



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

JULY 2014

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
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 Corbett and Mr. Mensch:

We conducted a performance audit of the Seneca Highlands Intermediate Unit 9 (Intermediate Unit) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period August 23, 2011 through September 13, 2013, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 Intermediate Unit complied, in all significant respects, with relevant requirements, except as detailed in one (1) finding noted in this report. It should be noted that this is the third consecutive audit of the Intermediate Unit that includes this particular finding. In addition, we identified one (1) matter unrelated to compliance that is reported as an observation. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

July 10, 2014

cc: **SENECA HIGHLANDS INTERMEDIATE UNIT 9** Board of School Directors

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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 (Intermediate Unit) in McKean County. Our audit sought to answer certain questions regarding the Intermediate Unit's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the Intermediate Unit in response to our prior audit recommendations.

Our audit scope covered the period August 23, 2011 through September 13, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

Intermediate Unit Background

The Intermediate Unit is a legal entity established under the terms of Pennsylvania Law (Act 102, May 4, 1970) to function as a service agency for the fourteen (14) participating school districts, nonpublic schools, and institutions in McKean, Elk, Cameron, and Potter counties. A fourteen-member board appointed by the individual school boards at the December meeting, each to serve a three-year term governs the Intermediate Unit. The administrative office is located at 119 Mechanic Street, Smethport, Pennsylvania.

The programs offered by the Intermediate Unit served 747 students in public schools and 1,181 students in nonpublic schools. The staff consisted of 34 administrators, 108 teachers, and 102 full-time and part-time support personnel.

The accounts of the Intermediate Unit are organized based on programs and account groups, each of which are considered a separate accounting entity. Intermediate Unit 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 Intermediate Unit. It is used to account for all financial resources and accounts for the general governmental activities of the Intermediate Unit.

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.
- nonpublic program subsidy - Act 89.

The Intermediate Unit received \$902,462 from the Commonwealth in general operating funds in the 2011-12 school year.

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 intermediate unit 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 Intermediate Unit 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.
- multi-handicapped support.

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

The Intermediate Unit received \$1,439,000 from the Commonwealth in special revenue funds in the 2011-12 school year.

Audit Conclusion and Results

Our audit found that the Intermediate Unit complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one (1) compliance related matter reported as a finding. However, in addition, we identified one (1) matter unrelated to compliance that is reported as an observation.

Finding: Failure to Have Memoranda of Understanding. The Seneca Highlands Intermediate Unit 9 failed to have Memoranda of Understanding with local law enforcement agencies where early intervention and partial hospitalization classrooms are housed (see page 7).

Observation: Insufficient Internal Controls Over Student Record Data. Our audit of the Seneca Highlands Intermediate Unit 9 (Intermediate Unit) found that the Intermediate Unit does not have adequate procedures in place to ensure the continuity over its student data reporting to the Pennsylvania Department of Education (see page 9).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Seneca Highlands Intermediate Unit 9 (Intermediate Unit) from an audit released on January 23, 2012, we found the Intermediate Unit had not taken appropriate corrective action in implementing our recommendations pertaining to obtaining Memoranda of Understanding (see page 12). However, the Intermediate Unit did take appropriate corrective action in implementing our recommendations regarding Social Security and Medicare reimbursement (see page 11) and bus driver qualification records (see page 12).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania 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 Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of Section 403 of The Fiscal Code, 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 August 23, 2011 through September 13, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2012 through June 30, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

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 Pennsylvania Department of Education (PDE) 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 criteria.

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 Intermediate Unit's compliance with certain relevant 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?
- ✓ Did the Intermediate Unit have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?

- ✓ In areas where the Intermediate Unit received state subsidies and reimbursements based on payroll (e.g., Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the Intermediate Unit, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Did the Intermediate Unit take appropriate steps to ensure school safety?
- ✓ Did the Intermediate Unit have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the Intermediate Unit’s Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the Intermediate Unit take appropriate corrective action to address recommendations made in our prior audit?

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 certain relevant state laws, regulations, 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 results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The Intermediate Unit’s management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Intermediate Unit is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. In conducting our audit, we obtained an understanding of the Intermediate

Unit's internal controls, including any information technology controls, as they relate to the Intermediate Unit's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the Intermediate Unit's operations.

To determine the status of our audit recommendations made in a prior audit report released on January 23, 2012, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Criteria relevant to the finding:

Section 1303-A(c) of the Public School Code, 24 P.S. § 13-1303-A(c) 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 30, 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 Pennsylvania Department of Education. The term “biennially” means an event that occurs every two years.

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

Failure to Have a Memorandum of Understanding

Our audit of the Seneca Highlands Intermediate Unit 9’s (Intermediate Unit) records found that the Intermediate Unit failed to have a Memoranda of Understanding (MOU) with the local law enforcement agencies where early intervention, partial programs, and alternative education classrooms are housed.

The Intermediate Unit developed a MOU with the local law enforcement agency for their administrative building but failed to develop MOUs where their classrooms are housed.

The failure to have MOUs with the local law enforcement agencies could result in the lack of cooperation, directions, and guidance between the Intermediate Unit employees and local law enforcement agencies if an incident should happen to occur at any of the rented classrooms. Noncompliance with the statutory requirement to have a MOU could have an impact on local law enforcement 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 agencies. Now, beginning with the first filing deadline of June 30, 2011, public schools must biennially update and re-execute these MOUs and file them with the Pennsylvania Department of Education’s Office of Safe Schools on a biennial basis. Consequently, future failure to develop a MOU will result in noncompliance with additional MOU requirements enacted November 17, 2010.

This is the third consecutive audit of the Intermediate Unit that this finding has been reported.

Recommendations

The *Seneca Highlands Intermediate Unit 9* should:

1. Develop a MOU between the Intermediate Unit and the local law enforcement agencies having jurisdiction over all school property of the Intermediate Unit pursuant to the terms prescribed by law.
2. In consultation with the Intermediate Unit's solicitor, review new requirements for a MOU and other school safety areas under the Public School Code to ensure compliance with amended safe schools provisions enacted November 17, 2010.

Management Response

Management stated the following:

“The Seneca Highlands Intermediate Unit and our Career and Technical Center have an updated Memoranda of Understanding with our local law enforcement agencies in Smethport and Port Allegany.

The Seneca Highlands Intermediate Unit is in the process of developing Memoranda of Understandings with law enforcement agencies in the towns where we operate preschool and our partial hospitalization program.”

Auditor Conclusion

We are pleased that the Intermediate Unit has expressed the intent to take corrective actions to answer the recommendations made in this report. We will follow up on the status of our recommendations during our next cyclical audit of the Intermediate Unit.

Observation

Insufficient Internal Controls Over Student Record Data

Criteria relevant to the observation:

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our review of the Seneca Highlands Intermediate Unit 9's (Intermediate Unit) internal controls over data integrity found the need to be improved. Specifically, our review found that the Intermediate Unit did not have adequate procedures in place to ensure the continuity over its PIMS data submission in the event of a sudden change in personnel or child accounting vendors.

In addition to the Intermediate Unit having no other staff member cross-trained in the procedures of importance of accurate student information reporting, we found that there were no written procedures developed by the Intermediate Unit to be used by staff members to ensure the continuity of operations without disruption.

It is the responsibility of Intermediate Unit management to have in place the proper internal policies and procedures to ensure that student data is accurate and reported correctly to PDE. Without such internal controls, the Intermediate Unit cannot be assured that its student data is accurate or that it is receiving the appropriate state subsidy reimbursement.

Additionally, according to the *Federal Information Systems Control Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. In this sense, internal control is a management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis."

U. S. General Accounting Office.
Standards for Internal Control in the Federal Government.
(November 1999), pg.1.

Recommendations

The *Seneca Highlands Intermediate Unit 9* should:

1. Develop appropriate written procedures for the student accounting software and PIMS systems to ensure propriety of entry, accuracy of reported data and report verification.
2. Implement appropriate cross training of at least one (1) other employee on PIMS data submission.

Management Response

Management agreed with the observation and provided no comment.

Auditor Conclusion

We are encouraged that the Intermediate Unit agrees with our observation. We will follow up on the status of our recommendations during our next cyclical audit of the Intermediate Unit.

Status of Prior Audit Findings and Observations

Our prior audit of the Seneca Highlands Intermediate Unit 9 released on January 23, 2012, resulted in three (3) reported findings, as shown below. As part of our current audit, we determined the status of corrective action taken by the Intermediate Unit to implement our prior recommendations. We performed audit procedures and interviewed Intermediate Unit personnel regarding the prior findings. As shown below, we found that the Intermediate Unit did implement recommendations related to Social Security and Medicare reimbursement and bus drivers' qualification. However, the Intermediate Unit did not implement our recommendations related to Memoranda of Understanding.

Auditor General Performance Audit Report Released on January 23, 2012

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

Finding Summary: Intermediate Unit personnel failed to accurately report total taxable and federally funded wages on reports submitted to the Pennsylvania Department of Education (PDE) when filing for Social Security and Medicare Reimbursement for the 2008-09 and 2009-10 school years. As a result, the Intermediate Unit was overpaid for certain employees by a total of \$36,844 for both school years, and also underpaid for certain employees by \$7,606 the 2009-10 school year—for a net total of \$29,238.

Recommendations: Our audit finding recommended that the Intermediate Unit:

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 funds.
3. Review reports filed for years subsequent to the audit period and submit revised reports, if necessary, to PDE.

We also recommended that PDE:

4. Adjust the Intermediate Unit's allocations to resolve the reimbursement overpayments.

Current Status: During our current audit, we found that the Intermediate Unit did implement our recommendations. The Intermediate Unit accurately coded employees paid with federal funds and adjusted year-end payroll records to include employees paid with federal grants. Revised reports did not need to be submitted.

Communication with PDE indicated that in January 2014, adjustments totaling \$36,844 were made to correct the overpayments to the IU. However, no indication was given as to when the underpayment of \$7,606 for the 2009-10 school year will be adjusted.

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

Finding Summary: Our audit of the Intermediate Unit's bus drivers' qualifications for the 2010-11 school year found that not all records were on file at the time of the audit. In addition, the audit found the Board of School Directors (Board) failed to approve all of the drivers utilized by the contractors as required by the State Board of Education.

Recommendations: Our audit finding recommended that the Intermediate Unit:

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 Intermediate Unit possess proper qualifications.
2. Ensure the Board annually approves all drivers.
3. Ensure that Intermediate Unit 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 Intermediate Unit's files are up-to-date and complete.

Current Status: During our current audit, we found that the Intermediate Unit did implement our recommendations. The bus drivers' files maintained at the Intermediate Unit were complete and up-to-date. The Board of School Directors is currently approving all drivers.

Finding No. 3: Failure to Have Memoranda of Understanding

Finding Summary: Our audit of the Intermediate Unit's records found that the Intermediate Unit failed to have Memoranda of Understanding (MOU) with the local law enforcement agencies where early intervention, partial programs, and alternative education classrooms are housed.

Recommendations: Our audit finding recommended that the Intermediate Unit:

1. Develop a MOU between the Intermediate Unit and the local law enforcement agencies having jurisdiction over all school property of the Intermediate Unit pursuant to the terms prescribed by law.
2. In consultation with Intermediate Unit 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.

Current Status: During our current audit, we found that the Intermediate Unit did not implement our recommendations (see Finding, page 7).

Distribution List

This report was initially distributed to the Executive Director of the Intermediate Unit, the Board of School Directors, our website at www.auditorgen.state.pa.us, and the following:

The Honorable Tom Corbett
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