



**BLACKLICK VALLEY SCHOOL DISTRICT
CAMBRIA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT**

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

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

Mr. Arthur Wurm, Board President
Blacklick Valley School District
555 Birch Street
Nanty Glo, Pennsylvania 15943

Dear Governor Corbett and Mr. Wurm:

We conducted a performance audit of the Blacklick Valley School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period August 20, 2010 through October 31, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. 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 District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the 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,

/s/

EUGENE A. DEPASQUALE
Auditor General

July 1, 2013

cc: **BLACKLICK VALLEY 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 Blacklick Valley School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period August 20, 2010 through October 31, 2012, 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 2009-10 and 2008-09 school years.

District Background

The District encompasses approximately 34 square miles. According to 2010 federal census data, it serves a resident population of 5,161. According to District officials, the District provided basic educational services to 667 pupils through the employment of 55 teachers, 43 full-time and part-time support personnel, and 5 administrators during the 2009-10 school year. Lastly, the District received \$6.1 million in state funding in the 2009-10 school year.

Audit Conclusion and Results

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding.

Finding: Violation of the Retirement Code. On October 21, 2009, the Blacklick Valley School District (District) approved hiring its retiring Superintendent to serve as acting Superintendent, while continuing to receive his pension. There is no evidence of the District evaluating that the position could only be filled by the retiring Superintendent. This return to service appears to have violated pension rules (see page 5).

Status of Prior Audit Findings and Observations. There were no findings or observations included 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 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 August 20, 2010 through October 31, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2011 through June 30, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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 applicable state laws, 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?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information System was complete, accurate, valid, and reliable?

- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ 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?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

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, 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 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.

District management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. 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 applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 control 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 reimbursement, 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.

Findings and Observations

Finding

Violation of the Retirement Code

Criteria relevant to the finding:

The Public School Employees' Retirement Code (Retirement Code), 24 Pa. C.S. § 8346(a) provides that a retiree's annuity ceases effective with the date of any return to school service.

24 Pa. C.S. § 8346 (b), provides, in part:

“When, in the judgment of the employer, an emergency creates an increase in the work load such that there is a serious impairment of service to the public . . . an annuitant may be returned to school service for a period not to extend beyond the school year during which the emergency or shortage occurs, without loss of his annuity.”

The Public School Employee's Retirement System's (PSERS) Return to Service Guidelines and Clarifications state:

“Initially, the school employer makes the determination that a an Employment Emergency or Personnel Shortage exists and that only a retiree is available to fill the positions. PSERS has the right to review the employment of any retiree for compliance with the intent of the Retirement Code. If the school employer or retiree have any questions as to whether a particular situation will qualify . . . they may submit to PSERS for review the facts surrounding their determination. PSERS will advise the employer and retiree whether the employment of the retiree complies with the Retirement Code.”

Our review of the Blacklick Valley School District (District) board meeting minutes for October 21, 2009, found that the Board of School Directors (Board) accepted a letter of retirement from the former Superintendent, effective December 31, 2009. At that same meeting, the Board appointed the former Superintendent to serve as acting Superintendent, effective January 1, 2010. During his employment as acting Superintendent, he also began receiving his retirement annuities, beginning in January 2010. Consequently, the former Superintendent's return to service appears to have violated the Public School Employees' Retirement Code (Retirement Code).

As noted in the box to the left, retirees may return to service while receiving their retirement annuities if the employer makes the determination that an employment emergency or personnel shortage exists, and that only that retiree is available to fill the position. The Public School Employees' Retirement System (PSERS) has the right to review the employment of any retiree for compliance with the intent of the Retirement Code.

The District did not have any confirmation on file indicating that PSERS reviewed the circumstances of this return to service. We contacted PSERS on November 27, 2012, and confirmed that no review of the facts surrounding the former Superintendent's return to service had been requested by the District.

At the time of his resignation in June 2010, the District had paid the former Superintendent a total of \$48,127 for his service as acting Superintendent. As a result, PSERS may determine that the retirement annuity payments the acting Superintendent received during that period were improper.

Recommendations

The *Blacklick Valley School District* should:

1. Develop procedures to ensure that retirees are only brought back to service in an employment emergency or during a personnel shortage, and submit those facts to PSERS for review.

The *Public School Employees' Retirement System* should:

2. Review the employment of the retiree for compliance and render an opinion on the appropriateness of the return to service.
3. If annuity payments are determined to be improper, PSERS should make the necessary corrections to pension benefits.

Management Response

Management waived the opportunity to reply at the time of our audit.

Status of Prior Audit Findings and Observations

Our prior audit of the Blacklick Valley 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.auditor.gen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
Governor
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The Honorable William E. Harner
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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.

