



**ARIN INTERMEDIATE UNIT 28
INDIANA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

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

Mr. John Sutilla, Board President
ARIN Intermediate Unit 28
2895 West Pike Road
Indiana, Pennsylvania 15701

Dear Governor Corbett and Mr. Sutilla:

We conducted a performance audit of the ARIN Intermediate Unit 28 (IU) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period December 14, 2010 through January 8, 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, 2012 and June 30, 2011. 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 IU complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 11, 2013

cc: **ARIN INTERMEDIATE UNIT 28** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the ARIN Intermediate Unit 28 (IU). Our audit sought to answer certain questions regarding the IU's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period December 14, 2010 through January 8, 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 2011-12 and 2010-11 school years.

Intermediate Unit Background

The 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 11 participating school districts, nonpublic schools, and institutions in Indiana and Armstrong counties. The IU is governed by an 11 member board appointed by the participating school districts on a rotating basis.

The programs offered by the IU served 3,569 students in public schools and 1,109 students in nonpublic schools. The staff consisted of 17 administrators, 83 teachers, and 93 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
- nonpublic program subsidy - Act 89

Lastly, the IU received \$1.1 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 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 whose 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
- . 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 IUs, and a contingency fund.

Lastly, the IU received \$5.7 million from the Commonwealth in special revenue funds in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the IU complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation.

Observation: ARIN Intermediate Unit 28 Lacks Sufficient Internal Controls Over Its Student Record Data. Our review of the ARIN Intermediate Unit 28's (IU) controls over data integrity found that internal controls need to be improved. Specifically, our review found that IU personnel responsible for reporting pupil membership misunderstood the IU's requirements for reporting data to the Pennsylvania Department of Education (see page 6).

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

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 December 14, 2010 through January 8, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2012 through November 14, 2012.

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

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

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the IU'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 received state subsidies and reimbursements based on pupil membership, did it follow applicable laws and procedures?

- ✓ Did the IU have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the IU 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 IU received transportation subsidies, were the IU and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the IU, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the IU take 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 of School Directors free from apparent conflicts of interest?
- ✓ Did the IU take appropriate corrective action to address recommendations made in our prior audit?

Methodology

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 IU's 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. In conducting our audit, we obtained an understanding of the IU's internal controls, including any information technology controls, as they

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.

relate to the IU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Our audit examined the following:

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

Additionally, we interviewed select administrators and support personnel associated with the IU's operations.

Findings and Observations

Observation

ARIN Intermediate Unit 28 Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the finding:

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

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

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 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 review of the ARIN Intermediate Unit 28's (IU) controls over data integrity found that internal controls need to be improved. Specifically, our review found that personnel responsible for reporting pupil membership misunderstood the IU's responsibility to submit student data to PDE's PIMS.

During the course of our audit of the 2010-11 school year, we were initially informed that IU personnel did not report any membership days for students enrolled in special education classes, based on their misunderstanding that it was not the IU's responsibility to do so. Specifically, the IU is responsible for reporting membership days on behalf of its sending school districts.

The auditors could not determine if the membership days shown on the sending school districts' Summary of Child Accounting reports were accurate, because documentation was not available from the IU.

Additionally, 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.

The reporting issues we found during our review of PIMS membership resulted from a lack of communication between the two IU personnel who were assigned to the pupil membership reporting function.

The failure to have accurate child accounting information uploaded into PIMS could affect the funding received by the sending districts. It is the IU management's responsibility to have appropriate internal controls in place to ensure such reporting errors are identified.

The *ARIN Intermediate Unit 28* should:

1. Reference the PIMS manual for instructions on the proper reporting of students enrolled in Intermediate Unit classes.
2. Strengthen internal controls and communication to ensure adherence to PDE's regulations over child accounting reporting.
3. Conduct an annual internal review to ensure that all membership days are reported accurately, so that proper credit is given to the sending school districts.
4. Maintain on file the necessary support documentation for all membership days reported.

Management Response

Management stated the following:

“For the reporting year in question, (2010-11), IU 28 had two different staff members involved in managing student data and generating PIMS reports. Staff used different interpretations of PIMS definitions to complete student information. This resulted in discrepant reports between different data systems ([the Intermediate Unit's student information system] and PIMS).

IU 28 has arranged to purchase and use a new student information management system which will be administered by one staff member utilizing approved PIMS definitions. This will correct the reporting discrepancies noted in the observation.”

Status of Prior Audit Findings and Observations

Our prior audit of the ARIN Intermediate Unit 28 resulted in no findings or observations.

Distribution List

This report was initially distributed to the Executive Director of the Intermediate Unit, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
Governor
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Harrisburg, PA 17120

The Honorable William E. Harner
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1010 Harristown Building #2
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

