



**NEW CASTLE AREA SCHOOL DISTRICT  
LAWRENCE COUNTY  
PERFORMANCE AUDIT REPORT**

**JUNE 2013**

**COMMONWEALTH OF PENNSYLVANIA**  
**EUGENE A. DePASQUALE - AUDITOR GENERAL**  
**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

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

Mr. David DiGiammarino, Board President  
New Castle Area School District  
420 Fern Street  
New Castle, Pennsylvania 16101

Dear Governor Corbett and Mr. DiGiammarino:

We conducted a performance audit of the New Castle Area School District (District) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period February 2, 2010 through September 12, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010 and June 30, 2009. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with state laws and administrative procedures, as detailed in the three audit findings within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District.

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

Sincerely,

/s/

**EUGENE A. DePASQUALE**  
Auditor General

June 10, 2013

cc: **NEW CASTLE AREA SCHOOL DISTRICT** Board of School Directors

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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 New Castle Area School District (District). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period February 2, 2010 through September 12, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 13 square miles. According to 2010 federal census data, it serves a resident population of 24,081. According to District officials, the District provided basic educational services to 3,330 pupils through the employment of 264 teachers, 204 full-time and part-time support personnel, and 16 administrators during the 2009-10 school year. Lastly, the District received \$29 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with applicable state laws, contracts, grant requirements, and administrative procedures, as detailed in the three audit findings within this report.

**Finding No. 1: Internal Control Weaknesses and Violations of Board Policy Resulted in a Loss of \$110,664 in Parent-Paid Tuition.** Our audit found that the nonresident children of District employees were enrolled in the District as residents without documentation to demonstrate their eligibility for residency status. This error cost the District \$110,664 in nonresident tuition revenue (see page 5).

**Finding No. 2: Lack of Operational Guidelines and Parameters Governing Umbrella Fund.** Our audit of the District's Umbrella Fund found a lack of written operational guidelines and parameters governing the account, resulting in weak internal controls, noncompliance with the Public School Code, and noncompliance with board policy (see page 8).

**Finding No. 3: Improper Student Activity Fund Practices and Lack of Documentation.** Our audit of the District's student activity funds for the 2011-12 school year found deficiencies in the management and control of these funds (see page 12).

**Status of Prior Audit Findings and Observations.** There were no findings or 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 Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period February 2, 2010 through September 12, 2012, except for the verification of professional employee certification which was performed for the period November 1, 2009 through July 26, 2012.

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

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

### Objectives

*What is the difference between a finding and an observation?*

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District received state subsidies and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Management Information System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and did the current employment contract(s) contain adequate termination provisions?
- ✓ Did the District take appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?

## Methodology

### *What are internal controls?*

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with applicable laws, contracts, grant requirements, and administrative procedures.

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

The District's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the District's internal controls, including any information technology controls, as they relate to the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies and reimbursements, pupil transportation, pupil membership, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, pupil membership, bus driver qualifications, professional employee certification, state ethics compliance, financial stability, reimbursement applications, tuition receipts, and deposited state funds.
- Items such as board meeting minutes, and policies and procedures.

Additionally, we interviewed select administrators and support personnel associated with the District's operations.

## Findings and Observations

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### Finding No. 1

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#### Internal Control Weaknesses and Violations of Board Policy Resulted in a Loss of \$110,664 for Parent-Paid Tuition

##### *Criteria relevant to the finding:*

Article 13 of the Public School Code (PSC) addresses issues of student enrollment and residency.

The Pennsylvania Department of Education issues Basic Education Circulars (BEC) that provide school districts with further information and guidance on specific sections of the PSC. The BEC that pertains to Sections 1301 to 1306 of the PSC (24 P.S. § 13-1301 -- § 13-1306) is titled “Enrollment of Students” and states that whenever a student of school age is presented for enrollment, the school district shall require proof of residency.

Section 1302 of the PSC (24 P.S. § 13-1302) provides, in part:

“(a) A child shall be considered a resident of the school district in which his parents or guardian of his person resides . . . . When a resident of any school district keeps in his home a child of school age, not his own, supporting the child gratis as if it were his own, such child shall be entitled to all free school privileges accorded to resident school children of the district . . . . Before such child may be accepted as a pupil, such resident shall file with the secretary of the board:

“(1) appropriate legal documentation to show dependency or guardianship; or

Our audit found that nonresident children of New Castle Area School District (District) employees were enrolled in the District as residents without documentation to demonstrate their eligibility for residency status. This error cost the District \$110,664 in nonresident tuition revenue.

Our audit of the District included a review of the following documents:

- Pupil membership reports submitted to the Pennsylvania Department of Education (PDE).
- District student accounting records.
- Student registration forms.

This review found that at different points during the 2011-12, 2010-11, 2009-10, and 2008-09 school years, seven children of District employees were enrolled in the District as resident students, even though a review of payroll records showed that these employees lived outside the District’s boundaries.

Specifically, the auditors found that the students’ registration forms on file at the District for the seven children indicated that their residences were located within the District’s boundaries. Five of the students’ forms indicated they resided within the District with their parents, and two students’ registration forms indicated that they resided with their grandparents. However, further review of the District’s payroll documentation and other documentation obtained for the employees determined that the children’s legal residences were all outside the District’s boundaries.

No affidavits, custody agreements, or other legal documents supporting legal guardianship were on file for the said students to be living with their grandparents.

“(2) a sworn statement that he is a resident of the District, that he is supporting the child gratis, that he will assume all personal obligations for the child relative to school requirements, and that he intends to so keep and support the child continuously and not merely through the school term. . . .

Section 1316 of the PSC (24 P.S. § 13-1316) provides:

“The board of school directors of any school district may permit any non-resident pupils to attend the public schools in its district upon such terms as it may determine, subject to the provisions of this act.”

Board Policy No. 202 states, in part:

“The Board shall require that appropriate legal documentation submitting proof of dependency or guardianship or a sworn statement of residential support be filed with the Board Secretary before an eligible nonresident student may be accepted in the New Castle Area School District (NCASD). The Board may require a resident to submit additional information to substantiate a sworn statement, in accordance with guidelines issued by the Pennsylvania Department of Education.”

The policy also states:

“A nonresident student may be admitted to the NCASD without payment of tuition provided attendance is justified on the grounds that the student lives within the District boundaries and is classified as a full-time student and not just for the school year with District residents that have assumed legal dependency or guardianship or residential support of the student.”

In addition, there was no documentation to show that the District took steps to verify these children’s residency status, as was stated on the registration forms.

According to the Public School Code (PSC), all students are classified as either resident or nonresident students of the district in which they are educated. Students are considered residents of the district in which their custodial parents, pre-adoptive parents, or guardians reside. Students are considered nonresidents when they attend a district in which they have no such claims as residents.

The documentation reviewed by the auditors confirmed that these employees’ children were not residents of the District. Therefore, their parents should have been paying tuition to the District so that their children could be enrolled there. The total tuition due for these seven students for the 2008-09 through 2011-12 school years was as follows:

<u>School Year</u>	<u>Number of Students</u>	<u>Tuition Due</u>
2011-12	2	\$ 14,337
2010-11	6	45,573
2009-10	6	43,569
2008-09	1	<u>7,185</u>
Total		<u>\$110,664</u>

The enrollment of these employees’ children in the District as resident students without supporting documentation to demonstrate that they were eligible to claim residency status is a violation the Public School Code and the District’s own board policy. Furthermore, this issue is particularly concerning given that these children’s residency status could have been easily verified by reviewing the District’s own payroll records.

Consequently, not only did the District’s personnel ignore its internal controls for verifying residency status, but its administration and its Board of School Directors (Board) also do not appear to have had an accountability mechanism for ensuring that these controls were enforced.

Finally, by failing to enforce these internal controls the District lost \$110,664 in revenue, and forced the resident taxpayers of the District to absorb the costs of educating seven students that were not their financial responsibility.

### **Recommendations**

The *New Castle Area School District* should:

1. Obtain and retain appropriate legal documentation to verify the guardianship and residency of all students enrolled within the District.
2. Establish additional mechanisms for ensuring that District personnel enrolling students follow the provisions of the PSC and Board Policy No. 202.
3. Establish accountability procedures that allow the administration and the Board to monitor compliance with all internal processes.
4. Bill the parents and pursue collection of tuition owed to the District for the educational services the District provided.

### **Management Response**

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

## **Finding No. 2**

### **Lack of Operational Guidelines and Parameters Governing Umbrella Fund**

#### *Criteria relevant to the finding:*

Section 807.1 of the Public School Code (PSC), 24 PS § 8-807.1, provides, in part:

“(a.1) Written or telephonic price quotations from at least three qualified and responsible vendors shall be requested by the board of school directors for all supplies that exceed four thousand dollars (\$4,000) but are less than the amount requiring advertisement and competitive bidding, or, in lieu of price quotations, a memorandum shall be kept on file showing that fewer than three qualified vendors exist in the market area within which it is practicable to obtain quotations.”

Board Policy No. 610: “Purchases Subject to Bid/Quotation,” states in part:

“It is the policy of the Board to obtain competitive bids and price quotations for products and services where such bids or quotations are required by law or may result in monetary savings to the school district.”

Section 439 of the PSC provides for the payment of purchase orders after proper approval of the board has been received.

Our audit of the New Castle Area School District’s (District) Activity Umbrella Fund found a lack of written operational guidelines governing the fund, as well as noncompliance with the Public School Code, and with the District’s board policy.

Our review of the District’s board meeting minutes found that on May 15, 1990, the Board of School Directors (Board) approved the District’s entry into an agreement with a local vending company to provide the District with juice and soda machines. According to the agreement all proceeds from the machines were to be used to fund student activities and athletics. The life of the agreement was eight years. The agreement was terminated in October 1995. A new agreement was signed with another vendor, effective November 1995 through 2005. This agreement was then renewed for the period July 1, 2006 through June 30, 2017.

The vending machine proposal attached to the May 15, 1990, board minutes recommended that the board establish a “Student Athletic/Activity Fund” in which to deposit the proceeds. The proposal indicated that the funds were not to be disbursed without board approval, and that a contract, along with a resolution to establish an agency fund and the guidelines for its operations, would be prepared.

For the four years we reviewed, the fund had expenditures totaling \$95,606. During that period, the account’s expenditures included drug testing for student athletes, printing and binding, travel, general supplies and championship rings.

District personnel could not provide us with any evidence that a contract, resolution or guidelines were ever prepared to govern these vending agreements. In addition, the revenue from the vending machines was deposited into the account known as the Activity Umbrella Fund, which had a much lower level of board supervision than what was outlined in the original proposal.

As a result of the lack of board-approved guidelines or parameters to ensure internal operational control of the account, not all of the expenditures were for student related services and some bidding requirements appear not to have been followed.

For example, in March of 2012, the District purchased 45 rings for the District's basketball team at a cost of \$8,505. Out of the 45 recipients of the rings, only 17 were student team members. Other individuals receiving rings were individuals directly or indirectly connected to the basketball program. In addition, no documentation was provided to show that quotes were solicited prior to the purchase of the rings, as required by the Public School Code and board policy.

The District's administration paid for the rings on June 28, 2012, out of the District's Activity Umbrella Fund. At its July 11, 2012 board meeting, the Board subsequently approved the payment of \$8,505. However, five individuals later reimbursed the District \$689 for rings.

Similarly, the District also failed to appropriately bid two other ring purchases from the Activity Umbrella Fund in 2010 and 2008.

The failure to adopt board-approved internal control guidelines and parameters for the operation of the account, and the administrator's failure to receive prior board authorization to make purchases, and to prepare checks for the payment of bills, could have resulted in abuse and misuse of taxpayer funds. In addition, the failure of administrative personnel to follow existing board policy and the Public School Code requirements on purchasing and bidding, created the possibility that the District did not pay the lowest price for the items purchased.

## Recommendations

The *New Castle Area School District* should:

1. Implement written guidelines and parameters governing the operations of the Activity Umbrella Fund to ensure adequate internal control.
2. Ensure competitive quotes and/or bids are obtained in compliance with Section 807.1 of the Public School Code and Board Policy No. 610.
3. Ensure prior board approval is received for all expenditures made from the Activity Umbrella Fund.

## Management Response

Management stated the following:

“Correction Action (Umbrella Policy):

District Administration will present at the October 10, 2012 a recommendation to establish and adopt a policy supporting the resolution originally approved on May 14, 1990. . . :

### *VENDING MACHINES*

*Further we are recommending that the Board establish a Student Athletic/Activity Fund (Umbrella Fund) in which to deposit those proceeds. May 14, 1990*

The current administration has not been able to locate evidence that the policy was ever adopted. Therefore, as a result of this finding, the District Administration is recommending the current board establish and adopt policy related to the vending machine revenue.

Note: The intent of the May 1990 resolution has always been followed as these funds were used to support student activities and athletics.

Corrective Action: (Written or Telephonic Quotations) . . .

Business Manager recognizes the oversight identified in the audit finding, however indicates this is not a normal practice of the Business Office.

In this particular instance, the purchase [of rings] in question was made through [company name removed], a long standing district vendor with national recognition as a leader in the industry. [The company] has provided such products to the school for numerous years without any conflict of interest.”

### Finding No. 3

### Improper Student Activity Fund Practices and Lack of Documentation

#### *Criteria relevant to the finding:*

Section 511 of the Public School Code (24 P.S. § 5-511) provides, in part:

“(a)The board of school directors in every school district shall prescribe, adopt, and enforce such reasonable rules and regulations as it may deem proper, regarding (1) the management, supervision, control, or prohibition of exercises, athletics, or games of any kind, school publications, debating, forensic, dramatic, musical, and other activities related to the school program, including raising and disbursing for any and such purposes and for scholarships, and (2) the organization, management, supervision, control, financing, or prohibition of organizations, clubs, societies, and groups of the members of any class or school. . . .

(d) . . . [I]t shall be lawful for any school or any class or any organization, club, society, or group thereof, to raise expend, or hold funds, including balances carried over from year to year, in its own name and under its own management, under the supervision of the principal or other professional employe of the school district designated by the board. Such funds shall not be the funds of the school district but shall remain the property of the respective school, class, organization, club, or group. . . .

Our audit of the New Castle Area School District’s (District) 2011-12 school year student activity funds found deficiencies in the management and controls of the funds, as follows:

- Lack of by-laws or constitutions.
- Lack of student officers listings.
- Lack of meeting minutes.
- Lack of invoice or receipts to support payments processed.
- No student authorization for purchases made.
- Inactive accounts.
- Unauthorized use of funds.

#### **Junior/Senior High School Accounts**

##### **By-Laws, Minutes and Student Officers**

There was no evidence that student activity organizations were formed under written by-laws or constitutions for 9 of the 33 student activity accounts. In addition, no written minutes, as recommended in the Pennsylvania Association of School Business Official’s publication, An Administrator’s Guide to the Development of Effective Student Activities Fund Policies and Procedures (PASBO Guide), could be provided for 4 of the 33 accounts. Additionally, lists of student officers were not available for 9 of the 33 accounts to document that the students were involved in the decision making process.

Sound business practices, which can be taught to the students through the student activity fund process, require that students have input into the raising and disbursing of their funds. Through student officer elections students can share in the decision-making process of their organization.

The treasurer or custodian . . . shall submit a financial statement to the board quarterly or oftener, at the direction of the board and shall submit the accounts to be audited in like manner as the accounts of the school district.”

Board Policy No. 618, Student Activity Funds, states in part:

“The building principal is responsible for working with students and advisors, implementing policies and procedures, and maintaining fiscal records.”

“Activity advisors are responsible for working with students in assigned activities and ensuring compliance with policy and procedures by the student organization.”

“The student activities shall be on a self-sustaining basis . . . .”

“Disbursements from such funds shall be made only by check upon the request of the authorized advisor and the approval of the fund custodian. Disbursements shall be supported by invoices of verified documentation.”

“Instruction for Monthly Report for Business Office – Student Activity Information,” a document dated December 4, 2006, which was prepared by the District’s business manager and provided to all account advisors, stated, in part:“

Additionally, students can derive the educational benefits of controlling and leading their various clubs and organizations.

#### Disbursements Made Without Supporting Documentation

Our audit of the records provided to support payments made found no invoices or receipts were available to support 18 of the 88 payments processed.

Sound business practices dictate the establishment of a system of internal controls to ensure accounting records provide the information necessary to adequately identify the purpose of disbursements. Receipts and invoices are the documentation which support the entries in the accounting records, and should be maintained and filed in such a way that they can be readily located.

The practice of not requiring receipts could lead to fraud, theft, or misuse of student activity funds. The District administration should insist that no fund disbursement be approved by activity fund custodians without the presence of student-approved invoices or receipts for the transactions.

#### Lack of Student Authorization

The audit found the District used purchase orders to generate purchases, but did not use payment requisitions or check requests forms. Of the 114 purchase orders reviewed, 67, in the amount of \$56,748, failed to include student signatures.

The PASBO Guide recommends that “Student Activity Funds should be used for student activity purposes and for those students currently in school, particularly when those students have contributed to the accumulation of the funds.” While the PASBO Guide states that student activity funds should be collected and disbursed under the general direction of the building principal, it also states that students should be involved in the decision-making process regarding the disbursement of the funds: “Participation by students should be supported by minutes, student signatures on purchase orders, requisitions and check requests whenever possible.”

#### “Officers & Meeting Requirements

1. Each club must select officers, which will have the authority to approve invoices and review Financial Reports.
2. Periodic meetings will need to be scheduled for each club. . . . Minutes from each meeting will need to be kept and filed.”

Failure to obtain proper student signatures could result in the students’ funds being spent for items or services that the students might not want or desire. Student control over their funds is a valuable learning experience and helps to prevent misuse of student monies.

#### Inactive Accounts

Of the 33 accounts we reviewed, we found 7 had no activity during the school year. Our review found 4 of the 7 inactive accounts were carrying fund balances at the beginning and end of the school year totaling \$1,987. The other 3 carried beginning and ending balances of zero. When inactive accounts remain on the books, bookkeeping costs increase, and funds left in those accounts become susceptible to misuse.

#### Unauthorized Use of Funds

Our review found two payments were made from the Student Council account to cover senior class prom expenditures, because the Senior Class account did not have sufficient funds to cover the costs. We also found that on June 2, 2012, an additional \$1,200 was transferred from the Student Council Account to the Senior Class account to cover prom expenses. No documentation was maintained to support student authorization of the transfer.

Good business practices prohibit accounts operating with insufficient fund balances. The operation of student activity accounts without ensuring sufficient balances teaches students poor business practices.

#### Summary

Student activity fund operations should be an educational process for the students. Monies should be raised for a specific purpose and expended for the same, particularly when students contribute to the accumulation of funds. Patrons purchase goods through student fundraisers for student-related purposes, not to support other District endeavors. Additionally, documentation of involvement of students in the decision-making process must be maintained.

## **Elementary School Accounts**

The audit found the District maintains six separate elementary school building accounts. The accounts are under the control of the Board of School Directors and have no student involvement. Additionally, the six accounts each have their own separate bank accounts. Our audit of the accounts found that 4 of the 6 building accounts were inactive and carried fund balances totaling \$8,128. As previously stated, student activity account expenditures should involve student authorization signatures and funds should be used to teach students good business practices. In addition, inactive accounts can lead to fund misuse and increased accounting costs.

### **Summary**

The District's inappropriate student activity fund practices appear to be the results of poor internal controls. Thus, the District should take steps to ensure such controls are enacted.

## **Recommendations**

The *New Castle Area School District* should:

1. Adhere to the PASBO Guide for student activity funds, as doing so is the official board policy of the District. The District should also adhere to Section 511 of the Public School Code, as well as Board Policy No. 611.
2. Establish a procedure whereby student activity records are available for audit. The PASBO Guide states that records must be available for audit by local auditors and the Department of the Auditor General.
3. Ensure that each account operating within the student activity funds is controlled by a formal student organization and that each account is documented by by-laws, student officer listings, and meeting minutes.
4. Ensure proper student authorization is obtained on all payment authorization forms.
5. Abolish all inactive accounts.
6. Require administrative personnel to ensure accounts have sufficient fund balance to ensure debt is not

encumbered without adequate revenue in the individual accounts by requiring advisors and club treasurers to keep track of their individual account balances.

7. Provide an extensive training program for all District administrative personnel, secretaries, and club advisors in reference to the student activity funds' operations, record keeping, and student involvement.
8. Review and revise board policy to ensure adequate internal control of the accounts and funds.

## **Management Response**

Management stated the following:

“Correction Action:

On Friday, September 21, 2012 District Administration met with the Student Activities Treasurer and Student Activity Director in response to the audit finding. Upon detailed review of the findings a clear understanding has been established of the expectations and requirements of student activities and funds associated with the activities.

Details identified and guidelines established:

All clubs (revenue generating or not) must have by-laws, officers, and meeting minutes. Documents of each must be maintained by the Student Activities Director with copies to Central Administration and a copy for the activity sponsor.

Student signatures are required for all financial transactions including purchase as well as internal fund transfers from one activity account to another activity account (ex. Student Council assist Senior Class with Prom expenses).

All transactions must be supported and initiated by a source document. There can be no exceptions and transactions cannot occur on verbal request.

A second meeting was held on Tuesday, September 25 with the State Auditors, the Assistant to Superintendent, Business manager, Student Activities Treasurer, and Student Activities Director. During this meeting clarity was established for documentation that was in question.

Example: Debit charge purchase was explained as the fee the District incurred for having a debit machine in the school store. The documentation did not previously clarify the specifics. The advisors addressed each point with the auditors and understand the depth of their duties and the intense need for procedure and recordkeeping. The auditors shared recommendations and provided examples to better organize payment of expenses, such as planning for summer payments when students are not available.

The Activity Treasurer and Director are currently planning a meeting with all approved clubs and activities to meet and provide written guidelines which must be followed in regard to by-laws, officers, minutes, student signatures for authorization to pay expenses. This meeting will be attended by the Assistant to Superintendent and Business Manager with the Advisors presenting the materials to the activity sponsors.

In addition, an amendment to existing policy number 618 STUDENT ACTIVITIES FUNDS will be recommended to the Board of Directors at the October 10 School Board meeting to include:

*Inactive Accounts:*

*Student Accounts that have no activity including meetings and/or fundraising will be closed after (3) years and any remaining funds will be transferred to the Student Council Fund to be used for activities of the entire student body.*

This amendment will ensure that accounts that have remained open with no activity will be properly accounted and not remain open perpetually. Funds will be used for the general student population.”

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

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**O**ur prior audit of the New Castle Area School District resulted in no findings or observations.

## **Distribution List**

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, our website at [www.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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

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

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

Ms. Nichole Duffy  
Director  
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