

PERFORMANCE AUDIT

Bermudian Springs School District Adams County, Pennsylvania

September 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mr. James Lott, Board President
Bermudian Springs School District
7335 Carlisle Pike
York Springs, Pennsylvania 17372

Dear Governor Corbett and Mr. Lott:

We conducted a performance audit of the Bermudian Springs 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 January 21, 2011 through December 11, 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, 2009, 2010, 2011, and 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, except as detailed in one (1) finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

September 18, 2014

cc: **BERMUDIAN SPRINGS SCHOOL DISTRICT** 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 Bermudian Springs School District (District) in Adams 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.

Our audit scope covered the period January 21, 2011 through December 11, 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 2008-09, 2009-10, 2010-11, and 2011-12 school years.

District Background

The District encompasses approximately 75 square miles. According to 2010 federal census data, it serves a resident population of 13,122. According to District officials, the District provided basic educational services to 2,044 pupils through the employment of 142 teachers, 79 full-time and part-time support personnel, and fifteen (15) administrators during the 2011-12 school year. The District received \$9.9 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, except for one (1) compliance related matter reported as a finding.

Finding: District Lacks Sufficient Internal Controls Over Its Pupil

Membership Data. Our review of the Bermudian Springs School District's (District) child accounting data submitted to the Pennsylvania Department of Education (PDE) found that the District did not have adequate internal controls to ensure that the data entered into the system was accurate. Inadequate internal controls and changes in child accounting personnel resulted in errors in child accounting data submitted to PDE not being detected (see page 5).

Status of Prior Audit Findings and

Observations. There were no findings or observations in our prior audit report.

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 January 21, 2011 through December 11, 2013, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through September 26, 2013.

Regarding state subsidies and reimbursements, our audit covered the 2008-09, 2009-10, 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 transportation subsidies, was the District, and any contracted vendors, in compliance with applicable state 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 pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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?

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.

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.

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 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, and professional employee certification.
- Items such as board meeting minutes and policies and procedures.

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

Findings and Observations

Finding →

District Lacks Sufficient Internal Controls Over Its Pupil Membership Data

Criteria relevant to the finding:

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 the 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 Bermudian Springs School District's (District) child accounting data submitted to PDE disclosed that the District did not have adequate internal controls to ensure that the data entered into the system was accurate. Our review found that child accounting personnel did not reconcile the data being submitted to PDE via PIMS with the printouts from its internal student information system and the reports from the Lincoln Intermediate Unit 12 (Intermediate Unit).¹ In addition, instructions from the Intermediate Unit regarding reporting for special education classes were not followed. The inadequate internal controls and changes in child accounting personnel resulted in errors in child accounting data submitted to PDE not being detected.

The reconciliation of membership data on the Student Information System printouts to the membership data submitted to PDE via PIMS for the 2009-10, 2010-11, and 2011-12 school years found errors in the membership data

¹ The Intermediate Unit provides special education services to the District.

Additionally, according to the *Federal Information System Controls Audit 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 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.

submitted to PDE. The types of errors that were noted are as follows:

1. Incorrect enrollment percentages were reported.
 - a. During the 2009-10 school year, days for special education students were split based on the percentage of special education services, which were reported by the Intermediate Unit on behalf of the District, and the percentage of regular education services that were provided by the District. The District took the days, against which the percentage of regular education services had been applied, and reported the percentage of regular education services as the enrollment percentage, resulting in a double reduction of the membership days to be reported for regular education services.
 - b. During the 2010-11 school year, half-time kindergarten students were reported with enrollment percentages of 50 percent instead of 100 percent.
 - c. During the 2011-12 school year, two (2) students who attended a local area vocational-technical school, which is a half-time program, were reported with enrollment percentages of 100 percent instead of 50 percent for their District time.
2. During the 2009-10 and 2011-12 school years, the audit identified that some of the District's special education students were maintained on District rolls and were reported with their full membership days even though the special education portion was reported by the Intermediate Unit. This error resulted in the duplication of membership for the special education portion of the membership days.
3. The District could not provide supporting documentation for the data reported for one (1) or more small groups of students whose education was provided by other LEAs that do not report their own membership data (such as alternative education institutions) for the 2009-10, 2010-11, and 2011-12 school years.
4. Possible misclassifications were noted, but could not be confirmed because of the lack of appropriate

documentation (e.g. agency placement letters). During the 2011-12 school year, students appeared on the Intermediate Unit printouts as foster children of nonresident parents but were reported as district-paid tuition students. Also, during the 2009-10 school year, students appeared on the Intermediate Unit printouts as nonresident foster children of resident parents but were reported as residents. Without the appropriate documentation, no adjustments could be made for these students.

5. During the 2009-10 and 2011-12 school years, District personnel did not report membership data from Intermediate Unit reports for all of the students from other districts, even though the other districts were billed for these students.

As a result of the errors that were noted, we determined that the membership data submitted to PDE for the 2009-10, 2010-11, and 2011-12 school years was inaccurate. Adequate documentation was not available to make the appropriate adjustments for the errors that were noted. These errors may have resulted in both District and the home districts for the mainstreaming students not receiving the correct subsidies and reimbursements.

It is the responsibility of the District's management to have in place proper internal controls to ensure that accurate student record data is utilized and maintained to support child accounting membership reported in the PIMS.

Recommendations

The *Bermudian Springs School District* should:

1. Review all enrollment percentages to ensure accuracy of the data being submitted to PIMS.
2. Follow Intermediate Unit instructions regarding how membership data is to be reported. Double check student data being submitted to ensure that membership data for students in special education programs is not being double reported (once by the Intermediate Unit and once by the District).

3. Ensure that documentation is available to support all membership data reported in PIMS for students from other LEAs.
4. Ensure that data for all students appearing on the Intermediate Unit printouts is included in the data reported in PIMS in accordance with Intermediate Unit and PIMS instructions. If the students are denoted as 1305 nonresident children, ensure that agency placement letters are available and report the correct classification for these students in accordance with Intermediate Unit instructions.
5. Compare data to be submitted in PIMS to Intermediate Unit reports to ensure that data is being reported for all students in accordance with the Intermediate Unit instructions.
6. Review subsequent year reports and if errors are found, submit revised reports.

Management Response

Management stated the following:

“Management recognizes the deficiencies in internal controls related to pupil membership data. During the 2008-2009, 2009-2010, 2010-2011, and 2011-2012 school years, there were multiple personnel changes in the child accounting secretary position and the District did not have a devoted PIMS Coordinator. The proper reconciliation process was not in place which resulted in this finding.

In August 2012, the District created and filled an administrative position whose one responsibility is handling all PIMS related information. Since January 2013, the District has maintained consistency in the child accounting secretary position which allows the District to implement and maintain proper internal controls moving forward.

The corrective action the District has put in place is as follows:

- The child accounting secretary reviews all enrollment percentages to ensure accuracy of the data submitted to PIMS.
- The child accounting secretary has been in contact with the Intermediate Unit to double check with them how the proper membership data is to be reported for special education programs to ensure double reporting does not take place.
- The child accounting secretary is requiring the proper documentation from other LEAs in order to process any membership data for these students.
- The child accounting secretary is doing a reconciliation of all the data in our student information system compared to the PIMS data. This was the key piece that was missing previously but the goal moving forward is to eliminate all errors prior to final upload into the PIMS system.”

Auditor Conclusion

We are encouraged that the District has taken action to address this deficiency. We will follow up on the status for our recommendations during our next cyclical audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the Bermudian Springs School District resulted in no findings or observations.

Distribution List

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

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

The Honorable Carolyn Dumaesq
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1010 Harristown Building #2
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This report is a matter of public record and is available online at 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.