

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

JANUARY 2010

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

Mr. Larry Putt, Board President
Central Intermediate Unit #10
345 Link Road
West Decatur, Pennsylvania 16878

Dear Governor Rendell and Mr. Putt:

We conducted a performance audit of the Central Intermediate Unit #10 (CIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period July 27, 2007 through August 11, 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 CIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

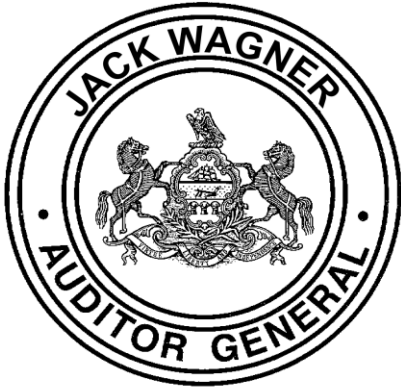
JACK WAGNER
Auditor General

January 25, 2010

cc: **CENTRAL INTERMEDIATE UNIT #10** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Central Intermediate Unit #10 (CIU). Our audit sought to answer certain questions regarding the CIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the CIU in response to our prior audit recommendations.

Our audit scope covered the period July 27, 2007 through August 11, 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 12 participating school districts, nonpublic schools, and institutions in Centre, Clearfield and Clinton counties. 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 345 Link Road, West Decatur, Pennsylvania.

The programs offered by the IU served 887 students in public schools and 1,395 students in nonpublic schools. The staff consisted of 23 administrators, 71 teachers, and 104 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 IU received more than \$1.5 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 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; 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 IU received more than \$6.5 million from the Commonwealth in special revenue funds in school year 2007-08.

Audit Conclusion and Results

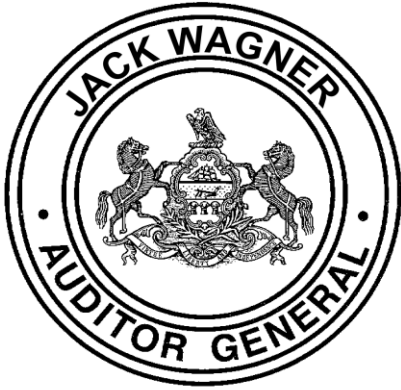
Our audit found that the CIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding and one matter unrelated to compliance that is reported as an observation.

Finding: Continued Errors in Billing Costs for Contracted Services. Our audit noted that the CIU provided specific special education classes through a contractual agreement to participating school districts. The costs of the classes were prorated among individual districts on the basis of average daily membership (ADM) per

district. Due to various errors in computing ADM and class costs per ADM, member districts were over/undercharged (see page 8).

Observation: Memorandum of Understanding Not Updated Timely. Our audit of the CIU's records found the CIU had on file a properly signed Memorandum of Understanding (MOU) between itself and its local law enforcement agencies; however, the MOU has not been updated since 1998 (see page 10).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the CIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the CIU had taken appropriate corrective action in implementing our recommendations pertaining to certification (see page 14). However, we found that the CIU had not taken appropriate action in implementing our recommendations pertaining to contractual billing (see page 14), Statements of Financial Interests (see page 13) and Memorandum of Understanding not updated timely (see page 15).



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 July 27, 2007 through August 11, 2009, except for the verification of professional employee certification which was performed for the period July 1, 2007 through July 17, 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 (DE) 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 CIU'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?
- ✓ Did the IU follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ 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?
- ✓ Is the IU taking appropriate steps to ensure school safety?
- ✓ Did the IU take appropriate corrective action to address recommendations made in our prior audits?

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.

CIU 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, professional employee certification, and state ethics compliance.
- Items such as meeting minutes, and pupil membership records.
- Tuition receipts.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on June 23, 2008, we reviewed the CIU's response to DE dated February 5, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Public School Code Section relevant to the finding

Section 2562, provides, in part:

For each elementary or high school pupil attending a public school of another district, the receiving district shall bill the sending district, and the sending district shall pay the amount of the tuition charge.

Section 2561, provides the method of computing the tuition rate of the educating district is to charge the home district of the nonresident students.

Continued Errors in Billing Costs for Contracted Services

During the 2007-08 and 2006-07 school years, the Central Intermediate Unit #10 (CIU) provided special education classes through a contractual agreement with participating school districts. The costs of the classes were to be prorated among the participating districts based on attending pupils' average daily membership (ADM). Our audit found that due to clerical errors in computing the ADM coupled with failure to bill one participating district for its share of the cost of a class, participating districts were (over)/undercharged as follows:

<u>2007-08 School Year</u>	
<u>School District</u>	<u>(Over)/Undercharges</u>
Clearfield Area	\$ (752)
Moshannon Valley	660
Philipsburg-Osceola Area	21
West Branch Area	(1,170)

<u>2006-07 School Year</u>	
<u>School District</u>	<u>(Over)/Undercharges</u>
Clearfield Area	\$(1,246)
Glendale	239
Moshannon Valley	13,883
Philipsburg-Osceola Area	108
West Branch Area	(115)

We noted during the audit that the program the CIU uses to compute ADM used in calculating class costs does not always compute the ADM accurately.

CIU personnel have been provided a report detailing the errors noted above.

Recommendations

The *Central Intermediate Unit #10* should:

1. Review the membership data for accuracy and refund or bill the member districts.

2. Modify the program used to compute ADM to accurately compute ADM.

Management Response

Management stated the following:

As indicated in the Auditor General's Findings and Observations section of the documentation pertaining to this Finding there is a programmatic error(s) in the software program that calculates ADM. The ADM is used to calculate the amount due per school district.

Proposed steps to correct the problem:

The business manager will review the software ADM calculations, and make adjustments where necessary. If the business manager deems that the current software program can not accurately calculate the ADM, then the business manager will review other programs, including Excel, to determine which program will be best to utilize in calculating the ADM.

All invoices that are remitted to school districts will be reviewed for mathematical accuracy by the business manager.

Observation →

Memorandum of Understanding Not Updated Timely

Criteria relevant to the observation:

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities. Section VI, General provisions item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the

Our prior audit of the CIU's records found the CIU had on file a properly signed Memorandum of Understanding (MOU) between itself and its local law enforcement agency; however, the MOU had not been updated since 1998. We included an observation in the prior report noting that the failure to update the MOU with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between CIU employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or any public conveyance providing transportation to or from school or school sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

At the beginning of our current audit, CIU personnel indicated that the MOU was updated in the summer of 2007, but that a copy of it could not be located. Additionally, we were informed that the CIU had jointly purchased a building for pre-school classes and is leasing space in another building for an alternative education program. These new buildings need separate MOUs.

As a means of corrective action, we recommended that the CIU board review and update the current MOU between itself and its local law enforcement agencies. We also recommended the board require administration to review and re-execute the MOU every two years.

During the course of our audit, CIU personnel provided us with an updated MOU for the CIU offices and the building where the alternative education classes are located, dated August 2009. However, an MOU still needs to be completed for the pre-school building.

CIU personnel indicated they were not aware separate MOUs would be needed for the new locations.

Recommendations

The *Central Intermediate Unit #10* should:

1. Continue to review, update and re-execute the current MOUs between the CIU and the local law enforcement agencies.
2. Adopt a policy requiring the administration to review and re-execute the MOUs every two years.
3. Execute a MOU with local law enforcement to cover the building where the pre-school classes are held.

Management Response

Management stated the following:

As indicated in the Auditor General’s Findings and Observations section of the documentation pertaining to this Finding the Central Intermediate Unit #10 has two building in which an updated Memorandum of Understandings are needed to be procured and retained for record purposes. The audit also brought to light the need to have the MOUs updated on a biannual basis.

Proposed steps to correct the problem:

The Central Intermediate Unit #10 has already procured the Memorandum of Understanding from the Pennsylvania State Police. The Central Intermediate Unit #10’s (CIU #10) Alternative Education School building is located in Wallacetown. The PA State Police have jurisdiction in Wallacetown, PA, and therefore that is for whom the CIU #10 needed to secure a MOU from for our Alternative Education School.

The Director of Preschool – Early Intervention is in the process of procuring a Memorandum of Understanding from Patton Township (Centre County). The CIU #10 operates preschool classrooms in our Matternville School in Port Matilda, PA, which resides in the jurisdiction of the Patton Township Police Department. The Director is actively attempting to secure this MOU, and will remit the MOU to the Office of the Auditor General as soon as it is procured.

Copies of all MOUs will be kept on file at the CIU #10.

In order to stay compliant with the biannual updating requirement of our MOUs the supervisor of the Alternative Education School Principal and Director of Preschool – Early Intervention will monitor the process of the procurement of these MOUs. The business manager is charged with the procurement of these MOUs. Therefore, the business manager will be in contact with the Principal of the Alternative Education School and the Director of the Preschool and their supervisor(s).

Status of Prior Audit Findings and Observations

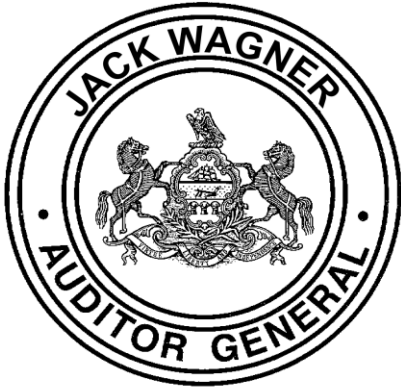
Our prior audit of the Central Intermediate Unit (IU) for the school years 2005-06 and 2004-05 resulted in three reported findings and one observation. The findings pertained to Statements of Financial Interests, contractual billing and certification deficiencies. The observation pertained to the Memorandum of Understanding. As part of our current audit, we determined the status of corrective action taken by the IU to implement our prior recommendations. We analyzed the CIU Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned IU personnel regarding the prior findings and observation. As shown below, we found that the CIU did implement recommendations related to certification, but did not implement recommendations related to Statements of Financial Interests, contractual billing and Memorandum of Understanding.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding 1: Board Members Failed to File Statement of Financial Interests in Violation of the State Ethics Commission Act</i></u></p> <ol style="list-style-type: none"> 1. Seek the advice of its solicitor in regard to the board's responsibility when elected board members fail to file their Statements of Financial Interests. 2. Develop and implement procedures to ensure all individuals required to file Statements of Financial Interests forms do so in compliance with the Ethics Act. 	<p>Background:</p> <p>Our prior audit of CIU records on April 27, 2007, found one board member failed to file Statements of Financial Interests for the year ended December 31, 2006, three former board members failed to file Statements of Financial Interests for the year ended December 31, 2005, and six former board members failed to file Statements of Financial Interests for the year ended December 31, 2004. Subsequent to our initial request, the board secretary provided us with Statements of Financial Interests for eight former board members for the years ended December 31, 2006, 2005 and 2004.</p>	<p>Current Status:</p> <p>Our current audit found that two former members failed to file and one current member filed late for the year ending December 31, 2008, and two members and one alternate filed late for the year ending December 31, 2007. We will send the discrepancies to the State Ethics Commission and will revisit next audit for corrective action.</p> <p>Based on our current audit we concluded the CIU <u>did not</u> take corrective action for this finding.</p>

<p><u>II. Finding 2: Continued Errors in Billing Costs for Contracted Services</u></p> <ol style="list-style-type: none"> 1. Review the membership data for accuracy and refund or bill the member districts, the Autism Spectrum Disorder Academy and others for the over/under charges. 	<p>Background:</p> <p>During our prior audit of the 2005-06 and 2004-05 school years, we found that the CIU contracted to provide specific special education classes to participating school districts. Due to errors in computing the average daily membership (ADM) and class costs per ADM, member districts were (over)/undercharged. Also, through a contractual agreement with Pyramid Health Care, the CIU provided billing, itinerant and psychological services for the Autism Spectrum Disorder Academy during the 2005-06 school year. The CIU failed to include vision costs in the final reconciliation billing.</p>	<p>Current Status:</p> <p>Our current audit of the 2007-08 and 2006-07 school years again found errors in computing ADM and class costs per ADM for use in billing member districts their share of special education class costs (see page 8).</p> <p>Refunds/bills were sent to the affected districts in August 2008.</p> <p>Based on our audit, we concluded the IU <u>did not</u> take appropriate corrective action.</p> <p>No errors were noted in our current audit of billing of costs to Pyramid Health Care.</p> <p>As of August 2009, revised bills have not been sent to Pyramid Health Care.</p>
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<p><u>III. Finding 3: Continued Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Upon receipt of Bureau of School Leadership and Teacher Quality's (BSLTQ) response regarding its determination of the possible deficiencies, take the necessary action to ensure compliance with certification regulations. 2. Ensure only properly certified individuals, holding current and valid certificates are allowed to teach CIU students. 	<p>Background:</p> <p>Our prior audit of professional employees' certification for the period March 29, 2005 through June 30, 2007 found two possible deficiencies.</p>	<p>Current Status:</p> <p>Our current audit of professional employees' certification noted that BSLTQ determined that one employee was properly certified for her assignment. As of August 11, 2009, BSLTQ has yet to make a determination on the other possible certification deficiency.</p> <p>No certification deficiencies were noted during the current audit of professional employees' certification. Based on our audit, we concluded the CIU <u>did</u> take appropriate corrective action.</p>
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<p><u>Observation:</u> <u>Memorandum of Understanding Not Updated Timely</u></p> <ol style="list-style-type: none">1. CIU personnel, in consultation with its solicitor should review and update the current Memorandum of Understanding (MOU) between itself and its local law enforcement agencies.2. Adopt a policy requiring administration to review and re-execute the MOU every two years.	<p>Background:</p> <p>Our prior audit of the CIU's records found that the CIU had on file a properly signed MOU between itself and its local law enforcement agencies; however, the MOU has not been updated since 1998.</p>	<p>Current Status:</p> <p>Our current audit found the CIU updated the MOU in August 2009. This MOU covers the CIU offices and the building where alternative education classes are held.</p> <p>The CIU <u>did</u> take corrective action after it was noted that the MOU had not been updated. However, subsequent to the prior audit, the CIU purchased a new building for pre-school classes. This building did not have an MOU as noted in the observation (see page 10).</p>
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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
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Representative James Roebuck
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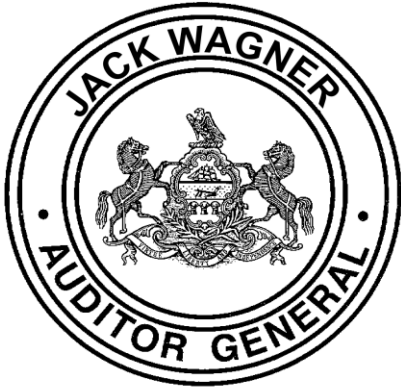
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