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Auditor General DePasquale Say Audit of Duquesne School District Reveals No-Interest Personal Loans to Former Superintendent, Other Staff *Loans could be considered misuse of public funds under state Ethics Act*

HARRISBURG – Auditor General Eugene DePasquale today said a recent audit of the struggling Duquesne City School District, Allegheny County, shows the district’s former superintendent and four other employees received several interest-free loans over a four-year period resulting in a possible misuse of public funds under the state Ethics Act.

“It is outrageous that the staff of the Duquesne School District – including its former superintendent – used this district’s general fund as a piggy bank for personal no-interest loans,” DePasquale said. “Such behavior is especially egregious given the district is in state receivership and has to send its middle and secondary students to other school districts.”

The Pennsylvania Department of Education declared the district financially distressed in 2000, and since 2012 has been in state financial recovery status, with an appointed receiver overseeing the district’s finances.

The 42-page audit report covers July 2012 through June 2016 and contains four findings and 14 recommendations.

Auditors found from 2013-14 through 2016-17, the Duquesne City School District’s former superintendent authorized \$41,250 in interest-free personal loans to four individuals employed by the district, including herself.

Duquesne City School District Summary of Personal Loans										
	2013-14		2014-15		2015-16		2016-17		Total	
	#	\$	#	\$	#	\$	#	\$	#	\$
Superintendent	1	2,000	3	3,500	5	10,050	2	7,600	11	23,150
Principal	2	3,000	1	3,000	1	2,000	1	2,000	5	10,000
Clerk	-	-	1	2,040	-	-	3	4,900	4	6,940
Administrative Staff Member	-	-	-	-	-	-	2	1,160	2	1,160
Total	3	5,000	5	8,540	6	12,050	8	15,660	22	41,250

Eleven of the loans, totaling \$23,150, were to the district’s former superintendent.

The loans – from the district’s general fund -- were not authorized by the district’s receiver, chief recovery officer, or school board.

“Although repayment schedules were set up by the district’s business consultant, this was not a good use of the business consultant’s time since the primary duties for this consultant was to help the district get out of ‘distressed’ status,” DePasquale said. “It is total insanity to have one of the individuals responsible for this struggling district’s finances serve as a personal loan officer for district staff.”

While district officials told auditors that the loans were offered to assist with “financial hardships,” in most instances the former superintendent, the principal, and the other employees were merely requesting a specific amount of money without any reason given for the advance.

In one instance, a request from the former superintendent stated “I would like to borrow \$1,000 against myself to assist with the holidays and my daughter.”

A review of the personal loan procedures identified the following issues that created a circular loan approval process that raises red flags about possible fraud, waste, and abuse:

- The former superintendent submitted her loan requests to a subordinate (the clerk), thereby essentially approving her own loans.
- The business manager was approving loans for an immediate family member (the clerk).
- The repayment schedules were not memorialized in writing.
- The loans were repaid through payroll deductions, but the loan practice presented a risk to the district of a permanent loss of public funds, which is especially concerning for a district in financial recovery status.

The matter will be referred to the State Ethics Commission.

Auditors also found the school district:

- Did not maintain adequate source documents to verify over \$1.3 million in transportation reimbursements, and even with the lack of adequate supporting documentation, some reporting errors were so blatant that the district was overpaid at least \$180,431 in transportation subsidy from the Pennsylvania Department of Education;
- Failed to ensure that all school bus drivers had the required credentials and criminal history clearances before they transported students at the beginning of the 2016-17 school year; and
- Had inadequate documentation to support of \$104,340 in state-paid tuition for foster children.

“For the sake of the students and the taxpayers of the Duquesne School District, I certainly hope that the board and district officials get their house in order and focus on providing the best education possible for students,” DePasquale said.

The Duquesne School District audit report is available online at: www.PaAuditor.gov.

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