

BLUE MOUNTAIN SCHOOL DISTRICT  
SCHUYLKILL COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2013





**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER  
AUDITOR GENERAL**

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

Mrs. Mary Jo Moss, Board President  
Blue Mountain School District  
685 Red Dale Road, P.O. Box 188  
Orwigsburg, Pennsylvania 17961

Dear Governor Corbett and Mrs. Moss:

We conducted a performance audit of the Blue Mountain School District (BMSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period March 20, 2009 through May 8, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy 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 BMSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in the findings noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

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

Sincerely,

/s/

**JACK WAGNER  
Auditor General**

January 14, 2013

cc: **BLUE MOUNTAIN SCHOOL DISTRICT** Board Members



## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding No. 1 – Membership Reporting Errors and a Lack of internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement .....	6
Finding No. 2 – Improper Reporting of Retirement Wages .....	9
Status of Prior Audit Findings and Observations .....	11
Distribution List .....	13



## **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 (BMSD). 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 March 20, 2009 through May 8, 2012, 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 2009-10 and 2008-09.

### **District Background**

The BMSD encompasses approximately 123 square miles. According to the 2000 federal census data, it serves a resident population of 19,440. According to District officials, in school year 2009-10 the BMSD provided basic educational services to 2,877 pupils through the employment of 219 teachers, 136 full-time and part-time support personnel, and 26 administrators. Lastly, the BMSD received more than \$12.6 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the BMSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. However, as noted below, we identified two compliance-related matters reported as findings.

**Finding No. 1: Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement.** Our audit of BMSD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found reporting errors as well as a lack of internal controls (see page 6).

**Finding No. 2: Improper Reporting of Retirement Wages.** Our audit of the BMSD administrative employment contracts, Act 93, collective bargaining agreements and payroll records found wages for employees have been improperly reported as eligible retirement wages to Pennsylvania School Employees' Retirement System for the 2008-09, 2009-10, 2010-11 and 2011-12 school years (see page 9).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the BMSD from an audit we conducted of the 2004-05, 2005-06, 2006-07 and 2007-08 school years, we found the BMSD had taken appropriate corrective action in implementing our recommendations pertaining to their student accounting applications (see page 11).





## Audit Scope, Objectives, and Methodology

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### 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 20, 2009 through May 8, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 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 BMSD'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:

- ✓ 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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ Did the District, and any contracted vendors, ensure that its current bus drivers are properly qualified, and does it have written policies and procedures governing the hiring of new bus drivers?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, is the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Are there any declining fund balances that may impose 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 does 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?
- ✓ Is the District taking 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 audits?

## **Methodology**

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings 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.

*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.

BMSD 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. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 bus driver qualifications 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 BMSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 6, 2009, we performed additional audit procedures targeting the previously reported matters.

## Findings and Observations

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### Finding No. 1

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### Membership Reporting Errors and a Lack of Internal Controls Resulted in the District Not Receiving Their Entitled Reimbursement

*Criteria relevant to the finding:*

According to PDE's 2009-10 PIMS User Manual, all Pennsylvania LEAs must submit data templates as part of the 2009-10 child accounting data collection. 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; LEP Participation; Migrant Status; and Location Code of Residence. Therefore, PDE requires that student records are complete with these data fields.

Additionally, according to the *Federal Information Systems Control Manual* (FISCAM), 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.

Beginning with the 2009-10 school year, the Pennsylvania Department of Education (PDE) now bases all local education agencies' 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 and analyze individual student data for each student served by Pennsylvania's Pre-K through Grade 12 public education systems. PIMS replaces PDE's previous reporting system, the Child Accounting Database (CAD), which PDE ran concurrently until it brought PIMS completely online. PDE no longer accepts child accounting data through the CAD system.

Our audit of Blue Mountain School District's (BMSD) pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors as well as a lack of internal controls. District personnel inaccurately reported the membership for children placed in private homes, institutionalized non-resident, district-paid tuition, and parent paid tuition students. The lack of internal controls resulted in the District failing to reconcile preliminary data reports from PDE which resulted in incorrect data being reported on the Final Summary of Child Accounting Membership Report.

Membership days for children placed in private homes were underreported by 712 days for elementary and 584 days for secondary. Furthermore, five institutionalized non-resident students were reported as residents for a total of 387 days, a district-paid tuition student was reported as a parent paid tuition student for 178 days and two resident students were also reported as a district-paid tuition student and a child placed in private homes student for 346 days.

The incorrect reporting of children placed in private homes resulted in the District being underpaid \$55,548. The five students that were incorrectly reported as resident students and the two resident students incorrectly reported as a district-paid tuition student and a child placed in private homes student will be adjusted by PDE to determine if the District's subsidies were affected.

The children placed in private homes and the institutionalized non-resident students' errors were due to District personnel reporting them with the incorrect codes being entered for the district of residence of their biological parents. Since no designation code was entered at the time of enrollment, they automatically defaulted to BMSD resident codes which resulted in the District not receiving their entitled reimbursement.

The parent-paid tuition was reported incorrectly due to a clerical error and the two resident students were incorrectly coded as district-paid tuition students.

## **Recommendations**

The *Blue Mountain School 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 PIMS.
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.

The *Pennsylvania Department of Education* should:

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

**Management Response**

Management stated the following:

**Membership Reporting Errors and Lack of Internal Controls**

Due to lack of direction and communication from the support service administrators to the building secretaries, inadequate reporting of non-resident students in the Student Information System created numerous errors in the 2009-10 Child Accounting membership reporting.

**Corrective Action**

Training for all secretaries involved in the enrollment of new students occurred in August of 2011. A training manual was distributed at the August meeting detailing specific fields for enrollment. Additional communication was/has been distributed throughout the year on any child accounting/PIMS updates.

Verification of data will occur between the child accounting coordinator and the PIMS administrator. Verification against manual records received from building secretaries, PDE 4605 forms, and County Children and Youth documentation.

When a new student enters Blue Mountain School District, an email is sent to the child accounting coordinator including a snapshot of the student's information. If a student [has] non-resident information, a follow-up email occurs with the confirmation of District of Resident code, PIMS Resident Status code, and Funding District code.

New Child Accounting reports have been issued through the Cognos reporting system of PIMS and will be verified by the PIMS Administrator after data is submitted during the specific time period. Copies of the Cognos reporting will be maintained for auditing purposes.

**Finding No. 2**

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*Criteria relevant to the finding:*

The PSERS Employer Reference Manual Section 8102 of the Retirement Code, 24 Pa. C.S. § 8102, defines “compensation” generally to mean any remuneration received as a school employee **excluding** the following:

Severance payment

A severance payment is any payment, other than for professional salary, made as part of an agreement, either explicit or implicit, in which an employee agrees to terminate school service by a certain date.

PSERS allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees’ Retirement Board Regulations, Section 211.2, reported compensation should: “exclude . . . payments or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits.”

**Improper Reporting of Retirement Wages**

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

The amount overreported 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 overreported 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.

According to the Superintendent’s contract, if the Superintendent tenders their resignation for the purpose of retirement, at a specific date, at least three years subsequent to said tender, additional compensation of \$6,000 per year will be added to their then annual salary in accordance with the provisions of the Act 93 Administrative Personnel Evaluation and Compensation Plan, and the salary scale of Blue Mountain Education Association (BMEA).

Other administrators covered under Act 93 who took the same steps as stated above, were entitled to an additional \$4,000 per year as longevity pay.

The Act 93 agreement states that if an employee provides written commitment to retire in three years, the employee will be placed on an alternate salary step that will reflect the longevity pay. The last three years of employment, prior to retirement from public schools in the Commonwealth of Pennsylvania, an additional \$3,000 per year will be added to the individual’s salary. These payments are non-cumulative and are subject to required withholdings.

The BMSD is reporting longevity pay as eligible for retirement purposes.

PSERS has determined that the longevity pay wages are not eligible retirement wages. PSERS considers the longevity pay wages to be severance payments that are contingent upon an employee retiring. This has caused overpayments to PSERS for the above referenced years.

PSERS stated that they will adjust the overpayments for the school years 2008-09, 2009-10, 2010-11 and 2011-12 for all members that are no longer active.

The District has made adjustments and submitted to PSERS the adjusted amounts for all active employees for the school years 2009-10, 2010-11 and 2011-12.

**Recommendations**

The *Blue Mountain School 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.

**Management Response**

Management stated the following:

The problem has been rectified. An adjustment in payroll has been made for active employees.

PSERS is no longer taken out of the Longevity Pay.



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

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Our prior audit of the Blue Mountain School District (BMSD) for the school years 2007-08, 2006-07, 2005-06 and 2004-05 resulted in one reported observation. The observation pertained to unmonitored intermediate unit system access and logical access control weaknesses. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures, and questioned District personnel regarding the prior observation. As shown below, we found that the BMSD did implement recommendations related to unmonitored intermediate unit system access and logical access control weaknesses.

### **School Years 2007-08, 2006-07, 2005-06 and 2004-05 Auditor General Performance Audit Report**

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**Observation:**                    **Unmonitored Intermediate Unit System Access and Logical Access Control Weaknesses**

Observation

Summary:

Our prior audit found that the BMSD uses software purchased from the Carbon Lehigh Intermediate Unit #21 (CLIU) for its critical student accounting applications (membership and attendance). The District has remote access into the intermediate unit's network servers which hold the vendor software.

Recommendations:    Our audit observation recommended that the BMSD:

1. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
2. Implement a security policy and system parameter settings to require all users, including the CLIU, to change their passwords on a regular basis (i.e. every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e. last ten passwords) and lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).
3. Allow access to their system only when the CLIU needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the CLIU has completed its work. This procedure would also enable monitoring of CLIU changes.

4. Generate monitoring reports (including firewall logs) of CLIU and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and the data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

Current Status:

During our current audit procedures, we found that the BMSD did implement all of our recommendations related to their student accounting applications.

## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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