ERIE COUNTY TECHNICAL SCHOOL

PROPOSED AGENDA ITEM

DATE: January 26, 2006

SUBJECT: Auditor General Performance Audit Report

INITIATED BY: Paul Fritz, Business Manager

DESCRIPTION:

The Auditor General's Performance Audit Report has been received for fiscal years ending June 30, 2004 and 2003.

The audit results were discussed with the Operating Committee at the time of the conclusion of the audit in February and in March of 2005.

The audit finding in the report is concerning the internal controls governing use of procurement cards.

Our proposed response to PDE, as required, is attached on the following pages for JOC review.

RECOMMENDATION:

Motion to accept the Auditor General's report for fiscal years ending June 30, 2004 and 2003 and to submit the responses to PA Department of Education, as attached herein.

Erie County
Technical
School

January 26, 2006

Ms. Connie Derr
Audit Coordinator
Division of Budget
Bureau of Budget and Fiscal Management
Department of Education
333 Market St – 4th Floor
Harrisburg, PA 17126-0333

At a meeting of the Erie County Technical School Joint Operating Committee held on the 26th day of January 2006 the following members' attendance and vote was recorded as indicated:

JOC Member name	School District	Present	Absent	Vote
Mrs. Suzie Rosendahl	Fairview			
Mr. John Ogden	Fort LeBoeuf			
Mr. Robert Heath	Girard			
Mr. James Bucksbee	General McLane			
Mr. Jack Wood	Harbor Creek			
Mr. Thomas Loftus	Iroquois			
Mrs. Susan Sullivan	Millcreek			
Mr. David Rodgers	North East			
Vacant	Northwestern			
Mrs. Loretta Price	Union City			
Mr. Eric Duda	Wattsburg			

The Auditor General's Performance Audit Report for the years ended June 30, 2003 and 2004 and in certain areas extending beyond June 30, 2004 was presented to the Operating Committee. The Committee studied the Audit Report to ascertain the facts relating to the finding in the Audit Report and has made a detailed written reply as follows:

- Finding – Lack of Internal Controls Governing the Use of Procurement Cards

The Auditor's recommendations and ECTS responses are:

1. Recommendation: require ECTS personnel be restricted to using their own procurement cards.
   Response: The employee usage agreement states "You are the only person entitled to use the card and are responsible for all charges made against the card."

Kenneth D. Frantz Education Complex 8500 Oliver Road Erie, PA 16509-4699 Phone: (814) 864-0641 Fax: (814) 864-9400

The administration reiterated this rule at faculty meetings initially on 8/31/2004, again on 2/01/2005, and again on 8/31/05.
There were times, prior to 2/01/2005, when cardholders did not have credit remaining on their cards and had others make purchases for them. At no time did any cardholder have their card used without express advance approval.
Spending limits have been adjusted at July 1, 2005 so that secretaries, for example, have adequate credit limits to purchase for their departments. Spending limits will be adjusted, if needed, again on July 1, 2006, and annually, as administration continues to monitor needs of the cardholders. Cardholders will be reminded, at least annually, that they are not permitted to allow other people to use their cards.

2. Recommendation: require ECTS personnel to follow employee usage agreement procedures and the administration to monitor the program consistently.
   Response: The administration reviewed the employee usage agreement at faculty meetings initially on 8/31/2004, again on 2/01/2005, and again on 8/31/05. The Administration reviews each individual purchase during each and every monthly billing cycle. Administration will review the usage agreement with all cardholders, at least annually, to restate that they are to follow the usage agreement in its entirety.

3. Recommendation: require ECTS personnel to submit receipts to the ECTS for purchases made.
   Response: The employee usage agreement states "Cardholders are expected to comply with internal control procedures in order to protect school assets. This includes keeping receipts, reconciling PNC Visa Commercial Card monthly memo statements and following proper card security measures. Original receipts must be given to the ECTS Business Manager to document each purchase." The administration reiterated this rule at faculty meetings initially on 8/31/2004, again on 2/01/2005, and again on 8/31/05. The Administration reviews each individual purchase for receipts and documentation during each and every monthly billing cycle.

4. Recommendation: provide staff training regarding the usage of the sales tax exemption number.
   Response: The employee usage agreement states "Purchases are exempt from PA sales and use tax. Inform your vendor that the PA sales tax exemption number is 76-25280-3. This number is printed on the sticker on your card. Sales tax exemption certificates, if required by the vendor, are available from the Accounts Payable secretary in the Business Office." The administration reiterated this rule at faculty meetings initially on 8/31/2004, again on 2/01/2005, and again on 8/31/05. Additionally Administration reviews each individual purchase for payment of sales tax during each and every monthly billing cycle. A log is kept of sales tax paid and a petition for refund will be made annually. (A refund check was received from Pa Dept of Revenue for all sales tax paid during 04-05).

5. Recommendation: Additionally, the JOC should revise the employee usage agreement to include more stringent security controls over the cards.
   Response: The employee usage agreement has been revised to state " Cardholders are required to maintain the procurement card in a safe and secure location. The cards may be kept in the Business Office until needed for making a purchase, if desired. Otherwise each cardholder is required to keep the card secure."
   It is the responsibility of the cardholder to keep his/her own card. If the card is lost then the agreement states "A lost or stolen card should be reported immediately by telephone to PNC Bank Customer Service at 1-800-685-4039. This number is available 24 hours a day/7 days a week."
   The cards need to be available to users for internet, catalog, and store purchases at any time outside of the normal work day therefore administration will continue to permit cardholders to exercise control over their own cards.

The procurement card program was instituted for the 2004-2005 school year. The program was developed and implemented to improve the efficiency of purchasing and payment activities and to reduce processing expenses of producing requisitions, purchase orders and checks as well as to improve vendor relationships. The program has been very successful thus far and is expected to continue and improve. The first year of implementation (04-05) was expected to be a learning experience with modifications to policies and practices to be made as the system matured.

ECTS administration recognizes that the internal controls that are established for use of the cards need to be consistently and diligently adhered to. Card usage has been closely monitored for appropriateness of goods and services being purchased and for proper documentation of purchases and budgetary accounting. Staff training will be conducted at least annually concerning the proper use of our procurement cards.

Auditor recommendations are reasonable and reinforce management's position regarding the card program.

Respectively submitted,

Dr. Judith Miller
Superintendent of Record
Erie County Technical School

JOC Member name	School District	Signature
Mrs. Suzie Rosendahl	Fairview	
Mr. John Ogden	Fort LeBoeuf	
Mr. Robert Heath	Girard	
Mr. James Bucksbee	General McLane	
Mr. Jack Wood	Harbor Creek	
Mr. Thomas Loftus	Iroquois	
Mrs. Susan Sullivan	Millcreek	
Mr. David Rodgers	North East	
Vacant	Northwestern	
Mrs. Loretta Price	Union City	
Mr. Eric Duda	Wattsburg	

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

November 22, 2005

Dr. Aldo Jackson, Director
ERIE COUNTY TECHNICAL SCHOOL
8500 Oliver Road
Erie, PA 16509

Dear Dr. Jackson:

Pursuant to the requirements of 72 P.S. § 403, we are transmitting one copy of the audit report of the **ERIE COUNTY TECHNICAL SCHOOL**, Erie County, Pennsylvania, for the years ended June 30, 2004 and 2003.

Sincerely,

Jack Wagner

JACK WAGNER
Auditor General

cc: **ERIE COUNTY TECHNICAL SCHOOL** Board Members

COMMONWEALTH OF PENNSYLVANIA

Department of the Auditor General

ERIE COUNTY TECHNICAL SCHOOL

ERIE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004

WITH FINDING AND RECOMMENDATIONS

THROUGH FEBRUARY 28, 2005

JACK WAGNER
AUDITOR GENERAL

ERIE COUNTY TECHNICAL SCHOOL
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004
WITH FINDING AND RECOMMENDATIONS
THROUGH FEBRUARY 28, 2005

ERIE COUNTY TECHNICAL SCHOOL
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JACK WAGNER

AUDITOR GENERAL

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

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

We have conducted a performance audit of the Erie County Technical School for the years ended June 30, 2004 and 2003, and in certain areas extending beyond June 30, 2004. 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.

The objective of our audit was to determine if the Erie County Technical School complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

Solely to assist us in planning and performing our audit, we made a study and evaluation of the internal controls of the Erie County Technical School to determine if internal controls were adequate to help ensure the school's compliance with state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit. Accordingly, we do not express any assurance on the internal controls.

The results of our tests indicated that, in all significant respects, the Erie County Technical School was in compliance with applicable state laws, regulations, contracts, grants, and administrative procedures, except as noted in the following finding further discussed in the Conclusion section of this report:

Finding – Lack of Internal Controls Governing the Use of Procurement Cards

We believe our recommendations, if implemented by the Erie County Technical School, will help ensure compliance with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

Independent Auditor's Report (Continued)

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

February 28, 2005

JACK WAGNER
Auditor General

Background

The school's administrative offices are located at 8500 Oliver Road, Erie, Pennsylvania.

According to school administrative officials, during 2003-04, the school provided basic educational services to 773 secondary pupils and 1,736 post-secondary pupils in various technical fields through the employment of 11 administrators, 27 teachers, and 23 full-time and part-time support personnel.

The operation, administration and management of the school are directed by a joint operating committee (JOC) which is comprised of 11 members from the following school districts:

Fairview	Fort LeBoeuf
General McLane	Girard
Harbor Creek	Iroquois
Millcreek Township	North East
Northwestern	Union City Area
Wattsburg	

The JOC members are appointed by the individual school boards at the December meeting, each to serve a three-year term.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year the school incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 11 and 12 of this report for a listing of the state revenue the district received during the 2003-04 and 2002-03 school years and for descriptions of the state revenue received by category.

In July, the Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. Technical school annual financial reports and the related certified audits of the payments are generally not available before October 31st of the following fiscal year.

OBJECTIVE AND SCOPE

Our audit objective was to determine if the Erie County Technical School complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

The scope of our audit covered the years ended June 30, 2004 and 2003, and in certain areas extending beyond June 30, 2004.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended.

The proper administration of a technical school requires the joint operating committee (JOC) members to establish and maintain internal controls to provide reasonable assurance that specific technical school objectives will be achieved. JOC members are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the Erie County Technical School's internal controls as they relate to the school's compliance with applicable state laws, regulations, contracts, grants, and administrative procedures. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year the school incurs the qualifying cost. Since we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a technical school's operations for a given year until after this information becomes available.

CONCLUSION

The objective of our audit was to determine if the Erie County Technical School complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the Erie County Technical School complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit, except as noted in the finding listed below. The finding and recommendations were reviewed with representatives of Erie County Technical School, and their comments have been included in this report.

Finding – Lack of Internal Controls Governing the Use of Procurement Cards

Internal control weaknesses were noted in our review of the Erie County Technical School's (ECTS) procurement card system. The ECTS has 43 procurement cards with various monthly spending limits assigned to each card. Of the 43 cardholders, 25 cardholders have declining balance spending limits, for the school year, ranging from $2,500 to $10,000. That is, a cardholder is assigned an amount, for example, $5,000, and is permitted to spend down that amount until it reaches a zero balance.

The remaining 18 cardholders have an overall total spending limit of $100,000 monthly. That is, the 18 cardholders can spend, as a group, up to $100,000 a month. The charges to the procurement cards are then paid in full for that month.

On May 27, 2004, the joint operating committee (JOC) of ECTS approved the procurement card program for staff use when purchasing school-related items. The administration developed an employee usage agreement to be signed by the individual cardholders which verifies their understanding of the guidelines and their agreement to comply with them. The agreements were signed by the cardholders prior to issuance of the cards.

The employee usage agreement states, in pertinent part:

1. The . . . Commercial Card is provided to employees based on their need to purchase school-related goods and services.

3. You are the only person entitled to use the card and are responsible for all charges made against the card.

Finding (Continued)

6. Cardholders are expected to comply with internal control procedures in order to protect school assets. This includes keeping receipts, reconciling . . . monthly memo statements and following proper card security measures. Original receipts must be given to the Accounts Payable secretary to document each purchase.

14. Cardholders have spending limits assigned to their cards. It is each cardholder's responsibility to purchase within the card limits, as well as the approved budget for the account code. Cardholders are to monitor the budget account code available balance before making purchases with the card.

15. Purchases are exempt from PA sales and use tax. Inform your vendor that the PA sales tax exemption number is xx-xxxxx-x. This number is printed on the sticker on your card. Sales tax exemption certificates, if required by the vendor, are available from the Accounts Payable secretary in the Business Office.

Procurement card invoices were reviewed for a period of seven months for calendar year 2004. In our review, we examined a random number sample of 260 purchasing card transactions made by ECTS during the period June 1, 2004 through December 31, 2004. Various weaknesses were disclosed in the review as related to the requirements provided in the usage agreement.

Our review disclosed that in 34 transactions, Pennsylvania sales tax was paid, totaling $401. The business manager stated that he was aware of the sales tax problem. However, he did not address the problem with ECTS cardholders until the auditors brought it to his attention. On February 17, 2005, he sent an email to all cardholders reiterating the employee usage agreement requirement #15 regarding sales tax. In an interview with an ECTS cardholder (technical instructor), chosen at random, it was disclosed that the cards were distributed during an in-service training session at the beginning of the school year, but that the instructor did not become aware of the sales tax issue until the February email was distributed by the business manager. He also informed us that he did not know the sales tax number was on the cards.

For ten transactions totaling $3,045, receipts/invoices were not provided, violating #6 of the employee usage agreement requirements. There was no explanation given for the missing receipts/invoices.

An additional 15 transactions totaling $14,267 were made by someone else other than the cardholder, a violation of #3 of the usage agreement requirements. Also, purchases were made by several individuals using the school principal's procurement card because the individual's cards purchasing limit was used up. This is a violation of employee usage agreement requirement #14.

Finding (Continued)

The internal control weaknesses resulted from the ECTS's failure to implement policy and procedures necessary to monitor purchases made with the procurement cards, identifying and correcting any employee violations in relationship to the procurement card usage requirements.

Recommendations

The JOC should:

- require ECTS personnel be restricted to using their own procurement cards;
- require ECTS personnel to follow employee usage agreement procedures and the administration to monitor the program consistently;
- require ECTS personnel to submit receipts to the ECTS for purchases made; and
- provide staff training regarding the usage of the sales tax exemption number.

Additionally, the JOC should revise the employee usage agreement to include more stringent security controls over the cards, (for example: the cards should be secured in the ECTS business office until the time the purchase is to be made.)

Response of Management

Management provided a written response indicating agreement with the finding, stating:

> The procurement card program was instituted for the 2004-05 school year and has been in use for the past 8 months. The program was developed and implemented to improved the efficiency of purchasing and payment activities and to reduce processing expenses of producing requisitions, purchase orders and checks as well as to improve vendor relationships. The program has been very successful thus far and is expected to continue and improve. The first year of implementation was expected to be a learning experience with modifications to policies and practices to be made as the system matures.

Finding (Continued)

ECTS administration recognizes that the internal controls that are established for use of the cards need to be consistently and diligently adhered to. Card usage has been closely monitored for appropriateness of goods and services being purchased and for proper documentation of purchases and budgetary accounting.

Auditor recommendations are reasonable and will be addressed;

1. The Operating Committee has adopted Board Policy No. 625-Procurement cards.

2. ECTS personnel are required to follow the usage agreement. Follow –up staff training will be provided at least annually.

    a. Gasoline and food purchases will be fully documented.
    b. Reinforce that purchases are exempt from Pa sales tax.
    c. Only cardholders are permitted to purchase goods and services with their card; no other employee can purchase with someone else's card.
    d. Cardholder is responsible for the proper budgetary accounting of purchases.

3. Receipts or substantive documentation is required for all card purchases, or reimbursement will be collected.

4. Cardholders will be required to use only vendors that will cancel reservations, etc. at no charge.

5. Cardholders are required, by agreement, to safeguard their procurement cards.

SUPPLEMENTARY INFORMATION [UNAUDITED]

Schedule of State Revenue Received

The school reported it received state revenue of $764,394 and $831,555, respectively, for the years ended June 30, 2004 and 2003, as detailed in the following schedule:

	2004	2003
STATE REVENUE		
School Performance Incentives	$ -	$ 28,106
Vocational Education	595,172	605,201
Alternative Education	40,664	31,453
Safe Schools	-	4,037
Social Security and Medicare Taxes	83,690	83,624
Retirement	43,186	13,664
Other Program Subsidies/Grants:		
PA Women Work	1,682	56,318
Community Service	-	9,152
TOTAL STATE REVENUE	$764,394	$831,555

SUPPLEMENTARY INFORMATION [UNAUDITED]

Description of State Revenue Received per the Pennsylvania Accounting Manual

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2504, 2506 and 2507 of the Public School Code.

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Safe Schools

Revenue received from the Commonwealth as subsidy for Safe School programs.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

BUREAU OF SCHOOL AUDITS

AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the superintendent of record of the technical school, the joint operating committee members, our website address at www.auditorgen.state.pa.us, and the following:

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

Mr. John Godlewski, Director
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Mr. David Helfman, Research Manager
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400 North Third Street - Box 1724
Harrisburg, PA 17105

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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, Pennsylvania 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.