



**SPECIAL INVESTIGATION OF THE
SCHOOL DISTRICT OF THE CITY OF YORK,
STUDENT ACTIVITY ACCOUNT**

June 28, 2005

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Dear School Board Members:

The Department of the Auditor General's Office of Special Investigations has conducted an investigation of the Student Activity Account at William Penn Senior High School in the School District of the City of York. This report discusses how the Treasurer, a school district employee, took over \$3,000 in fundraising proceeds from the Student Activity Account and disguised her actions by failing to comply with the financial controls established by the school district.

The report also identifies unexplained, significant decreases in student debt funds collected by the Treasurer, twelve checks written from the Student Activity Account whose nature were concealed due to the Treasurer having listed inaccurate descriptions on the payment requests, and an opportunity to strengthen the financial controls of the booster clubs associated with the school district.

The investigation was conducted at the request of the School District of the City of York after the District's Business Office identified the irregularities with the twelve checks written from the Student Activity Account along with some of the other issues mentioned in the report.

We applaud the school district for identifying the irregularities and promptly instituting the corrective measures discussed in its response, which is included as an appendix.

The time period under review was the two fiscal years ending on June 30, 2004. The scope of the investigation into the Student Activity Account was restricted due to the failure of the other student organizations contacted to maintain financial records.

This report is a public document and its distribution is not limited. Additional copies can be obtained through the Department of the Auditor General's web site: www.auditorgen.state.pa.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Wagner", with a stylized, cursive script.

JACK WAGNER
Auditor General

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BACKGROUND AND INTRODUCTION

The School District of the City of York ("School District"), located in York County, Pennsylvania, encompasses approximately five square miles and educates approximately 6,200 students annually. The William Penn Senior High School ("William Penn") is the School District's only high school.

The Department of the Auditor General ("Department") conducts audits of school districts pursuant to its authority and responsibility under The Fiscal Code.¹ Audits of the School District are regularly conducted by the Department's Bureau of School Audits. In an audit report for the two years ended on June 30, 1998, the Department found that the School District lacked internal controls over the Student Activity Account.² There are 51 different student activities at William Penn.³ Included in the audit report were several recommendations designed to improve the School District's internal controls; however, the School District did not institute all of the recommendations, and control problems with the Student Activity Account continued. The lack of sufficient controls were cited in the Department's subsequent audit report of the School District.⁴

For the two fiscal years under review (2002-03 and 2003-04), the aggregate balance of the Student Activity Account ranged from approximately \$111,000 in July 2002 to \$64,000 in July 2003. On July 1, 2004, the balance was approximately \$72,000.

The School District employee responsible for maintaining the Student Activity Account is the Treasurer at William Penn. The current Treasurer was promoted to this position in July 2002. As Treasurer, she is responsible for the maintenance and accountability of all student activity funds, the collection and deposit of all student debts assessed at William Penn,⁵ and administrative matters for the school, such as processing requisitions, assisting in budget preparations, and processing General Education

¹ 72 P.S. § 403 (1995).

² Pennsylvania Department of the Auditor General, *Audit Report for the School District of The City of York for the Years Ended June 30, 1998 and 1997 with Findings and Recommendations Through September 22, 2000*.

³ The Student Activity Account is the financial account in which all funds relating to student activities are recorded. Student activities are extracurricular activities in which students may participate, such as student council and drama club. Student activities are governed by Section 511 of the Public School Code, which requires school boards to adopt and enforce rules regarding student activities, including the raising and spending of funds. Even though monies from each student activity is commingled into one account, individual balances are to be maintained. All funds raised by the student activity group are the property of that organization and not the property of the school district.

⁴ Pennsylvania Department of the Auditor General, *Audit Report for the School District of The City of York for the Years Ended June 30, 2000 and 1999 with Findings and Recommendations Through March 6, 2003*.

⁵ Student debts are monies owed by students for things such as lost or destroyed books and library fines. Student debts are to be deposited into the School District's general fund.

Development (GED) and driver education reports. The Treasurer reports to the principal at William Penn.

During 2004, the School District became aware of possible missing student activity money, improper issuance of checks from the Student Activity Account, and possible uncollected student debts. Because the fiscal transactions questioned by the School District were the responsibility of the Treasurer, School District officials transferred control of the student activity funds to the district's Business Office in the summer of 2004. However, the individual remains responsible for her other duties as Treasurer.

The School District requested the Department's assistance in reviewing these allegations. An investigation was initiated by the Department's Office of Special Investigations ("OSI") on October 25, 2004.

OSI reviewed the laws and policies governing student activity accounts including: the Pennsylvania Public School Code (24 P.S. §1-101 *et seq.*), the School District's *Student Activity Accounting Manual* (1987 edition), and the School District's *Superintendent's Regulations on Fiscal Authority and Responsibilities* (revised October 2000). We also reviewed financial documents pertaining to student activity funds and interviewed various School District employees, including teachers, advisors, business office employees, and the Treasurer.

Unless otherwise noted, all references to the "Treasurer" in this report will refer to the School District employee responsible for the Student Activity Account at William Penn between July 1, 2002 and June 30, 2004.

The School District was provided with a draft copy of this report. Its response is included as an appendix to the report, followed by our comments on the District's response.

EXECUTIVE SUMMARY

Findings and Observations	Recommendations
<p>Finding I - The Treasurer of William Penn Senior High School failed to comply with the policies and procedures governing student activity funds. By ignoring these policies and procedures, the Treasurer was able to manipulate the School District's accounting system to conceal improprieties and discrepancies in individual organization balances within the Student Activity Account. She was also able to create an opportunity for her to remove money with little chance of being caught.</p>	<p>The School District should:</p> <ul style="list-style-type: none"> • review its current policies and procedures pertaining to student activity funds to verify that everyone's responsibilities are clearly identified and explained, and that the procedures are still adequate. Changes should be made where necessary; • provide a copy of the governing documents to each person and office connected with a student activity, including faculty advisors and club representatives; and • emphasize the importance of following the established guidelines, not only in a verbal or written manner, but also by conducting periodic reviews of the records maintained by the Treasurer and each student organization.
<p>Finding II - Over \$3,000 in fundraising proceeds are missing from William Penn Senior High School's Student Activity Account and are not available for the students' use. From the available evidence, it appears that the Treasurer took most of the missing money for her personal benefit.</p>	<p>The report has been sent to the York County District Attorney for review and appropriate follow-up.</p>
<p>Finding III - Student debts collected by the Treasurer decreased by approximately 50 percent from previous treasurers' collections. The decrease cannot be adequately explained and the accounting records maintained by the Treasurer are unauditale.</p>	<p>The School District should review its procedures for collecting student debts to ensure that sufficient safeguards are in place to prevent misappropriation of funds.</p> <p>The report has been sent to the York County District Attorney for review and appropriate follow-up.</p>

<p>Observation I – The Treasurer issued twelve checks from the Student Activity Account in violation of the School District’s procedures, concealing the nature of the checks by listing inaccurate descriptions on the payment requests.</p>	<p>The School District should:</p> <ul style="list-style-type: none"> • revise its current policies and procedures pertaining to payments of student activity expenses, incorporating internal controls that address the weaknesses that allowed the Treasurer to write checks from the Student Activity Account and falsify the expense justification; • share the revised payment policies and procedures with each person and office connected with a student activity; and • emphasize the importance of following the revised payment guidelines, not only in a verbal or written manner, but also by conducting periodic reviews of the expenses paid from the Student Activity Account.
<p>Observation II – There are weaknesses in the financial controls over the booster clubs.</p>	<p>The School District should:</p> <ul style="list-style-type: none"> • share this report with the booster clubs and offer its assistance in establishing financial safeguards; • consider directing the booster clubs to deliver all money for deposit directly to the business office, in order to avoid a possible conflict between the Treasurer’s duties as Treasurer and those as booster club advisor; and • consider prohibiting School District employees from holding positions in organizations related to the School District which would create a possible conflict of interest with their responsibilities at the School District.

FINDINGS

Finding I: The Treasurer of William Penn Senior High School manipulated the School District of the City of York’s accounting system by failing to comply with policies and procedures governing student activity funds. Her actions allowed her to conceal improprieties and discrepancies in individual organization balances within the Student Activity Account, creating the means to remove money with little chance of being caught.

Several different documents govern student activity funds: the Pennsylvania Public School Code, the School District’s *Student Activity Accounting Manual* (“Manual”), and the School District’s *Superintendent’s Regulations on Fiscal Authority and Responsibility* (“Superintendent’s Regulations”). OSI also observed that the School District’s business office has instituted procedures that have not been put in writing. For the purpose of this report, these documents and the Business Office’s mandates will collectively be referred to as the School District’s “policies and procedures.”

The School District’s Manual requires each student activity to have a student president, student treasurer, and faculty advisor. The faculty advisor and student treasurer must maintain the financial balance of their activity account and, on a monthly basis, compare it to the balance listed on a report prepared by the Treasurer.⁶ As required by the Manual, the Treasurer’s duties for the Student Activity Account include:

- maintaining required accounting records,
- collecting funds from faculty advisors,
- preparing deposit tickets,
- reviewing requests for checks,
- preparing and mailing the checks,⁷
- preparing monthly reports, and
- reconciling the bank account.⁸

⁶ School District of the City of York, *Student Activity Accounting Manual*, page 5 (“Manual”).

⁷ The Treasurer is limited in the instances in which she can prepare a check. Primary check-writing responsibility lies with the School District’s Business Office.

⁸ The Treasurer is responsible for all aspects of a student activity transaction. The opportunity for errors, irregularities, or fraud is higher in environments where duties are not segregated. These risks are

The Treasurer is also required to count any student activity money that she receives as soon as practicable, prepare a three-part pre-numbered receipt each time that she receives student activity money, enter the pre-numbered receipt in the cash receipts journal, and send the faculty advisor a copy of the receipt documenting the deposit.⁹ The faculty advisor and/or the student treasurer must compare the receipt with their records to confirm that the proper amount was applied to their account. Of the remaining two copies of the receipt, one remains with the Treasurer and the other is submitted, along with the money, to the business office for deposit.

As demonstrated by the following examples, the Treasurer failed to comply with the School District's fiscal policies and procedures pertaining to student activity funds and the internal controls that they established:

Failure to Maintain Accounting Records

One of the Treasurer's most important job functions is to maintain account balances for each organization within the Student Activity Account.¹⁰ Account balances are necessary to determine if sufficient funds are available to cover a particular group's expenses. The balances are also needed to produce the reports mandated by the Manual.

The Treasurer stated that, as a normal course of business, she never maintained balances for any of the student activity funds and never prepared any account ledger or balance sheet documenting the financial balances of the 51 student activities. Rather, she relied on the Business Office to maintain account balances.

The Treasurer's assertion that she never prepared or maintained account balances conflicts with other information that she provided to OSI. When the Treasurer was first hired, she tried to reconcile her records of the account balances of the 51 student organizations to the School District's general ledger. However, the Business Office informed her that it did not maintain individual balances. The Business Office recommended that she should meet with the 51 student activity representatives and reconcile their records of the account balances to the general ledger. According to the Treasurer, when she met with the representatives in 2002, the majority of them had no idea what their account balances were because they did not retain financial records from past school years. The Treasurer told OSI that she started with the balances calculated from the available financial records, even though she did not know if the balances were correct.

lessened if each club maintains an independent set of financial records and compares the balance with the Treasurer's balance.

⁹ Pre-numbered receipts are numbered by an independent third party such as the printer, rather than being numbered by the individual collecting the money.

¹⁰ Manual, page 7.

Failure to Provide Student Activity Account Balances

The Treasurer also admitted that she never provided periodic reports required by the Manual, including the report indicating the balance of each organization within the Student Activity Account.¹¹ Without this report, missing funds could easily be concealed because faculty advisors and student treasurers would be unable to periodically confirm that the Treasurer's balance agrees with the club's financial records. In addition, the Treasurer's records could not be used to verify the accuracy of the Business Office's records.

Failure to Provide Sequentially Pre-Numbered Receipts

The Business Office provided the Treasurer with sequentially pre-numbered receipts and required her to issue a receipt each time she accepted money. The requirement of issuing receipts is consistent with the Manual.¹²

Issuing sequentially pre-numbered receipts every time that money is received creates a record of the total amount of money collected. An independent person can confirm that all money collected was deposited by comparing receipts with bank records. The use of sequentially pre-numbered receipts also hinders a person's ability to misappropriate funds because any gap in the receipt numbers can be easily identified and investigated during a review of the receipts.

The Treasurer told OSI that, with the exception of the faculty advisor for one club (the Bearcat Den), she provided a receipt to every faculty advisor or student treasurer who gave her student activity money for deposit.

The lack of receipts makes it more difficult for a faculty advisor or a third party to dispute or question the amounts deposited. For example, the Treasurer's failure to provide receipts to the Bearcat Den faculty advisor would prevent the advisor from documenting the amount of money he gave to the Treasurer, some of which was never deposited into the Bearcat Den's account.¹³

We observed that the Treasurer failed to *consistently* provide sequentially pre-numbered receipts to faculty advisors and student treasurers. She would either issue pre-numbered receipts out of sequence or issue generic unnumbered receipts.

Inconsistent use of the required sequentially pre-numbered receipts prevents an independent verification that all monies received were actually deposited because it is not possible to determine the total funds remitted for deposit. For example, an independent review of the pre-numbered receipts issued by the Treasurer would not disclose a \$216 remittance from the Asian Culture Club because, in this instance, the Treasurer provided a generic unnumbered receipt. Furthermore, the Treasurer failed to maintain a copy of the generic receipt issued. Had the club's representative not maintained her copy of the

¹¹ Manual, pages 5 and 17.

¹² Manual, page 9.

¹³ Discussed in Finding II of this report.

generic receipt, there would be no documentation to support her claim that the \$216 was never actually deposited.¹⁴

According to the Treasurer, she issued generic receipts when she ran out of pre-numbered receipts provided by the Business Office. She also stated that she did not maintain a log or any record of these generic receipts and had no documentation of the number or to whom these generic receipts were issued. OSI observed that some generic receipts were attached to pre-numbered receipts, but this was an inconsistent practice. Because the Treasurer did not maintain a log of generic receipts, OSI could not compare the amount of money collected by the Treasurer to the amount she deposited.

When asked why she did not comply with the established policies and procedures, the Treasurer stated she did not receive the Manual and she never read the Superintendent's Regulations even though she had been provided with it. The Treasurer told OSI that she had asked the principal at William Penn as well as the Business Office for a copy of the Manual but never received the document.

Current Business Office personnel refuted the Treasurer's claim and informed OSI that the fiscal policies and manuals are currently on the School District's web site. The individual who trained the Treasurer in July 2002 stated that the Treasurer had informed her that she had a copy of the Manual. The Business Office also produced a September 2002 e-mail message from the superintendent's secretary addressed to all faculty and school district personnel about obtaining copies of the new updates to both the Manual and the Superintendent's Regulations.

Even if it is true that the Treasurer never saw the Manual or read the Superintendent's Regulations, it does not excuse her from not knowing her job duties and responsibilities. The Treasurer told OSI that she summarized a lengthy, detailed job description from her predecessor into a one-page document when she assumed the position of Treasurer. The revised job description still contained the duties outlined on the governing documents and most of the duties/responsibilities outlined in the prior job description. The Treasurer revised the job description at the Business Office's request.

Failure of the School District to Provide an Auditing Function

The Manual requires that the Business Office perform surprise internal audits of the Student Activity Account and that the student activity records be examined at year-end by the School District's independent auditors.¹⁵ The Treasurer stated that she was unaware of any such surprise audits. She also said that she was never questioned or audited by the School District's independent auditors.

The failure of the Business Office and/or the District's independent auditors to examine the Treasurer's financial records contributed to the breakdown and noncompliance with the fiscal policies and procedures for student activity funds. An

¹⁴ Discussed in Finding II of this report.

¹⁵ Manual, page 17.

examination of the Treasurer's fiscal records and procedures would have identified her deviation from the School District's accounting policies and procedures and may have prevented or identified the missing deposits discussed in Finding II of this report. At a minimum, it would have indicated to the Treasurer that someone was reviewing her work, possibly discouraging her from her actions.

Conclusions and Recommendations

By ignoring the School District's fiscal policies and procedures, the Treasurer was able to manipulate the School District's accounting system in order to conceal the improprieties and discrepancies identified in Finding II of this report, thus creating an opportunity for her to remove money with little or no chance of being caught.

The Treasurer was able to deviate from the established policies and procedures because:

- The Business Office failed to conduct surprise internal audits of the Treasurer's accounts as required by the Manual;
- The majority of faculty advisors/student treasurers failed to maintain satisfactory account balances and fundraising receipts, as required by the Manual; and
- Few individuals, if any, insisted on being provided with periodic reports documenting the financial balance of their Student Activity Account funds.

The School District should review its current policies and procedures pertaining to Student Activity Account funds to verify that everyone's responsibilities are clearly identified and explained, and that the procedures are still adequate. Changes should be made where necessary.

The School District should also provide a copy of the governing documents to each person and office connected with a student activity, including faculty advisors and club representatives.

The School District should emphasize the importance of following the established guidelines, not only in a verbal or written manner, but also by conducting periodic reviews of the records maintained by the Treasurer and each student organization.

Finding II: Over \$3,000 in fundraising proceeds are missing from William Penn Senior High School's Student Activity Account and are not available for the students' use. From the available evidence, it appears that the Treasurer took most of the missing money for her personal benefit.

Prior to our investigation, several faculty advisors/student club representatives complained to the Business Office of missing money and inaccurate Student Activity Account balances. In many instances, the faculty advisors were unable to identify specific amounts or deposits because they themselves had failed to maintain independent financial records of their club's activities. Without an independent record of what monies should have been deposited into a particular account, there are no means available by which to challenge the Treasurer's records. Consequently, OSI was not able to investigate most of the complaints to determine their validity.

However, the faculty advisors of the Bearcat Den and the Asian Culture Club were able to provide specific information supporting their claims that deposits were not made to the Student Activity Account. The complaints and results of our investigation into these two matters are documented below. The Treasurer's explanations appear on page 12 of this report.

Bearcat Den

Students belonging to the Bearcat Den operate the concession stands at home football games. The faculty advisor for the Bearcat Den collects, counts, and submits the concession stands' proceeds to the Treasurer for deposit. He also maintains his own receipt and expense records for the concession stands. The faculty advisor was the assistant principal at William Penn before he retired.

OSI interviewed the Bearcat Den faculty advisor and compared his financial records with the Treasurer's financial records to determine if the Treasurer recorded all monies submitted by the Bearcat Den. OSI then reviewed the financial records maintained by the Business Office to determine whether the money submitted by the Bearcat Den was actually deposited.

Our analysis of the financial records revealed that \$2,865.77 raised by the Bearcat Den was not deposited and cannot be located, as documented below:

1. *\$1,487 in student funds was never deposited into the Student Activity Account.* The faculty advisor's financial records reflect that, on or about August 30, 2002, he remitted \$1,487 in cash to the Treasurer. Neither the Treasurer nor the Business Office has a record of this deposit.
2. *\$678.77 was not deposited into the Student Activity Account.* The faculty advisor's financial records reflect that, on or about August 30, 2003, he remitted a total of \$2,360.77 to the Treasurer for deposit. The deposit was comprised of \$1,682 in cash and \$678.77 in checks. The Treasurer's financial records include a receipt dated September 8, 2003, for only

\$1,682, not the entire \$2,360.77. The Business Office's records reflect a \$1,682 deposit on the same day consisting of \$1,003.23 in cash and \$678.77 in checks. Therefore, \$678.77 was not deposited for the Bearcat Den.

3. *The repayment of a \$500 cash advance was not deposited. The Treasurer misrepresented the source of funds on a receipt that she prepared in order to give the illusion that the cash advance had been deposited.* The faculty advisor's financial records reflect that he gave \$500 in cash to the Treasurer on or about October 31, 2003, for deposit. The deposit represented repayment of an earlier cash advance to the faculty advisor. Neither the Treasurer nor the Business Office had a record of this \$500 cash deposit until February 20, 2004, when the Treasurer transmitted a \$510.50 check to the Business Office along with two receipts. One receipt reflects repayment of the \$500 cash advance, while the other receipt reflects a refund from Coca-Cola sales of \$10.50. However, the check attached to the receipts was a \$510.50 check from Coca-Cola. According to the faculty advisor, the check represented a percentage of Coca-Cola sales during the 2003 football season. It was not repayment of the \$500 cash advance as indicated on the receipt. Therefore, the repayment of the \$500 cash advance was never deposited.
4. *\$200 was not deposited into the Student Activity Account.* The faculty advisor's financial records reflect that he sold his concession stands' food inventory to the Athletic Booster Club at the end of the 2003 football season for \$200. The faculty advisor told OSI that he notified the Treasurer of the sale and asked her to transfer \$200 from the Athletic Booster Club's funds to the Bearcat Den's funds. The School District's records do not reflect a \$200 deposit at that time. We did not review the Athletic Booster Club's records to see if the \$200 was withdrawn. It should be noted that the Treasurer is also the faculty advisor for the Athletic Booster Club. The Treasurer told OSI that she neglected to make this \$200 transfer.

As a result of these funds not being deposited, \$2,865.77 in fundraising proceeds is missing from Bearcat Den funds and is not available for the students' use.

Asian Culture Club

Students involved in the Asian Culture Club promote art, literature, social activities, and food from the Asian culture. Like the faculty advisor for the Bearcat Den, the faculty advisor for the Asian Culture Club also maintains her own set of financial records for the club. By comparing her balance with that of the Treasurer, she was able to determine that a cash deposit of \$216 was never deposited for the club. The advisor documented that the Treasurer received the money with the generic, unnumbered receipt issued by the Treasurer. OSI reviewed the financial records maintained by both the

Treasurer and the Business Office, neither of which reflected a \$216 deposit for the Asian Culture Club.

As a result of these funds not being deposited, \$216 in fundraising proceeds is missing from the Asian Culture Club's funds and is not available for the students' use.

When asked about the money missing from the Bearcat Den and Asian Culture Club, the Treasurer provided several explanations. As outlined below, her explanations are either unsupported by the facts or contradicted by other statements that she made:

- The Treasurer told OSI that when she encountered “overages” in her tallies of Student Activity Account receipts—amounts greater than what she was told by the club representative—she would deposit these “overages” into the School Fund.¹⁶ To determine if the Treasurer treated the missing money as “overages,” OSI reviewed all the deposits made for the School Fund. None of the funds missing from the Bearcat Den and Asian Culture Club were identified.
- The Treasurer stated that when she took office in July 2002, she found a metal storage box in her desk drawer left there by the previous treasurer at William Penn. The box contained various Student Activity Account documents and a bank envelope containing \$680 in cash. She explained that the \$680 in cash represented “overages” of cash receipts not identified with a particular student activity. The Treasurer said that she was unsure how to handle the cash because she could not determine which student activity to credit or in what amount. She stated that she decided to leave the metal box containing the \$680 in her desk drawer until February 2005, when she was interviewed by OSI on a second occasion. Not only are these statements contradicted by the Treasurer’s earlier remarks that she deposits all “overages” into the School Fund, but they are also contradicted by a second explanation she provided (see next bullet). More importantly some of the money found in the envelope was minted in 2004 *at least two years after* the previous treasurer left her position.
- On a separate occasion, the Treasurer explained to OSI that she had approximately \$680 in cash in her desk drawer that she believes could be part of the missing \$678.77 from the September 8, 2003, deposit for the Bearcat Den. However, some of the cash found in her desk was minted at least *four months after* the Bearcat Den advisor submitted his money for deposit.

¹⁶ The School Fund is controlled by the student council and supports activities benefiting the entire student body. It is maintained within the Student Activity Account.

Conclusions and Recommendation

From the available evidence, it appears the Treasurer took at least \$2,881¹⁷ of Student Activity Account funds. When the Treasurer was questioned by OSI about the missing money, she appeared to try to cover her actions by placing \$680 in her desk in preparation for a subsequent interview with OSI.

As the individual with sole responsibility for the collection, recording, and depositing of fundraising proceeds, the Treasurer had both the means and the opportunity to take the money. She knew from her experience in trying to establish the initial account balances that many of the faculty advisors/student treasurers did not maintain independent accounting records and would rely on her for their organization's balance. She also knew that the Business Office did not maintain individual balances and therefore could not question individual balances.

The amount taken by the Treasurer could be higher if the records from the Athletic Booster Club indicate it paid the \$200 owed to the Bearcat Den. As previously discussed, we did not review the Athletic Booster Club's records to determine if the \$200 owed to the Bearcat Den was actually withdrawn, but the Treasurer admitted to OSI that she failed to make this transfer.

The dollar amount could also increase if additional Student Activity Account funds are reviewed and found to be missing. We looked at only the two organizations where faculty advisors were able to provide specific information supporting their claims that money was not deposited.

We have sent a copy of this report to the York County District Attorney for review and appropriate follow-up.

¹⁷ The \$2,881 is comprised of the \$216 from the Asian Club, plus the \$2,865 from the Bearcat Den, less the \$200 owed to the Bearcat Den from the Athletic Booster Club. The \$200 was not included in this calculation because it may never have been withdrawn from the Booster Club's funds.

Finding III: Student debts collected by the Treasurer decreased by approximately 50 percent from previous treasurers' collections. The decrease cannot be adequately explained and the accounting records maintained by the Treasurer are unauditable.

Each school year, the School District requires each school within the district to collect all outstanding debts assessed against the students during the year. Debts are incurred on such things as lost or destroyed textbooks, class fundraiser non-payments, and damage to school property. The Treasurer at William Penn is responsible for collecting the debts accrued at that school. According to the Business Office, the policy for collecting student debts is as follows: The Treasurer obtains a list of student debts from each department at the school, compiles a master list from these individual lists, removes student names from the master list as debts are paid, forwards money collected for the music and library departments to those departments, and forwards the remaining funds to the Business Office for deposit into the general fund.

During the two years under review, the Treasurer never remitted any student debt collections to the Business Office for deposit. When questioned about this, the Treasurer explained that *her* procedure for student debt collection was to return any debts collected for the music and library departments to those departments and deposit the remaining money for the School Fund within the Student Activity Account as “debts/donations.”

The Treasurer’s records show that she remitted approximately \$405 and \$475 in “debts/donations” during the 2002-03 and 2003-04 school years respectively. The corresponding deposit tickets do not distinguish if the money deposited represented student debts, donations, or a combination of both. Assuming that the amounts solely represent student debts, the amounts deposited by the Treasurer are significantly less than the amounts deposited during the prior five school years by the past two treasurers. The yearly amounts deposited are documented below in Table No. 1. The dates of service for the past treasurers are approximate.

Table No. 1
Student Debts Collected at William Penn, Excluding the
Music and Library Departments

School Year	Collected By	Amount Collected
2003-04	Current Treasurer	\$475.00
2002-03	Current Treasurer	\$405.00
2001-02	Treasurer from 1999-2002	\$915.00
2000-01	Treasurer from 1999-2002	\$780.00
1999-00	Treasurer prior to 1999	\$809.51
1998-99	Treasurer prior to 1999	\$1,334.78
1997-98	Treasurer prior to 1999	\$959.86

The Treasurer was unable to provide OSI with records supporting the student debt collections. The Treasurer failed to maintain her master debt list, issued receipts only when requested by the student, and failed to obtain a receipt from the music and library departments when she returned their portion of the money collected. The various department heads contacted by OSI also did not maintain their lists of student debts.

The Treasurer could not explain why the amounts of her deposits were significantly less than prior years' collections. Her only explanation was that she had credited certain student debts for books that she found in the school auditorium and elsewhere on school grounds. The Treasurer could not explain how she determined which students lost the books or which students should be credited for the textbooks she found.

Representatives from the Business Office were not aware of any circumstances that would decrease student debt collections by approximately 50 percent. Representatives from the music and library departments told OSI that their amounts of yearly student debts are fairly consistent.

When the Treasurer deposited the student debt collections into the Student Activity Account, she violated school policy that prohibits the commingling of School District general fund money (student debts) with monies raised by the students (Student Activity Account funds). It also artificially increased the balance of the School Fund and decreased the amount of money available to the School District.

Conclusions and Recommendation

Unusual or unexplained changes in account balances from one year to the next can indicate fraud. For revenue accounts, such as the student debt collections, declines in account balances can indicate that funds are being taken prior to the money being deposited and recorded in the accounting records. While there is no proof that funds were taken, the School District and Treasurer can offer no explanation for the significant decrease in student debt collections. The Treasurer's incomplete records prevent the deposited amount from being audited and prevent confirmation that all funds collected were transferred to the music and library departments or deposited by the Treasurer.

From the available evidence, the most likely explanation for the significant decrease in student debt collections is that the Treasurer took money from the cash collections. As the individual with primary responsibility for the collection, recording, and depositing of student debts, she had both the means and the opportunity to take the money. She could conceal her actions by failing to maintain even a basic accounting of the collections.

The School District should review its procedures for collecting student debts to ensure that sufficient safeguards are in place to prevent misappropriation of funds.

We have sent a copy of this report to the York County District Attorney for review and appropriate follow-up.

OBSERVATIONS

Observation I: **The Treasurer issued twelve checks from the Student Activity Account in violation of the School District's procedures, concealing the nature of the checks by listing inaccurate descriptions on the payment requests.**

During our investigation, School District officials informed us that the Treasurer wrote twelve checks totaling \$604 from the School Activity Account in violation of established policies. The Treasurer is authorized to write periodic reimbursement checks to the School District's general fund and issue checks in emergency situations. All other expenditures from the Student Activity Account are to be processed by the Business Office and paid from the district's general fund.

Several approval forms are required for payment of a student activity expense. To initiate payment, a club prepares a *Student Activity Account Withdrawal* and a *Charge Order*. Both forms indicate the payee, dollar amount, the student organization to be charged, and the reason for the expense. The forms are signed by the student treasurer and faculty advisor and submitted with any supporting documentation (e.g., invoice) to the Treasurer for payment.

Upon receipt of the payment requests, the Treasurer prepares a *Purchase Requisition* reflecting the payee, description of the expense(s), and the account code(s) to be billed. The purchase requisition and supporting documents are then sent to the faculty advisor, the principal at William Penn, and the Business Office for approval. If approved, the Business Office prepares and mails a check.

The twelve checks written by the Treasurer were made payable to individuals who officiated at School District sporting events. Although OSI was told differing accounts of the conversation, both the Treasurer and members of the Athletic Department agree that the checks to game officials were written from the Student Activity Account to ensure that payment would be available at game time. Apparently, game officials were threatening not to officiate at the School District because it had been late in processing payments in the past and checks were not available at game time.

Even though the twelve checks were for game officials, the Treasurer prepared documents indicating that payments were advances for meals, crafts, T-shirts, and other items. For two of the checks, the Treasurer even attached receipts to the payment documents to support the false reasons given for the expenditures. Specific information about each check is listed in Table No. 2.

Table No. 2
Questioned Expense Documentation

	Payee ¹⁸	Expenditure purpose	Expenditure purpose as reported by Treasurer on expense documents	Dollar amount of payment
1.	"A"	Game official.	Advance for activity student project.	\$60.00
2.	"B"	Game official.	Advance for meal and movie.	\$50.00
3.	"C"	Game official.	Advance for group meal.	\$58.00
4.	"D"	Game official.	Advance for meals.	\$50.00
5.	"D"	Game official.	Advance for additional meals.	\$10.00
6.	"E"	Game official.	Advance for meals.	\$50.00
7.	"F"	Game official.	Advance for meals.	\$50.00
8.	"G"	Game official.	Advance for meals.	\$60.00
9.	"H"	Game official.	Advance for meals.	\$58.00
10.	"I"	Game official.	Advance for crafts.	\$50.00
11.	"J"	Game official.	Advance for T-shirts.	\$58.00
12.	"K"	Game official.	Trip advance.	\$50.00
				Total: \$ 604.00

The Treasurer told OSI that she felt pressured from the Athletic Department to bypass the established payment procedures in order to ensure that game officials were paid in a timely manner. She changed the procedures without seeking permission to do so.

The Treasurer admitted to writing inaccurate descriptions of the expenses on the various payment approval documents and to attaching unrelated invoices (i.e., meals, movie tickets) to some of the payment requests. The Treasurer explained that she attached the unrelated invoices "to lessen the repercussions" of her actions.

OSI did not review expenditures from the Student Activity Account for authenticity. While no instances came to our attention, the same weaknesses that permitted the Treasurer to circumvent established payment procedures and disguise her actions would also have allowed her to write checks for her own financial benefit.

The identified weaknesses include:

- Allowing one individual to have complete control over the payment process, eliminating the safeguards inherent in processes where duties are segregated between several individuals.
- Trusting the Treasurer implicitly with little or no confirmation or verification of her statements.

¹⁸ To protect the identity of the game officials, this report does not identify them by name.

- Placing reliance on others to verify the accuracy and legitimacy of payments. Consequently, no one may be questioning the expenses.
- Faculty advisors and/or student treasurers signing blank or partially completed expense request forms, which allows the Treasurer to attach any invoice or pay anyone without informing the person who pre-signed the forms. This process not only circumvents the payment review process, but it also mistakenly gives the appearance that someone has reviewed and approved the expenditures for payment.
- Permitting cash advances to go unreconciled. Without reconciliation, there is no confirmation that the expenses were appropriate and for the total amount of the advance.
- Allowing the Treasurer to maintain the William Penn principal's signature stamp, which enabled the Treasurer to use the stamp on expense request forms and checks from the Student Activity Account without anyone's knowledge. Because the principal is the only person authorized to sign checks from this account, having access to the signature stamp provided the means for the Treasurer to issue checks from the account without having to obtain someone's signature.

Recommendations

The School District should revise its current policies and procedures pertaining to payments of student activity expenses, incorporating internal controls that address the weaknesses that allowed the Treasurer to write checks from the Student Activity Account and falsify the expense justifications.

The revised payment policies and procedures should be shared with each person and office connected with a student activity. The School District should emphasize the importance of following the revised payment guidelines, not only in a verbal or written manner, but also by conducting periodic reviews of the expenses paid from the Student Activity Account.

Observation II: There are weaknesses in the financial controls over the booster clubs.

Five booster clubs operate at the School District: Athletic, Football, Music, Soccer, and Swimming. The clubs are comprised of adult volunteers who help raise funds to finance events, physicals, or camps in support of the team for which the club is named. The booster clubs raise money by selling items such as hoagies or by sponsoring dances and other events.

The School District's Business Office maintains the funds raised by the booster clubs in a trust account and performs all related accounting functions. Booster club advisors give all monies to be deposited into their accounts either to the Business Office or to the Treasurer at William Penn for transfer to the Business Office. According to the Business Office employee who maintains the booster clubs' accounts, she provides pre-numbered receipts each time she receives money for deposit. On June 30, 2004, the five booster clubs collectively maintained a balance over \$27,000. Individual balances are shown in Table No. 3.

Table No. 3
Booster Club Account Balances on June 30, 2004

Booster Club	Balance
Athletic	\$912.51
Football	\$2,696.38
Music	\$16,027.89
Soccer	\$3,569.26
Swimming	\$4,021.45
Total	\$27,227.49

During our investigation, it came to our attention that the Treasurer at William Penn not only receives money from the booster clubs for deposit, but is also the president/advisor of the Athletic Booster Club and assistant to the president/advisor for the Football Booster Club. In these capacities, the Treasurer has sole responsibility for the booster clubs' financial affairs. She collects, counts, verifies, and delivers all revenue generated by the booster clubs for deposit to the Business Office. She also collects the required purchase requisitions, invoices, and signatures for club expenditures.

The lack of segregation of the financial duties for the Athletic and Football Booster Clubs has not been mitigated by other measures. For example:

- There are no third party verifications of the funds collected or expended;
- The Treasurer does not issue receipts to individuals giving her money for deposit; and

- The Treasurer does not maintain accounting records for the booster clubs.

Such safeguards can help ensure that all funds raised by the booster clubs are deposited in their entirety for the correct club or spent in accordance with the club's purposes.

Recommendations

The School District should share this report with the booster clubs and offer its assistance in establishing financial safeguards. The School District should consider directing the booster clubs to deliver all money for deposit directly to the Business Office, in order to avoid a possible conflict between the Treasurer's duties as Treasurer and those as booster club advisor. The School District should also consider prohibiting School District employees from holding positions in organizations related to the School District which would create a possible conflict of interest with their responsibilities at the School District.

APPENDIX—SCHOOL DISTRICT’S RESPONSE

The School District of the City of York’s written response to the investigation of its Student Activity Account is reproduced on the following pages. The response was provided under cover of correspondence dated May 23, 2005, and signed by Paula K. Denton, Director of Business and Finance.

Findings and Observations	Recommendations	District Response
<p>Finding I- The Treasurer of William Penn Senior High School failed to comply with the policies and procedures governing student activity funds. By ignoring these policies and procedures, the Treasurer was able to manipulate the School District's accounting system to conceal improprieties and discrepancies in individual account balances. She was also able to create an opportunity for her to remove money with little chance of being caught.</p>	<p>The School District should:</p> <ul style="list-style-type: none"> • Review its current policies and procedures pertaining to student activity accounts to verify that everyone's responsibilities are clearly identified and explained, and that the procedures are still accurate. Changes should be made where necessary; • Provide a copy of the revised policies and procedures to each person and office connected with a student activity, including faculty advisors and club representatives; and • Emphasize the importance of following the established guidelines, not only in a verbal or written manner, but also by conducting periodic reviews of the records maintained by the Treasurer and each student activity organization 	<ul style="list-style-type: none"> • The School District had revised the Student Activity Policies and Procedures by August of 2004. It was approved by Board Action in October 2004. The responsibility of maintaining the student activity funds were centralized in the Business Office, and all necessary changes were made at that time to comply with the updated policies and procedures. • Once the new policies and procedures were approved, copies were sent to the Accounting Clerk now responsible for maintaining all the funds and to the faculty advisors. • Each month the funds are reconciled and statements are sent out to the advisors to verify balances. The District also plans to send communication out to staff, parents and students, informing them that under no circumstances should they turn over funds to anyone in the District without getting a receipt in return.
<p>Finding II- Over \$3,000 in fundraising proceeds are missing from William Penn Senior High School's student activity accounts and are not available for the students' use. From the available evidence, it appears that the Treasurer took most of the missing money for her personal benefit.</p>	<p>The report has been sent to the York County District Attorney for review and appropriate follow-up.</p>	<p>The Treasurer has been removed from any duties that involve the handling of funds.</p>

Findings and Observations	Recommendations	District Response
<p>Finding III- Student debts collected by the Treasurer decreased by approximately 50 percent from previous treasurers' collections. The decrease cannot be adequately explained and the accounting records maintained by the Treasurer are unauditable.</p>	<p>The School District should review its procedures for collecting student debts to ensure that sufficient safeguards are in place to prevent misappropriation of funds.</p> <p>The report has been sent to the York County District Attorney for review and appropriate follow-up.</p>	<p>On December 8, 2004, the Director of Business and Finance met with the Principal of the High School to set up new procedures for the collection of student debts. It was decided that collection dates would be set up and that students would be informed that, on those days, the Accounting Clerk from the Business Office would be available at the High School to receive student debts.</p>
<p>Observation I- The Treasurer issued twelve checks from the student activity fund in violation of the School District's procedures, concealing the nature of the checks by listing inaccurate descriptions on the payment request.</p>	<p>The School District should:</p> <ul style="list-style-type: none"> • Revise its current policies and procedures pertaining to payments of student activity expenses, incorporating internal controls that address the weaknesses that allowed the Treasurer to write checks from the account and falsify the expense justifications; • Share the revised payment policies and procedures with each person and office connected with a student activity; and • Emphasize the importance of following the revised payment guidelines, not only in a verbal or written matter, but also by conducting periodic reviews of the expenses paid from the student activity accounts. 	<p>It was the Accounting Clerk and Comptroller in the Business Office who discovered the checks that were written to "Game Officials" in the student activity fund.</p>

Findings and Observations	Recommendations	District Response
<p>Observation II- There are weaknesses in the financial controls over the booster clubs.</p>	<p>The School District should:</p> <ul style="list-style-type: none"> • Share this report with the booster clubs and offer its assistance in establishing financial safeguards; • Consider directing the booster clubs to deliver all moneys for deposit directly to the business office, in order to avoid a possible conflict between the Treasurer's duties as Treasurer and those as booster club advisor, and • Consider prohibiting School District employees from holding positions in organizations related to the School District which would create a possible conflict of interest with School District responsibilities. 	<ul style="list-style-type: none"> • This report is not public as of the date of the District's response and therefore will not be shared with the booster clubs. The District has, however, implemented financial safeguards. • Booster Clubs, since October 2004, have been depositing all monies directly to the Business Office. • On May 19, 2005, correspondence was sent to the Athletic Director inquiring as to whom the individuals were that were responsible for collecting funds. The Treasurer was not one of the individuals. The District will further investigate any other District conflicts.

It was in September 2004 that the Accounting Clerk and the Comptroller in the Business Office brought the irregularities of the 12 manual checks to the attention of the Business Manager and me. The Business Office began an investigation into these irregularities and discovered some other issues, mentioned in your report that warranted further investigation. It became apparent that the investigation by the Business Office needed to go into more depth. On October 15th, 2004, we contacted the Bureau of State Audits to discuss the appropriate action to be taken. During several conversations with Mr. Jeff Bathgate, from the Bureau, he informed us that the Office of Special Investigation would be opening a file. On October 25th, 2004, the Business Manager, Comptroller, Director of Human Resources and I met with Richard Schultz from the Office of Special Investigation.

York City School District is committed to maintaining the highest standards. It is because of this commitment that we discovered the irregularities and contacted your agency. We have an excellent team in the Business Office and, prior to receiving your report, had already implemented corrective action. We very much appreciate your recommendations and will continue to maintain the highest level of controls.

THE DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS ON THE SCHOOL DISTRICT'S RESPONSE

The Department of the Auditor General commends the School District of the City of York for identifying the problems cited in this report and promptly instituting the corrective measures discussed in the School District's response.

However, the Department had informed the School District as early as fall 2000 that weaknesses existed with the internal controls over student activity funds. Had the School District implemented the recommendations that the Department made at that time, the irregularities discussed in this report may have been avoided.

DISTRIBUTION LIST

This report was distributed initially to the school board members of the School District of the City of York, the superintendent, and the Director of Business and Finance, and to the following:

The Honorable Francis V. Barnes, Ph.D.
Secretary of Education
Pennsylvania Department of Education

The Honorable Tom Corbett
Attorney General of Pennsylvania

The Honorable Robert P. Casey, Jr.
State Treasurer

Senator James Rhoades
Chairman, Senate Education Committee

Senator Raphael Musto
Democratic Chairman, Senate Education Committee

Representative Jess Stairs
Chairman, House Education Committee

Representative James Roebuck
Democratic Chairman, House Education Committee

H. Stanley Rebert, Esquire
District Attorney of York County

United States Department of Education
Office of Inspector General

Jeffrey Bowers
Customer Services Coordinator
National School Boards Association

Ann Boyko
School Personnel Services Administrator
Pennsylvania School Boards Association

Donald J. Halke, Internal Auditor
Pennsylvania State Employees' Retirement System

This report is a matter of public record. Copies of this report may be obtained from the Department of the Auditor General's Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120, or at www.auditorgen.state.pa.us.