

APPALACHIA INTERMEDIATE UNIT #8  
BLAIR COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 2010



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

Mr. B. Wayne Lohr, Board President  
Appalachia Intermediate Unit #8  
4500 6th Avenue  
Altoona, Pennsylvania 16602

Dear Governor Rendell and Mr. Lohr:

We conducted a performance audit of the Appalachia Intermediate Unit #8 (AIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period August 24, 2007 through December 3, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the AIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the AIU's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

March 25, 2010

cc: **APPALACHIA INTERMEDIATE UNIT #8** Board Members



## **Table of Contents**

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Status of Prior Audit Findings and Observations .....	7
Distribution List .....	9



## **Executive Summary**

---

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Appalachia Intermediate Unit #8 (AIU). Our audit sought to answer certain questions regarding the AIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the AIU in response to our prior audit recommendations.

Our audit scope covered the period August 24, 2007 through December 3, 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 35 participating school districts, nonpublic schools, and institutions in Bedford, Blair, Cambria and Somerset 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 4500 6th Avenue, Altoona, Pennsylvania.

The programs offered by the IU served 9,783 students in public schools and 5,541 students in nonpublic schools. The staff consisted of 17 administrators, 174 teachers, and 229 full-time and part time support personnel.

The accounts of the IU are organized on the basis of programs and account groups, each of which are considered a separate accounting entity. IU resources are allocated to, and accounted for, in individual programs based on purposes for which the funds are to be spent and the means by which spending activities are controlled.

The various programs which receive Commonwealth funds are accounted for in the following:

### **General Fund**

The general fund is the primary operating fund of the IU. It is used to account for all financial resources and accounts for the general governmental activities of the IU.

Services provided to participating school districts through the general fund included:

- administration;
- curriculum development and instructional improvement;
- educational planning;
- instructional materials;
- management services;
- continuing professional education
- pupil personnel;
- state and federal liaison; and
- nonpublic program subsidy - Act 89.

Lastly, the AIU received more than \$3.1 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 AIU received more than \$8.4 million from the Commonwealth in special revenue funds in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the AIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. For the audited period, our audit of the AIU resulted in no findings or observations.

### **Status of Prior Audit Findings and Observations.**

With regard to the status of our prior audit recommendations to the AIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the AIU had taken appropriate corrective action in implementing our recommendations pertaining to the untimely filing of a Statements of Financial Interests (see page 7).



## 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 24, 2007 through December 3, 2009, except for the verification of professional employee certification which was performed for the school year 2008-09.

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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the AIU's compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ Is the IU's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

*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.

- ✓ 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 District 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.

AIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the IU is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

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

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 AIU operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 4, 2008, we reviewed the AIU's response to DE dated January 5, 2009. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

---

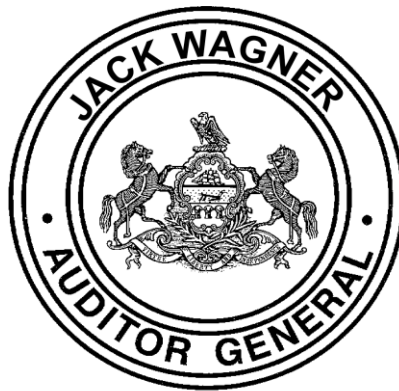
---

**F**or the audited period, our audit of Appalachia Intermediate Unit #8 resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

Our prior audit of the Appalachia Intermediate #8 (AIU) for the school years 2005-06 and 2004-05 resulted in one reported finding. This finding pertained to the failure of an ex-board member to timely file Statements of Financial Interests. As part of our current audit, we determined the status of corrective action taken by the AIU to implement our prior recommendations. We analyzed the Executive Director's written response provided to the Department of Education, performed audit procedures, and questioned AIU personnel regarding the prior finding. As shown below, we found that the AIU did implement recommendations related to the filing of Statements of Financial Interests.

<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: Ex-Board Member Failed to Timely File Statement of Financial Interests</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of the District's solicitor in regard to the board's responsibility when an elected board member fails to file Statements of Financial Interests.</li> <li>2. Develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Public Official and Employee Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the AIU's records found one ex-board member failed to timely file his Statements of Financial Interests for the year ended December 31, 2006. After being notified by AIU personnel of the violation, the individual filed his Statements of Financial Interests on July 30, 2007.</p> <p>AIU personnel stated they were unable to locate the board member after his resignation from the board. However, AIU personnel were able to locate the ex-board member during the course of the audit.</p>	<p><b>Current Status:</b></p> <p>The individual cited during our last audit filed his Statements of Financial Interests on July 30, 2007.</p> <p>The AIU now places an annual notification of the requirement to file Statements of Financial Interests in the board agenda for the months of January, June and October.</p> <p>Based on the results of our current audit, we determined the AIU took appropriate corrective action.</p>



## **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](http://www.auditorgen.state.pa.us), and the following:

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

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

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

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

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

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

Ms. Barbara Nelson,  
Director, Bureau of Budget and Fiscal  
Management  
Department of Education  
4<sup>th</sup> Floor, 333 Market Street  
Harrisburg, PA 17126

Dr. David Wazeter  
Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

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





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

