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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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SEP 11 2003

MEMORANDUM

TO: Susan Sclafani
Acting Assistant Secretary for Vocational and Adult Education


FROM: Richard J. Dowd
Regional Inspector General for Audit

SUBJECT: FINAL AUDIT REPORT
Audit of Indiana's Management Controls Over Perkins III Performance Data (Control Number ED-OIG/ A05-D0012)

You have been designated as the action official responsible for the resolution of the findings and recommendations in the attached final report. We have also provided a copy to the auditee and to your Audit Liaison Officer.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Please provide these documents for review, electronically if you wish or by mail, to:

Richard J. Dowd
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
111 N. Canal Street, Suite 940
Chicago, IL 60606-7204

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the number of audits unresolved. In addition, any report unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions, please contact me at 312-886-6503.

Attachment

cc: Helen Taylor, Audit Liaison Officer, OVAE

Audit of Indiana's Management Controls Over Perkins III Performance Data



FINAL AUDIT REPORT

Control Number ED-OIG/A05-D0012
September 2003

Our mission is to promote the efficiency,
effectiveness, and integrity of the
Department's programs and operations.



U.S. Department of Education
Office of Inspector General
Chicago, Illinois

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with Freedom of Information Act (5U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.



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ED-OIG/A05-D0012

SEP 11 2003

Alan Degner
Commissioner
Indiana Department of Workforce Development
Indiana Government Center South
10 North Senate Avenue
Indianapolis, IN 46204-2277

Dear Mr. Degner:

Enclosed is our final report entitled Audit of Indiana's Management Controls Over Perkins III Performance Data. If you have any comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Susan Sclafani, Acting Assistant Secretary
Office of Vocational and Adult Education
U.S. Department of Education
Mary E. Switzer Building
Room 4090
330 C Street, S.W.
Washington, DC 20202-7100

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Regional Inspector General
for Audit

Enclosure

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Executive Summary

Our objective was to assess the management controls at the Indiana Department of Workforce Development (DWD) and local agencies to ensure that the performance data reported¹ to the U.S. Department of Education (ED) for the Carl D. Perkins Vocational and Applied Technology Education Act, Public Law 105-332 (Perkins III) for program year 2000-2001 were complete, accurate, and reliable.

DWD and the three local agencies we audited lacked adequate controls to ensure its final Perkins III performance data were complete, accurate, and reliable. DWD lacked adequate input, processing, and output controls. The local agencies lacked adequate input controls. DWD and the local agencies also lacked written policies and procedures describing the controls used to ensure data are complete and accurate. DWD's Perkins III consolidated annual report to ED for program year 2000-2001 was neither complete, accurate, nor reliable. Specifically, our audit disclosed that

- Inadequate data input controls at DWD and three local agencies we audited resulted in inaccurate data. Data testing at one postsecondary and two secondary local agencies disclosed error rates of approximately 7 and 17 percent, respectively.
- Inadequate processing controls resulted in DWD using incomplete data and inaccurate processing logic to calculate Perkins III performance measurements.
- Inadequate output controls allowed DWD to report incomplete and inaccurate Perkins III results to ED.

To ensure data reliability, we recommend that the Assistant Secretary for Vocational and Adult Education ensure DWD

- Develops and implements data input controls including controls at the State and local level to ensure that the data are entered accurately;
- Develops and implements processing controls including controls to ensure data are complete and processing logic is accurate;
- Develops and implements output controls; and
- Develops and distributes written policies and procedures to ensure Perkins III performance data are complete, accurate, and reliable.

Comments to our draft audit report were due from the DWD by August 6, 2003. The Vocational Technical Education Director informed us that we had sufficiently discussed the findings during the audit and DWD would not provide any written comments. Therefore, we issued this final report without auditee comments.

¹ See Appendix A for a list of the performance sub-indicators we reviewed and Appendix B for definitions of the sub-indicators.

Audit Results

This report presents the results of our audit of the management controls over DWD's Perkins III performance data. Our objective was to assess the management controls at DWD and local agencies to ensure that the Perkins III performance data reported² to ED for the program year 2000-2001 were complete, accurate, and reliable.

DWD provided secondary local agencies with either the Indiana Student Reporting System or the Indiana Technical Education Student Reporting System software to facilitate data collection. Secondary local agencies collected required vocational student data and provided it to DWD. Postsecondary local agencies used the Student Information System software³ to collect vocational student data and provide it to the Indiana Commission on Higher Education (Commission). The Commission oversaw postsecondary data collection, compiled and reviewed the data, and reported it to DWD. DWD oversaw collecting secondary data. DWD processed all the data, compiled the report, and submitted it to ED.

Finding No. 1 - The Indiana Department of Workforce Development Lacks Adequate Management Controls to Ensure Perkins III Performance Data are Complete, Accurate, and Reliable

DWD and the three local agencies we audited lacked adequate controls to ensure its final Perkins III performance data are complete, accurate, and reliable. DWD lacked adequate input, processing, and output controls. DWD relied on one person to collect, review, and input data; prepare computer programming; process data; obtain summary results; and report the results to ED. The local agencies lacked adequate input controls. DWD and the local agencies also lacked written policies and procedures describing the controls used to ensure data were complete and accurate. As a result, the DWD's Perkins III consolidated annual report to ED for program year 2000-2001 (July 1, 2000, through June 30, 2001) was neither complete, accurate, nor reliable.

The Perkins III law enacted October 31, 1998, Part A, Section 113 (a) & (c) requires each agency that receives a Perkins III allotment to establish a state performance accountability system and annually submit to the Secretary a report regarding the progress of the state in achieving the state adjusted levels of performance on the core indicators of performance. In addition, Part B, Section 122 (c)(20) requires that the state plan include information that describes how the eligible agency will ensure that data reported to the Secretary are complete, accurate, and reliable.

The Core Indicator Framework (January, 2000), developed by ED's Office of Vocational and Adult Education, provides additional guidance on reporting performance indicators. Section 2.3 describes five general quality criteria for performance measurement and data

² See Appendix A for a list of the performance sub-indicators we reviewed and Appendix B for definitions of the sub-indicators.

³ We audited local agencies each using one of the three different data collection software.

collection: validity, reliability, cost-effectiveness, system-focused, and management utility.

The first two quality criteria of the Core Indicator Framework, validity and reliability, are respectively defined as "the degree to which the performance measurement approach directly and fully measures the student outcomes at an appropriate time interval," and "the degree to which performance measurement is conducted in a consistent manner using . . . effective management information systems for insuring data quality." The third quality criterion, cost-effectiveness, promotes using systems that "provide the highest quality data at the lowest possible costs." Data input, processing, and output controls are needed to provide reasonable assurance that data are valid and reliable but the cost of the controls should not outweigh the benefits they provide.

Inadequate Input Controls

DWD and the three local agencies lacked adequate input controls to ensure data were entered accurately. Without controls to ensure data are accurate, DWD cannot ensure that the output is valid. DWD and the two secondary local agencies we audited relied on one person to input all data. They therefore lacked segregation of duties; a control to ensure data are entered accurately. DWD and all three local agencies lacked data input review procedures. The postsecondary agency compensated for the lack of input controls by relying heavily on detective and corrective controls. However, these controls did not adequately compensate for the lack of data input controls.

Approximately 7 percent of the postsecondary and 17 percent of the secondary student data reviewed contained one or more data errors. These errors included erroneous school codes, Classification of Instructional Program codes, Social Security Numbers, student levels, race indicators, and Indiana Statewide Testing for Educational Progress results. Better controls would reduce the number of errors in data input.

DWD informed us it will conduct additional training to ensure local agencies have more than one person trained to input data. It will also implement a policy to ensure segregation of duties and review of input data. DWD will implement these procedures beginning with the 2003-2004 school year. DWD personnel will also visit local agencies to ensure all policies and procedures are being followed.

Inadequate Processing Controls

DWD lacked adequate processing controls to ensure data processing was properly performed. Processing controls ensure data are valid and reliable. DWD relied on one person to program the processing and prepare data for processing. DWD did not require any review or approval prior to or during processing. The lack of review procedures resulted in incomplete data and incorrect processing logic.

DWD used the following types of incomplete data to compile Perkins III performance indicators for the 2000-2001 program year.

- The data DWD processed for one of the secondary local agencies did not show any graduates for the 2000-2001 reporting period. The Indiana Student Reporting software that the local agency used during the 2000-2001 reporting period did not

allow the local agency to input graduation data. Instead, the local agency provided DWD paper documentation indicating students' graduation data. We could not determine if DWD failed to enter this information into its database or an error occurred during processing. In either case, the processed data did not show any graduates for the local agency.

- The data DWD processed did not contain all programs reported by one of the local secondary agencies we audited. The local agency provided programs to students from schools in several local communities at its location (managed students). The schools in these communities also provided technical education programs at their locations (non-managed students). The schools reported the data for the non-managed students to the local agency, which in turn entered the data into its database. However, DWD's processed data did not show any data for non-managed students for the 2000-2001 reporting period.
- DWD processed incomplete race information provided by the Commission for some postsecondary students. DWD did not obtain race data for 27 of 100 randomly selected students at the postsecondary institution we audited. The postsecondary institution provided complete student race information to the Commission. The Commission did not provide all the student records to DWD in the specified record layout. Because DWD did not have processing controls to check for complete and appropriate data, it processed the incomplete data and used it to report on the Perkins III performance indicators.

DWD's processing logic for determining Perkins III performance indicators for the 2000-2001 program year did not provide accurate results.

- Applying the same processing logic used by DWD for the 1S1 performance indicator to the data submitted by one of the secondary local agencies, we determined that DWD reported 3 students who should not have been reported for that performance indicator. We also determined that DWD did not report 24 students who should have been included.
- DWD included non-Perkins III programs⁴ in the Perkins III performance indicators reported to ED. The local agencies input data for other programs in addition to the vocational education programs. DWD's processing logic should have excluded the Classification of Instructional Program codes for these other programs. One of these codes, which DWD officials said was excluded, began with the first four digits of "2001". However, 602 records with this Classification of Instructional Program code were included in the data reported to ED. Therefore, the logic did not exclude these codes and DWD reported inaccurate data.

Because DWD compiled performance indicator measurements using incomplete data and incorrect processing logic, the measurements cannot fully or accurately reflect the actual results or outcomes.

⁴ The non-Perkins III programs were vocational education programs that were not eligible for Perkins III funding.

DWD informed us that it would require all secondary agencies to use the Indiana Technical Education Student Reporting System software that allows local agencies to capture graduation data. DWD has also implemented a new Oracle® based data storage and reporting system for the 2001-2002 program year. According to DWD, the reporting logic for all core indicators has been tested and approved by multiple DWD employees and approved by the Commission. DWD believes this review and approval process will ensure reports are reliable and accurate.

Inadequate Output Controls

DWD lacked adequate output controls to ensure the accuracy and completeness of the processing results. Output controls assure report validity and reliability. As with inputting and processing, DWD relied on one person to produce all output data and did not require any review or approval of the data prior to reporting it to ED. If DWD had adequate output controls in place during the 2000-2001 program year, it may have detected some of the problems caused by the lack of adequate input and processing controls.

DWD informed us it has already started the process of implementing controls to ensure the output is complete and accurate. DWD expects to have these controls in place at the beginning of the 2003-2004 school year.

Lack of Written Policies and Procedures

DWD and the three local agencies lacked written policies and procedures that describe controls used to ensure data are complete and accurate. Written policies and procedures are a control technique that help to ensure validity and reliability.

DWD informed us it has already started the process of implementing written policies and procedures. DWD expects to have written policies and procedures in place at the beginning of the 2003-2004 school year.

As a result of inadequate controls, the 2000-2001 Perkins III performance indicators DWD reported to ED were neither complete, accurate, nor reliable. ED could potentially rely on inaccurate and incomplete data to assess program results and make programmatic decisions that may negatively impact program participants. In addition, ED could potentially report inaccurate and incomplete information to Congress.

Recommendations

We recommend that the Assistant Secretary for Vocational and Adult Education ensure DWD

- 1.1 Develops and implements data input controls including controls at the State and local level to ensure that the data are entered accurately;
- 1.2 Develops and implements processing controls including controls to ensure data are complete and processing logic is accurate;
- 1.3 Develops and implements output controls; and

- 1.4 Develops and distributes written policies and procedures to ensure Perkins III performance data are complete, accurate, and reliable.

Background

The *Carl D. Perkins Vocational and Applied Technology Education Amendments of 1998*, Public Law 105-332, was signed into law on October 31, 1998, and is administered by ED's Office of Vocational and Adult Education. The purpose of Perkins III is to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical education programs. ED allots funds to the states based on a formula which takes into account each state's population in certain age groups and its per capita income. States distribute funds to secondary and postsecondary local agencies (for example, school districts, technical institutions, and community colleges) in accordance with an approved state plan.

Perkins III requires the state plan to identify specific measures and targeted levels of performance. States must establish a performance accountability system to assess effectiveness and track their achievements for four core performance indicators:

- student attainment;
- credential attainment;
- placement and retention; and
- participation in and completion of non-traditional programs.

There are specific sub-indicators required under each core indicator but states can also add additional performance indicators to their plans. A state's level of Perkins III performance is defined as a percentage, based on the number of students in the numerator and denominator for each sub-indicator. States must report performance levels to the Secretary annually. States that exceed agreed upon performance levels for three programs: (1) Perkins III, (2) the Adult Education and Family Literacy Act, and (3) Title I of the Workforce Investment Act, are eligible for additional incentive grants.

DWD expended \$22.4 million in basic Perkins III grant funds and was awarded an additional \$2.8 million in incentive grant funds under the Workforce Investment Act for the 2000-2001 program year.

Objective, Scope, and Methodology

Our objective was to assess the management controls at DWD and local agencies to ensure that the performance data reported to ED for Perkins III were complete, accurate, and reliable. Our audit covered performance data for Perkins III funds awarded during program year 2000-2001 (July 1, 2000, through June 30, 2001).

To achieve our objective, we reviewed DWD's reported performance data for the numerator and denominator of eight sub-indicators.⁵ We visited DWD and three local agencies to review the data collection and reporting procedures for the Perkins III performance data. At DWD, we:

1. Interviewed State agency officials to obtain an understanding of the data collecting, processing, and reporting procedures for the Perkins III performance data.
2. Obtained the definitions for the eight performance indicators selected for review.
3. Flowcharted the data collection process for the Perkins III performance data.
4. Compared data DWD reported to ED to DWD's data.
5. Determined how DWD used the collected performance data.
6. Reviewed selected aspects of the audit report prepared in accordance with Office of Management Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
7. Compared selected local agencies' data to the data reported by DWD.

We judgmentally selected 3 local agencies (2 secondary and 1 postsecondary) from 47 secondary and 29 postsecondary local agencies, based on the type of software used to collect Perkins III performance data. During visits to the local agencies, we:

1. Interviewed local agency officials to obtain an understanding of the data collection process for the Perkins III performance data.
2. Flowcharted the data collection process for the Perkins III performance data.
3. Reviewed selected aspects of the audit report prepared in accordance with Office of Management Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
4. Tested the accuracy and completeness of reported performance data for 311 randomly selected students from a universe of 2,273 unique students. Unique students were selected for testing purposes. However, students generally were counted for one or more performance sub indicators.⁶
5. Determined how each local agency used the collected performance data.

In addition to interviewing DWD and local agency officials, we also interviewed Commission and ED personnel.

⁵ See Appendix A for a list of the performance sub-indicators we reviewed and Appendix B for definitions of the sub-indicators.

⁶ See Appendix C for the universe and the number of students sampled at each local agency by sub-indicator.

To achieve our objective, we relied on computer-processed data contained in DWD's and three local agencies' computer systems. We assessed the general and application controls at each entity. We also assessed the reliability of the data by (1) comparing the data to student records (accuracy), (2) reviewing program code DWD used to develop reported data (accuracy), (3) determining if data for all schools were included in the reported data (completeness), and (4) determining if all fields contained appropriate data (completeness). We used the data to select our sample to test student records. Based on our testing, we concluded the data were not reliable. The data problems and their effects are fully discussed in the Audit Results section of this report.

We performed our field work from January 6, 2003, through May 2, 2003. We performed the majority of our field work at DWD and three local agencies. We also performed additional analysis in our office. We held an exit conference with DWD on May 14, 2003.

We conducted our audit in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

Statement on Management Controls

We have made a study and evaluation of the management control structure of DWD and three selected local agencies in effect for program year 2000-2001. Our study and evaluation was conducted in accordance with generally accepted government auditing standards. For the purpose of this report, we assessed and classified the significant management control structure into the following categories:

- Data Collection⁷
- Database Compilation
- Determining Summary Results
- Report Preparation

The management of DWD and three selected local agencies is responsible for establishing and maintaining a management control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the management control structure are to provide management with reasonable, but not absolute, assurance that program performance is properly assessed and measured and that data are recorded in accordance with management's authorization, so as to permit effective and efficient operations.

Because of inherent limitations in any management control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the

⁷ Local agencies only had the data collection category.

system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our assessment disclosed conditions in the management control structure of DWD and three local agencies in effect for program year 2000-2001 which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to reported information may occur and not be detected within a timely period. These weaknesses and their effects are fully discussed in the Audit Results section of this report.

Performance Sub-Indicators Reviewed

As part of our audit, we reviewed the following Indiana Department of Workforce Development performance sub-indicators⁸.

Secondary

- Secondary Academic Attainment (1S1)
- Secondary Vocational & Technical Skill Attainment (1S2)
- Secondary Completion (2S1)
- Secondary Placement (3S1)

Postsecondary

- Postsecondary Academic Attainment (1P1)
- Postsecondary Vocational & Technical Skill Attainment (1P2)
- Postsecondary Completion (2P1)
- Postsecondary Placement (3P1)

⁸ See Appendix B for the definitions of the sub-indicators.

**Definitions of Selected Indiana Department of Workforce
Development’s Performance Sub-Indicators**

Core Indicator 1 – Student Attainment		
Sub-Indicator	Numerator	Denominator
1S1 - Academic Attainment	Number of vocational education students who passed the ISTEP ⁹ + Graduation Qualifying Exam and have left secondary education in the reporting year.	Number of vocational education students who took the ISTEP+ Graduation Qualifying Exam and have left secondary education in the reporting year.
1S2 - Skills Proficiencies	Number of students who passed a vocational education program skill test and have left secondary education in the reporting year.	Number of students who were tested for skill mastery in a vocational education program and have left secondary education in the reporting year.
1P1 - Academic Attainment	Number of postsecondary students who complete occupationally specific programs and have a cumulative grade point average of at least 2.5 on a 4.0 grading system and have left postsecondary education in the reporting year.	Number of postsecondary students who complete occupationally specific programs and have left postsecondary education in the reporting year.
1P2 - Skills Proficiencies	Number of students who complete occupationally specific programs, who have met program-defined and industry validated career and technical skill standards, and have stopped program participation in postsecondary education in the reporting year.	Number of students who complete occupationally specific programs and who have stopped program participation postsecondary education in the reporting year.

Core Indicator 2 – Credential Attainment		
Sub-Indicator	Numerator	Denominator
2S1 – Completion	Number of vocational education program completers who have attained a high school diploma or its recognized equivalent and have left secondary education in the reporting year.	Number of vocational education program completers who have left secondary education in the reporting year.
2P1 – Completion	The number of full-time, beginning, first year students who enroll in occupationally specific programs as degree seeking students and attain a postsecondary degree or credential within three years.	Number of postsecondary students who enrolled in occupationally specific programs as degree seeking students and left postsecondary education within three years.

⁹ Indiana Statewide Testing for Educational Progress

Core Indicator 3 – Placement and Retention		
Sub-Indicator	Numerator	Denominator
3S1 - Placement	Number of students who have completed a vocational education program and received a diploma or its equivalent in the reporting year, and were placed in further education or advanced training, employment, and/or military service.	Number of students who have completed a vocational education program and received a high school diploma or its equivalent and left secondary education in the reporting year.
3P1 - Placement	Number of postsecondary students who have completed occupationally specific programs and are placed in further education, or employment within Indiana, or National military service in the reporting year.	Number of postsecondary students who have completed occupationally specific programs and left postsecondary education in the reporting year.

The Number of Students Sampled and Universe at Each Local Agency by Sub-Indicator

Number of Students Sampled at Each Local Agency by Sub-Indicator

Local Agency		Sub-Indicators							Total Sampled	
		1S1	1S2	2S1	3S1	1P1	1P2	2P1		3P1
Elkhart Area Career Center	N	56	24	64	25					356
	D	65	25	69	28					
J. Everett Light Career Center	N	78	76	0	9					396
	D	81	78	64	10					
Ivy Tech State College	N					34	1	0	48	179
	D					35	4	6	51	
Total Sampled		280	203	197	72	69	5	6	99	931

Universe of Students at Each Local Agency by Sub-Indicator

Local Agency		Sub-Indicators							Total	
		1S1	1S2	2S1	3S1	1P1	1P2	2P1		3P1
Elkhart Area Career Center	N	370	166	384	113					2,176
	D	417	178	414	134					
J. Everett Light Career Center	N	321	334	0	61					1,773
	D	338	338	302	79					
Ivy Tech State College	N					368	14	29	451	1,916
	D					419	61	100	474	
Total		1,446	1,016	1,100	387	787	75	129	925	5,865