

SENECA HIGHLANDS INTERMEDIATE UNIT #9  
MCKEAN COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2011



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

Mr. David Mensch, Board President  
Seneca Highlands Intermediate Unit #9  
119 Mechanic Street, P.O. Box 1566  
Smethport, Pennsylvania 16749

Dear Governor Rendell and Mr. Mensch:

We conducted a performance audit of the Seneca Highlands Intermediate Unit #9 (SHIU) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period April 10, 2007 through October 6, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the SHIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings and observation and recommendations have been discussed with SHIU's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SHIU's operations and facilitate compliance with legal and administrative requirements. We appreciate the SHIU's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER  
Auditor General

January 4, 2011

cc: **SENECA HIGHLANDS INTERMEDIATE UNIT #9** Board Members



## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	4
Findings and Observations .....	7
Finding No. 1 – Errors in Reporting Federally Funded Social Security and Medicare Wages Resulted in Overpayments of \$35,646 .....	7
Finding No. 2 – Failure to Have Memorandums of Understanding .....	10
Observation – Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers’ Qualifications .....	11
Status of Prior Audit Findings and Observations .....	13
Distribution List .....	15



## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Seneca Highlands Intermediate Unit #9 (SHIU). Our audit sought to answer certain questions regarding the SHIU's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the SHIU in response to our prior audit recommendations.

Our audit scope covered the period April 10, 2007 through October 6, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

### **Intermediate Unit Background**

The intermediate unit (IU) is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the 14 participating school districts, nonpublic schools, and institutions in McKean, Elk, Cameron, and Potter Counties. The IU is governed by a 14 member board appointed by the participating school districts on a rotating basis. The administrative office is located at 119 Mechanic Street, Smethport, Pennsylvania.

The programs offered by the IU served 1,586 students in public schools and 1,365 students in nonpublic schools. The staff consisted of 41 administrators, 145 teachers, and 98 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 individual programs based on purposes for which the funds are to be spent and the means by which spending activities are controlled.

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

### **General Fund**

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

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

- administration;
- curriculum development and instructional improvement;
- educational planning;
- instructional materials;
- management services;

- continuing professional education
- pupil personnel;
- state and federal liaison; and
- nonpublic program subsidy - Act 89.

Lastly, the SHIU received more than \$2 million from the Commonwealth in general operating funds in school year 2007-08.

### **Special Revenue Fund**

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

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

Special education programs included:

- gifted support;
- learning support;
- life skilled support;

- emotional support;
- deaf or hearing impaired support;
- blind or visually impaired support;
- speech and language support;
- physical support;
- autistic support; and
- multi-handicapped support.

Act 25 of 1991 amended the Public School Code regarding the funding of special education services. IUs received direct funding for certain institutionalized children programs, CORE services, special payments to certain IUs, and a contingency fund.

Lastly, the SHIU received more than \$4 million from the Commonwealth in special revenue funds in school year 2007-08.

### **Audit Conclusion and Results**

Our audit found that the SHIU complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified two compliance-related matters reported as findings and one matter unrelated to compliance that is reported as an observation.

**Finding 1: Errors in Reporting Federally Funded Social Security and Medicare Wages Resulted in Overpayments of \$35,646.** Our audit found that SHIU personnel failed to deduct all federally funded wages on reports submitted to Department of Education when filing for



Social Security and Medicare Reimbursements (see page 7).

**Finding 2: Failure to Have Memorandums of Understanding.** Our audit found that the SHIU did not have Memorandums of Understanding with local law enforcement as required by the Public School Code Section 1303-A (see page 10).

**Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications.** Our audit found that the SHIU does not have written policies or procedures in place to ensure they are notified if current employees have been charged with or convicted of a serious crime (see page 11).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the SHIU from an audit we conducted of the 2005-06 and 2004-05 school years, we found the SHIU had taken appropriate corrective action in implementing our recommendations pertaining to a board member's untimely filing of their Statements of Financial Interests (see page 13).

## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period April 10, 2007 through October 6, 2009, except for the verification of professional employee certification which was performed for the period February 22, 2007 through August 7, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

While all LEAs have the same school years, some LEAs have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Department of Education (DE) reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

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

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the IU receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?

- ✓ Did the IU use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Is the IU's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the IU ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the IU?
- ✓ Did the IU pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the IU taking appropriate steps to ensure school safety?
- ✓ Did the IU take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

*What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures.

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

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

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Professional employee certification and state ethics compliance.
- Items such as meeting minutes and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with SHIU operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 11, 2007, we reviewed the SHIU's response to DE dated October 21, 2008. We then performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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### Errors in Reporting Federally Funded Social Security and Medicare Wages Resulted in Overpayments of \$35,646

*Criteria relevant to the finding:*

The 1986 Budget Reconciliation Act required local education agencies (LEA's) to deposit Social Security tax contributions for wages earned on or after January 1, 1987, directly to their authorized depositories or Federal Reserve banks. LEAs were required to pay the full amount of the employer's tax due, including the Commonwealth's matching share, which was 50 percent of the employer's share of tax due for employees employed by the LEA prior to July 1, 1994, (existing employees). LEAs are subsequently reimbursed the Commonwealth's matching share based on wages reported to the Labor Education and Community Services, excluding wages paid with the federal funds.

Our audit of Social Security and Medicare wages for the 2007-08 and 2006-07 school years found that wages were incorrectly reported to the Department of Education (DE), resulting in reimbursement overpayments of \$35,646.

The errors for the 2007-08 and 2006-07 school years were due to the intermediate unit personnel's failure to accurately report federally funded wages. These errors resulted in erroneous reimbursement paid to the District.

Reimbursement is not paid for taxes on wages paid with federal funds. Reported federal wages are deducted from total wages when reimbursement is calculated.

Act 29 of 1994 further changed the way in which LEAs are reimbursed for Social Security contributions. A part of the law provides that employees who have never been employed by an LEA prior to July 1, 1994, (new employees) would have Social Security employer shares reimbursed based on the LEAs aid ratio or 50 percent, whichever is greater.

Wages eligible for Social Security and Medicare reimbursement were incorrectly submitted to DE, as follows:

<u>Reporting Period</u>		<u>Federal Wages Audited</u>	<u>Federal Wages Reported</u>	<u>Federal Wages Understated</u>	<u>Rate</u>	<u>Reimbursement Overpayments</u>
<u>Existing Employees:</u>						
7/07 – 6/08	*	\$1,883,537	\$1,672,400	\$211,137	.03100	\$6,545
7/07 – 6/08	**	\$1,883,537	\$1,672,400	\$211,137	.00725	\$1,531
7/06 – 6/07	*	\$1,803,548	\$1,587,204	\$216,344	.03100	\$6,707
7/06 – 6/07	**	\$1,803,548	\$1,587,204	\$216,344	.00725	\$1,568
<u>New Employees:</u>						
7/07 – 6/08	*	\$705,278	\$525,033	\$180,245	.04127	\$7,439
7/07 – 6/08	**	\$705,278	\$525,033	\$180,245	.00965	\$1,739
7/06 – 6/07	*	\$823,650	\$623,948	\$199,702	.04106	\$8,200
7/06 – 6/07	**	\$823,650	\$623,948	\$199,702	.00960	<u>\$1,917</u>
Total						<u>\$35,646</u>
*Social Security Wages ** Medicare Wages						

**Recommendations**

The *Seneca Highland Intermediate Unit #9* personnel should:

1. Ensure all employees paid with federal funds are properly coded in their payroll system.
2. Manually adjust year-end payroll records to include those employees whose wages were paid with Individual for Disabilities Education Act (IDEA) Federal Grant.
3. Review reports filed for years subsequent to the audit period and submit revised reports, if necessary, to DE.

The *Department of Education* should:

4. Adjust the SHIU's allocations to resolve the reimbursement overpayments.

**Management Response**

Management stated the following:

Management understands the finding and has developed a method of manually tracking the amount of salaries that are paid indirectly with federal IDEA flow-through funds. The SHIU will manually deduct this amount from the quarterly social security reimbursement forms so that we do not receive social security subsidy on salaries that are paid with federal dollars.

**Finding No. 2** →

**Failure to have Memorandums of Understanding**

*Criteria relevant to the finding:*

Section 1303-A(c) of the Public School Code provides:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when an incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the Basic Education Circular issued by the Department of Education entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities. Section VI, General Provisions item (B) of this sample states this MOU may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added)

Our audit of the Seneca Highlands Intermediate Unit #9's (SHIU) records found that the SHIU failed to have Memorandums of Understanding (MOU) between the SHIU and the local police departments where their administrative offices are located and where they house early intervention classrooms/offices.

The failure to have MOUs with the local police departments could result in the lack of cooperation, direction, and guidance between SHIU employees and law enforcement agencies if an incident should happen to occur at the SHIU administrative building or any of the rented classroom and office spaces, SHIU sponsored activity, or any public conveyance providing transportation to or from a school or SHIU sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

SHIU administrators felt that since they did not have students coming to their office buildings on a regular basis that they did not have to develop an MOU with local law enforcement.

The Basic Education Circular issued by DE entitled Safe Schools and Possession of Weapons defines a public school entity as public school districts, intermediate units, area vocational-technical schools and charter schools.

**Recommendations**

The *Seneca Highlands Intermediate Unit #9* should:

1. In consultation with the SHIU solicitor develop MOUs and have the memorandums signed by local police agencies and the SHIU.
2. Adopt policy requiring the administration to review and re-execute the MOUs every two years.

**Management Response**

Management stated that they are working towards obtaining MOUs with local law enforcement.



**Observation** →

**Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications**

*Criteria relative to the observation:*

Section 111 of the Public School Code as amended, requires prospective school employees who would have direct contact with children, including independent contractors and their employees, to submit a report of criminal history record information obtained from the Pennsylvania State Police. Section 111 lists convictions for certain criminal offenses that, if indicated on the report to have occurred within the preceding five years, would prohibit the individual from being hired.

Similarly, Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to provide an official child abuse clearance statement obtained from the Pennsylvania Department of Public Welfare. The CPSL prohibits the hiring of an individual determined by a court to have committed child abuse.

During the administering of the internal control review it was noted that neither the SHIU nor the transportation contractors have written policies or procedures in place to ensure that they are notified if current employees have been charged with or convicted of serious criminal offenses which should be considered for the purpose of determining an individual's continued suitability to be in direct contact with children. This lack of written policies and procedures is an internal control weakness that could result in the continued employment of individuals who may pose a risk if allowed to continue to have direct contact with children.

**Recommendations**

The *Seneca Highlands Intermediate Unit #9* should:

1. Develop a process to determine, on a case-by-case basis, whether prospective and current employees of the SHIU or the SHIU's transportation contractors have been charged with or convicted of crimes that, even though not barred by state law, affect their suitability to have direct contact with children.
2. Implement written policies and procedures to ensure SHIU is notified when drivers are charged with or convicted of crimes that call into question their suitability to continue to have direct contact with children.

**Management Response**

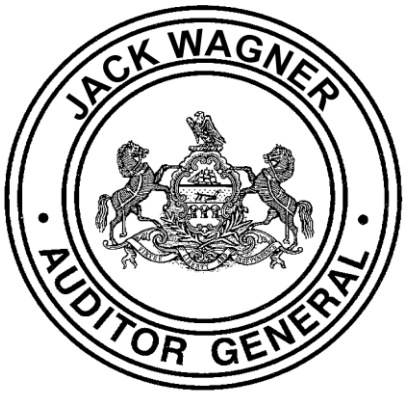
Management stated the following:

The current SHIU policy includes language that was recommended by a previous auditor with the Department of the Auditor General. Management agrees that language in the policy to notify the SHIU of any bus drivers charged with a crime will enhance the existing policy and will revise current policy to include such language.

## Status of Prior Audit Findings and Observations

Our prior audit of the Seneca Highlands Intermediate Unit #9 (SHIU) for the school years 2005-06 and 2004-05 resulted in one reported finding. The finding pertained to a former board member not filing a Statements of Financial Interests (SFI). As part of our current audit, we determined the status of corrective action taken by the SHIU to implement our prior recommendations. We analyzed the SHIU Board’s written response provided to the Department of Education, performed audit procedures, and questioned SHIU personnel regarding the prior finding. As shown below, we found that the SHIU did implement recommendations related to the filing of SFIs.

<i>School Years 2005-06 and 2004-05 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	<i>Implementation Status</i>	
<p><u><i>I. Finding: Board Member Failed to File a Statement of Financial Interests in Violation of the Ethics Act</i></u></p> <ol style="list-style-type: none"> <li>1. Seek the advice of its solicitor in regard to the board’s responsibility when an elected board member fails to file SFI.</li> <li>2. Develop procedures to ensure that all individuals required to file SFI do so in compliance with the Ethics Act.</li> </ol>	<p><b>Background:</b></p> <p>Our prior audit of the SHIU’s records for board members’ SFI for the year ended December 31, 2005 found that one board member failed to file a form.</p>	<p><b>Current Status:</b></p> <p>Our current audit noted the SHIU did correct the missing filing from the prior audit. All SFI were on file for the years ended December 31, 2006, 2007 and 2008. Based on our current audit, we concluded that the SHIU did take appropriate corrective action to address this finding.</p>



## **Distribution List**

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

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

