

LINCOLN INTERMEDIATE UNIT #12
ADAMS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Ms. Judith Higgins, Board President
Lincoln Intermediate Unit #12
65 Billerbeck Street
P.O. Box 70
New Oxford, Pennsylvania 17350

Dear Governor Rendell and Ms. Higgins:

We conducted a performance audit of the Lincoln Intermediate Unit #12 (LIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 28, 2008 through April 23, 2010, 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 LIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in the two findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

November 29, 2010

cc: **LINCOLN INTERMEDIATE UNIT #12** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Lincoln Intermediate Unit #12 (LIU). Our audit sought to answer certain questions regarding the LIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the LIU in response to our prior audit recommendations.

Our audit scope covered the period August 28, 2008 through April 23, 2010, 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 25 participating school districts, nonpublic schools, and institutions in Adams, Franklin, and York 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 65 Billerbeck Street, New Oxford, Pennsylvania.

The programs offered by the IU served 4,920 students in public schools and 7,450 students in nonpublic schools. The staff consisted of 44 administrators, 656 teachers, and 1,482 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 LIU received more than \$4.8 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 LIU received more than \$27.5 million from the Commonwealth in special revenue funds in school year 2007-08.

Audit Conclusion and Results

Our audit found that the LIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings.

Finding No. 1: Certification Deficiencies.

Our audit of the professional employees' certification for the period August 22, 2008 through April 16, 2010, found five individuals who were not properly certified for the positions to which they had been assigned (see page 8).

Finding No. 2: Various Errors and Internal Control Weaknesses Resulted in Unverifiable Approved Costs for Transportation.

Our audit of pupil transportation records for the 2007-08 and 2006-07 school years found errors and weaknesses in the LIU's internal control structure that resulted in our inability to confirm pupil averaging calculations for the 2006-07 school year (see page 10).

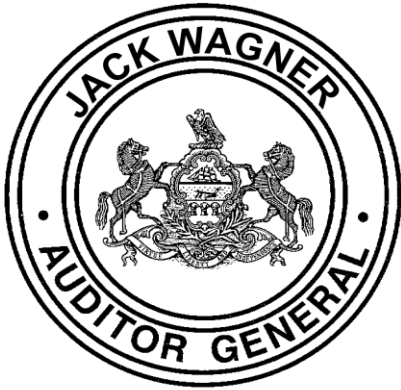
Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the LIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the LIU:

- had not taken appropriate corrective action in implementing our recommendations pertaining to transportation (see page 13).
- had taken appropriate corrective action in implementing our recommendations

pertaining to certification deficiencies (see page 14).

- had taken appropriate corrective action in implementing our recommendations pertaining to missing bus driver qualification documentation (see page 15).
- had taken appropriate corrective action in implementing our recommendations pertaining to internal control weaknesses in administrative policies regarding bus drivers qualifications (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 August 28, 2008 through April 23, 2010, except for the verification of professional employee certification which was performed for the period August 22, 2008 through April 16, 2010.

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 LIU'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?
- ✓ Is the IU taking appropriate steps to ensure school safety?
- ✓ 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?
- ✓ 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.

LIU 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.

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.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on April 3, 2009, we reviewed the LIU's response to DE dated May 5, 2009. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

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

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

Section 2518 of the Public School Code 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 the professional employees' certification for the period August 22, 2008 through April 16, 2010, found the following certification deficiencies:

1. Four individuals were assigned to locally titled positions without holding proper certification, as follows:
 - One individual was assigned to the position of service coordinator with an Elementary certificate.
 - One individual was assigned to the position of site manager for alternative education programs with a Special Education certificate.
 - One individual was assigned to the position of behavior intervention specialist in alternative education with a Special Education certificate.
 - One individual was assigned to the position of behavior management support specialist with a Special Education certificate.
2. One individual was employed with a lapsed emergency permit.

Information pertaining to the certificates and assignments was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), Department of Education (DE), for its review. BSLTQ subsequently upheld the deficiencies; therefore, the Lincoln Intermediate Unit #12 (LIU) is subject to a subsidy forfeiture of \$4,988 for the 2008-09 school year. The subsidy forfeiture for the 2009-10 school year could not be computed since the aid ratio used in the calculation was not yet available from DE at the time of our audit.

Recommendations

The *Lincoln Intermediate Unit #12* should:

1. Require the individuals cited in this finding to immediately obtain proper certification for the positions assigned or reassign them to positions for which they are properly certified.
2. Submit all locally titled positions to BSLTQ for review and determination of the appropriate certification required for the positions.
3. Establish procedures to ensure that emergency permits are obtained in a timely manner.

The *Department of Education* should:

4. Adjust the LIU's allocations to recover the appropriate subsidy forfeitures.

Management Response

Management stated the following:

An internal review of the potential certification deficiencies will be completed and a written response outlining our disagreement with the findings will be provided once the Pennsylvania Bureau of School Leadership & Teacher Quality rules on the deficiencies.

Auditor Conclusion

Management's response was provided to us prior to BSLTQ's final audit review. Any remaining disagreements must be addressed to DE.

Finding No. 2

Various Errors and Internal Control Weaknesses Resulted in Unverifiable Approved Costs for Transportation

Criteria relevant to the finding:

The Department of Education instructions describe how data should be calculated and reported for mileage, pupils, days transported, and costs.

Our audit of pupil transportation records for the 2007-08 and 2006-07 school years found errors and weaknesses in the LIU's internal control structure that resulted in our inability to confirm pupil averaging calculations for the 2006-07 school year. Therefore, we were not able to verify transportation approved costs of \$8,535,513 for the 2006-07 school year.

Transportation personnel calculated an average to determine the number of pupils assigned to ride each vehicle. The accuracy of pupil averaging calculations for the 2006-07 school year could not be confirmed for 10 of 26 vehicles tested due to the following:

- Pupil rosters provided did not support the number of pupils that were used in the computerized pupil averaging calculations.
- Computerized pupil averaging calculations contained zeros, which resulted in averages for some vehicles being lower than they should have been.
- Computerized pupil averaging calculations contained blanks which may have resulted in averages being inaccurate.

Transportation personnel did not perform adequate review procedures for the 2006-07 school year to ensure that the data being provided by the computerized pupil averaging calculations was accurate.

Based on the errors noted for the 2006-07 school year, the transportation coordinator and the programmer took action to create a computerized student count error report for the 2007-08 school year that enabled them to identify computerized pupil averaging calculations that contained zeros or blanks. This report was utilized to make corrections to the 2007-08 pupil averaging calculations prior to submitting a revised transportation report to DE on April 23, 2010. Based on our review of the revisions, it appears that the changes made were accurate.

Similar revisions for the 2006-07 school year could not be made due to the unreliability of pupil rosters for that year.

Recommendations

The *Lincoln Intermediate Unit #12* should:

1. Compare computerized pupil average calculations to pupil rosters to ensure agreement and to ensure that the data being used in the averaging calculations is accurate.
2. Continue to work with the computer programmer to ensure that computerized pupil averaging calculations do not contain zeros or blank spaces.
3. Review pupil rosters and computer averaging calculations to ensure that the data being used in the averaging calculations is accurate.
4. Review subsequent year reports and, if errors are found, submit revised reports to DE.

Management Response

Management stated the following:

An audit of the 2006-2007 school year found problems in the reporting of student counts for those transporters whose student counts were determined by the LIU computer program. In response to this, the Transportation Coordinator and computer programmer developed error reports to indicate where student counts were reported as zero or were omitted altogether. An additional error report was developed to indicate if student counts were incorrectly reported as the total of all students transported by a vehicle instead of the largest count recorded on any one route segment.

These reports were applied to data for the 2007-2008 school year and indicated a number of errors, which were corrected by obtaining counts from the actual paper route schedules. Additionally, the Transportation Coordinator spent two days sampling computer generated counts against actual paper route schedules to verify counts.

These corrected counts were incorporated into a revised PDE 1049 Transportation Report for the 2007-2008 school year and was submitted to PA. Dept. of Education on April 23, 2010. Documentation of this re-submission of data was provided to the auditors.

Status of Prior Audit Findings and Observations

Our prior audit of the Lincoln Intermediate Unit #12 (LIU) for the school years 2005-06 and 2004-05 resulted in three reported findings and one observation, as shown in the following table. As part of our current audit, we determined the status of corrective action taken by the LIU to implement our prior recommendations. We analyzed the LIU Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned LIU personnel regarding the prior findings. As shown below, we found that the LIU did not implement recommendations related to the transportation finding. However, we found that LIU did implement our recommendations to the other two findings and the observation.

<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 No. 1: Transportation Cost Recovery Overcharges to Participating School Districts</i></u></p> <p>1. Implement an internal control system that includes review procedures to ensure the accuracy of data reported to and processed by DE. The controls to be implemented should include verification that:</p> <ul style="list-style-type: none"> • Data is being accurately calculated by the computer, including mileage, days transported, and pupil averages; • All vehicle data is accurately reported to DE; • Data entry is being accurately completed; • Driver mileage reports contain accurate data, including the correct vehicle number; 	<p>Background:</p> <p>Our prior audit of LIU's transportation data for the 2005-06 and 2004-05 school years found, for the third consecutive audit, a continuing lack of internal control and review of governing records used to support data reported to the DE. The lack of internal control and review resulted in transportation cost recovery overcharges to school districts of \$587,466.</p>	<p>Current Status:</p> <p>Our current audit found that the LIU implemented a system of internal controls that includes review procedures to ensure the accuracy of data reported to and processed by DE. However, we found that the review procedures were not adequate to ensure the accurate calculation of pupil averages, as detailed in Finding No. 2 in our current audit report (see page 10).</p> <p>Our current audit found that LIU personnel reviewed subsequent year reports and submitted revisions to DE during our current audit.</p> <p>Finally, we found that the \$587,466 in overcharges to the districts is still pending final review by DE. Therefore, we again recommend that DE take action to resolve these overcharges.</p>

<ul style="list-style-type: none"> • All routes are included in calculations of averages; • Vehicles are not dropped during the uploading of data to DE; and • All contractors and corresponding data are reported to DE. <p>2. Review transportation reports submitted for subsequent years, and if errors are noted, submit corrected reports to DE.</p> <p>3. DE should take action to resolve the \$587,466 in overcharges to the districts.</p>		
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<p><u>II. Finding No. 2:</u> <u>Certification Deficiencies</u></p> <ol style="list-style-type: none"> 1. Require the individuals cited in this finding to obtain proper certification or reassign them to positions for which they are properly certified. 2. DE should adjust the LIU's allocations to recover the subsidy forfeitures of \$60,718. 	<p>Background:</p> <p>Our prior audit of the professional employees' certification for the period February 25, 2006 through April 21, 2008, found that ten individuals were employed prior to receiving valid Pennsylvania teaching certification, eight individuals did not hold the appropriate certificate for their position, and two individuals' certificates had lapsed.</p>	<p>Current Status:</p> <p>Our current audit found that the individuals cited in the prior audit either had obtained the appropriate certification, had been reassigned, or were no longer employed by the LIU by the beginning of the 2008-09 school year. However, we again found certification deficiencies unrelated to the prior certification deficiencies, as detailed in Finding No. 1 in our current audit (see page 8).</p> <p>The LIU and DE signed a settlement and release agreement on September 3, 2009; the subsidy forfeitures were reduced to \$47,031.</p> <p>The subsidy forfeitures were scheduled to be withheld from the LIU's June 2010 special education allocations.</p>
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<p><u>III. Finding No. 3:</u> <u>Missing Bus Driver</u> <u>Qualifications</u> <u>Documentation</u></p> <ol style="list-style-type: none"> 1. Obtain and maintain child abuse clearances for all drivers. 2. Ensure that the LIU's transportation coordinator reviews each driver's qualifications prior to that person transporting student. 3. Maintain files, separate from the transportation contractors, for all contracted drivers and work with the contractors to ensure that the LIU's files are up-to-date and complete. 	<p>Background:</p> <p>Our prior audit of bus drivers' qualifications found that a contractor could not locate the child abuse clearance for one driver when documents were requested. However, the contractor did obtain a clearance for this individual subsequent to our initial review.</p>	<p>Current Status:</p> <p>Our current audit found that LIU personnel implemented our recommendations. Additionally, no deficiencies were found in our current audit of bus driver qualification documentation.</p>
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<p><u>IV. Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications</u></p> <ol style="list-style-type: none"> 1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the LIU and the LIU's transportation contractors have been charged with or convicted of crimes that, even though not disqualifying under state law, affect their suitability to have direct contact with children. 2. Implement written policies and procedures to ensure that the LIU is notified when drivers are charged with or convicted of crimes that 	<p>Background:</p> <p>Our prior audit found that the LIU and two of its transportation contractors did not have written policy or procedures in place to ensure they were notified if current employees were charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children.</p>	<p>Current Status:</p> <p>Our current audit found that the LIU reviews all clearances prior to approving drivers to transport IU students.</p> <p>Our current audit also found that the LIU now requires drivers of LIU-owned buses to inform the LIU if they are charged with or convicted of crimes and their legal status has changed since the initial background checks. Additionally, the contractor is to inform the LIU of any change in the legal status of an employee having contact with a student subsequent to the employee's initial background checks.</p>
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call into question their suitability to continue to have direct contact with children.		
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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:

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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.

