

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

JANUARY 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

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

Dear Governor Corbett and Mr. Mensch:

We conducted a performance audit of the Seneca Highlands Intermediate Unit #9 (SHIU) to determine its compliance with applicable state laws, contracts, grant requirements and administrative procedures. Our audit covered the period October 6, 2009 through August 23, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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, contracts, grant requirements, and administrative procedures, except as detailed in three findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings 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 23, 2012

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



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Executive Summary

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, 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 October 6, 2009 through August 23, 2011, 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 2009-10 and 2008-09.

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 1,252 students in public schools and 1,184 students in nonpublic schools. The staff consisted of 35 administrators, 143 teachers, and 115 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 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 \$1 million from the Commonwealth in general operating funds in school year 2009-10.

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 2009-10.

Audit Conclusion and Results

Our audit found that the SHIU complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for three compliance-related matters reported as findings.

Finding No. 1: Errors in Reporting Total Taxable and Federally Funded Social Security and Medicare Wages Resulted in a Net Overpayment of \$29,238.

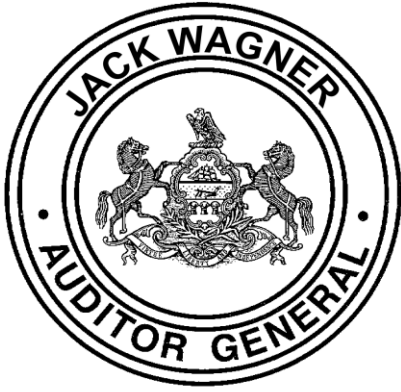
SHIU personnel failed to accurately report total taxable and federally funded wages on reports submitted to the Department of Education when filing for Social Security and Medicare reimbursement (see page 8).

Finding No. 2: Failure to Have Bus Drivers' Qualifications on File.

Qualification records for SHIU bus drivers were not on file (see page 11).

Finding No. 3: Failure to Have Memoranda of Understanding. The SHIU failed to have Memoranda of Understanding with local police departments where early intervention, partial program and alternative education classrooms are housed (see page 13).

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 2007-08 and 2006-07 school years, we found the SHIU had not taken appropriate corrective action in implementing our recommendations pertaining to Social Security and Medicare reimbursement (see page 15) and obtaining Memoranda of Understanding (see page 16). The SHIU did take appropriate corrective action in implementing our recommendations regarding internal control weaknesses in administrative policies governing bus driver qualifications (see page 16).



Audit Scope, Objectives, and Methodology

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 October 6, 2009 through August 23, 2011, except for the verification of professional employee certification, which was performed for the period July 1, 2010 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 statute, regulation, policy, 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

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the SHIU's compliance with applicable state laws, 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?
- ✓ 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 use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the IU take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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, contracts, grant requirements and administrative procedures.

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.

SHIU management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the IU is in compliance with applicable laws, 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:

- Records pertaining to bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- 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 January 4, 2011, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Errors in Reporting Total Taxable and Federally Funded Social Security and Medicare Wages Resulted in a Net Overpayment of \$29,238

Criteria relevant to the finding:

The 1986 Budget Reconciliation Act required local education agencies (LEAs) to deposit Social Security and Medicare 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 DE, excluding wages paid with federal funds.

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

Our audit of Social Security and Medicare wages for the 2009-10 and 2008-09 school years found that the wages were incorrectly reported to the Department of Education (DE), resulting in a net reimbursement overpayment of \$29,238.

The errors were due to Seneca Highlands Intermediate Unit #9 (SHIU) personnel's failure to accurately report total taxable and federally funded wages. These errors resulted in erroneous reimbursement paid to the SHIU.

Reimbursement is not paid for taxes on wages paid with federal funds. Reported federal wages are deducted from total wages when reimbursement is calculated. Therefore, it is very important to report total wages and federal wages paid accurately.

Reports submitted to DE for Social Security and Medicare reimbursement incorrectly reported federal wages, as follows:

<u>Reporting Period</u>		<u>Federal Wages Audited</u>	<u>Federal Wages Reported</u>	<u>Federal Wages Understated</u>	<u>Reimbursement Rate</u>	<u>Reimbursement (Overpayment)</u>
<u>Existing Employees</u>						
7/09 – 6/10	*	\$2,031,575	\$1,881,998	\$149,577	.03100	\$ (4,637)
7/09 – 6/10	**	2,031,575	1,881,998	149,577	.00725	(1,084)
7/08 – 6/09	*	1,920,826	1,682,462	238,364	.03100	(7,389)
7/08 – 6/09	**	1,920,826	1,682,462	238,364	.00725	(1,728)
<u>New Employees</u>						
7/09 – 6/10	*	898,053	720,486	177,567	.04208	(7,472)
7/09 – 6/10	**	898,053	720,486	177,567	.00984	(1,747)
7/08 – 6/09	*	915,137	667,044	248,093	.04177	(10,363)
7/08 – 6/09	**	915,137	667,044	248,093	.00977	<u>(2,424)</u>
					Total	<u>\$(36,844)</u>
		*Social Security Wages		**Medicare Wages		

Total wages for the 2009-10 school year were also reported incorrectly, as follows:

<u>Reporting Period</u>		<u>Total Wages Audited</u>	<u>Total Wages Reported</u>	<u>Total Wages Understated</u>	<u>Reimbursement Rate</u>	<u>Reimbursement Underpayments</u>
<u>Existing Employees</u>						
7/09 – 6/10	*	\$7,371,844	\$7,295,171	\$76,673	.03100	\$2,377
7/09 – 6/10	**	7,371,844	7,295,171	76,673	.00725	556
<u>New Employees</u>						
7/09 – 6/10	*	4,810,456	4,720,449	90,007	.04208	3,787
7/09 – 6/10	**	4,810,456	4,720,449	90,007	.00984	<u>886</u>
Total						<u>\$7,606</u>
*Social Security Wages **Medicare Wages						

Recommendations

The *Seneca Highlands Intermediate Unit #9* should:

1. Ensure all employees paid with federal funds are properly coded in the payroll system.
2. Manually adjust year-end payroll records to include those employees whose wages were paid with federal grants.
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:

We have taken the necessary steps to correct the error.

Finding No. 2 →

Failure to Have Bus Drivers' Qualifications on File

Criteria relevant to the finding:

Section 111 of the Public School Code 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 list 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.

In addition, as of April 1, 2007, under Act 114 of 2006, public and private schools have been required to review federal criminal history record information records of all prospective employees and independent contractors who will have contact with children.

Section 6355 of the Child Protective Services Law (CPSL) requires prospective school employees to submit 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 a committed child abuse.

Chapter 23 of the State Board of Education Regulations indicates the board of directors of a school district is responsible for the selection and approval of eligible operators who qualify under the law and regulations.

Our audit of the SHIU's bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of audit.

Several different state statutes and regulations establish the minimum required qualifications for school drivers. The purpose of these requirements is to ensure the safety and welfare of the students being transferred to and from school.

We reviewed the personnel records of a random sample of 25 of the 91 drivers employed by the SHIU's transportation contractors. Our review found that the SHIU did not have on file, at the time of the audit, current valid driver licenses, child abuse clearances, Pennsylvania criminal history records or federal criminal history records for any of the drivers tested.

The audit also found the board of directors failed to approve all of the 2010-11 drivers utilized by the contractors as required by the State Board of Education Regulations. The board has only been approving the transportation route contracts.

By not having required bus drivers' qualification documents on file at the SHIU, the SHIU was not able to review the documents to determine whether all drivers were qualified to transport students. If unqualified drivers transport students, there is an increased risk to the safety and welfare of the students.

The failure to have records on file at the SHIU was the result of personnel changes. The records could have been on file at the SHIU at one time but District personnel could not find them. As a result of our audit the District notified all contractors to turn in all of the necessary qualification documents for their drivers. As of the completion of fieldwork for the audit, the licenses, child abuse clearances and Pennsylvania criminal history records were obtained for all but three drivers; the federal criminal history records had not yet been received for six drivers.

Recommendations

The *Seneca Highlands Intermediate Unit #9* should:

1. Immediately obtain, from the transportation contractors the missing documentation referred to in our finding in order to ensure that drivers transporting students for the SHIU possess proper qualifications.
2. Ensure the board annually approves all drivers.
3. Ensure that SHIU personnel review each driver's qualifications prior to that person transporting students.
4. Maintain files, separate from the transportation contractors, for all approved drivers, and work with the contractors to ensure that the SHIU's files are up-to-date and complete.

Management Response

Management stated the following:

We have taken the necessary steps to correct this finding.

Finding No. 3 →

Failure to Have Memoranda of Understanding

Criteria relevant to the finding:

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

“ . . . each chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 20, 2011, and biennially update and re-execute a memorandum of understanding with local law enforcement and file such memorandum with the office on a biennial basis. . . .”

The effective date of this amended provision was **February 15, 2011**. The “office” refers to the Office for Safe Schools within the Department of Education. The term “biennially” means “an event that occurs every two years.

Prior to enactment of additional MOU requirements on November 17, 2010, all public schools were required to develop a memorandum of understanding with local law enforcement.

Our audit of the SHIU’s records found that the SHIU failed to have Memoranda of Understanding (MOU) with the local police departments where early intervention, partial and alternative education classrooms are housed.

The SHIU developed an MOU with the local police department for their administrative building, but failed to develop MOUs where their classrooms are housed.

The failure to have MOUs with the local police departments could result in the lack of cooperation, directions, and guidance between SHIU employees and police departments if an incident should happen to occur at any of the rented classrooms. Non-compliance with the statutory requirement to have a MOU could have an impact on police department notification and response, and ultimately the resolution of a problem situation.

Moreover, recently enacted amendments to the safe schools provisions of the Public School Code expand on the requirement to develop MOUs with local law enforcement. Now, beginning with the first filing deadline of June 30, 2011, public schools must update and re-execute these MOUs and file them with DE’s Office of Safe Schools on a biennial basis. Consequently, future failure to develop a MOU will result in non-compliance with additional MOU requirements enacted November 17, 2010.

Recommendations

The *Seneca Highlands Intermediate Unit #9* should:

1. Develop a MOU between the SHIU and the police departments having jurisdiction over all school property of the SHIU pursuant to the terms prescribed by law.
2. In consultation with the SHIU solicitor, review new requirements for a MOU and other school safety areas under the Public School Code to ensure compliance with amended Safe School provisions enacted November 17, 2010.

Management Response

Management stated the following:

We have taken the necessary steps to correct this finding.

Status of Prior Audit Findings and Observations

Our prior audit of the Seneca Highlands Intermediate Unit #9 (SHIU) for the school years 2007-08 and 2006-07 resulted in two reported findings and one observation. The first finding pertained to Social Security and Medicare wages, the second finding pertained to the failure to have Memoranda of Understanding (MOU), and the observation pertained to weaknesses in administrative policies regarding bus drivers' qualifications. As part of our current audit, we determined the status of corrective action taken by the SHIU to implement our prior recommendations. We performed audit procedures, and questioned SHIU personnel regarding the prior findings and observation. As shown below, we found that the SHIU did not implement recommendations related to the Social Security and Medicare wages and MOU findings, but did implement recommendations related to the bus driver qualifications policy.

School Years 2007-08 and 2006-07 Auditor General Performance Audit Report

Finding No. 1: Errors in Reporting Federally Funded Social Security and Medicare Wages Resulted in Overpayments of \$35,646

Finding Summary: Our audit of Social Security and Medicare wages found that federally funded wages were incorrectly reported to the Department of Education (DE), resulting in reimbursement overpayments of \$35,646.

Recommendations: Our audit finding recommended that the SHIU:

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 the 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.

We also recommended that DE:

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

Current Status: During our current audit procedures we found that the SHIU did attempt to correct the 2009-10 Social Security and Medicare reimbursement; however, it was done incorrectly. (See Finding No. 1 of the current report.) DE had not corrected the overpayment as of August 23, 2011.

Finding No. 2: Failure to have Memorandums of Understanding

Finding Summary: Our audit of the SHIU's records found they failed to have MOUs between the SHIU and the local police departments where their administrative offices are located, and where they house early intervention classrooms/offices.

Recommendations: Our audit finding recommended that the SHIU:

1. Consult with the solicitor and 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.

Current Status: During our current audit procedures we found that the SHIU has an MOU for their administrative offices; however, they had not yet obtained MOUs for the locations where they house early intervention classes, partial program and alternative education classrooms. (See Finding No. 3 of the current report.)

Observation: Internal Control Weaknesses in Administrative Policies Regarding Bus Drivers' Qualifications

Observation Summary:

Neither the SHIU nor the transportation contractors had written policies or procedures in place to ensure they were notified if current employees were 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.

Recommendations: Our audit observation recommended that the SHIU:

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 disqualifying under 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.

Current Status: During our current audit procedures we found that the SHIU did implement the policy recommendations. However, our current audit found the SHIU failed to retain the required documentation in its files.



Distribution List

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, and the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
Director, Bureau of Budget and Fiscal
Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

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, 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.

