MERCER COUNTY CAREER CENTER

MERCER COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

RELEASED SEPTEMBER 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. David DeForest
Joint Operation Committee Chairperson
Mercer County Career Center
776 Greenville Road
Mercer, Pennsylvania 16137

Dear Governor Corbett and Mr. DeForest:

We conducted a performance audit of the Mercer County Career Center (Center) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 30, 2010 through October 19, 2012, 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 Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings and one observation within this report. In addition, 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 findings, observation, and recommendations have been discussed with the Center's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the Center's operations and facilitate compliance with legal and administrative requirements. We appreciate the Center's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

EUGENE A. DEPASQUALE
Auditor General

September 4, 2013

cc: **MERCER COUNTY CAREER CENTER** Joint Operating Committee Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Mercer County Career Center (Center). Our audit sought to answer certain questions regarding the Center's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period November 30, 2010 through October 19, 2012, 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.

Center Background

According to Center officials, the Center provided educational services to 453 secondary pupils and 62 post-secondary pupils through the employment of 13 teachers, 8 post-secondary teachers, 22 full-time and part-time support personnel, and 3 administrators during the 2011-12 school year. The operation, administration and management of the Center are directed by a joint operating committee (JOC) which comprises 10 members from the following school districts:

Commodore Perry
Greenville Area
Grove City Area
Hermitage
Jamestown Area
Lakeview
Mercer Area
Reynolds
Sharpsville Area
West Middlesex Area

The JOC members are appointed by the individual school boards at the December meeting, each to serve a three-year term. Lastly, the Center received $636,836 in state funding in the 2011-12 school year.

Audit Conclusion and Results

Our audit of Mercer County Career Center found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings. In addition, we identified one matter unrelated to compliance that is reported as an observation.

Finding No. 1: Internal Control Weaknesses in the Business Office. Our audit found that the Mercer County Career Center (Center) did not comply with the requirements of the Public School Code in relation to budgetary procedures, board presentation of financial information, and other matters. In addition, our audit found weaknesses in the Center's fiscal controls (see page 6).

Finding No. 2: Business Office Failed to Follow Provisions of Construction Bond Agreement. Our audit of the Mercer County Career Center's (Center) business office found that provisions of a school building construction bond were not being followed. The Center failed to: (1) complete and submit a final Project Accounting Report to the Pennsylvania Department of Education, (2) request reimbursements from the bond agent in a timely manner, and (3) failed to follow the payment schedules in the promissory notes signed by the ten participating school districts (see page 14).

<u>Finding No 3: Failure to Obtain Required Foster Student Information for Membership Reporting</u>. Our internal control review of pupil membership records found that the Mercer County Career Center's child accounting personnel were unfamiliar with the parental residency codes relating to nonresident children placed in private homes (foster children) and wards of the state (see page 18).

<u>Observation: Mercer County Career Center Lacks Sufficient Internal Controls Over Its Student Record Data</u>. The Pennsylvania Department of Education (PDE) bases all local education agencies' state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System. The Mercer County Career Center (Center) is responsible for reporting membership and attendance data to PDE on behalf of all participating districts and the local charter school. Our review of the Center's controls over data integrity found that internal controls need to be improved (see page 20).

<u>Status of Prior Audit Findings and Observations</u>. 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 Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period November 30, 2010 through October 19, 2012, except for:

- The verification of professional employee certification which was performed for the period July 1, 2011 through September 21, 2012.
- The audit of rental reimbursements, which was performed for the period of June 2009 through October 2012.

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

While all local education agencies (LEAs) have the same school years, some 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

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 Mercer County Career Center's (Center) 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?

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.

- ✓ In areas where the Center received state subsidies and reimbursements based on pupil membership (e.g. vocational education subsidy), did it follow applicable laws and procedures?
- ✓ Did the Center 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?
- ✓ Did the Center take appropriate steps to ensure school safety?
- ✓ Did the Center have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the Center's Joint Operating Committee members free from apparent conflicts of interests?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?

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, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The Center's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Center is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the Center's internal controls, including any information technology controls, as they relate to the Center's compliance with applicable state laws, 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 professional employee certification, pupil membership records, reimbursement applications, and financial stability.
- Items such as meeting minutes and policies and procedures.

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

Findings and Observations

Finding No. 1

Criteria relevant to the finding:

The Public School Code (PSC) at 24 P.S. § 18-1850.1 addresses the duties of an area vocational-technical school's Joint Operating Committee, which include:

"(4) To adopt budgets for the operation of the school or institution as prepared in the same manner provided for in section 687 of this act."

Section 687 refers to the PSC, 24 P.S. § 6-687, which provides, in part:

"(a)(1) The board of school directors . . . shall annually, at least thirty (30) days prior to the adoption of the annual budget, prepare a proposed budget of the amount of funds that will be required. . . .

(2)(i) The proposed budget . . . shall be printed or otherwise made available for public inspection to all persons and shall be available for duplication . . . at least twenty (20) days prior to the set for the adoption of budget. . . .

(b) The board of school directors . . . shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds . . . available for school purposes. . . ."

Internal Control Weaknesses in the Business Office

Our audit found that the Mercer County Career Center's (Center) budget was not prepared in compliance with Public School Code (PSC) requirements. In addition, the Center's administration and Joint Operating Committee (JOC) provided poor oversight of its financial operations.

The Center is a collaborative effort of ten school districts that jointly operate a technical school to provide cost efficient trade instruction to eligible students. Funding for the Center's operational budget is contingent on these ten participating school districts each contributing an enrollment-based percentage of the total budget. Responsibility for the preparation, monitoring, and controlling of the Center's operating budget lies with the Center's Director (Director) and Business Manager, with appropriate oversight from the JOC.

Our audit found that the Center's management failed to efficiently and appropriately operate its business office. These problems stemmed from a lack of proper internal controls over the Center's financial operations. As a result, the Center had a number of budgeting and monitoring deficiencies.

<u>Failed to Comply With Preliminary and Final Budget Approval Requirements</u>

The PSC requires the annual budget process to provide not only the JOC, but also the public, with sufficient financial information relating to the anticipated revenues and expenditures needed to operate the Center in the forthcoming year. Based on our review of the JOC's meeting minutes for both audit years, we determined that the Center did not provide the required public notice regarding the approval of the preliminary budget. In addition, by not approving the 2010-11 school year budget until June 28, 2011, the JOC also violated Committee Policy No. 603, Budget Preparation, approved August 23, 2003, which requires approval of the Center's final budget no later than the April JOC meeting.

Criteria relevant to the finding (continued):

The Public School Code, 24 P.S. § 18-1850.4(a), provides, in part:

"Any area vocational-technical board shall have the power to create a special fund which may be designated as a capital reserve fund . . . for the purpose of purchasing equipment or maintaining facilities."

24 P.S. § 18-1850.1(b) further provides, in part:

"The area vocational–technical board shall have authority and its duty shall be . . . to accept pupils in area vocational-technical schools . . . from districts not participating in their establishment and maintenance and to establish tuition charges therefore."

The Mercer County Career Center's Joint Operating Committee Policy No. 603 states: in part: "The procedure of the preparation and adoption of the annual budget of the Mercer County Career Center is as follows: . . .

"March: Joint Operating Committee recommends submittal to school boards of participating districts for approval. . . ."

<u>Inflated Budget and Associated Tuition Charges</u>

Our review of the Center's 2011-12 and 2010-11 school year budgets found that it included appropriations for 11 to 13 unfilled positions for programs that were not being offered at the Center. In addition, we noted that the Center understated the revenue from non-participating school districts, as well as revenue from charter school students who were enrolled in the Center. The Director stated that due to the complexity of the budget approval process it was better to over-estimate the Center's expenses than to try to get additional funding during the school year. By using the inflated budget figures, the Center received more tuition from its participating school districts than was necessary for the 2011-12 and 2010-11 school years.

As a result of the inflated budget and subsequent increased participating school district tuition rates, the Center collected excess revenue of $1.1 million and $1.2 million for the 2011-12 and 2010-11 school years, respectively. The Center did not refund these overpayments until April of the following school year. The Center based the amounts it refunded to the ten participating school districts on its independent auditors' prepared financial statements and enrollment computations.

Our audit also found that the Center's ten month delay in refunding the excess tuition to the school districts allowed it to accumulate an additional $1 million in revenue, which provided the Center's general operating fund with a continuing cash cushion. Best business practices dictate that such excess tuition should be refunded timely in order to facilitate the proper matching of revenue and expenses in the proper fiscal year, as required by Generally Accepted Accounting Principles.

An area charter school also sent students to the Center. Its tuition rates were based on an agreement negotiated between the Center's Director and the charter school. The agreement stated that the Center's per student tuition rate would be calculated at one-half of the tuition the charter school received from that student's home district. The tuition the charter school paid to the Center varied from $4,000 for a regular student to $7,500 for a special education student. In reviewing the JOC's meeting minutes we found no evidence that the JOC approved the charter

Criteria relevant to the finding (continued):

The Public School Code, 24 PS § 18-1847, "Attendance of pupils from nonparticipating districts" provides, in part:

On obtaining the consent of an area vocational–technical board operating an area vocational-technical school or technical institute, and with or without the consent of the board of school directors of the district in which the pupil resides, any pupil residing in a nonparticipating district may attend the area vocational-technical school or technical institute. The school district in which the pupil resides shall be charged, for each pupil attending the area vocational technical school or technical institute, an amount equal to the total approved budget for current expenses, debt service and capital outlay divided by the number of pupils enrolled in the school."

school enrollees or the tuition agreement, as required by the PSC.

Failed to Prepare Periodic Financial Statements

Our review of meeting minutes, our discussion with Center administrative personnel, and our review of the independent auditor's reports[1] revealed that the Center's business office did not prepare or present monthly financial statements to the JOC. The lack of periodic financial statements was attributed to the Business Manager's unfamiliarity with the Center's financial software program and (his/her) inability to produce any type of financial statements. Had the JOC required and received these financial statements, the Center's participating school districts would have been better informed of the accumulating cash balances and the Center's failure to timely return the excess revenue.

Lack of Periodic Budgetary Reports

The Center's business office also did not provide the JOC with budgetary reports. Typically these reports present the individual line-item budget, monthly and year-to-date activity, appropriation encumbrances, and remaining budgetary amount. Without the budgetary reports, the JOC could not effectively carry out their responsibilities nor do the following:

- Ensure that the Center's expenditures reflected the line-item spending within the constraints defined by the budgets.
- Enable the JOC to more deliberately question the administration about the current operating position of the Center in relation to the potential revenues and expenditures to be expected for the remainder of the school year.

[1] Management Comment in the independent auditor's reports for the years ended June 30, 2008, 2009, 2010, and 2011: "In the normal course of business the Mercer County Career Center does not prepare internally generated financial statements in accordance with generally accepted accounting principles and consequently does not have a process, including internal controls, in place in order to prepare the financial statements in conformity with professional standards."

Criteria relevant to the finding (continued):

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government.* (November 1999), pg 1.

- Timely identify inaccuracies in the initial budgetary assumptions and make any necessary changes in the Center's spending to address those errors, including postponing discretionary projects.

- Implement budgetary changes in a timely manner to help prevent the Center from over expending its budget.

<u>Lack of Business Office Involvement in Program Operations</u>

Our audit also found that the business office was not involved in the overall operations of the Center's programs. For example, the Center offered a pre-school program at a cost of $20 per month per child. The business office was unable to provide any information to us relating to how the fee was determined or the last time a cost analysis was performed. Instead, the responsibility was placed with the program's instructor.

In addition, the Center offered a cosmetology program for local residents to have beauty shop services performed at a reduced cost. Again, we were informed that the responsibility for determining the charges for this program was assigned to the instructor and not the business office. Although we did learn later that the business office processed purchase orders for the beauty shop supplies and paid its invoices, the business office had no inventory accounting records and did not require the instructor to account for the purchased supplies against the services provided.

By not using a cost analysis to determine the fees for the services provided to the general public, the business office increased the risk that the Center could be using taxpayer money to subsidize these programs. Furthermore, failing to require its program instructors to account for purchases and supplies increases the potential for misuse.

Similarly, our audit found that the Center did not keep any type of inventory system or controls for accounting for tools and equipment used in the Center's trade shops. Without a proper inventory of these tools and equipment, items could be misplaced or lost, resulting in the use of taxpayers' money for excessive replacement costs.

The lack of a good inventory system was attributed to poor internal controls which prevented the business office from properly accounting for tools and equipment.

Depository Accounts

The PSC requires that, on an annual basis, the JOC pass a resolution identifying the allowable depository institutions that the Center can utilize. The auditors' review of the JOC meeting minutes found that the JOC had only approved one of the Center's depositories. Discussion with members of the administration revealed that this was an oversight on their part. We were informed that corrective action would be implemented to ensure that future resolutions clearly reflect all involved financial institutions.

The JOC is ultimately responsible for the Center's programmatic and financial operations. It is their duty to ensure that they are receiving the information they need to make prudent operational decisions. Unfortunately, the JOC is encumbered by the Center's serious internal control deficiencies. These internal control deficiencies within the business office have caused inappropriate budgeting practices, a breakdown of communication with the JOC, and a lack of program monitoring. Most concerning is that the Center has compensated for these deficiencies by inflating their annual budgets and overcharging their supporting districts by over $1 million.

Recommendations

The *Mercer County Career Center* should:

1. Immediately stop overstating expenditures and understating revenues in the annual budget. In addition, develop a realistic budget that charges the Center's participating school districts a tuition rate reflective of the budget.

2. Immediately develop and implement procedures to ensure that both preliminary and final budgets are prepared, presented, and approved by the JOC in compliance with the PSC.

3. Consult with the independent auditors to develop necessary procedures to ensure that monthly financial statements/reports are prepared in accordance with

Generally Accepted Accounting Principles and presented to the JOC.

4. Require the business office to implement procedures to ensure timely reimbursement of excess funds received from participating districts.

5. Require administrative personnel to report to the JOC all non-participating and charter school students for approval and tuition recognition.

6. Require administrative personnel to develop strong policies and procedures to ensure that general operating funds are not subsidizing non-student related expenses.

7. Ensure that the Center's Business Manager is proficient in the use of its financial software program and amend his/her job description to tie this proficiency to job performance.

8. Require the business office to develop appropriate cost analysis procedures to ensure that general public program fees are sufficient to cover associated costs and that general funds are not subsidizing non-student related expenses.

9. Develop and implement an appropriate inventory control system to ensure that equipment, tools, and supplies are properly accounted for and that Center funds are not being needlessly expended to replace unaccounted for tools and equipment.

The *Mercer County Career Center Joint Operating Committee* should:

10. Ensure that it is receiving budgetary reports that include individual line-item budgets, monthly and year-to-date activity, appropriation encumbrances, and remaining budgetary amounts.

11. Ensure that, prior to approving the Center's budget, its members closely review the revenues and expenditures to ensure they are accurately forecast.

Management Response

Management stated the following:

"**Budget Preparation**

"[T]he Career Center recognizes the importance of the budget preparation process and working in cooperation with the districts. Procedures outlined in the Joint Operating Committee Policy 603 clearly involve the participating school districts in the process. A draft budget is created by the Administrative Director and reviewed with the Superintendent of Record. It is reviewed by the Professional Advisory Committee (superintendents from each participating school districts) and changes recommended. The Joint Operating Committee reviews the proposed budget and recommends changes or submittal to the school boards of the participating school districts for approval. The budget is then presented for approval to the ten school boards of the participating school districts. Prior to adoption of their budgets, the school districts make their budget available for public inspection, which includes the amount for vocational education expenses.

Financial Report

Because the Treasurer's Report is provided to the Joint Operating Committee each month, management disagrees with the finding regarding financial reports. However, to increase transparency the Business Manager has created a more detailed financial report to provide to the members of the Joint Operating Committee members each month. This report will clearly show when budget transfers are needed.

Budget Transfers

Regarding budget transfers, the Business Manager has reviewed the Manual of Accounting available on the Pennsylvania Department of Education website. Effective immediately, all transfers will be handled according to the regulations. All transfers requiring approval will be approved by the Joint Operating Committee monthly, as needed, instead of at the end of the year.

Depositories

Although the primary bank used by the Career Center is annually approved by the Joint Operating Committee, it has been an oversight not to approve secondary depositories. When the depositories are approved for the 2013-14 school year, all depositories will be submitted to the Joint Operating Committee for approval."

Auditor Conclusion

While we are encouraged to learn that the Center is making changes to its business office's policies and procedures, we are concerned that the Center does not appear to be addressing its practice of inflating its annual budget for the purpose of overcharging its supporting districts. Overcharging tuition through an artificially inflated budget may provide the Center with a convenient financial cushion for the school year, but it has the reverse effect for the supporting districts. Our finding stands as written.

Finding No. 2

Business Office Failed to Follow Provisions of Construction Bond Agreement

Criteria relevant to the finding:

Pennsylvania Department of Education PlanCon instructions state:

"When a[n] . . . area vocational-technical school . . . undertakes a major construction project and seeks reimbursement from the Commonwealth, a process known as PlanCon is initiated. PlanCon, an acronym for Planning and Construction Workbook, is a set of forms and procedures used to apply for Commonwealth reimbursement. The PlanCon forms are designed to: (1) document a local school entity's planning process; (2) provide justification for a project to the public; (3) ascertain compliance with state laws and regulations; and (4) establish the level of state participation in the cost of the project."

The instructions further state:

"Part H 'Project Financing,' addresses the financing used for a project. Calculation of the temporary reimbursable percent for a project's financing occurs at PlanCon Part H. Once PlanCon Part H is approved, reimbursement on a project commences. . . .

Part J 'Project Accounting Based on Final Costs' is the final accounting for the project. The permanent reimbursable percent is calculated at PlanCon Part J."

PlanCon Part J is due within three years of the date of the bid opening.

On October 1, 2009, the Mercer County Career Center (Center), in conjunction with the State Public School Building Authority, issued $13,695,000 in School Building Revenue Bonds. As part of the bond agreement, the Center's final construction cost accounting, also known as PlanCon J, was due to the Pennsylvania Department of Education (PDE) within three years of the bid opening date of August 5, 2009. Our audit found that the Center had not completed or submitted its required final accounting to PDE nor requested an extension. In addition, the Center's Business Manager did not request reimbursements from the bond agent in a timely manner and failed to follow the payment schedules in the promissory notes signed by the ten participating school districts.

As indicated in the background section of this audit report, the Center is operated, managed, and primarily funded by its ten participating school districts. Consequently, because the Center had failed to submit the required final Project Accounting Report and supporting documentation to PDE, the Center's ten participating school districts had not been receiving the full state reimbursement for their share of the Center's construction project. Specifically, without the Center's final report, PDE was unable to perform the necessary analysis on the accuracy of the construction project costs and could not calculate the final state reimbursement rates for the participating school districts. The Business Manager was unaware of PDE's filing deadline and, as a result, the final report submission was missed.

In addition to failing to submit the final accounting report to PDE, the Business Manager did not request reimbursements from the bond agent in a timely manner. This reimbursement was available to the Center because, after the issuance of the bonds, the Center was able to draw down funds based on the progress of the construction project and the timely submission of reimbursable invoices to the bond agent. The bond indenture required the undrawn funds to be invested in an interest bearing account until the Center used them. Therefore, the Center earns interest on the undrawn bond funds, while making interest payments to the bond

Criteria relevant to the finding (continued):

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government,* internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government.* (November 1999), pg 1.

holder. At the time of our audit, the Center's undrawn funds were approximately $1.6 million.

The delay in the Center's drawing down of bond funds resulted in additional an $18,983 in accrued interest. Because PDE adjusts project reimbursement rates based on earned interest, the debt service reimbursement paid to the ten participating school districts was lower than it should have been.

Finally, our audit found that the Business Manager failed to follow the payment schedules in the promissory notes signed by the ten participating school districts, forcing the Center to remit the debt servicing payments using general operating account funds. This practice is specifically prohibited by the Public School Code, which states that budgeted funds cannot be used for purposes other than what they have been designated for in the approved budget. Specifically, our audit found that the promissory notes signed by the ten participating school districts required them to remit supplemental bond payments to the Center on April 15th and October 15th of each year, based on a repayment schedule. Compliance with these schedules would have guaranteed the timely receipt of the debt servicing funds as required by the master note repayment schedule.

However, instead of enforcing the provisions of the individual promissory notes, the Center's Business Manager adopted her own procedures for invoicing the involved school districts after she received the bank's semi-annual invoices. This procedure resulted in the Center not receiving the districts' required bond payments until after the Center had remitted the debt servicing payments using general operating account funds.

By not receiving the districts' required bond payments on the promissory note schedule, the Center technically borrowed from itself by utilizing money from its general operating fund.

Moreover, the Center could not have made payments from its general operating account to cover its expenses during the delay in receiving reimbursements from both the bond agent and the school districts if it had not accumulated a cash cushion based on inflated budgetary information (see Finding No. 1). Our review of the Joint Operating

Committee's (JOC) meeting minutes and our discussions with administrative personnel, including the Acting Director and the JOC President, revealed that the JOC was unaware of the general fund borrowing practice and was also unaware that the invoice procedures were being performed.

After we made the Center aware of the Business Manager's failure to complete a final construction cost accounting report to PDE, it requested and PDE granted a final project cost submission extension. Furthermore, after we completed our audit work, we were notified that the Center had processed additional construction invoices which resulted in a drawdown of approximately $1.1 million of the $1.6 million available funding that remained. However, the ten participating school districts continued to receive their state reimbursements at the lower preliminary rate.

It is the responsibility of the JOC to have a reporting system in place to ensure that it receives the information it needs to make appropriate operational and financial decisions. Furthermore, it is the responsibility of the Center's Executive Director to have the proper policies and procedures in place to evaluate whether or not, and to what extent, the Center's executive staff is performing their duties.

Our finding illustrates that without proper internal controls, the Center cannot effectively perform its fiduciary duties. In addition, this failure of oversight has the potential to negatively impact the financial position of the school districts that support the Center. As the representatives of those districts, it is the JOC's responsibility to closely monitor the Center's financial activities, and to ensure that its management is acting with fidelity.

Recommendations

The *Mercer County Career Center* should:

1. Immediately notify PDE of the increased earned interest it received so that PDE can provide the participating school districts' with the correct amount of debt service reimbursement.

2. Contact PDE for the amount of unused funds and earned interest for assistance in the proper accounting methodology to be utilized in the completion of future debt service reimbursement requests.

3. Consult with the Center's solicitor regarding the undrawn funds and determine available usage options.

4. Internally develop appropriate and accurate final project accounting reports in accordance with Generally Accepted Accounting Principles for external audit as required by PDE instructions.

The *Mercer County Career Center Joint Operating Committee* should:

5. Ensure that it is receiving the information it needs to monitor the Center's financial activities.

Management Response

Management stated the following:

"**Plan Con J**

Management agrees with the finding. The deadline for filing Plan Con J was missed. Upon realizing the deadline was past, the Business Manager requested and was granted an extension from the Pennsylvania Department of Education. Plan Con J will be filed prior to the extension deadline of March 27, 2013.

Debt Service Payment

Failure of school districts to pay invoices for debt service in a timely manner caused the funds not to be available when the debt service payment was due. Therefore, payment was made even though all funds may not have been received from the districts. Corrective action will occur by billing districts well in advance of the due date for the debt service payment and allowing ample time for districts to submit funds to the Career Center."

Auditor Conclusion

We are encouraged that the Center is taking corrective action. However, the Center still must inform PDE of the unused funds and corresponding earned interest in order for PDE to adjust future debt service reimbursement calculations.

Finding No. 3

Failure to Obtain Required Foster Student Information for Membership Reporting

Criteria relevant to the finding:

22 Pa. Code § 11.11(a)(1) of the State Board of Education Regulations provides, in part:

"A school age child is entitled to attend the public schools of the child's district of residence. A child's district of residence is that in which the parents or the guardian resides."

24 P.S. § 13-1305(a) of the Public School Code (PSC) provides, in part:

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

24 P.S. § 25-2503(c) of the PSC provides, in part:

"Each school district . . . which accepts any non-resident child in its school under the provisions of section one thousand three hundred five . . . shall be paid by the Commonwealth an amount equal to the tuition charge per elementary pupil or the tuition charge per high school pupil. . . ."

Beginning in the 2009-10 school year, the Mercer County Career Center (Center) was responsible to directly report student membership and attendance data to the Pennsylvania Department of Education (PDE) through the Pennsylvania Information Management System (PIMS). Our internal control review found that nonresident children placed in private homes (foster children) and children who were wards of the state were miscoded and incorrectly reported to PIMS.

The misreporting of residency information was caused by the Center's unfamiliarity with the PIMS defined residency code classifications and by the Center not requesting and receiving complete student registration information at the time of enrollment. The residency miscoding of the nonresident foster children and wards of the state resulted in PDE under reimbursing the sending school districts for nonresident students.

Based on our audit, the Center's child accounting personnel contacted the sending districts requesting verification of residency and student status. However, as of the completion of our audit work, the school districts involved had not yet completed their record reviews relating to the Center's student enrollment. Therefore, we could not recalculate the District's correct nonresident tuition amount.

The Center's management is responsible for having appropriate internal controls in place to gather and report student data. Without these policies and procedures, the Center cannot be assured that it is reporting accurate student data.

Recommendations

The *Mercer County Career Center* should:

1. Continue to follow-up with the schools involved to obtain all required documentation for nonresident foster students.

2. In conjunction with PDE, prepare and upload to PIMS the required residency corrections so that reimbursement adjustments can be made for the involved schools.

3. Develop written guidelines and procedures to ensure that all required PIMS student registration information is received by the Center to ensure accurate reporting to PDE.

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

The *Pennsylvania Department of Education* should:

5. Assist the Center in correcting its residency membership reporting errors to ensure that the schools involved receive the reimbursement to which they are entitled.

Management Response

Management stated the following:

"Management agrees that foster student information has not been collect[ed]. A Resident Status field has been added to our child account[ing] database and this information will be collected in the future."

Auditor Conclusion

We are pleased that the Center has already taken steps to improve its internal controls over student data collection and reporting. We will evaluate the Center's new procedures during our next cyclical audit.

Observation

Mercer County Career Center Lacks Sufficient Internal Controls Over Its Student Record Data

Criteria relevant to the observation:

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 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 Center's controls over data integrity found that internal controls need to be improved. Specifically, our review found that:

- The Center's child accounting software program did not allow for non-residency reporting, thus preventing the required reporting of nonresident students attributable to foster or court placement, parent-paid tuition, or tuition-waived students.

- The Center could provide no verification that all other reporting requirements were correctly addressed in its child accounting software system.

- The Center did not have adequate procedures in place to ensure continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

Criteria relevant to the observation:

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.

It is the responsibility of the Center's management to have the proper policies and procedures in place to ensure that student data is appropriately collected and submitted. Proper internal controls include a continuity plan for student data entry into PIMS.

Recommendations

The *Mercer County Career Center* should:

1. Effectuate corrective action to amend its child accounting software program to allow for the reporting of non-resident students based on PDE-prescribed codes.

2. Review its child accounting software to ensure that all reporting can be performed as required.

3. Develop appropriate procedures for the data submission process and implement appropriate cross-training of at least one other employee on PIMS data submission.

Management Response

Management stated the following

"**Child Accounting Software**

Management agrees the failure of the school's child accounting software to maintain certain student data. Currently, plans are underway to expand the system in order to support additional data required for PIM[S] reporting. In addition, improved procedures will be developed to collect required data in a more efficient manner.

Cross training

The administration is reviewing assignments and will identify staff members who will be made aware of PIMS activities. Training will be determined to ensure adequate oversight."

Auditor Conclusion

We are pleased that the Center is taking action to improve the collection and monitoring of student data. We will evaluate the Center's new procedures during our next cyclical audit.

Status of Prior Audit Findings and Observation

Our prior audit of the Mercer County Career Center resulted in no findings or observations.

Distribution List

This report was initially distributed to the Center's Superintendent of Record, the Joint Operating Committee, our website at www.auditorgen.state.pa.us, and the following stakeholders:

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