

BERMUDIAN SPRINGS SCHOOL DISTRICT
ADAMS COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JUNE 2011

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

Mr. James J. 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 (BSSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period March 27, 2009 through January 21, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. 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.

Our audit found that the BSSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

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

Sincerely,

/s/

JACK WAGNER
Auditor General

June 2, 2011

cc: **BERMUDIAN SPRINGS SCHOOL DISTRICT** Board Members



Table of Contents

	Page
Executive Summary	1
Audit Scope, Objectives, and Methodology	3
Findings and Observations	6
Status of Prior Audit Findings and Observations	7
Distribution List	11



Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Bermudian Springs School District (BSSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BSSD in response to our prior audit recommendations.

Our audit scope covered the period March 27, 2009 through January 21, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

District Background

The BSSD encompasses approximately 75 square miles. According to 2007 local census data, it serves a resident population of 13,077. According to District officials, in school year 2007-08 the BSSD provided basic educational services to 2,132 pupils through the employment of 137 teachers, 106 full-time and part-time support personnel, and 10 administrators. Lastly, the BSSD received more than \$9.3 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the BSSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations.

With regard to the status of our prior audit recommendations to the BSSD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the BSSD had taken appropriate corrective action in implementing our recommendations pertaining to vocational education subsidy overpayments (see page 7) and possible conflict of interest transactions (see page 9).

We also found that the BSSD took corrective action in implementing two of the three recommendations pertaining to transportation reimbursement overpayments (see page 8).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the 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 PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 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 March 27, 2009 through January 21, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

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 Department of Education (DE) 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the BSSD's compliance with applicable 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:

- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?

- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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 applicable laws, regulations, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BSSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, pupil membership, state ethics compliance, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.

Additionally, we interviewed selected administrators and support personnel associated with BSSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 29, 2009, we reviewed the BSSD's response to DE dated January 12, 2010. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the Bermudian Springs School District resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the Bermudian Springs School District (BSSD) for the school years 2005-06 and 2004-05 resulted in three reported findings. The first finding pertained to vocational education reporting errors, the second finding pertained to transportation reporting errors, and the third finding pertained to possible conflict of interest transactions. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the BSSD Board's written response provided to the Department of Education (DE), performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the BSSD did implement our recommendations pertaining to the vocational education subsidy overpayments and possible conflict of interest transactions findings, but did not implement one of the three recommendations pertaining to the transportation reimbursement overpayments.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1: Lack of Adherence to Department of Education Requirements Resulted in Vocational Education Subsidy Overpayments of \$80,973

Finding Summary: Our prior audit of district-operated vocational education membership data reported to DE found reporting errors for the 2005-06 and 2004-05 school years that resulted in vocational education subsidy overpayments of \$80,973 to the District.

Recommendations: Our audit finding recommended that the BSSD:

1. Review DE's instructions for proper completion of the vocational education membership reports and ensure that all staff involved in the completion of these reports are familiar with the requirements of each approved vocational education program.
2. Implement an internal system of review to ensure accurate reporting of data.
3. Review reports for school years subsequent to the audit period, and if errors are noted, submit corrected reports to DE.

We also recommended that DE:

4. Adjust the District's allocations to recover the overpayments of \$80,973.

Current Status: Our current audit found that District personnel complied with our recommendations.

As of January 21, 2011, resolution of the overpayments was still pending final review by DE personnel. Therefore, the Department again recommends that DE adjust the District's allocations to resolve the overpayments of \$80,973.

Finding No. 2: Transportation Reimbursement Overpayments of \$22,984

Finding Summary: Our prior audit of the District's transportation records for the 2005-06 and 2004-05 school years found errors in data reported to DE, resulting in transportation reimbursement overpayments of \$22,984.

Recommendations: Our audit finding recommended that the BSSD:

1. Establish an internal review procedure to ensure the accuracy of transportation data for daily mileage and the greatest number of pupils transported prior to completing the DE reports.
2. Accurately report contractor costs, the number of nonpublic pupils transported and the year of manufacture for contracted and district-owned buses in accordance with DE instructions.
3. Review reports for years subsequent to our current audit period and, if errors are noted, submit revised reports to DE.

We also recommended that DE:

4. Adjust the District's allocations to resolve the overpayments of \$22,984.

Current Status: Our current audit found that District personnel complied with two of our three recommendations.

We found that the District did not review reports for school years subsequent to the prior audit period. However, our current audit found no significant errors.

As of January 21, 2011, resolution of the overpayments was still pending final review by DE personnel. Therefore, the Department again recommends that DE adjust the District's allocations to resolve the overpayments of \$22,984.

Finding No. 3: Possible Conflict of Interest Transactions

Finding Summary: Our prior audit of board members' 2006 Statements of Financial Interests found that a board member was employed by an insurance company that conducted business with the District. Our review of board minutes and discussion with school personnel found that the board member did not abstain from voting to approve the bill lists that contained the actual payments for the premiums.

Recommendations: Our audit finding recommended that the BSSD:

1. Require that the administration strengthen controls regarding the review of Statements of Financial Interests, to help ensure detection of any potential conflicts of interest.
2. Strengthen controls to help ensure compliance with state laws regarding board members conducting business with the District.

We also recommended that the State Ethics Commission:

3. Review and investigate this possible conflict of interest.

Current Status: Our current audit found that District personnel complied with our recommendations and no conflict of interest transactions were noted.

The State Ethics Commission on February 22, 2010, determined that no action would be taken.



Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditor.gen.state.pa.us, and the following:

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

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Barbara Nelson
Director, Bureau of Budget and
Fiscal Management
Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter
Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Dr. David Davare
Director of Research Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.

