Thaddeus Stevens College of Technology of the Commonwealth of Pennsylvania

Financial Audit Report

For the Fiscal Year Ended June 30, 2004

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For the Fiscal Year Ended June 30, 2004

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INTRODUCTORY INFORMATION

January 26, 2006

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

The Board of Trustees
Thaddeus Stevens College of Technology
750 East King Street
Lancaster, PA 17602

Dear Governor Rendell and the Board of Trustees:

Enclosed is the independent auditor's report for the Thaddeus Stevens College of Technology of the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2004. You will note that our opinion is dated December 16, 2005, which is the date our field work closed.

Sincerely,

JACK WAGNER
Auditor General

This audit report consists of information prepared either by the Department of the Auditor General or by Thaddeus Stevens College of Technology (College), as follows:

The financial information includes the Independent Auditor's Report and the Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards.* The Department of the Auditor General prepared these reports as part of the audit requirements.

The financial information also includes College management discussion and analysis, and the notes to the financial statements, both prepared by the College.

In addition, the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, the College's two financial statements, were compiled from the College's trial balance by the Department of the Auditor General in conjunction with College management. College management has acknowledged full responsibility for these financial statements.

The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the notes to the financial statements are subject to audit, and an opinion on these items is included in the Independent Auditor's Report. As noted in the Independent Auditor's Report, College management discussion and analysis is not a required part of the basic financial statements, but it is supplementary information required by accounting principles generally accepted in the United States of America. It is not subject to audit and no opinion is rendered on this item.

The Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards* is a required report. The basis for the assertions in that report are further explained in the succeeding sections of this document entitled, Reportable Conditions In Internal Control Over Financial Reporting and Compliance Issues And Other Matters.

FINANCIAL INFORMATION

Independent Auditor's Report

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

The Board of Trustees
Thaddeus Stevens College of Technology
750 East King Street
Lancaster, PA 17602

Dear Governor Rendell and the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of Thaddeus Stevens College of Technology, as of and for the fiscal year ended June 30, 2004, which collectively comprise the Thaddeus Stevens College of Technology's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Thaddeus Stevens College of Technology did not present a statement of cash flows for the fiscal year ended June 30, 2004, because it was in its first year of independent operations and lacked a basis for comparison. Presentation of such a statement summarizing the College's operating, investing and financing activities is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Thaddeus Stevens College of Technology as of June 30, 2004, and the changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 16, 2005, on our consideration of the Thaddeus Stevens College of Technology's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis on pages 8 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

JACK WAGNER
Auditor General

December 16, 2005

College Management Discussion and Analysis

Thaddeus Stevens College of Technology (TSCT or the College) Management Discussion and Analysis of its financial condition provides an overview of financial activity, identifies changes in financial position, and assists the reader of these basic financial statements in focusing on noteworthy financial issues for the fiscal year ended June 30, 2004.

While maintaining its financial health is crucial to the long-term viability of TSCT, the primary mission of a public institution of higher education is to provide education and training. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs. The Management Discussion and Analysis provides summary level financial information; therefore, it should be read in conjunction with the accompanying basic financial statements.

This annual report consists of a series of basic financial statements, prepared in accordance with generally accepted accounting principles, as stated in the Governmental Accounting Standards Board (GASB) Statement 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,"* and Statement 35, *"Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities."*

Organizational Structure and Tax Status

Legal Status: Thaddeus Stevens College of Technology was founded in 1905 by the State of Pennsylvania. Prior to July 1, 2003, the College operated as a departmental board or commission within the Pennsylvania Department of Education. Act 187 of 2002 allowed for more administrative control to come directly from the College. For example, the College provides for its own banking and payroll systems, has increased management responsibility for personnel and executes contracts subject to statutory requirements. Funding continues to be made under appropriations from the Commonwealth. While the administrative changes resulting from Act 187 of 2002 affect the operations of the College, they do not alter its basic legal status.

Tax Status: Governmental entities and related organizations, which perform governmental functions, may qualify for federal tax exemption under several different theories. First, the income of states, their political subdivisions or any integral part therefore is not taxable under the doctrine of intergovernmental immunity, which bars the federal government from imposing taxes, which would unduly burden a state in the performance of its functions. Second, a specific exemption exists under the Internal Revenue Code for instrumentalities of a governmental unit, which are not integral parts of such a unit. Section 115 of the Internal Revenue Code excludes from taxation income from the exercise of any essential governmental function, which may accrue, to a state or political subdivision through actual distributions, upon liquidation or as a result of a substantial degree of government dominance over the activities. Third, an organization, which qualifies under Section 501(c) (3) of the Internal Revenue Code, is not taxed on income received from investments or from activities related to its exempt purposes.

Statement of Net Assets

The Statement of Net Assets includes all assets (items that the College owns and amounts owed to the College by others) and liabilities (what the College owes to others and what has been collected from others before it has provided the services). This statement is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service to the College – regardless of when cash is exchanged.

Below are highlights of the components of the Statement of Net Assets:

	Increase or (Decrease) 2004
ASSETS	
Current assets	$2,753,067
Net capital assets	1,559,300
Other assets	0
Total Assets	$4,312,367
LIABILITIES	
Current Liabilities	$1,326,860
Long-Term Liabilities	1,097,482
Total Liabilities	$2,424,342
NET ASSETS	
Invested in capital assets, net of related debt	$1,462,421
Restricted for debt service	0
Unrestricted	425,604
Total Net Assets	$1,888,025

A more detailed analysis would reveal the following facts:

- Cash and cash equivalents, total $2,112,415 and account for approximately 49 percent of assets.
- Accounts receivable, inventories, and prepaid expenses total $640,652 and account for 15 percent of assets.
- Capital assets total $1,559,300 and comprise approximately 36 percent of total assets of the College.

- Current liabilities total $1.3 million or 55 percent of total liabilities. Items due and payable within the next business year are included in this category.
- Long-term liabilities total approximately $1.1 million, or 45 percent of total liabilities.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. In general, a public college such as TSCT will report an operating deficit or loss, as the financial reporting model classifies state appropriations, gifts, interest income and other non-operating revenue or expenses as non-operating revenues. The utilization of capital assets is reflected in the basic financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The following is a condensed version of the Statement of Revenues, Expenses, and Changes in Net Assets:

	2004
Operating Revenue	$ 3,928,475
Expenses	11,611,074
Operating Income (Loss)	(7,682,599)
Net Non-operating Revenues	8,041,472
Increase in Net Assets	$ 358,873
Net Assets	
Beginning of Year	$ 1,529,152
End of Year	$ 1,888,025

Some of the most noteworthy results of operations for the current year are reflected below:

- Operating revenues are the charges for services offered by the College. During the fiscal year ended June 30, 2004, the College generated $3.9 million of operating revenue. Included in this amount are:
    - Student tuition and fees totaling $3,027,978 or 77.08 percent of total revenue.
    - Student room and board totaling $422,077 or 10.74 percent of total revenue.
    - Federal Grants awarded to the College totaling $140,096 or 3.57 percent of total revenue for running specific programs.
    - State Grants awarded to the College for running specific programs totaling $126,681 or 3.22 percent of total revenue.
    - Other Grants awarded to the College for running specific programs totaling $102,100 or 2.60 percent of total revenue.

   - Sales and services of educational departments totaling $109,543 or 2.79 percent of total revenue.

Operating expense sources for 2004 include:

- Operating expenses are costs related to offering the programs of the College. During 2004, total operating expenses totaled more than $11.6 million. These expenses included:

   - Salaries totaling $5,780,767 or 49.80 percent of total operating expenses.
   - Benefits totaling $1,941,718 or 16.72 percent of total operating expenses.
   - Utilities totaling $417,571 or 3.60 percent of total operating expenses.
   - Supplies totaling $904,264 or 7.79 percent of total operating expenses.
   - Other services totaling $2,230,360 or 19.21 percent of total operating expenses.
   - Depreciation totaling $336,394 or 2.90 percent of total operating expenses.

- Non-operating revenues (expenses) are revenue and expense items not related directly to providing instruction. Net non-operating revenues totaled $8 million. The most important components are:

   - State appropriation totaling $7,948,000 during the year.
   - Gifts totaling $72,554.
   - Interest Income totaling $39,383.
   - Other non-operating revenue totaling $53,459.
   - Other non-operating expenses totaling $(71,924).

Net Assets:

- Net assets for 2004 increased $358,873 as a result of the above activity.
- Net assets at the beginning of the year were $1,529,152.
- Net assets at the end of the year were $1,888,025.

Capital Asset and Debt Administration

The College's net investment in capital assets as of June 30, 2004, amounts to $1,462,421. This investment in capital assets includes machinery, equipment, vehicles, and low-value assets.

At the end of the current fiscal year, the College did not have any general obligation promissory notes outstanding.

Financial Position

TSCT continued to improve its financial position during the current fiscal period. Some of the major highlights for the improved financial position are as follows:

- Net assets increased $358,873.
- The College has diversified sources of revenues consisting of: student tuition and fees, student room and board, federal grants, state grants, other grants, and other sources to meet the expenses of the College.

The Economic Outlook for Pennsylvania

The economic outlook for 2004 in the state of Pennsylvania is for slower economic growth.

- As the national economy gained traction in 2004, the divergence between the State and national growth rates in real personal income has begun to reappear.
- Improvements in the State's economic performance will be largely dependent upon job growth, which has been rebounding in 2004.
- In January 2004, the State began to experience positive job creation that actually outperformed the national average during all of 2004.
- Pennsylvania's labor force has grown 2.9 percent from November 2003 to November 2004 while the national labor force has only grown at a rate of 0.8 percent.
- Over the long term, Pennsylvania's economy continues to diversify significantly.
- Enhanced economic development efforts, an improving business climate, and improving job growth, Pennsylvania's economy is poised for moderate growth in the near term, but at a declining rate.

These factors have created fiscal concerns at all levels of State government. The College is in a strong position to weather these economic conditions. Specifically, we are confident about our future for the following reasons:

- The College's enrollment remains relatively immune to economic fluctuations. The local economy has proven to be resilient due to its wide diversification in retailing, health care, education, manufacturing and government.
- Difficult economic times tend to encourage more people to increase their education. Enrollments at the College have increased each year since 1995.
- The College plays a vital role in meeting student, community, and employer/employee needs.

- The College's mission supports economic and workforce development in the state of Pennsylvania.

Contrary to the positive forces driving the College's operations, there are financial challenges, which must continue to be met. The most significant of these include:

- Expenses will continue to increase. Rising enrollments create upward cost pressures.
- Rising health insurance costs have been an annual challenge.
- Ever-increasing dependency on tuition and fee levels due to inadequate State funding.
- Responsiveness to societal issues such as basic skills needs and/or social needs.
- Lack of funding for non-credit courses that are central to economic development.
- The need to keep current with expanding technology is great. A quality technical education is not possible when equipment is allowed to become obsolete.
- State aid will remain level, at best. The most recent State budget proposes a 19 percent reduction in the state appropriation for fiscal year 2005-2006.

The College is committed to being a strong community partner. Long-term strategic and financial planning by the College's Board and Management Team is in place to insure that the College will meet the challenge of increasing enrollments and rising cost pressures. The current financial position of the College is positive, and every effort is being made to maintain that momentum.

Significant Events

- On July 1, 2003, the College gained autonomy from the Pennsylvania Department of Education.
- In September 2004, the Commonwealth of Pennsylvania acquired the Community Hospital of Lancaster facility and turned it over to the College for dormitory and program space.

Thaddeus Stevens College of Technology

Statement of Net Assets

June 30, 2004

ASSETS	
Current assets:	
Cash & cash equivalents (Note 2)	$ 2,112,415
Accounts receivable, net	381,257
Prepaid expenses	64,198
Inventories	195,197
Total current assets	2,753,067
Noncurrent assets:	
Capital assets, net (Note3)	1,559,300
Total noncurrent assets	1,559,300
Total Assets	4,312,367
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities (Note 4)	1,189,866
Deferred revenue	28,079
Noncurrent liabilities - current portion (Note 5 and 6)	108,915
Total current liabilities	1,326,860
Noncurrent liabilities:	
Compensated absences (Note 6)	1,031,676
Lease liability (Note 5)	65,806
Total noncurrent liabilities	1,097,482
Total Liabilities	2,424,342
NET ASSETS	
Invested in capital assets, net of related debt	1,462,421
Unrestricted	425,604
Total net assets	$ 1,888,025

Notes to financial statements are an integral part of this report.

Thaddeus Stevens College of Technology
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2004

REVENUES	
Operating revenues:	
Student tuition & fees	$ 3,027,978
Student room & board	422,077
Federal Grants	140,096
State Grants	126,681
Other Grants	102,100
Sales and services of educational departments	109,543
Total operating revenues	3,928,475
EXPENSES	
Operating expenses:	
Salaries	5,780,767
Benefits	1,941,718
Utilities	417,571
Supplies	904,264
Other services	2,230,360
Depreciation	336,394
Total operating expenses	11,611,074
Operating income (loss)	(7,682,599)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	7,948,000
Gifts	72,554
Interest income	39,383
Other non-operating revenue	53,459
Other non-operating expenses	(71,924)
Net non-operating revenues	8,041,472
Increase in net assets	358,873
NET ASSETS	
Beginning of year	1,529,152
End of year	$ 1,888,025

Notes to financial statements are an integral part of this report.

Notes to the Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Organization

Thaddeus Stevens College of Technology, located in Lancaster, Pennsylvania, is the only state-owned public two-year technical college in Pennsylvania. Founded in 1905, the College was organized under the Pennsylvania Department of Education. Act 187 of 2002 separated the institution from the Department of Education as of July 1, 2003. Thaddeus Stevens College of Technology is a component unit of the Commonwealth of Pennsylvania.

Reporting Entity

In accordance with Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), *The Financial Reporting Entity,* the College determines the organizations for which the College has significant financial and operational relationships. The College has no oversight responsibility for its affiliated organizations, and therefore, they are not included in the College's financial statements. Affiliated organization financial results are found in Note .

Measurement Focus, Basis of Accounting and Basis of Presentation

The College functions as a business-type activity, as defined by GASB.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Operating Revenues

Operating revenues of the College consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value of the funds given to the College are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the sale of investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, capital grants, gains on the sale of investments, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the College are reported as non-operating revenue.

Scholarship Discounts And Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or third parties making payments on students' behalf.

Net Assets

The College maintains the following net asset classifications:

> *Invested in capital assets, net of related debt*: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Cash And Cash Equivalents

The College considers all demand and time deposits and money market funds to be cash equivalents.

Accounts Receivable

Accounts receivable consist of tuition and fees charged to current and former students, amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants and contracts, and other miscellaneous sources.

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the College's historical losses and periodic review of individual accounts.

Inventories

Inventories are stated using the first-in first-out method.

Capital Assets

Land and buildings at the College's campus acquired or constructed prior to Act 187 of 2002 are owned by the Commonwealth and made available to the College

(Note 12). Since the College neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed to the portion of any land or buildings acquired or constructed utilizing capital funds appropriated by the Commonwealth prior to July 1, 2003, and made available to the College.

Buildings, equipment, and furnishings acquired, constructed, or renovated by the College after July 1, 2003, through the expenditure of College funds or the incurring of debt, are stated at cost less accumulated depreciation, calculated using the straight-line method. All assets with a purchase cost, or fair value if acquired by gift, in excess of $500 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

Deferred Revenue

Deferred revenue includes tuition and fees received prior to the end of the fiscal year but related to the subsequent fiscal year.

Compensated Absences

Employees' right to receive annual leave and sick leave payments upon termination or retirement for services already rendered is recorded as a liability (see Note 6).

Pension Plans

Employees of the College are required to enroll in one of three available cost-sharing multiple-employer retirement plans immediately upon employment. The College recognizes annual pension expenditures equal to its contractually required contributions to the plan (see Note 8).

Income Taxes

The College, which is a political subdivision of the Commonwealth, is excluded from federal income taxes under section 115(1) of the Internal Revenue Code.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

The College maintains most of its cash balances on deposit with the Bank of Lancaster County and its money market accounts with the Sterling Financial Trust Company.

On June 30, 2004, the carrying amount of the College's demand and time deposits was $2,112,415, as compared to bank balances of $2,109,767. The difference is primarily caused by items in-transit and outstanding checks. All bank balances were covered by federal depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 of 1971 allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

3. Capital Assets

Capital assets acquired or constructed by the College through the expenditures of College funds or the incurrence of debt consist of the following:

	Estimated Lives (in years)	July 1, 2003 Balance	Additions	Retirements and Reclassifications	June 30, 2004 Balance
Buildings, including improvements		$ 0	$ 0	$ 0	$ 0
Furnishings and equipment	3-10	1,382,881	619,709	0	2,002,590
Capital leases	5	0	114,397	0	114,397
Library books	10	457,910	0	0	457,910
Capital collection	0	148,450	0	0	148,450
Total capital assets being depreciated		1,989,241	734,106	0	2,723,347
Less: Accumulated depreciation					
Buildings, including improvements		0	0	0	0
Furnishings and equipment		797,150	74,966	0	872,116
Capital leases		0	21,001	0	21,001
Library books		225,139	45,791	0	270,930
Capital collection		0	0	0	0
Total accumulated depreciation		1,022,289	141,758	0	1,164,047
Total Net Capital assets		$ 966,952	$ 592,348	$ 0	$ 1,559,300

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2004:

Accrued payroll charges	$ 880,319
Accounts payable	309,547
Total	$ 1,189,866

5. Leases

The College has entered into a capital lease agreement for the financing of copying machines and vehicles. Future minimum payments by year and in aggregate, with initial or remaining terms of one year or more are as follows:

Fiscal Years Ended June 30	Copiers	Vehicles	Total
2005	$ 20,508	$ 10,565	$ 31,073
2006	20,508	10,565	31,073
2007	8,321	10,565	18,886
2008	0	10,565	10,565
2009	0	5,282	5,282
Totals	$ 49,337	$ 47,542	$ 96,879

The current portion of the leases was valued at $31,073 and the long-term portion was valued at $65,806. Capital assets as of June 30, 2004, included $114,397 acquired through leases that have been capitalized.

6. Compensated Absences

The current portion of compensated absences for the fiscal year ended June 30, 2004, was $77,842, while the non-current portion is $1,031,676.

The College accrues a liability for compensable employee annual, sick, and personal leave as earned. Employees accumulate annual leave based on 2.7 percent (up to 3 years), 5.77 percent (over 3 years to 15 years inclusive), 7.7 percent (over 15 years to 25 years inclusive), and 10 percent (over 25 years) of all regular hours paid to a maximum of 45 days. Employees are paid for accumulated unused annual leave upon termination or retirement.

Employees accumulate sick leave based on 5 percent of regular hours paid to a maximum of 300 days. Retiring employees that meet service, age or disability requirements are paid for their accumulated unused sick leave as follows:

Days Available At Retirement	Percentage Buy-Out	Maximum Days
0 – 100	30%	30
101 – 200	40%	80
201 – 300	50%	150
Over 300 (in last year of employment)	100% of days over 300 days	13

Compensated absences activity for the year ended June 30, 2004, is as follows:

Balance July 1, 2003	$ 1,091,174
Additions	77,842
Retirement Payouts	(59,498)
Balance June 30, 2004	$ 1,109,518

7. Postretirement Benefits

The College provides certain health care benefits for retired employees (that meet specified length-of-service and age requirements) and their dependents. These benefits are provided as a result of negotiated collective bargaining agreements and through administrative policy. The College's collective bargaining agreements for the fiscal year ended June 30, 2004, include:

Council 13, American Federation of State, County, and Municipal Employees (AFSCME) (July 1, 2003, to June 30, 2007)

Federation of State Cultural and Education Professionals Local 2382 (FOSCEPS) (July 1, 2003, to June 30, 2007)

Pennsylvania State Education Association/National Education Association, Local Association (PSEA) (August 16, 1999, to August 15, 2004)

Pennsylvania Social Services Union (PSSU) (July 1, 2003, to June 30, 2007)

Services Employees International Union (SEIU) (July 1, 2003, to June 30, 2007)

College employees who retire after meeting specified service and age requirements become eligible for participation in one defined health care benefit plan. This plan includes hospital, medical, surgical, and major medical coverage, and provides a Medicare Supplement for individuals over age 65.

The Commonwealth recognizes the cost of providing these benefits as paid. The College pays annual contributions, based upon a rate per employee, determined by the plan administrators. Total contributions made by the College for such benefits were approximately $502,177 for the fiscal year ended June 30, 2004. The College recognizes the cost of these benefits as they are paid.

8. Pension Benefits

The College's employees participate in one of three multiple-employer cost-sharing retirement plans.

Public School Employees' Retirement System

The Public School Employees' Retirement System (PSERS) is a governmental cost sharing multiple employer defined benefit plan. PSERS provides retirement and disability benefits, legislative mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act 96 of 1975, as amended) is the authority by which benefit provisions are established and may be amended. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to the following address:

Public School Employees' Retirement System
P.O. Box 125, Harrisburg, PA 17108-0125

The contribution to PSERS for the year ended June 30, 2004, was approximately $20,409 from the College and $82,952 from the employees.

State Employees' Retirement System

College employees who are members of the State Employees' Retirement System (SERS), a contributory defined benefit pension plan established by Commonwealth law, receive retirement, death and disability benefits. Retirement benefits vest after five years of credited service. Employees who retire at age 60 – or with 35 years of service if under age 60 – are entitled to a normal (unreduced) annual retirement benefit. The general annual benefit is 2.5 percent of the member's high three-year average salary multiplied by the number of years of service.

SERS issues stand-alone financial statements, which are available to the public. Written request for financial statements should be addressed to the following address:

State Employees' Retirement System
Executive Office
P.O. Box 1147
Harrisburg, PA 17108

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers (the College). Active members contribute at a rate of 6.25 percent of their qualifying compensation. The actuarially determined contribution rate for the College for the fiscal year ended June 20, 2004, was 0.05 percent of annual covered payroll. The contribution to SERS for the fiscal year ended June 30, 2004, was approximately $18,255 from the College and $202,855 from the employees.

Teachers' Insurance and Annuity Association-College Retirement and Equity Fund

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and the employer (the College). Active members contribute at a rate of 5 percent of their qualifying compensation; the College's contribution rate was 9.29 percent of qualifying compensation for the year ended June 30, 2004. The contributions to TIAA-CREF for the year ended June 30, 2004, were approximately $83,315 from the College and $48,126 from employees.

9. Workers' Compensation

The College is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, the College is responsible for claims less than $100,000; for claims occurring on or after July 1, 1995, the College is responsible for claims less than $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund) to which the College contributes amounts as determined by an independent actuarial study. The College made $85,324 in contributions to the Reserve Fund during the fiscal year ended June 30, 2004.

10. Foundation

The Thaddeus Stevens Foundation (the Foundation) is a charitable foundation formed to benefit the College. Since the Foundation operates under an independent Board of Trustees and management, the financial statements of the Foundation are not included in the College's financial statements.

Based upon audited financial statements of the Foundation as of June 30, 2004, net assets of the Foundation were $1,879,198 and gifts and donations received by the Foundation were $281,584.

Contributions	
Cash	$ 71,862
Non-cash	84,894
Temporarily Restricted	124,828
Total	$ 281,584

11. Affiliated Organizations

The Housing Corporation and Alumni Association had combined net assets of ($5,631) at June 30, 2004. The combined revenues and expenditures in 2004 were $191,411 and $192,401, respectively.

	Net Assets	Revenue	Expenses	Unrealized gain (Loss) On Investments	Unrestricted Net Assets (Deficit) Beginning
Thaddeus Stevens Alumni Association	$56,746	$ 44,746	$ 18,346	$2,526	$27,820
Thaddeus Stevens Housing Corporation	(62,377)	146,665	174,055	0	(34,987)
Combined Totals	$(5,631)	$191,411	$192,401	$2,526	$(7,167)

The Stevens Orphans Home Board

The Stevens Orphans Home Board had total investments of $411,869 at December 31, 2003. The Stevens Orphans Home Board operates on a calendar year.

12. Land and Buildings

Land, buildings, and certain building improvements owned by the Commonwealth with a cost of $22,219,474 are not included in the accompanying financial statements, but the Commonwealth has made them available to the College without cost or responsibility to service associated debt, if any.

	Cost	Depreciation	Net
Land	$ 237,898	$ 0	$ 237,898
Land Improvement	1,565,760	252,925	1,312,835
Buildings	19,564,416	4,759,333	14,805,083
Equipment	851,400	251,400	600,000
Totals	$ 22,219,474	$ 5,263,658	$ 16,955,816

13. Subsequent Event

In September 2004, the Commonwealth of Pennsylvania acquired the Community Hospital of Lancaster facility and turned it over to the College for dormitory and program space.

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

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

The Board of Trustees
Thaddeus Stevens College of Technology
750 East King Street
Lancaster, PA 17602

Dear Governor Rendell and the Board of Trustees:

We have audited the financial statements of the business-type activities of Thaddeus Stevens College of Technology for the fiscal year ended June 30, 2004, which collectively comprise Thaddeus Stevens College of Technology's basic financial statements and have issued a report thereon dated December 16, 2005. The report was qualified. Thaddeus Stevens College of Technology did not present a statement of cash flows for the fiscal year ended June 30, 2004, because it was in its first year of independent operations and lacked a basis for comparison. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered Thaddeus Stevens College of Technology's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Thaddeus

Stevens College of Technology's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying section of this report as these items:

- Not all recorded transactions complied with generally accepted accounting principles.
- Management oversight of internal controls needs to be improved.
- The College did not always provide adequate safeguards over receipts and disbursements.
- A detailed written policy and procedure manual is needed.
- The College's accounts receivable function did not always track amounts owed by students.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thaddeus Stevens College of Technology's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards, which* are described in the accompanying section of this report as this item:

- Credit card purchase practices could result in potential fraudulent or improper purchases.

Additional follow-up effort on compliance and other matters is also being performed by the Office of Special Investigations within the Department of the Auditor General. When this effort is complete, the results will be issued by the Office of Special Investigations in a separate report.

This report is intended solely for the information and use of management, and others within the government of the Commonwealth of Pennsylvania, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

JACK WAGNER
Auditor General

December 16, 2005

REPORTABLE ISSUES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The following is a summary of the internal control weaknesses that are reportable conditions.

Internal Control Weakness No. 1

Not all recorded transactions complied with generally accepted accounting principles.

Generally accepted accounting principles (GAAP) require accountants to follow set procedures when recording and summarizing accounting transactions and preparing financial statements. College management did not establish an accounting system or accounting policies that ensure that all accounting transactions complied with GAAP.

Audit testing disclosed discrepancies in the original recording of revenue and expense transactions. These discrepancies consisted of posting errors and mistakes in following accounting principles. To prepare the financial statements on a basis consistent with GAAP, the business office staff recorded more than 60 audit adjustments to the trial balance based on the discrepancies identified by the audit. The discrepancies contributed to the significant delays in completing the audit and required the College's business office staff to complete extensive review of and adjustment to accounting transactions.

Examples of errors noted during audit testing included:

- The College's business office received 120 checks totaling $46,000 before June 30, 2004, for the College's services performed for the fiscal year ended June 30, 2004; however, the checks were not deposited until July and August 2004 and were not recorded as revenue for the fiscal year ended June 30, 2004.

- The business office did not properly record cash on the year-end trial balance. For example, the business office initially recorded the bank balance rather than the reconciled book balance. For one account, the business office listed over $80,000 in outstanding checks as of June 30, 2004. However, the checks were not actually written until July and August 2004. This error resulted in the cash account reflecting a negative balance at year-end.

- The business office recorded over $35,000 of expenses from the fiscal year ended June 30, 2003, as current year expenses. In addition, payments made for services for the fiscal year ended June 30, 2005, such as insurance, were not accounted for as prepaid expenses.

- The business office paid $47,000 worth of purchases from 81 purchase orders in the fiscal year ended June 30, 2004. The same purchases were also recorded as accounts payable at June 30, 2004, resulting in each purchase being expensed twice.

- The business office incorrectly recorded a $5,376 student payment received prior to July 1, 2003, as revenue for the fiscal year ended June 30, 2004. Additionally, the same student made a $5,090 payment in June 2004 for an outstanding balance owed from the spring 2004 semester; however, the check was incorrectly recorded as revenue for the fiscal year ended June 30, 2005. Although the net effect of these errors is immaterial ($286), they are examples of incorrect GAAP accruals.

- The business office did not accurately record year-end accounts receivable transactions or the value for the allowance for uncollectible accounts. We noted errors on the supporting accounts receivable ledgers and the aging schedule of the receivables.

- The business office routinely duplicated the accounting for revenues since two different employees accounted for student payments received through credit cards. When the first employee transferred funds received to a second bank account, that employee also incorrectly charged an expense account. As a result, both revenue and expense were overstated.

- Year-end adjusting entries and other postings to accounts, such as compensated absences, leases, refunds to students, and various expense accounts were incorrect or lacked sufficient supporting documentation to determine the value. We, as well as the business office staff, performed extensive additional analysis to determine the validity of the account balances.

A well-designed accounting system provides for timely and accurate posting of all accounting data. Since management needs this information for decision-making and for preparing financial statements, it is essential that the business office enter data timely and accurately. As a result of the numerous errors listed above, we were unable to place reliance on the initial entries recorded in the College's accounts. In November 2004, College management concurred that differences existed between the College's accounting records and supporting documents and agreed to address those differences.

Recommendations:

College management should provide the business office staff with training in GAAP accounting principles and with specific procedures to properly account for all financial transactions of the College.

In addition, the College should contract with a professional accounting service to help establish an accounting system and to prepare books and records that accurately record every financial transaction of the College.

Internal Control Weakness No. 2

Management oversight of internal controls needs to be improved.

Closer monitoring of the day-to-day operations of the business office by the College's management is needed. Based on the results of the audit, as already disclosed in Internal Control Weakness No. 1, we noted that the business office staff did not initially prepare or adequately maintain the College's financial records or the related financial statements in accordance with established accounting criteria.

A well-designed internal control system ensures that all accounting entries and documentation supporting recorded amounts such as subsidiary ledgers for receivables, payables and fixed assets is subject to review and approval by management. However, the chief financial officer did not always review or approve transactions, accounting entries, and system output reports. As a result, account balances for accounts payable, accounts receivable, revenue, and fixed assets contained clerical errors as well as mistakes in applying accounting principles.

For example, the business office prepared eleven incorrect trial balances over the ten-month period. The preparer of the spreadsheet supporting revenue collections understated the tuition balance by more than $1.5 million. In the case of liabilities, receivables, and fixed assets, auditors noted that subsidiary ledgers supporting the amounts recorded on the original year-end trial balance contained numerous errors that either required the submission of "revised" trial balances or extensive audit recalculation to determine actual balances.

College management said that its expected level of supervision and control was affected by the context in which the College was operating, primarily related to the administration of tasks associated with the College's first year of transition.

Recommendations:

The Board of Trustees should hire accounting professionals to assist business office staff and management in establishing a system of accounting at the College, in maintaining accounting records, and in compiling accurate year-end financial statements.

The College, in conjunction with the board, needs to develop a plan of organization providing for proper assignment of authority and responsibility among its personnel. Finally, there should be an appropriate distribution of executive skill or knowledge of critical areas so that the loss of any key executive will not adversely affect the financial operations of the College.

Internal Control Weakness No. 3

The College did not always provide adequate safeguards over receipts and disbursements.

The business office did not always reconcile the total of the daily receipts to the bank deposits. As a result, College management had no assurance that all receipts were accounted for, and even more important, that all receipts were deposited in the bank.

The business office also did not deposit receipts timely. The revenue accountant accumulated cash and checks in a safe located under her desk and made deposits on a haphazard basis. For example, the auditors noted that a deposit made in August 2004 contained $46,491 of checks dated from the previous April, May, and June. Untimely deposits increase the risk of loss from burglary, misplacement, or misappropriation, and prevent funds from being available for payment of expenses and for investment.

In addition, the business office did not complete monthly bank reconciliations accurately or timely. The initial reconciliations presented to the auditors contained unexplained entries, stale dated checks, and, in some cases, amounts from the bank statement that were not reconciled to the general ledger cash accounts.

The College has established a procedure that requires two signatures on all disbursement checks. This control was designed to provide assurance that cash disbursements were properly reviewed prior to generating the check. Audit testing of a three-month period disclosed seven instances where College personnel issued checks containing only one signature.

Sufficient internal controls ensure that no one employee has access to all phases of a recorded transaction. Although the small size of the College's business office limits the extent to which duties can be separated, steps should be taken to separate duties. For example:

- An employee should not be responsible for both receiving an asset and recording that asset in the related accounting records. The revenue accounting clerk had the ability to handle incoming cash and checks, complete the bank deposit slips, post receipts to account records, receive and reconcile the monthly bank statements, and prepare refund checks. Allowing one employee to control the entire revenue cycle could result in undetected intentional or unintentional errors.

- The College established control procedures over the purchasing process that requires a purchase order to be approved by the business office prior to obtaining goods or services. Audit testing disclosed instances where staff routinely ordered and received goods and services prior to completing a purchase requisition and/or a purchase order. College staff made more than 80 purchases totaling approximately

$54,000 from a single vendor without completing purchase orders. In some of the invoices reviewed, it also appeared that large purchases were split into several smaller orders to avoid compliance with the College's competitive bidding thresholds. The splitting of purchases to avoid the approval process also violated the provisions of the Commonwealth's Procurement Code as explained in the section of the report on compliance and other matters. Since the College did not adopt its own policies and procedures, the College determined it would follow the Commonwealth's policies.

- The chief financial officer was delegated the authority to authorize requisitions, authorize purchase orders, approve invoices for payment, and sign disbursement checks. Therefore, one individual could control the entire purchasing and disbursement process with no independent review or supervision.

Recommendations:

The business office should reconcile individually issued cash receipts slips to the bank deposits to ensure that all receipts are deposited. The business office should take steps to ensure that only designated employees are permitted to receive cash receipts, regardless of whether they consist of cash, checks, or money orders received through the mail or payments received in person in the business office. The business office should also implement a practice of depositing receipts on a timely basis.

To ensure the accuracy of bank accounts, the College should require that all monthly bank statements be reconciled within ten days of receipt.

The College should enforce its policy of requiring purchase orders to be approved prior to ordering and receiving goods and services. Additionally, College officials should inform staff that they could be held personally responsible for the payment of goods and services that were provided prior to receiving purchase authorization. In addition, the practice of splitting purchases to avoid competitive bidding requirements should be strictly prohibited.

The College should take appropriate steps to enforce controls that require all disbursement checks to have two signatures.

Finally, for all the above duties, the College should establish a policy that delegates responsibility for the various duties to more than one employee to avoid the possibility that any one employee could perform all aspects of a transaction. In this manner, no employee could be in a position to receive, post, deposit and reconcile receipts, or order, receive, and pay for disbursements.

<u>Internal Control Weakness No. 4</u>

The College did not have detailed written policies and procedures.

The College did not have specific written accounting policies and procedures. Instead, the College still referenced the Commonwealth's applicable policies and procedures until such time as the College prepared its own policies and procedures. Specific written procedures, instructions, and assignment of duties would prevent or reduce misunderstandings, errors, inefficient use of employee resources, duplication or omitted procedures, and other situations that could result in inaccurate or untimely accounting records.

> *<u>Subsequent event:</u>*
>
> The College issued a formal accounting policy for the identification and control of fixed assets in October 2005.

Specific examples of accounting issues discovered during the course of the audit follow, although the examples are not meant to be all-inclusive. In each example, more specific recommendations are presented to alleviate the issues:

a) Paid invoices were not properly cancelled.

The business office did not have a policy to cancel invoices when paid. This cancellation helps to prevent duplicate payment of the same invoice. Our review of VISA purchase card expenditures noted two instances where invoices totaling approximately $4,900 were paid twice. In both instances, the reconciling clerk subsequently found the errors and corrected them.

<u>Recommendation</u>:

Duplicate payments can be avoided by marking invoices with a "paid" stamp or other indication of payment while they are in the custody of the VISA clerk or check preparer. The stamp should have spaces to note the check number, date, and initials of the persons who reviewed the invoice and receiving report. Such a procedure would add minimal time to the bill-paying process, serve as a reminder to the bill processor of steps to be preformed, and eliminate the potential of making duplicate payments. The College should prepare its own accounting manual with detailed instructions addressing this specific issue, as well as other day-to-day accounting operations and procedures.

b) The current record storage and retrieval system was disorganized.

Accounting records frequently could not be located when needed during the audit. Recordkeeping is an integral part of an internal control system. It helps protect assets and ensures employees use prescribed procedures. Reliable records are also a source of information that managers use to monitor College activities. Based on interviews with the College staff, the audit team concluded that the reasons for the misplaced records appear to be:

- lack of a clearly defined system for filing records
- numerous accounting records and files being stored in boxes, the storeroom, and other locations outside of the business office
- failure to return the records to the files or the designated storage area
- failure to place support documentation such as invoices into the files

The misplaced records resulted in inefficient use of employee resources to search for requested documents. In one instance, we noted three sets of personnel files: one was located in the chief financial officer's office, one in the revenue clerk's cubicle, and the third set on the floor above the business office in a storage room. Initially, we were provided access to the files in the storage room to conduct payroll testing. However, upon our inquiry of missing documents such as employee pay rates, tax deduction authorization forms and identification information needed to comply with federal regulations relating to proof of United States citizenship, we were provided with another set of personnel files that were still lacking needed documents such as approved employee pay rates.

Recommendation:

The College should establish a records retention policy. Additionally, the College should use "sign-out" cards when a document is removed indicating the receiver and date the record was removed. The College should prepare its own accounting manual with detailed instructions addressing these specific issues, as well as other day-to-day accounting operations and procedures.

c) Blank lines on storeroom requisition forms were not voided by the individual approving the form.

Approved internal storeroom requisition (ISR) forms contain blank lines, thus permitting potential unauthorized additions. When College personnel order items from the campus storeroom they are required to complete an internal storeroom requisition form. These forms are then submitted to another staff member for approval. After being approved, the ISRs are forwarded to the storeroom clerk who fills the order and delivers the ordered supplies to the individual departments.

Our audit disclosed that blank lines on the ISR forms were not voided after the document was approved. This practice increases the possibility that personnel could add unauthorized additions to ISR forms after they are approved.

Recommendation:

In order to increase controls, the College should mark "Void" on all blank lines on the ISR form prior to approving the requested items. The College should prepare its own accounting manual with detailed instructions addressing this specific issue, as well as other day-to-day accounting operations and procedures.

d) Employees were permitted to carry excess leave balances.

Employees are permitted to accumulate annual and personal leave balances in excess of Commonwealth-permitted maximums. Our review noted that as of June 30, 2004, three employees had annual leave balances exceeding the maximum allowed. Additionally, the College is allowing employees to carry over personal leave from one calendar year to the next. Per Commonwealth policy, personal leave days shall be non-cumulative from calendar year to calendar year. Since the College did not adopt its own policies and procedures, the College determined it would follow the Commonwealth's policies. Our testing disclosed that 63 employees had excess personal leave resulting in an excess compensated absences liability of $43,693, as of June 30, 2004.

Noncompliance with established maximum accumulated leave policies results in the potential for misunderstandings and conflicts with current and terminating employees about the extent of their vacation and personnel leave benefits. In addition, it creates difficulty in properly accounting for compensated absences in the financial statements.

Recommendation:

The College should periodically review the leave balances to ensure excess leave is not accumulated. Additionally, the College should notify employees of the status of their accumulated vacation time. This notification would allow employees to take advantage of their accrued vacation benefits in a manner most fair to themselves and to the College, as well as allowing any misunderstanding to be identified and resolved. The College should prepare its own accounting manual with detailed instructions addressing these specific issues, as well as other day-to-day accounting operations and procedures.

e) Stale-dated checks were not voided.

The College does not have a policy for outstanding checks. An outstanding check is any check that was written but, as of the end of the month, has not been presented at the bank for payment. As of June 30, 2004, the College had more than 80 outstanding checks totaling approximately $24,000 that were over 180 days old. Some of these checks were originally written in 1998.

Recommendation:

The College should print a void date (usually 180 days) on the check. The College should prepare its own accounting manual with detailed instructions addressing this specific issue, as well as other day-to-day accounting operations and procedures.

Subsequent event:

After discussion with management on this issue, the stale-dated checks were voided and new bank reconciliations were provided to the auditors.

The common denominator in the preceding examples is the need for a well-designed accounting manual. Such a manual can also help to ensure that similar transactions are treated consistently, that proper accounting principles are followed and that records are generated in a useful format for management. It could also serve as a training tool for new employees and provide cross training to allow for delegation of duties to other employees of accounting functions currently performed by management.

The time and effort by management to develop a manual could be offset by time saved later in training and supervising accounting personnel. In addition, in the process of developing the manual, management may discover procedures that could be eliminated or improved to make the accounting and reporting system more efficient and effective.

Internal Control Weakness No. 5

The College's accounts receivable function did not always track amounts owed by students.

The business office's accounts receivable ledgers were not always accurate. Auditors noted that receivables were not established when tuition bills were sent to students. Cumulative amounts owed from previous years were not accurately carried forward to the next academic year, and postings to student accounts contained errors.

Testing of student accounts identified four students with balances due of $4,714 that were not listed on the accounts receivable ledgers. Additionally, initial testing of 54 student accounts disclosed 11 instances totaling $20,749 where the amounts owed on the accounts receivable ledgers were less than the balances on the individual student accounts. By the end of audit fieldwork, auditors proposed $81,597 in adjustments to the accounts receivable balance and $37,474 in the allowance for uncollectible accounts.

Additionally, the tuition bills prepared at the beginning of the fall semester did not appear to reflect the cumulative balances owed from the prior academic year. Therefore, it may be unclear to students whether they still owe monies from the prior academic year. The College should implement a "hold" against students that owe more than a predetermined amount of tuition and/or fees. This "hold" would prohibit students from registering for classes, attending classes, obtaining transcripts, and graduating. This process would also provide students with an incentive to settle outstanding debts.

Recommendations:

To make the accounts receivable function more accurate and efficient, the College should develop written procedures to ensure:

- A receivable is recorded when the tuition is billed.
- Tuition bills include cumulative balances due for outstanding balances from the prior semester and the prior academic year.
- Holds are placed on students that have outstanding balances.
- A business office employee is responsible for monitoring and documenting accounts receivable activities.

COMPLIANCE ISSUES AND OTHER MATTERS

The audit identified one compliance issue that the auditors considered reportable.

Compliance Weakness No. 1

Credit card purchase practices could result in potential fraudulent and improper purchases.

The College did not comply with Commonwealth policies and procedures in the use of VISA purchasing cards and in the payment of VISA transactions. Prior to July 1, 2003, the Commonwealth of Pennsylvania required the College to comply with Governor's management directives and the Commonwealth's Field Procurement Handbook when purchasing items.[1] Since the College did not adopt its own policies and procedures, the College determined it would follow the Commonwealth's policies.

Credit card purchases totaling at least $1,000,000 were paid prior to anyone reviewing the transactions to verify that all invoiced services were actually received. Additionally, the business office paid the VISA bills prior to obtaining supporting documentation such as invoices, purchase requisitions, purchase orders, and receiving reports. The review of 420 credit card transactions selected from two representative months and the review of all 12 monthly VISA statements disclosed the following deficiencies:

- Credit card users avoided the competitive bidding requirements of the College and split related purchases into more than one payment to the same vendor, on the same day, or on a series of days. Split purchases exceeded $10,000.

- The business office paid the monthly credit card bill prior to verifying that billed services were actually received. The business office did not reconcile monthly charges recorded on the credit card statements to individual purchases and receipts until up to four months after payment. In addition, the business office deliberately paid $29,585 over the statement balance in one tested month in order to guarantee sufficient credit availability in the succeeding month.

- The same employee approved purchase requisitions, purchase orders, and payment authorizations, which created a lack of a segregation of duties. This issue was previously addressed in Weakness No. 3.

[1] Governor's Management Directive 310.23, "Commonwealth Purchasing Card Program," March 24, 1997; Governor's Policy Manual M215.3, "Field Procurement Handbook," March 20, 2001, with updates through April 17, 2003.

- The credit card users did not follow proper requisitioning procedures and, on occasion, the business office paid the credit card bills before preparing purchase orders.

- The business office did not always maintain supporting documentation for purchases such as purchase orders, invoices, and receiving reports.

- The business office did not notice potential questionable charges relating to monthly Internet service paid with a credit card for several months.

- The business office filed documents, such as vendor invoices and copies of faxed order forms that contained the credit card number and expiration date. This procedure exposed vulnerable confidential financial data to unauthorized users.

The lack of adherence to internal controls over purchasing and to Commonwealth policies and procedures for safeguarding credit cards could ultimately compromise the accuracy of the books and records of the College. In addition, fraudulent or improper purchases could result and not be detected timely when the business office pays credit card invoices prior to verifying the receipt of goods.

Recommendations:

All purchases, including VISA transactions, should be reviewed and reconciled to supporting documentation prior to the payment of the actual invoice.

The College should strengthen internal controls over credit card purchases by designating a staff member to administer the credit card program. Recommended duties for this individual should include:

- Monthly oversight reviews of the program to ensure that individual charges are reconciled to receipts and approved purchase orders prior to paying the monthly credit card invoices.

- Establishing and enforcing purchase thresholds and bidding requirements to control the use of the VISA cards.

- Establishing VISA card security procedures, including the redacting of credit card numbers from filed vendor invoices and copies of faxes sent to vendors.

- Developing written policies and procedures including handling disputes and returned, refused, damaged, or unacceptable items and partial deliveries.

- Training of all cardholders in the proper use of the VISA cards.

In addition, the College should review all credit card transactions to determine that all purchases and receipts were proper. For any transactions not authorized, or personal in nature, the College should seek reimbursement from employees for the value of the item purchased.

COLLEGE MANAGEMENT RESPONSE

Office of the President

THADDEUS STEVENS
COLLEGE OF TECHNOLOGY

January 4, 2006

Mr. Jack Wagner
Auditor General
Department of the Auditor General
229 Finance Building
Harrisburg, PA 17120

Dear Mr. Wagner:

I am writing to inform you that Thaddeus Stevens College of Technology accepts the Financial Audit Report, prepared by your office, for the fiscal year ended June 30, 2004.

On behalf of the College's Board of Trustees, I want to express the institution's sincere appreciation to you and your staff. We are aware that performing the College's first financial audit was a difficult and time consuming process. As a direct result of your efforts the College can now comply with its Middle States' accreditation requirements and is better positioned to fulfill its mission.

Again, I want to thank you for all of your assistance with this important issue.

Best regards,

William E. Griscom, Ed.D.
President

WEG/lem

cc: Stephanie Maurer
Richard A. Watson, Jr.

750 East King Street ♦ Lancaster, Pennsylvania 17602-3198 ♦ (717) 299-7723 ♦ Fax (717) 299-7748

This report was initially distributed to the following:

Commonwealth of Pennsylvania

The Honorable Edward G. Rendell
Governor

The Honorable Robert P. Casey, Jr.
State Treasurer

The Honorable James J. Rhoades
Majority Chairman
Senate Education Committee
Senate of Pennsylvania

The Honorable Raphael J. Musto
Minority Chairman
Senate Education Committee
Senate of Pennsylvania

The Honorable Jess M. Stairs
Majority Chairman
House Education Committee
Pennsylvania House of Representatives

The Honorable James R. Roebuck, Jr.
Minority Chairman
House Education Committee
Pennsylvania House of Representatives

The Honorable Robert J. Thompson
Majority Chairman
Senate Appropriations Committee
Senate of Pennsylvania

The Honorable Vincent J. Fumo
Minority Chairman
Senate Appropriations Committee
Senate of Pennsylvania

The Honorable Gibson E. Armstrong
Senate of Pennsylvania

The Honorable Brett Feese
Majority Chairman
House Appropriations Committee
Pennsylvania House of Representatives

The Honorable Dwight Evans
Minority Chairman
House Appropriations Committee
Pennsylvania House of Representatives

The Honorable Gerald L. Zahorchak, D.Ed.
Acting Secretary of Education
Pennsylvania Department of Education

Connie Huber
Comptroller
Labor, Education and Community Services
Office of the Budget

Thaddeus Stevens College of Technology
William Griscom, Ed.D.
President
Members, Board of Trustees

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 Web site at www.auditorgen.state.pa.us.