

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

AUGUST 2010

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Jeff Choura, Board President
Allegheny Intermediate Unit #3
475 East Waterfront Drive
Homestead, Pennsylvania 15120

Dear Governor Rendell and Mr. Choura:

We conducted a performance audit of the Allegheny Intermediate Unit #3 (AIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period May 24, 2007 through November 13, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

August 25, 2010

cc: **ALLEGHENY INTERMEDIATE UNIT #3** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Allegheny Intermediate Unit (AIU). Our audit sought to answer certain questions regarding the IU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period May 24, 2007 through November 13, 2009, 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 2007-08 and 2006-07.

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 123,331 students in public schools and 21,231 students in nonpublic schools. The staff consisted of 194 administrators, 673 teachers, and 97 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 \$19.7 million from the Commonwealth in general operating funds in school year 2007-08.

Special Revenue Fund

The special revenue fund accounts for the financial resources received to provide, maintain, administer, supervise and operate schools, classes, service programs, and transportation for exceptional children in accordance with the school laws of Pennsylvania and the approved IU plan for special education. The special revenue fund accounts for financial resources available for programs and services for exceptional children in state centers, state hospitals, private licensed facilities, and other child care institutions.

The special education program offered services at all grade levels for pupils who have physical, mental, or emotional needs requiring 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 2007-08.

Audit Conclusion and Results

Our audit found that the AIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance-related matter that is reported as a finding.

Finding: Certification Deficiencies. Our audit of professional employees' certification and assignments found that two individuals had lapsed certificates (see page 6).

Status of Prior Audit Findings and Observations. Our prior audit report for the school years 2005-06 and 2004-05 resulted in no findings or observations.

Audit Scope, Objectives, and Methodology

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 May 24, 2007 through November 13, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

While all LEAs have the same school years, some LEAs have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the AIU's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the IU receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Is the IU's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ Does the IU ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the IU?
- ✓ Did the IU pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Did the IU use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Is the IU taking appropriate steps to ensure school safety?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, 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 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, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1202 of the Public School Code (PSC) provides, in part:

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

Section 2518 of the PSC provides, in part:

[A]ny school district, intermediate unit, area vocational-technical school or other public school in this Commonwealth that has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio.

Certification Deficiencies

Our audit of professional employees' certification found two individuals with lapsed certifications.

Information pertaining to the assignments was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education, for its review.

BSLTQ subsequently determined that the certificates had lapsed. The District is therefore subject to the following subsidy forfeitures:

<u>School Year</u>	<u>Subsidy Forfeitures</u>
2008-09	\$3,454
2007-08	3,264
2006-07	<u>1,587</u>
Total Subsidy Forfeitures	<u>\$8,305</u>

Recommendations

The *Allegheny Intermediate Unit #3* should:

Put procedures in place to ensure that all professionals hold valid certifications throughout their tenure with the intermediate unit (IU).

The *Department of Education* should:

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

Management Response

Management stated the following:

Cause of the Problem:

[An individual] had an Instructional I Secondary Guidance Counseling Certification that expired January 2008*. He failed to apply for his Instructional II under the regulations. The Allegheny Intermediate Unit discovered the certification lapse in August of 2009.

Corrective Action:

[The individual] subsequently reapplied for his Instructional I Secondary Guidance Counseling Certification in August 2009. [His] position was immediately reassigned to a special education position that utilizes his Instructional II Special Education Certification.

Cause of Problem:

[The individual] was hired as a Secondary Principal in August 2004. At the time his Principal Certification was an Administrative I and valid for 3 years. He failed to apply for his Instructional II under the regulations. The Allegheny Intermediate Unit erroneously entered into their HR [human resources] database [his] status as an Administrative Level II Certification. Therefore, his status went unnoticed.

Corrective Action:

[The individual] has received his Administrative II Certification.

* Note: Subsequent to the preparation of management's response BSLTQ determined that this individual should actually be cited for the entire 2007-08 school year.

Status of Prior Audit Findings and Observations

Our prior audit of the Allegheny Intermediate Unit #3 for the school years 2005-06 and 2004-05 resulted in no findings or observations.

Distribution List

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, and the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Thomas E. Gluck
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

Senator Jeffrey Piccola
Chair
Senate Education Committee
173 Main Capitol Building
Harrisburg, PA 17120

Senator Andrew Dinniman
Democratic Chair
Senate Education Committee
183 Main Capitol Building
Harrisburg, PA 17120

Representative James Roebuck
Chair
House Education Committee
208 Irvis Office Building
Harrisburg, PA 17120

Representative Paul Clymer
Republican Chair
House Education Committee
216 Ryan Office Building
Harrisburg, PA 17120

Ms. Barbara Nelson,
Director, Bureau of Budget and Fiscal
Management
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

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

