

SENECA HIGHLANDS INTERMEDIATE UNIT #9

MCKEAN COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006

WITH FINDING AND RECOMMENDATIONS

THROUGH APRIL 10, 2007

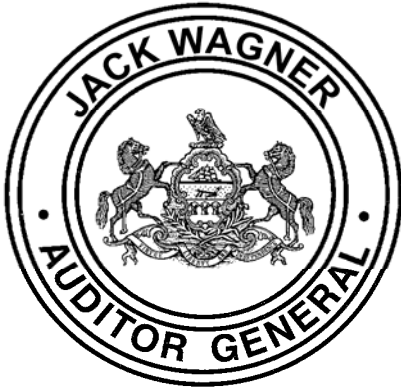


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PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005,
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SENECA HIGHLANDS INTERMEDIATE UNIT #9
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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 Seneca Highlands Intermediate Unit #9 for the years ended June 30, 2006 and 2005, and in certain areas extending beyond June 30, 2006. 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 the Seneca Highlands Intermediate Unit #9 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 Seneca Highlands Intermediate Unit #9, we considered the intermediate unit'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 intermediate unit'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 Seneca Highlands Intermediate Unit #9 was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit except as noted in the following finding. The finding is further discussed in the Conclusion section of this report:

Finding – Board Member Failed to File a Statement of Financial
Interests in Violation of the Ethics Act

Independent Auditor's Report (Continued)

We believe that our recommendations, if implemented by the intermediate unit, will help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

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,

April 10, 2007

/s/
JACK WAGNER
Auditor General

SENECA HIGHLANDS INTERMEDIATE UNIT #9
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 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 at 119 Mechanic Street, Smethport, Pennsylvania.

The programs offered by the IU served 1,401 students in public schools and 1,370 students in nonpublic schools. The staff consisted of 27 administrators, 147 teachers, and 97 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.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT
BACKGROUND

General Fund (Continued)

For the years ended June 30, 2006 and 2005, the Commonwealth provided \$2,290,644 and \$1,174,280 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 \$11,539,775 and \$9,591,195, 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.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
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, 2006 and 2005, the Commonwealth provided \$3,872,315 and \$3,713,243 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 \$11,379,678 and \$11,728,369, 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 13 of this report for a listing of the state revenue the IU received during the 2005-06 and 2004-05 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, the 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 1st of the following fiscal year.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT
OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE AND SCOPE

Our audit objective was to determine if the Seneca Highlands Intermediate Unit #9 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

The scope of our audit covered the years ended June 30, 2006 and 2005, and in certain areas extending beyond June 30, 2006.

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 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 economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the IU's internal control as they relate to the IU's compliance with applicable 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 the 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 IU 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 a IU's operations for a given year until after this information becomes available.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT

CONCLUSION

The first objective of our audit was to determine if the Seneca Highlands Intermediate Unit #9 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 Seneca Highlands Intermediate Unit #9 complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the finding listed below. The finding and recommendations were reviewed with representatives of the Seneca Highlands Intermediate Unit #9, and their comments have been included in this report.

Finding – Board Member Failed to File a Statement of Financial Interests in Violation of the Ethics Act

Our audit of the intermediate unit's records found that one former board member failed to file a Statement of Financial Interests for the year ended December 31, 2005.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1101 *et seq.*, requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1st of each year they hold their positions and of the year after leaving such positions.

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public's trust. In addition, the board members' failure to file the Statement of Financial Interests constituted a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, 65 Pa.C.S. § 1104(d), which pertains to the failure to file the required Statement of Financial Interests, provides in pertinent part, as follows:

No public official shall be allowed to take the oath of office or enter or continue upon his duties, nor shall he receive compensation from public funds, unless he has filed a statement of financial interests . . .

Section 1109(b), 65 Pa.C.S. § 1109(b) provides, in pertinent part that any person who is required to file a Statement of Financial Interests but fails to do so may be found guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned for not more than one year.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT

Finding (Continued)

Section 1109(f), 65 Pa.C.S. § 1109(f) provides, in pertinent part that any person who is required to file a Statement of Financial Interests but fails to do so in a timely manner or who files a deficient Statement of Financial Interests may be subject to a civil penalty, at a rate of not more than \$25 for each day such statement remains delinquent or deficient, with a maximum penalty under this chapter of \$250.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

Recommendations

The board should:

- seek the advice of its solicitor in regard to the board's responsibility when an elected board member fails to file a Statement of Financial Interests; and
- develop procedures to ensure that all individuals required to file Statement of Financial Interests do so in compliance with the Ethics Act.

Response of Management

Management provided a written response agreeing with the finding and further stating:

The IU Board member, who failed to file the Statement of Financial Interests form for 2005, was appointed (and subsequently elected) at the June 21, 2004, IU Board meeting. From June 2004 until she resigned April 12, 2006, she never attended an Intermediate Unit Board meeting--and thus never cast a vote.

The required 2005 form was mailed to her on February 15, 2006, February 22, 2006, and March 14, 2006, with no response to the requests. We currently have on file a copy of her 2005 Statement of Financial Interests which we obtained from the District on 4/3/2007.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

General Fund Schedule of State Revenue

In its annual financial reports for the years ended June 30, 2006 and 2005, the IU reported state revenue of \$2,290,644 and \$1,174,280, respectively, as detailed in the following schedule:

| <u>STATE REVENUE</u> | <u>2006</u> | <u>2005</u> |
|------------------------------------|---------------------------|---------------------------|
| General Operating Subsidy | \$ 145,948 | \$ 145,948 |
| Capital Subsidy | 15,546 | 15,546 |
| Vocational Education | 21,992 | 87,947 |
| Adult Literacy | 306,935 | 304,533 |
| Nonpublic – Act 89 | 438,112 | 425,909 |
| Social Security and Medicare Taxes | 98,966 | 59,794 |
| Retirement | 97,275 | 87,706 |
| Technology Grants | 1,106,470 | - |
| Other Program Subsidies/Grants: | | |
| PA Literacy Frameworks | - | 8,500 |
| Regional Summer School | 6,000 | 6,000 |
| Elect-Fatherhood Initiative | 16,400 | 16,398 |
| School Improvement | 21,000 | - |
| Pregnant and Parenting Teen | 16,000 | 15,999 |
| | <u>1,106,470</u> | <u>15,999</u> |
| <u>TOTAL STATE REVENUE</u> | <u>\$2,290,644</u> | <u>\$1,174,280</u> |

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT

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.

Capital Subsidy

Revenue received from the Commonwealth to support expenditures for office space, classrooms, buses, garages, warehouse space, equipment and similar facilities which have received prior approval by the Secretary of Education.

Vocational Education

Revenue received from the Commonwealth as subsidy on account of vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2502.8 and 2507 of the Public School Code.

Adult Literacy

Revenue received from the Commonwealth to expand the availability of adult literacy and other adult education programs authorized by Act 143 of 1986.

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.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

General Fund (Continued)

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.

SENECA HIGHLANDS INTERMEDIATE UNIT #9
PERFORMANCE AUDIT REPORT

SUPPLEMENTARY INFORMATION
[UNAUDITED]

Special Revenue Fund Schedule of State Revenue

In its annual financial reports for the years ended June 30, 2006 and 2005, the IU reported state revenue of \$3,872,315 and \$3,713,243, respectively, as detailed in the following schedule:

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|---------------------------|---------------------------|
| <u>STATE REVENUE</u> | | |
| Special Education – CORE | \$ 838,601 | \$ 823,754 |
| Early Intervention | 1,334,955 | 1,298,335 |
| Transportation | 1,244,668 | 1,123,001 |
| Social Security and Medicare Taxes | 282,793 | 302,387 |
| Retirement | <u>171,298</u> | <u>165,766</u> |
| <u>TOTAL STATE REVENUE</u> | <u>\$3,872,315</u> | <u>\$3,713,243</u> |

SENECA HIGHLANDS INTERMEDIATE UNIT #9
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.

Early Intervention

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

Transportation

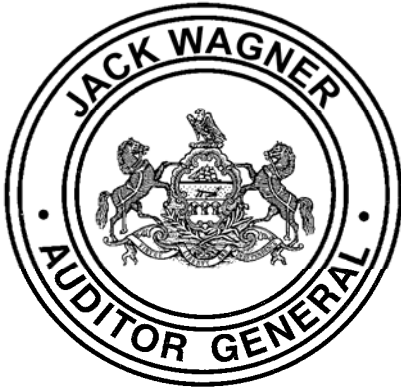
Revenue received from the Commonwealth as subsidy on account of pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation 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.

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.



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, and the following:

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

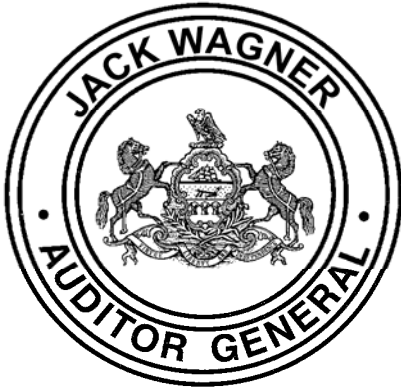
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BUREAU OF SCHOOL AUDITS

AUDIT REPORT DISTRIBUTION LIST (Continued)

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