by the Board.
2. Require all contractors to provide a list of and a copy of the associated registration card for all vehicles to be utilized in the transportation program for Board approval, record retention, and accuracy of PDE reporting.

3. Require the transportation manager to work in conjunction with involved contractors on route descriptions and mileage for to/from runs prior to board contract approval.
4. Implement written procedures relating to the review and input of contractor submitted documentation to ensure propriety of information and data input including managerial review and questioning of inconsistencies or changes.
5. Require the transportation manager to work with member school districts to determine cost trends and perform the necessary negotiations with contractors to ensure that the quoted rates are the lowest available.
6. Require that contractor invoices are matched to submitted transportation reports to ensure that the listed number of runs and costs are fully supported by records received.
7. Require the transportation manager or the special education supervisor to approve transportation invoices prior to payment.

### **Management Response**

Management stated the following:

“Intermediate Unit #4 Special Education Fiscal Manager in collaboration with the Director of Special Education Director is implementing a dual control management system. This dual system will ensure that all transportation operations and records are managed and monitored through clear written articulation of all procedures. This system will also be monitored by the Executive Director.”

### **Auditor Conclusion**

We are very encouraged that the Intermediate Unit has immediately taken steps to improve the accuracy of its process for reporting non-resident students. We will continue to evaluate the Intermediate Unit’s progress toward correcting its errors in reporting non-resident membership in future audits.

## Finding No. 6

### Failure to Have All School Bus Drivers' Qualifications on File

#### *Criteria relevant to the finding:*

Section 111 of the Public School Code (PSC) (24 P.S. § 1-111) (Act 34 of 1985, as amended) requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police, as well as a federal criminal history record. Section 111 lists convictions for certain criminal offenses that would prohibit individuals from being hired and provides that convictions for other felonies and misdemeanors would disqualify individuals for employment if they occurred within ten or five years, respectively.

Additionally, as of April 1, 2007, under Act 114 of 2006 as amended, (see 24 P.S. § 1-111(c.1)), public and private schools have been required to review federal criminal history record information (CHRI) records for all prospective employees and independent contractors who will have contact with children, and make a determination regarding the fitness of the individual to have contact with children. The Act requires the report to be reviewed in a manner prescribed by the Pennsylvania Department of Education. The review of CHRI reports is required prior to employment, and includes school bus drivers and other employees hired by independent contractors who have contact with children.

22 Pa Code 23.4(2) states in part that the Board of School Directors is responsible for "The selection and approval of appropriate vehicles for use in district service and eligible operators who qualify under the law and regulations."

Our audit of the Midwestern Intermediate Unit 4's (Intermediate Unit) bus drivers' qualifications found that the Intermediate Unit did not have all required criminal background clearances on file and did not fully comply with the revised requirements in Act 24. Specifically, all the drivers had not submitted their Arrest/Conviction Report and Certification Form.

Our review of the personnel files for six (6) of the District's 43 newly hired bus drivers randomly selected for testing found that five (5) of the six (6) did not contain proper Act 114 clearances and Federal Bureau of Investigation (FBI) background checks. In addition, all but two (2) of the six (6) drivers had not signed and returned the Arrest/Conviction Report and Certification Form required to be filed with the Pennsylvania Department of Education (PDE) by December 27, 2011 or December 23, 2012, depending on date of hire.

According to Intermediate Unit personnel, the FBI background checks were missing because the administration misunderstood the requirements and thought they were not allowed to maintain a physical copy of the report on file. Instead, the administration believed that they could only have a document on file that acknowledged that the FBI background check had been viewed and that no criminal offenses were noted. They thought this was acceptable as long as the document had the signature of the person performing the review and the date viewed.

Before the end of our fieldwork, the Intermediate Unit's Human Resources Office obtained FBI background checks for all bus drivers whose fingerprint registration numbers were less than one (1) year old and placed them in the file.

After discussion with Intermediate Unit administration, we expanded our review of the Intermediate Unit's compliance with Act 24 and determined that thirteen (13) board-approved drivers had not returned the mandatory PDE's Arrest/Conviction Report and Certification Form by the required date. However, before the completion of our audit on January 16, 2013, we were informed that all

*Criteria relevant to the finding (continued):*

Chapter 8 of the State Board of Education Regulations states that School entities shall require a criminal history background check prior to hiring an applicant or accepting the services of a contractor, if the applicant, contractor or contractor's employees would have direct contact with children. The criminal history background check may not be more than one year old at the time of employment or engagement of contracted services.

Similarly, Section 6355 of the Child Protective Services Law (CPSL), 23 Pa. C.S. § 6355, known as Act 151, requires prospective school employees to submit an official clearance statement obtained from the Department of Public Welfare. The CPSL prohibits the hiring of an individual named as the perpetrator of a founded report of child abuse or is named as the individual responsible for injury or abuse in a founded report for school employee.

Amendments to Section 111 required all current school employees to submit an "Arrest/Conviction Report and Certification" form (PDE-6004) to local education agencies indicating whether or not they have ever been arrested or convicted of any Section 111 offense by December 27, 2011. Furthermore, effective September 28, 2011, all current employees arrested or convicted of a Section 111 offense must complete the form and file it a designated school administrator within 72 hours.

Regarding the maintenance of documentation, Section 111 (7)(b) of the PSC, 24 P.S. § 1-111(7)(b), provides, in part: "Administrators shall maintain a copy of the required information and shall require each applicant to produce the original document prior to employment . . ."

thirteen (13) had submitted the form. According to Intermediate Unit personnel, they failed to have all of these forms on file because of a breakdown in internal controls resulting from a miscommunication between two (2) areas, both of which believed the other was monitoring compliance with the Arrest/Conviction Report and Certification Form requirement.

Without the required bus drivers' qualification documents on file, the Intermediate Unit was not able to review the documents to determine whether all drivers were qualified to transport students. Bus drivers not possessing the necessary licenses and clearances pose an increased risk to the safety and welfare of students.

The failure to have the records on file at the Intermediate Unit was the result of a misunderstanding of the Public School Code that was corrected prior to the end of our audit.

### **Recommendations**

The *Midwestern Intermediate Unit 4* should:

1. Match currently approved bus drivers to Intermediate Unit driver files to ensure that all approved drivers' records are complete and up-to-date; current non-approved drivers should be filed elsewhere.
2. Consult with the Intermediate Unit's Human Resources Director to determine the ramification of non-compliance with Act 24 and whether board approval should be revoked until compliance is obtained.
3. Request that the Intermediate Unit's solicitor review the transportation contracts to assess the appropriateness of the agreement provisions and the regulatory requirements.
4. Require hired contractors to provide verification of drug testing to ensure compliance with Federal Department of Transportation regulations.
5. Consolidate bus drivers' data compliance to either the transportation area or to the human resources

department to avoid future miscommunications and internal control breakdowns relating to responsibility.

### **Management Response**

Management stated the following:

“The Director of Human Resources in collaboration with the Special Education Fiscal Manager in charge of Transportation always reviewed rap sheets [FBI background checks] prior to employment and determination of fitness was made for each contracted employee. All reviews were documented in the independent contractor’s file.

Effective November 27, 2012, rap sheets [FBI background checks] will be printed and will be placed in the permanent file with all other required documents (Act 24) and clearances. All folders will be reviewed regularly to ensure compliance.”

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

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**O**ur prior audit of the Midwestern Intermediate Unit 4 resulted in no findings or observations.

## **Distribution List**

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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](http://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  
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

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