

MOUNTAIN VIEW SCHOOL DISTRICT  
SUSQUEHANNA COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

DECEMBER 2012





**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

Mr. Todd Adams, Board President  
Mountain View School District  
11748 State Route 106  
Kingsley, Pennsylvania 18826

Dear Governor Corbett and Mr. Adams:

We conducted a performance audit of the Mountain View School District (MVSD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 30, 2009 through March 13, 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 MVSD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two 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 MVSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MVSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MVSD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER  
Auditor General**

December 20, 2012

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



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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 Mountain View School District (MVSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the MVSD in response to our prior audit recommendations.

Our audit scope covered the period July 30, 2009 through March 13, 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 MVSD encompasses approximately 196 square miles. According to 2010 federal census data, it serves a resident population of 9,137. According to District officials, in school year 2009-10 the MVSD provided basic educational services to 1,245 pupils through the employment of 111 teachers, 72 full-time and part-time support personnel, and 9 administrators. Lastly, the MVSD received more than \$8.7 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the MVSD 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: Errors in Reporting Membership for Children Placed in Private Homes Resulted in a Net Underpayment of \$30,932.** Our audit of the MVSD's pupil membership reports submitted to the Pennsylvania Department of Education for the 2009-10 school year found reporting errors for children placed in private homes and a lack of internal controls resulting in an underpayment of \$30,932 (see page 6).

**Finding No. 2: Possible Improper Reporting of Retirement Wages.** Our audit of the MVSD's payroll records found wages for employees receiving payments for unused leave have been improperly reported as eligible retirement wages to the Pennsylvania School Employees' Retirement System for the 2011-12, 2010-11 and 2009-10 school years (see page 9).

**Status of Prior Audit Findings and Observations.** There were no findings and observations included in our prior audit report.





## 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 July 30, 2009 through March 13, 2012, except for:

- The verification of professional employee certification which was performed for the period July 1, 2011 through January 25, 2012.
- The verification of retirement wages for the period July 1, 2008 through February 3, 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

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 MVSD'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?

*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.

- ✓ 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?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?
- ✓ 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?
- ✓ 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?
- ✓ Were votes made by the District's Board members free from apparent conflicts of interest?
- ✓ 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, 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 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.

MVSD 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, professional employee certification 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 MVSD operations.

## Findings and Observations

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### Finding No. 1

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### Errors in Reporting Membership for Children Placed in Private Homes Resulted in a Net Underpayment of \$30,932

*Criteria and Public School Code section 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 pupil membership reports submitted to PDE by the Mountain View School District (MVSD) for the 2009-10 school year found reporting errors for children placed in private homes and a lack of internal controls resulting in an underpayment of \$30,932.

Membership days for children placed in private homes during the 2009-10 school year were incorrectly reported in PIMS as 1302 resident days. MVSD personnel failed to reconcile final reports submitted to PDE with MVSD records. Also, MVSD personnel misunderstood the PIMS guidelines which caused reporting errors. These nonresident errors resulted in an understatement of 329 days for elementary students and 291 days for secondary students during the 2009-10 school year.

The overstatement of resident membership days during the 2009-10 school years did not have a significant effect on the 2009-10 basic education funding.

PDE has been provided a report detailing the errors for use in recalculating the MVSD's reimbursement.

Section 2503(c) provides for Commonwealth payment of tuition for a nonresident child who is placed in the home of a resident of the school district by order of the court when such resident is compensated for keeping the child. The parent or guardian of such child must reside in a different school district than the district in which the foster parent resides.

Membership data for nonresident children placed in private homes must be maintained and reported accurately and in accordance with DE guidelines and instructions, since this is a major factor in determining the district's reimbursement.

## **Recommendations**

The *Mountain View School District* should:

1. Establish internal controls that include reconciliations of the data that is uploaded into PIMS.
2. Strengthen controls to ensure pupil membership is reported in accordance with PDE guidelines and instructions.
3. Implement controls to verify actual membership days to computer generated reports.
4. Perform an internal review of membership reports and summaries prior to submission of final reports to PDE.
5. Review subsequent year reports and if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

6. Adjust the MVSD's allocations to resolve the net underpayment of \$30,932.

**Management Response**

Management stated the following:

The Mountain View School District's superintendent and business manager agree with the Auditor General's finding that the reporting of membership for Children Placed in Private Homes was not properly reported on the Child Accounting/PIMS reports for the 2009-10 year.

All future reporting will be in accordance with state guidelines. The District will properly notify and train the staff responsible for the PIMS/Child Accounting reporting to make sure the correct procedures for reporting Children Placed in Private Homes are followed in the future.

**Finding No. 2** →

*Criteria relevant to the finding:*

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 for unused vacation leave . . . or any other 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.

**Possible Improper Reporting of Retirement Wages**

Our audit of the Mountain View School District's (MVSD) payroll records found wages for employees receiving payments for unused leave have been improperly reported as eligible retirement wages to the Pennsylvania School Employees' Retirement System (PSERS) for the 2011-12, 2010-11 and 2009-10 school years.

During the 2011-12, 2010-11 and 2009-10 school years, five employees received \$14,906, \$9,408 and \$10,416, respectively, for unused vacation days earned and remaining at the time they left employment with the MVSD. These payments were erroneously reported to PSERS for inclusion in retirement wages.

The language in the PSERS Employer Reference Manual prohibits the inclusion of cash payments for unused vacation leave for retirement purposes. Although the board has the authority to craft the terms of a contract to allow for a cash payment for unused vacation leave, the school board may not supersede the PSERS benefit structure.

PSERS has been provided a copy of our audit report and a report detailing the discrepancies for use in adjusting each individual's retirement wages.

**Recommendations**

The *Mountain View 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.

The *Pennsylvania State Employees' Retirement System* should:

3. Review the propriety of the wages for these employees and make any necessary adjustments to pension benefits and contributions.

**Management Response**

Management stated the following:

The Mountain View School District's superintendent, business manager, and assistant business manager agree with the Auditor General's findings that there was improper reporting of retirement wages for the Years Ending June 30, 2010, June 30, 2011, and June 30, 2012. Specific employees affected and the amount of the improper reporting are provided as an attachment to the "Management Response Form."

All future qualified earnings and retirement withholdings will be in accordance with the Public School Employees' Retirement System guidelines. The district will properly notify and train the payroll clerk in the correct procedures to follow when reporting wages from vacation pay, sick pay, and other non PSERS reportable areas.

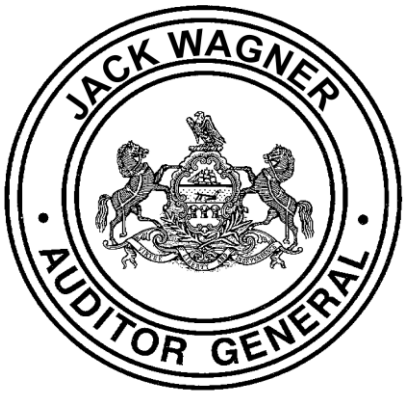


## **Status of Prior Audit Findings and Observations**

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**O**ur prior audit of the Mountain View School District resulted in no findings or observations.



## **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:

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