



ALPERN ROSENTHAL  
INSPIRING OPPORTUNITIES

# **M**emorandum

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**To:** George Joseph, Esquire  
**From:** Alpern Rosenthal  
**Date:** April 18, 2013  
**Re:** Northwest Tri-County Intermediate Unit 2013-2014 Budget

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## **Purpose**

The purpose of this memorandum is to document our initial requested assessment of the Northwest Tri-County Intermediate Unit No. 5 ("IU5") 2013-2014 Budget as it relates to Phase I of our engagement. We met with and held various discussions with the IU5 Director of Finance, Paula Varea, to review the IU5 budget process as it related to the funds and/or accounts analyzed in Phase I of our engagement. Additionally, we obtained remote access to the IU5's budget and supporting documentation to assist in planning, organizing and developing the budget for funds and/or accounts that were part of Phase I of our engagement.

## **Summary of Phase I**

Phase I of our engagement consisted of an analysis of the items identified in the Resolution and Action Plan. This analysis included updated balance activity and identifying the source of funds for these items. The funds and/or accounts analyzed were as follows:

- General Fund (Unassigned and Assigned)
- Contingency Funds
  - Contingency ACCESS Fund
  - Contingency Education Program Fund
  - Contingency Fund – IU
  - Contingency Special Education Fund
- Internal Service Funds
  - Workers Compensation Fund
  - Unemployment Compensation Fund
  - Hospitalization Fund

- Deferred Revenue
  - Pro-Rata
  - Corporate Owned Life Insurance
  - Reading Recovery
  - Cyber Services

### **Requested Budget Assessment**

As discussed with counsel, we reviewed eight funds in the General Fund section of the 2013-2014 IU5 budget, where a portion of the source of funds was directly from the IU5 member School Districts. Those funds reviewed were as follows:

**Technology Support & Service (TSS)** – Source budget for TSS is contained within the Pro-Rata budget. The Pro-Rata budget also includes Financial Services, Printing Services, Operation of Building Services and Internal Operations & Personnel Services. We were able to verify all projected TSS 2012-2013 and 2013-2014 expense amounts, these budget amounts should be linked to the appropriate supporting schedules. Receipts from Member Districts should be adjusted to correspond with amounts that flow to the Wattsburg Technology Billable fund. The 2013-2014 revenue amount for Receipts from Member Districts should be linked and adjusted from \$69,581.00 to \$96,210.41.

A potential recommendation is that the Pro-Rata account's (IU5's internal administrative account) revenues not be allocated in the overall budget to TSS, Financial Services, Printing Services, Operation of Building Services and Internal Operations & Personnel Services. The allocation of revenues to each fund in the overall budget is misleading and does not assist in a review of the budget. Revenues for all five funds should be presented in total, with the expenses presented for each Pro-Rata fund.

The IU5 Director of Finance should confirm with counsel that the Medical Assistance Reimbursement for Admin can be utilized for any costs, as instructed by the former Executive Directors, including Financial Services, Internal Operations & Personnel Services and TSS.

**SAP Grant** – After review of applicable contracts and supporting documentation, the Receipts from Member Districts and Purchased Professional & Technical Services amounts should be revised and linked to the appropriate supporting schedule. The 2013-2014 revenue amount for Receipts from Member Districts should be adjusted from \$330,000.00 to \$348,493.25 and the Purchased Professional & Technical Services amount should be adjusted from \$460,200.00 to \$478,693.25.

SAP Grant funds are classified as Miscellaneous Revenue. Source documentation was available for Miscellaneous Revenue and the remaining expense budget line items (Other Purchased Services and Supplies). These amounts should be linked to the supporting schedules.

**Wattsburg Technology Billable** – The IU5 provides technology support to Wattsburg Area School District. After review of supporting documentation, the following expense line items should be revised:

- Purchased Professional & Technical Services - salary of TSS employee providing support to Wattsburg
- Purchased Property Service – repairs and maintenance
- Other Purchased Services – travel and phone
- Supplies - computer supplies

The above 2013-2014 total expense line items for Wattsburg Technology Billable should be linked and adjusted from \$100,000.00 to \$96,210.41. The revenues would then be adjusted to equal the estimated expenses.

**Title I Nonpublic Billable** - After review of supporting schedules, the Receipts from Member Districts, Employee Benefits and Salaries amounts should be revised and linked to the appropriate supporting schedule. The 2013-2014 amounts should be adjusted as follows:

- Receipts from Member Districts should be adjusted from \$100,000.00 to \$87,664.36
- Employee Benefits should be adjusted in 2012-2013 from \$15,740.00 to \$16,324.68 and then increased in 2013-2014 to account for increase in PSERS rate.
- Salaries amount should be adjusted from \$76,000.00 to \$78,071.15.

**IU Operated Institutional Programs** - After review of supporting schedules, the Receipts from Member Districts and Employee Benefits amounts should be revised and linked to the appropriate supporting summary schedule. The 2013-2014 revenue amount for Receipts from Member Districts should be adjusted from \$1,591,957.00 to \$1,706,806.56 and the Employee Benefits amount should be adjusted from \$290,168.00 to \$397,169.00 due to how the IU5 accounts for Social Security and Retirement revenue.

Source documentation was available for Social Security and Retirement Revenue (with a slight adjustment) and the remaining expense budget line items. These amounts should be linked to supporting schedules.

**English as a Second Language (ESL) Consortium** – There was no supporting documentation available for overall budgeted amounts. The IU5 Director of Finance should develop supporting schedules for 2012-2013 and 2013-2014 budgets based on historical revenue and expenses and historical student count participating in ESL program. As part of Phase III of our engagement, we will assist in development of a per student consortium fee.

**Cyber Services Consortium** – There was no supporting documentation available for overall budgeted amounts. The IU5 Director of Finance should develop supporting

schedules for 2012-2013 and 2013-2014 budgets based on historical revenue and expenses and historical student count participating in the Cyber Services program. As part of Phase III of our engagement, we will assist in development of a per student consortium fee, based on historical number of students (technical and non-technical) and equipment purchases.

**Regional Choice Initiative (RCI) Consortium** - Source documentation was available for revenue and expense budget line items. These amounts should be linked to supporting schedules.

The revenue structure (small, medium and large School Districts) utilized to determine the fee paid by each School District should be adjusted to account for the excess of projected expenses over revenues. Three options were discussed with the IU5 Director of Finance for consideration:

1. School Districts can pay on a per student amount, as opposed to current structure.
2. An additional “Extra Large” category can be created to account for two School Districts with over 50 students participating in RCI (Fairview and Millcreek).
3. Raise fees for all three categories to account for projected expenses over revenues.

For the Internal Service Funds, a plan should be developed to determine which IU5 programs should be charged and/or receive a payment holiday in the future to account for amounts that were not distributed to the School Districts as part of Phase I of our engagement to reduce the current balance in each of the Internal Service Funds. Projected expenditures for the Internal Service Funds should be based on the historical average expenditures and any anticipated changes. We also noted no contingency accounts in the IU5 overall budget.

### **Observations and Recommendations**

Initial changes from previous years in the overall IU5 2013-2014 budget provided to the School District Superintendents by the IU5 Director of Finance included:

- The entire budget was provided (as opposed to only the General Operating Budget),
- Actual revenue and expense data in three previous fiscal years was provided, and
- A brief description or explanation of each of the funds in the budget was provided.

Initial observations regarding the overall IU5 2013-2014 budget are as follows:

- Supporting schedules are available for various funds in the budget. However, supporting schedules need developed for other funds.
- Budget amounts are not adequately linked or easily traceable to supporting schedules or budgets.

The following are overall recommendations that should be made to the budget and budgeting process:

- For funds with no current supporting documentation, supporting schedules or explanation are needed for all budget amounts.
- For funds with supporting documentation, amounts should be linked to supporting schedules or budgets.
- Supporting schedules or budgets should be in the same format as the overall budget to facilitate future budget preparation.
- Addition of notes column and/or footnote section in the overall budget to provide any additional explanation of changes or variations in budget amounts.
- Consistent naming convention for file names and folder names of supporting schedules or budgets.
- Addition of unused grant money/carryover amount for certain funds as a line item in the overall budget to present the total actual revenue earned in a fiscal year to assist in projecting future revenue amounts.
- Addition of any Internal Service Fund surplus amounts as a line item in the overall budget to assist in projecting future revenue amounts.
- Review capabilities of utilizing budgeting package in IU5's current SDS accounting software.
- We will continue to work with the IU5 in developing their budget process as part of Phase II and III of our engagement.