

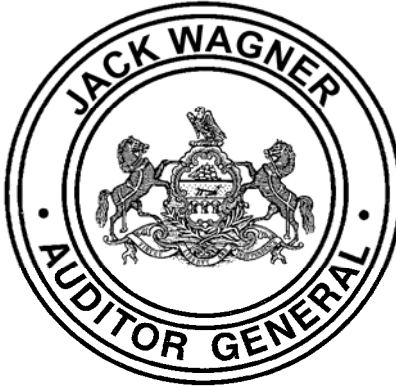
PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2

ALLEGHENY COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002 AND 2001  
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004





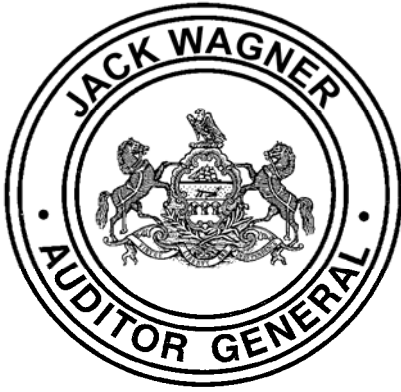
PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004, 2003, 2002 AND 2001  
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004



PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
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The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the Pittsburgh-Mt. Oliver Intermediate Unit #2 for the years ended June 30, 2004, 2003, 2002, and 2001 and in certain areas extending beyond June 30, 2004. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The objective of our audit was to determine if Pittsburgh-Mt. Oliver Intermediate Unit #2 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

To plan and perform our audit of the Pittsburgh-Mt. Oliver Intermediate Unit #2, we considered the IU's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls, we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the IU's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

The results of our tests indicated that, in all significant respects, the Pittsburgh-Mt. Oliver Intermediate Unit #2 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

Independent Auditor's Report (Continued)

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

Sincerely,

August 23, 2006

/s/  
JACK WAGNER  
Auditor General



PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT  
BACKGROUND

**Background**

The intermediate unit (IU) is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the School District of Pittsburgh, nonpublic schools, and institutions in Allegheny County. The IU is governed by the same board members as the district. The administrative office is located at 515 North Highland Avenue, Pittsburgh, Pennsylvania.

The programs offered by the IU served 9,300 students in nonpublic schools. The staff consisted of 2 administrators, 62 teachers, and 6 full-time and part-time support personnel.

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

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

**General Fund**

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

Services provided participating school districts through the general fund included:

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

PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT  
BACKGROUND

**General Fund (Continued)**

For the years ended June 30, 2004, 2003, 2002 and 2001, the Commonwealth provided \$4,086,209, \$3,857,346, \$4,568,023 and \$2,669,931 in general operating funds, as detailed in the General Fund Schedule of State Revenue. Additional revenue was derived from local and federal sources. Expenditures for the same periods were \$8,813,662, \$8,081,435 \$9,264,314 and \$11,120,850, respectively.

**Special Revenue Fund**

The special revenue fund accounts for the financial resources received to provide, maintain, administer, supervise and operate schools, classes, service programs, and transportation for exceptional children in accordance with the school laws of Pennsylvania and the approved IU plan for special education. The special revenue fund accounts for financial resources available for programs and services for exceptional children in state centers, state hospitals, private licensed facilities, and other child care institutions.

The special education program offered services at all grade levels for pupils whose physical, mental, or emotional needs required such services. If appropriate facilities were not available in a neighborhood school, the IU provided the necessary transportation.

Special education programs included:

- . gifted support;
- . learning support;
- . life skilled support;
- . emotional support;
- . deaf or hearing impaired support;
- . blind or visually impaired support;
- . speech and language support;
- . physical support;
- . autistic support; and
- . multihandicapped support.

PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT  
BACKGROUND

**Special Revenue Fund (Continued)**

Act 25 of 1991 amended the Public School Code regarding the funding of special education services. IUs received direct funding for certain institutionalized children programs, CORE services, special payments to certain IUs, and a contingency fund. For the years ended June 30, 2004 and 2003, the Commonwealth provided \$10,556,751, \$8,091,586, \$9,656,263 and \$10,297,002 in direct funding, as detailed in the Special Revenue Fund Schedule of State Revenue. Additional revenue was derived from contracted services with other local education agencies, local, and federal sources. Expenditures for the same periods were \$81,851,134, \$74,532,583, \$70,398,105 and \$71,025,267, respectively.

Generally, state subsidies and reimbursements are paid based on approved budgets in the year in which the IU incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the IU throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 9 through 12 of this report for a listing of the State Revenue the district received during the 2003-04, 2002-03, 2001-02 and 2000-01 school years and for descriptions of the state revenue received by category.

In July of each year, the Commonwealth's Labor, Education and Community Services, Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. IU annual financial reports and the related certified audits of the payments are not available before October 1<sup>st</sup> of the following fiscal year.

PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT  
OBJECTIVE, SCOPE AND METHODOLOGY

**OBJECTIVE AND SCOPE**

Our audit objectives was to determine if the Pittsburgh-Mt. Oliver Intermediate Unit #2 complied with state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit; and

The scope of our audit covered the years ended June 30, 2004, 2003, 2002, and 2001, and in certain areas extending beyond June 30, 2004.

**METHODOLOGY**

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

The proper administration of an intermediate unit (IU) requires board members to establish and maintain internal controls to provide reasonable assurance that specific IU objectives will be achieved. Board members are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the IU's internal controls as they relate to the IU's compliance with state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

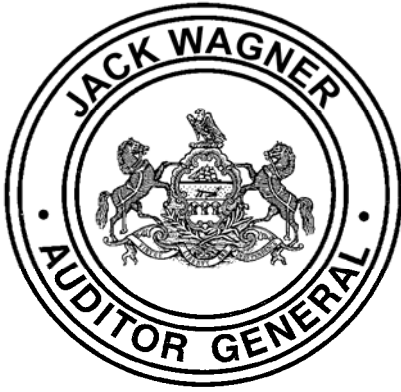
As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year in which the district incurs the qualifying cost. Because we use the payment confirmations, annual financial reports and certified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

PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT

**CONCLUSION**

The objective of our audit was to determine if the Pittsburgh-Mt. Oliver Intermediate Unit #2 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the Pittsburgh-Mt. Oliver Intermediate Unit #2 complied with state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.



PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

**General Fund Schedule of State Revenue**

In its annual financial reports for the years ended June 30, 2004, 2003, 2002 and 2001, the IU reported state revenue of \$4,086,209, 3,857,346, \$4,568,023 and \$2,669,931, respectively, as detailed in the following schedule:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>STATE REVENUE</u></b>				
General Operating Subsidy	\$ 121,162	\$ 121,162	\$ 121,162	\$ 117,502
Nonpublic – Act 89	2,273,806	2,255,946	2,282,289	2,255,691
Social Security and Medicare Taxes	79,344	79,329	77,991	78,834
Retirement	85,361	26,021	22,083	44,411
Technology Grants	219	218,328	274,229	173,493
Other Program Subsidies/Grants	<u>1,526,317</u>	<u>1,156,560</u>	<u>1,790,269</u>	<u>-</u>
<b><u>TOTAL STATE REVENUE</u></b>	<b><u>\$4,086,209</u></b>	<b><u>\$3,857,346</u></b>	<b><u>\$4,568,023</u></b>	<b><u>\$2,669,931</u></b>

PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
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**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

*Description of State Revenue Received – General Fund (Source: Pennsylvania Accounting Manual)*

General Operating Subsidy

Revenue received from the Commonwealth to support the operational expense of the intermediate unit.

Nonpublic – Act 89

Revenue received from the Commonwealth for payment of expenditures incurred in operation of programs authorized by Act 89 of 1975.

Social Security and Medicare Taxes

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

Retirement

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

Technology Grants

Revenue received for technology initiatives that allow schools to develop new information technology projects, such as upgrade of networks or improved computer hardware and software.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.



PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

**Special Revenue Fund Schedule of State Revenue**

In its annual financial reports for the years ended June 30, 2004, 2003, 2002 and 2001, the IU reported state revenue of \$10,556,751, \$8,091,586, \$9,656,263 and \$10,297,002, respectively, as detailed in the following schedule:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>STATE REVENUE</u></b>				
Special Education	\$ 1,159,851	\$1,118,882	\$1,119,511	\$ 1,039,834
Institutionalized Children	806,003	1,018,149	1,073,036	963,170
Early Intervention	-			2,379,681
Transportation	<u>8,590,897</u>	<u>5,954,555</u>	<u>7,463,716</u>	<u>5,914,317</u>
<b><u>TOTAL STATE REVENUE</u></b>	<b><u>\$10,556,751</u></b>	<b><u>\$8,091,586</u></b>	<b><u>\$9,656,263</u></b>	<b><u>\$10,297,002</u></b>

PITTSBURGH-MT. OLIVER INTERMEDIATE UNIT #2  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

*Description of State Revenue Received – Special Revenue Fund (Source: Pennsylvania Accounting Manual)*

Special Education - CORE

Revenue received from the Commonwealth to provide the necessary administrative and management functions required to sustain, the intermediate unit's special education unit in order to deliver the Department of Education's required support for school districts. This support includes administrative and management, data collection, and program evaluation services.

Institutionalized Children

Revenue received from the Commonwealth to fund expenses for certain Department of Education approved institutionalized children's programs authorized by Section 2509.1 of the Public School Code.

Early Intervention

Revenue received from the Commonwealth as subsidy for young children eligible for early intervention services.

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

BUREAU OF SCHOOL AUDITS  
AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the executive director of the IU, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

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

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

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

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Harrisburg, PA 17120

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

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