

## **RESOLUTION AND ACTION PLAN**

WHEREAS, the Northwest Tri-County Intermediate Unit is a statutorily created entity in accordance with the Pennsylvania Public School Code of 1949 (“School Code”), Title 24 P.S. Section 9-901-A et seq.;

WHEREAS, Section 9-901-A of the School Code indicates each School District of the Commonwealth shall be assigned to an Intermediate Unit, and shall be entitled to the services of an Intermediate Unit in accordance with a program of services adopted by the individual School District Boards and the Intermediate Unit board of directors (the “Intermediate Unit Board”);

WHEREAS, Title 24 P.S. Section 9-902-A identifies Intermediate Unit No. 5 to include the seventeen School Districts (the “School Districts”) as they exist at this time;

WHEREAS, each School District appoints a representative to the Intermediate Unit Board to represent the individual School Districts in regard to the operation and services to be provided to the School Districts, 24 P.S. §9-910A;

WHEREAS, the School Districts retain the power and must approve the Budget, finances, and additional services of the Intermediate Unit by a majority of School Districts or proportional votes as set forth in Title 24. P.S. §9-911A, §9-914A;

WHEREAS, the executive director, assistant executive director and finance administrator (the “Intermediate Unit Administration”) failed to adequately respond to inquiries by the superintendents of the School Districts (the “Superintendents”) from February 29, 2012 through June 4, 2012 concerning the Intermediate Unit accounts, including approximately \$8.8 million in fund balance, \$8.8 million in deferred revenue and \$2.4 million in special education deferred revenue;

WHEREAS, in light of the failure of the Intermediate Unit Administration to be responsive to the Superintendents, the Superintendents authorized an independent assessment (the “Independent Assessment”) to be performed through Knox McLaughlin Gornall & Sennett, P.C. through Schaffner Knight Minnaugh & Company P.C. of the operations and accounts of the Intermediate Unit;

WHEREAS, this Independent Assessment was approved by an Ad Hoc Committee established by the Intermediate Unit Board (the “Intermediate Unit Ad Hoc Committee”);

WHEREAS, the Intermediate Unit Board approved the Independent Assessment and directed the Intermediate Unit Administration to cooperate fully;

WHEREAS, the Intermediate Unit Board has adopted a “Mission Statement” to support the School Districts by creating and implementing quality services to meet the current, emerging and future needs of their students;

WHEREAS, the Intermediate Unit Board has adopted a “Vision Statement” to require communication frequently, openly and consistently to relevant stakeholders, which includes the School Districts;

WHEREAS, the Intermediate Unit Board has established a “Shared Value” that the resources of the Intermediate Unit are to be managed responsibly, efficiently and effectively;

WHEREAS, another Shared Value of the Intermediate Unit Board is to promote open, honest and authentic communication;

WHEREAS, the Intermediate Unit Administration did not follow the Mission Statement, Vision Statement or Shared Values in regard to the accounting practices and procedures, budget presentation, communication with the School Districts and was less than cooperative with the Independent Assessment;

WHEREAS, in light of the above, the Intermediate Unit Board has authorized a Forensic Audit (the “Forensic Audit”);

WHEREAS, in response to the authorization of the Forensic Audit by the Intermediate Unit Board the Independent Assessment was brought to a conclusion;

WHEREAS, the Superintendents recommend and request this Resolution and Action Plan be adopted by all School District’s Board of Directors with direction to their Intermediate Unit representatives to adopt said Resolution and Action Plan at the Intermediate Unit Board:

**1. Independent Assessment**

The School Districts and the Intermediate Unit Board acknowledge receipt and accept the Independent Assessment. The Independent Assessment has identified certain funds to be transferred to the School Districts as set forth herein. Only funds, which are undisputed by all parties, as excess School District funds, have been identified for transfer to the School Districts. Additional excess funds which have been identified but are unclear as to the source are being referred to the Forensic Audit for reconstruction.

**2. Intermediate Unit Administration**

(a) The Intermediate Unit Board shall reaffirm to the Intermediate Unit Administration that the Mission of the Intermediate Unit is to support the School Districts by creating and implementing quality service to meet the current, emerging and future needs of the School District’s students.

(b) The Intermediate Unit Board shall direct the Intermediate Unit Administration to communicate frequently, openly and consistently with the School Districts.

(c) The Intermediate Unit Board shall direct the Intermediate Unit Administration to manage the Intermediate Unit in a responsible, efficient and effective manner.

(d) The Intermediate Unit Board shall direct the Intermediate Unit Administration to openly, honestly and authentically communicate with the Superintendents and the School Districts.

(e) The Intermediate Unit Board will ensure that the new executive director will be a person that believes in the Mission Statement, the Vision Statements and the Shared Values of the Intermediate Unit and will be committed to effectuate the direction of this Resolution and Action Plan.

(f) The Intermediate Unit Board will advise and direct the Intermediate Unit Administration and the new executive director to follow the Mission Statement, the Vision Statement, the Shared Values and be committed to effectuate the direction of this Resolution and Action Plan and the results and recommendations of the Forensic Audit.

### **3. Agenda**

(a) The Intermediate Unit Administration will provide Intermediate Unit Board and the Superintendents with copies of Intermediate Unit Board agendas at least one week prior to the Intermediate Unit meeting.

(b) The Intermediate Unit Administration will share the agenda with the Superintendents at their monthly meeting in advance of the Intermediate Unit Board meeting.

### **4. Budgets**

(a) The Intermediate Unit Administration will present the complete Intermediate Unit budget to the Superintendents, the School Districts and the Intermediate Unit Board at least one (1) month prior to submittal to the School Districts for approval.

(b) The Intermediate Unit Administration will meet with each superintendent prior to any School District vote and review in detail, either jointly or separately, the complete Intermediate Unit budget.

### **5. Treasurer**

The Intermediate Unit Board shall appoint a new independent treasurer with a financial background, separate from the finance director in order to provide independent financial oversight of the internal accounting department in accordance with the Independent Assessment.

### **6. Accounting System**

The Intermediate Board will retain an outside consultant to assist in the implementation of an accounting system that would promote efficiency and accountability.

(a) The accounting department will be educated and implement its web-based accounting system and eliminate the use of redundant accounting systems. The accounting system implemented should permit customary review of data and eliminate the risk of alteration of financial data.

(b) The accounting system to be implemented shall appropriately track the revenues and expenditures of individual School Districts in the various School District programs.

(c) The management procedure of accounting for deferred revenue liability accounts, commingling revenues and expenditures of the School Districts shall be discontinued. The accounts of the Intermediate Unit shall be more effectively tracked and accounted for in an appropriate manner as recommended by the Independent Assessment.

**7. Financial Policies**

(a) The financial management and procedures will be reviewed as part of the Forensic Audit.

(b) The Intermediate Unit Board will review the financial management and procedures and implement the best practices of prudent financial management that are consistent with the Intermediate Unit Mission Statement, Vision Statement and Shared Values.

(c) The existing financial management and procedure of cash hoarding and disguise of funds shall be discontinued.

**8. Fund Balance**

The Intermediate Unit Board shall refund to the School Districts the sum of \$5,018,952 out of the approximately \$8.8 million of fund balance pursuant to the formula determined to be appropriate by the Intermediate Unit Ad Hoc Committee and approved by the Intermediate Unit Board once the independent audit has been completed by the Intermediate Unit.

**9. Capital Reserve Fund**

(a) The Intermediate Unit Board shall designate the sum of \$1,189,266 (sufficient to fund five years of capital improvements) as the Capital Reserve Fund to be used for the Capital Improvement Plan created by the Intermediate Unit Administration and the remaining \$1,000,000 to be returned to the School Districts in accordance with a formula determined by the Intermediate Unit Ad Hoc Committee and approved by the Intermediate Board by once the independent audit has been completed by the Intermediate Unit. The Intermediate Unit Board shall review the Capital Improvement Plan in detail and establish an appropriate annual board review procedure and funding plan for the Capital Improvement of the Intermediate Unit for the future.

(b) The Capital Improvement Plan shall be shared with the Superintendents and School Districts prior to adoption by the Intermediate Unit Board.

**10. COLI**

Intermediate Unit corporate owned life insurance (COLI) policies with an approximate cash surrender value of \$1,555,409 shall be independently evaluated, terminated (if appropriate) and used for appropriate working capital.

**11. Contingency Funds**

The Intermediate Unit presently has four contingent liability accounts which should be returned to the School Districts, pursuant to a formula determined by the Intermediate Unit Ad Hoc Committee and approved by Intermediate Board prior once the Intermediate Unit has completed the audit:

1. Contingency Access - \$70,584
2. Contingency Education Program - \$112,797
3. Contingency Fund Intermediate Unit - \$137,746
4. Contingency Special Education Fund - \$476,500

## **12. Internal Service Funds**

The Intermediate Unit presently has excess cash reserves in its three internal service funds which should be returned to the School Districts, pursuant to a formula established to return:

1. Workers Compensation - \$300,000
2. Unemployment Compensation - \$375,000
3. Hospitalization - \$1,500,000

## **13. NOREBT Trust**

The Intermediate Unit shall reevaluate the administrative services that it charges and reduce costs to the School Districts that participate in the NOREBT Trust subject to the approval by the NOREBT Trust Board of Directors.

(a) Intermediate Unit Board, School Districts and NOREBT Trust Board shall evaluate the deposit of \$1,891,367.97 of prepaid claims and continue payment holidays as applicable. Any payment holidays approved by the NOREBT Trust Board shall result in a refund to the School Districts equal to the amount of such payment holidays, pursuant to the formula established to return the excess cash reserves in the hospitalization internal service funds.

(b) Intermediate Unit Board, School Districts and NOREBT Trust Board should review with its Trust Consultant the appropriate level of stop loss reserve and reduce (as applicable) the stop loss monthly charges.

(c) Intermediate Unit Board, School Districts and NOREBT Trust Board should evaluate the use of Intermediate Unit finance manager as its operation manager and the \$93,332 in administrative charges and seek competitive bids for these services.

(d) Intermediate Unit Board and School Districts request the NOREBT Trust Board provide a report to Intermediate Unit Board and School Districts as to the results of this evaluation and bid results for administrative services.

#### **14. Deferred Revenue Accounts**

The Intermediate Unit Board shall review all the Deferred Revenue Accounts set forth in Tab 18 of the Independent Assessment and submit these accounts for reconstruction through the Forensic Audit.

(a) Pro-Rata Deferred Revenue Account. The Intermediate Unit shall refund to the School Districts the sum of \$1,181,084 in the Pro-Rata Deferred Revenue based upon the formula determined by the Intermediate Unit Ad Hoc Committee and approved by the Intermediate Unit Board once the Intermediate Unit has completed the audit.

(b) COLI Deferred Revenue Account. The Intermediate Unit Board shall refund COLI Deferred Revenue Account of \$100,048 based upon the formula determined by the Intermediate Unit Ad Hoc Committee and approved by the Intermediate Unit Board by Once the Intermediate Unit has completed the audit.

(c) Reading Recovery Deferred Revenue. The Intermediate Unit Board shall refund the amount of \$127,511 to the School Districts who participated in Reading Recovery, based on formula determined by the Intermediate Unit Ad Hoc Committee and approved by the Intermediate Unit Board once the Intermediate Unit has completed the audit.

(d) Cyber Services Deferred Revenue and \$500,000 Transfer. The transfer of \$500,000 from the Cyber Services Deferred Revenue account to a general revenue account shall be reversed increasing the Cyber Services Deferred Revenue Account to \$1,436,995. This account shall be refunded to applicable School Districts by a formula determined by the Intermediate Unit Ad Hoc Committee and approved by Intermediate Unit Board once the Intermediate Unit has completed the audit.

#### **15. Special Education Supervision Charges.**

The Intermediate Unit shall charge the sum of \$2,000 per School District for the 2012-2013 school year and provide complete and accurate accounting and billing for each School District prior to submitting invoices in regard to supervisorial special education services into the future.

#### **16. Forensic Audit**

The recommended Forensic Audit should review the accounts, accounting policies and procedures of the Intermediate Unit as reflected in this Independent Assessment. In accordance with the Independent Assessment the Forensic Audit should include:

(a) Confirmation that the amounts to be distributed to the School Districts are School District funds and are not Commonwealth or federal funds or subject to a law which would prevent distribution once the Intermediate Unit completes the audit. If the Forensic Audit does respond but does not confirm the distribution of all or part of the funds then the distribution of the funds shall be in accordance with the Forensic Audit.

(b) The reconstruction of all Deferred Revenue Accounts listed on Tab 18 and a determination as to what funds, if any, could be returned to the School Districts.

(c) The reconstruction of the Special Education Deferred Revenue Account of approximately \$2,474,129 and a determination as to what funds, if any, could be returned to School Districts.

(d) The Cyber Services \$8,000 annual consortium fee be evaluated, reduced or discontinued based upon the findings of the Forensic Audit.

(e) The review of Intermediate Unit owned or leased vehicles, policies and procedures.

(f) The review of Intermediate Unit practice of hand checks and credit card payment system.

The Intermediate Unit Budget and Audit Committee shall work with the Intermediate Unit Ad Hoc Committee in determining the scope of the Forensic Audit timing, evaluation and appointment of auditor, and all other matters related to the Forensic Audit.

The results of the Forensic Audit will be shared with the Superintendents and the School Districts.

#### **17. Intermediate Unit Staffing**

The Intermediate Unit Board will conduct a comprehensive review of all staffing and compensation levels at the Intermediate Unit and provide the results to the Superintendents and School Districts.

**18.** The Warren County School District and all other school district or entities which pay for services from IU5 will participate in the process of determining the distribution formula once it is determined that funds are available to be distributed and such distribution is in accordance with federal and state law. This distribution determination occur once the Intermediate Unit forensic audit is completed. The Intermediate Unit will provide telephone conferencing or video conferencing to all entities so they can participate on a regular basis.

This Resolution was duly adopted by an affirmative vote of a majority of the members of the Board of School Directors of the Warren County School District, Warren County, Pennsylvania, at a meeting duly advertised and held in accordance with the provisions of law.

ATTEST:  
(SEAL)

Warren County School District

\_\_\_\_\_  
Secretary

BY: \_\_\_\_\_  
President of Board of School Directors

**SECRETARY'S CERTIFICATE**

I HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution duly adopted by the affirmative vote of a majority of the members of the Board of School Directors of the \_\_\_\_\_, \_\_\_\_\_ County, Pennsylvania, at a meeting held on the \_\_\_\_\_ day of \_\_\_\_\_, 2012; that proper notice of such meeting was duly given as required by law; and that said Resolution and Action Plan has been duly recorded upon the Minutes of said Board of School Directors, showing how each member voted thereon.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said School District this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

(SEAL)

\_\_\_\_\_  
Secretary, Board of School Directors

# 1314994.v1



This Resolution and Action Plan was duly adopted by an affirmative vote of a majority of the members of the Board of the Northwest Tri-County Intermediate Unit, at a meeting duly advertised and held in accordance with the provisions of law.

ATTEST:  
(SEAL)

Northwest Tri-County Intermediate Unit

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
Chairman

**SECRETARY'S CERTIFICATE**

I HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution duly adopted by the affirmative vote of a majority of the members of the Board of the Northwest Tri-County Intermediate Unit, \_\_\_\_\_ County, Pennsylvania, at a meeting held on the \_\_\_\_ day of \_\_\_\_\_, 2012; that proper notice of such meeting was duly given as required by law; and that said Resolution and Action Plan has been duly recorded upon the Minutes of said Board of the Northwest Tri-County Intermediate Unit, showing how each member voted thereon.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Intermediate Unit this \_\_\_\_ day of \_\_\_\_\_, 2012.

(SEAL)

\_\_\_\_\_  
Secretary, Northwest Tri-County Intermediate Unit

# 1314994.v1