

# PERFORMANCE AUDIT

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## Blue Mountain School District Schuylkill County, Pennsylvania

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August 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
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

Ms. Heather Gosch, Board President  
Blue Mountain School District  
685 Red Dale Road  
P.O. Box 188  
Orwigsburg, Pennsylvania 17961

Dear Governor Corbett and Ms. Gosch:

We conducted a performance audit of the Blue Mountain School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period May 8, 2012 through February 26, 2014, 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 District complied, in all significant respects, with relevant requirements.

We appreciate the District's cooperation during the conduct of the audit.

Sincerely,

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

Eugene A. DePasquale  
Auditor General

August 14, 2014

cc: **BLUE MOUNTAIN SCHOOL DISTRICT** Board of School Directors

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Blue Mountain School District (District) in Schuylkill County. Our audit sought to answer certain questions regarding the District'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 District in response to our prior audit recommendations.

Our audit scope covered the period May 8, 2012 through February 26, 2014, 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.

### **District Background**

The District encompasses approximately 123 square miles. According to 2010 federal census data, it serves a resident population of 20,500. According to District officials, the District provided basic educational services to 2,834 pupils through the employment of 218 teachers, 146 full-time and part-time support personnel, and 25 administrators during the 2011-12 school year. The District received \$13.4 million in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit resulted in no findings or observations.

### **Status of Prior Audit Findings and Observations**

With regard to the status of our prior audit recommendations to the Blue Mountain School District (District) from an audit released on January 14, 2013, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to membership reporting errors and a lack of internal controls resulting in the District not receiving their entitled reimbursement (see page 6) and improper reporting of retirement wages (see page 7).

## Audit Scope, Objectives, and Methodology

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### 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 May 8, 2012 through February 26, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through February 19, 2014.

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

While all districts have the same school years, some 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 District'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 audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g., basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District, 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 District 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?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## **Methodology**

*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 District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the District's internal controls, including

*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.

any information technology controls, as they relate to the District'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.

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

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 District's operations.

To determine the status of our audit recommendations made in a prior audit report released on January 14, 2013, we reviewed the District's response to PDE dated March 27, 2013. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Blue Mountain School District resulted in no findings or observations.

## **Status of Prior Audit Findings and Observations**

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Our prior audit of the Blue Mountain School District (District) released on January 14, 2013, resulted in two (2) findings. The first finding pertained to membership reporting errors and a lack of internal controls resulting in the District not receiving their entitled reimbursement, and the second pertained to the improper reporting of retirement wages. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior findings. As shown below, we found that the District did implement our recommendations related to membership reporting errors and a lack of internal controls resulting in the District not receiving their entitled reimbursement, and improper reporting of retirement wages.

### **Auditor General Performance Audit Report Released on January 14, 2013**

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**Finding No. 1:**                    **Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement**

Finding Summary:            Our audit of the District's pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors as well as a lack of internal controls. The incorrect reporting of children placed in private homes (foster children) resulted in the District being underpaid \$55,548.

Recommendations:        Our audit finding recommended that the District should:

1. Establish a procedure to ensure that the correct code for the district of residence is entered into the District's membership data software at the time of enrollment.
2. Establish internal controls that include reconciliations of the data that is uploaded into the Pennsylvania Information Management System.
3. Verify that the Preliminary Reports from PDE are correct and if not correct, revise and resubmit child accounting data so that the Final Reports from PDE are correct.

We also recommended that PDE should:

4. Revise all reports that have been incorrectly completed and adjust the District's reimbursement effected by the errors.

Current Status:

During our current audit, we found that the District did implement our prior recommendations by implementing training and more adequate policies and procedures.

At the conclusion of our audit, PDE has not adjusted the underpayment to resolve the \$55,548 underpayment to the District.

**Finding No. 2:**

**Improper Reporting of Retirement Wages**

Finding Summary:

Our audit of the District's administrative employment contracts, Act 93, collective bargaining agreements, and payroll records found longevity wages for employees had been improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS) for the 2008-09, 2009-10, 2010-11, and 2011-12 school years.

The amount over reported for active employees was \$11,503, \$41,871, and \$75,775 for the 2009-10, 2010-11, and 2011-12 school years, respectively.

The amount over reported for non-active employees was \$58,000, \$54,000, \$28,053, and \$1,516 for the 2008-09, 2009-10, 2010-11, and 2011-12 school years, respectively.

Recommendations:

Our audit finding recommended that the District should:

1. Report to PSERS only those wages allowable for retirement purposes, as stated in PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and contribution reports to ensure that only eligible wages are being reported to PSERS for retirement contributions.

Current Status:

During our current audit, we found that the District did implement our prior recommendations, and PSERS corrected wages for existing and retired employees in August 2012.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

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

The Honorable Carolyn Dumaesq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
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Harrisburg, PA 17120

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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).