

SUMMARY REPORT:

NEW CASTLE AREA SCHOOL DISTRICT

July 2003

INTRODUCTON AND BACKGROUND

The Department of the Auditor General (the Department) conducts audits of school districts pursuant to its authority and responsibility under the Fiscal Code.¹ In September 2002, the Department received a complaint concerning New Castle Area School District (NCASD). An investigation was conducted by the Department's Office of Special Investigations (OSI). The inquiry included a review of NCASD's participation in an annual conference of the National School Boards Association (NSBA), interviews of school board members and current and former NCASD officials and representatives of vendors and organizations doing business with the school district and reviews of financial and business records of NCASD.

The draft findings, conclusions and recommendations of the investigation were made available to NCASD officials on June 9, 2003, to provide an opportunity to submit a response on behalf of the school district. The response has been made a part of the final report.

SUMMARY OF FINDINGS AND OBSERVATION

Hotel room charges for three NCASD school board members and the assistant superintendent and their guests while the NCASD officials were supposedly attending the NSBA 2002 conference were paid for as part of a complimentary arrangement related to the assistant superintendent's gambling activities.

NCASD representatives failed to register or pay registration fees for the NSBA 2002 conference and, therefore, their attendance at conference programs and events cannot be verified.

The NCASD assistant superintendent failed to fully disclose his personal financial interests and purchased food supplies from the school district cafeteria without authorization or approval by the school board.

The record of the assistant superintendent's prior conduct in regard to NCASD travel and related expenses, as well as Finding Nos. 1 and 2, indicates that the school district should exercise greater oversight and control over his involvement in such activities.

¹ 72 P.S. § 403.

RECOMMENDATIONS

1. NCASD should adopt a written policy and procedure for travel expense reimbursement that complies and is consistent with requirements of the Public School Code and the State Ethics Act. Appropriate controls should be in place to limit reimbursement from third parties to transactions where there is no likelihood of conflicts of interest and undue influence, such as payments by event sponsors for travel related to school district officials' participation as speakers or presenters at an educational program. In all cases, there should be full disclosure and prior school board authorization and the payment by the third party should be made to the school district, not to individual school district officials. (See Finding No. 1.)
2. NCASD should obtain full repayment of all previously reimbursed costs for the NSBA 2002 conference from the school board members who received reimbursement based on the amount paid to each school board member. (See Finding No. 2.)
3. NCASD should establish policies and procedures to require documentation of pre-registration for attendance at conventions and conferences before travel advances are approved or issued and before the travel takes place. (See Finding No. 2.)
4. NCASD should direct the assistant superintendent to disclose, in writing, all outside financial interests, file corrected Statements of Financial Interests and obtain advice from the State Ethics Commission concerning reporting and disclosure requirements. (See Finding No. 3.)
5. NCASD should adopt and implement policies and procedures concerning sales of its food for any purpose outside of regular cafeteria operations. To the extent any such sales are allowed, the policy should require full disclosure and prior school board authorization and be in compliance with PDE requirements. (See Finding No. 3.)
6. NCASD should exercise greater oversight and control over the assistant superintendent's involvement in school district official travel related to conventions and conferences. (See Observation.)

FINDINGS

Finding No. 1 – Hotel room charges for three NCASD school board members and the assistant superintendent and their guests while the NCASD officials were supposedly attending the NSBA 2002 conference were paid for as part of a complimentary arrangement related to the assistant superintendent’s gambling activities.

The Public School Code specifically allows school districts to pay the expenses of school board members incurred in connection with attendance at the annual conventions of the NSBA. School board authorization is required; reimbursement is to be paid for all actual and necessary expenses.² A separate section of the Public School Code allows school boards to authorize attendance of the superintendent and other members of the supervisory and teaching staff at educational conferences “when school attendance will be conducive to best interests of the district.” Reimbursement is to be paid for necessary and reasonable expenses actually incurred.³

The 2002 annual NSBA conference was held at Morial Convention Center in New Orleans, LA, on April 5-9 of that year. Early in 2002, the NSBA assistant superintendent made arrangements for airfare and hotel accommodations in connection with the trip to New Orleans for himself and a guest and for three NCASD school board members and their guests. According to the assistant superintendent, he made the arrangements because the business manager was ill and frequently not at work and he (the assistant superintendent) obtained a good deal on airfare and hotel charges.

On October 9, 2001, the NCASD school board authorized the attendance of school district representatives at the NSBA 2002 conference. The three school board members and their guests flew to New Orleans on April 5, 2002, and returned on April 9. Travel Expense Vouchers (TEVS) for the three board members were prepared by the business manager. According to the TEVs, the three members each received a \$500 travel advance from the school district. The assistant superintendent did not submit a TEV in connection with the trip. According to the assistant superintendent, he does not submit TEVs in connection with his travel on official school district business unless he has costs for hotels and airfare. According to the school board members’ TEVs, the costs for hotel rooms were reported as complimentary and arranged by the assistant superintendent; the TEVs were later amended by the business manager.

While in New Orleans, the school board members, the assistant superintendent and their guests stayed at the Hilton Riverside Hotel. Arrangements for the hotel were made through Preferred Casino Tours (PCT), Aliquippa, PA. PCT is a licensed business affiliated with the Harrah’s Casinos and arranges trips to casinos owned by Harrah’s throughout the United States. The assistant superintendent has been a PCT customer for six years and has referred other customers to it. He is provided complimentary rooms, air travel and meals in connection with his trips based on the amount of his gambling, or “play” at casinos, while on those trips. The arrangement is generally referred to as “comping” or being “comped.”

² 24 P.S. § 5-516-1.

³ 24 P.S. § 5-517.

According to PCT representatives, the assistant superintendent contacted PCT in early 2002 and requested information on travel costs to New Orleans for himself, three NCASD board members and guests. He told PCT representatives that he and other parties involved on the trip would have “play” time at the Harrah’s Casino in New Orleans and requested PCT to look into obtaining complimentary rooms. The casino is within walking distance of the hotel; there is also a shuttle service. According to the PCT representatives, they were informed by Harrah’s that the hotel rooms would be “comped” if some “play” could be guaranteed. PCT representatives then contacted the assistant superintendent and the arrangements for rooms and air travel were made. According to a PCT representative, the cost to Harrah’s of each hotel room was \$88 per night. The three board members and their guests occupied a total of three hotel rooms. The board members’ TEVs were submitted in May 2002. According to the NSBA brochure for the 2002 conference, the regular rate for a double room at the New Orleans Hilton Riverside during the conference was \$202 per night (double occupancy).

Based on the board members’ TEVs and supporting records and their interview statements, there is no indication of any irregularity in connection with their charges for meal expenses and other miscellaneous items. Neither NCASD nor the board members or their guests paid any hotel room charges in connection with the trip. In their individual interviews with OSI, the board members said that they did not know originally that the hotel rooms had been comped, did not know the costs of the rooms and were not aware of any understanding or agreement that they were expected to gamble at Harrah’s Casino while they were in New Orleans for the conference.

Based on available casino records and the board members’ and assistant superintendent’s interviews, all four individuals visited the casino during the time they were in New Orleans.

The board members’ TEVs contain a statement that the airfare was “arranged” by the assistant superintendent. According to the interviews, the assistant superintendent purchased the tickets with a personal credit card. NCASD records contained a PCT invoice for \$1,260.60 with a charge of \$175.80 for each round trip ticket for the board members and their guests and a notation that the tickets were purchased with a credit card issued to the assistant superintendent. The assistant superintendent was reimbursed \$1,230.60 by NCASD. The amount represented the airfare for seven individuals (the three board members and their guests). The three board members reimbursed the school district by check for the airfare of their four guests. The airfare and hotel expenses of the assistant superintendent and his guest were “comped,” and were not included on the PCT invoice or the reimbursement payment to the assistant superintendent.

Conclusions and Recommendations

There is no evidence of a direct financial loss to NCASD in connection with the comping of the hotel room costs. In fact, it is obvious that the school district would have incurred a substantial cost of approximately \$3,232 for hotel charges if the rooms had been reserved and paid for by NCASD directly.⁴ Despite the financial savings, it appears inappropriate, if not unseemly, for school district officials, particularly school board members, to engage in what is represented to be official business travel-related activities while having their hotel room charges paid for through the gambling activities of a school district employee. Additionally, since the payment for the hotel room costs was made via the assistant superintendent's comping arrangement, the incident could be viewed as a violation of the Public School Code's prohibition of the offer of gifts or donations to school board members from a school district employee or the acceptance thereof.⁵

It is recommended that NCASD adopt a written policy and procedure for travel expense reimbursement that complies and is consistent with requirements of the Public School Code and the State Ethics Act. Appropriate controls should be in place to limit reimbursement from third parties to transactions where there is no likelihood of conflicts of interest and undue influence, such as payments by event sponsors for travel related to school district officials' participation as speakers or presenters at an educational program. In all cases, there should be full disclosure and prior school board authorization and the payment by the third party should be made to the school district, not to individual school district officials.

⁴ \$202 x 4 rooms x 4 nights = \$3,232. NCASD's policy is to pay the costs for double hotel rooms.

⁵ 24 P.S. § 3-327. The section states:

It shall be unlawful for any board of school directors to demand, request, or accept, directly or indirectly, any gift or donation from any teacher or supervisor within its employ. When the Superintendent of Public Instruction shall be of the opinion that any board of school districts has violated the provisions of this section, he shall have the power to refuse to authorize the payment of any amount payable to the school district by the Commonwealth on account of instruction for the school year in which such violation occurred.

Finding No. 2 – NCASD representatives failed to register or pay registration fees for the NSBA 2002 conference and, therefore, their attendance at conference programs and events cannot be verified.

The registration fee for the April 2002 NSBA conference was \$555 per person (\$565 after December 28, 2001). There is no evidence that the NCASD board members and the assistant superintendent who traveled to New Orleans were pre-registered to attend the NSBA conference or that the school district paid registration fees. According to a representative of the NSBA, the organization keeps attendance logs of registered attendees. Registered attendees received badges which were necessary to attend conference events. *No registration fee payment was recorded for NCASD representatives at the 2002 conference and there is no record of attendance at the conference or its events by the NCASD board members or the assistant superintendent.*

One of the NCASD board members who made the trip to New Orleans told OSI that she learned after her arrival that the NCASD representatives were not pre-registered for the conference. When she and another board member attempted to register at the conference on April 6, they were told they had to pay the registration fee (\$565 per person) in cash or by credit card and that NSBA would not bill the school district. The board president (one of the persons who made the trip) said she called the NCASD business manager three times but was unsuccessful in getting the school district's representatives registered. The business manager told OSI that she received telephone calls from the board president on April 5, 2002. All three board members said they attended several conference speeches despite not being registered or having badges. The assistant superintendent said he attended some of the conference events; the board members said they did not see him at any conference events.

The NSBA brochure for the 2002 conference contains the following:

Late registration: After March 7, 2002, we suggest that you register on-site at the NSBA On-Site Registration Desk in the Ernest N. Morial Convention Center, New Orleans.

According to an NSBA representative, there was a special registration booth at the conference, in the same general area as the registered booths, for attendees who wanted the school districts to be billed for the conference registration costs; attendees could also pay for tuition or registration for a single day at the rate of \$235; and attendants were available at all of the booths to provide the above information. The board president said she was never given that information. One board member told OSI that the NSBA representatives told NCASD board members that they could charge the registration costs to their personal credit cards but they did not do so because they did not want to have to pay additional taxes and other credit card costs.

The assistant superintendent and the business manager had no explanation for the failure to register the NCASD board members and the assistant superintendent for the NSBA conference.

Conclusions and Recommendations

The failure to register the NCASD officials and the absence of documentation that they attended conference events means there is no basis on which to substantiate that the April 2002 trip to New Orleans was of educational or financial advantage to the school district, which was the justification for taking the trip. Due to the negligence of the assistant superintendent and the business manager, the school district's representatives were not pre-registered. The board members failed to take alternative steps to register and attend conference activities despite having personal credit cards and travel advances.

The explanations offered for the failure of board members and school district officials to find out what alternatives were available, and to use them, were not credible. When all of the circumstances are considered, including those described in Finding No. 1, the trip appears to have been a misuse of school district resources and funds. Therefore, the school district's reimbursement for the board members' incurred costs as reported on the TEVs referred to in Finding No. 1 was unwarranted.

It is recommended that NCASD obtain full repayment of all previously reimbursed costs for the NSBA 2002 conference from the school board members who received reimbursement based on the amount paid to each school board member. The costs, including airfares, meals and miscellaneous expenses, total \$1,075.79. The school district should also establish policies and procedures to require documentation of pre-registration for attendance at conventions and conferences before travel advances are approved or issued and before the travel takes place.

Finding No. 3 – The NCASD assistant superintendent failed to fully disclose his personal financial interests and purchased food supplies from the school district cafeteria without authorization or approval by the school board.

The assistant superintendent has been employed by NCASD for 35 years and has been assistant superintendent for the last 14 years. His responsibilities include overseeing school district transportation, including the school district's contract with a private transportation contractor, overseeing the operation of the school cafeteria, grant preparation and employee and contractual grievances.

The assistant superintendent is a public employee within the definition in the Public Official and Employees Ethics Act (the Ethics Act) and files an annual Statement of Financial Interest (SFI) pursuant to the Ethics Act.⁶ The assistant superintendent's SFIs for 1999, 2000 and 2001 contain a listing for a financial interest in a real estate business known as DMO. The assistant superintendent also is an owner of another business known as C&D Real Estate Co., which was not reported on the three above mentioned SFIs. According to the assistant superintendent, he has not reported his interest in C&D Real Estate Co. on his SFIs because he has not derived income from it.

From October 2001 to the present, the assistant superintendent has also owned and managed a business known as the Centre Restaurant & Lounge, in New Castle. During October through December 2001, the assistant superintendent entered into an arrangement with the director of the NCASD food service department for purchases and delivery of boxed lunches to the Centre Restaurant from the NCASD cafeteria. According to NCASD records, there were five orders from October through December 2001, for between 22 and 40 lunches, pursuant to the arrangement. The unit price was \$4.00 per lunch. Invoices were sent by the NCASD cafeteria to the assistant superintendent periodically. The invoices were paid by him with three checks, totaling \$682. One of the invoices, dated October 29, 2001, was not paid until February 25, 2002. According to the assistant superintendent, he paid it when he received it.

According to the assistant superintendent and the food services department director, the arrangement was temporary until the restaurant hired a caterer; the food was delivered by NCASD staff in an NCASD vehicle; and the amount charged per lunch was more than double the amount charged by the school district for sales of food to other organizations, such as day care centers, the YMCA and service organizations.

The assistant superintendent's interest in the Centre Restaurant was not reported on his SFI for 2001. There is no evidence that the school board authorized or approved the arrangements for sales of food to the assistant superintendent.

⁶ 65 Pa. C.S.A. § 1101 et seq.

Conclusions and Recommendations

The assistant superintendent did not report his interests in the Centre Restaurant and the C&D Real Estate Co. on the appropriate SFIs.⁷ There does not appear to be any basis to exempt those interests from the reporting requirement. There is also no documentation to reflect that he disclosed those interests, particularly the interest in the restaurant, to the school board.

The Public School code authorizes school boards to establish and operate cafeterias and to contract for necessary related services. Food is to be sold to pupils, teachers and school cafeteria employees.⁸ There may be latitude under the Public School Code for school districts to sell bulk surplus food to community service organizations and engage in limited food sales in connection with school district-related events. In this case, there was no school board authorization of the sales and the school district has provided us with no written policy or procedure relating to such activities despite statements that such sales occur. The sale of food by a school district to individuals, other than as part of regular food service operations, is inherently a questionable practice. Funds from sales of food in connection with non-school-related functions should be maintained in accounts separate from a food service fund, according to PDE. Sales of food for non-school-related activities may subject the school district to a requirement to collect and remit sales taxes to the Commonwealth. Such sales may raise conflict of interest issues, especially when the person is a school district official or employee.⁹ It should also be noted that in this case, the arrangement was made between the assistant superintendent and a school district employee who reported to him, which indicates a lack of adequate internal controls.

It is recommended that the school district direct the assistant superintendent to disclose, in writing, all outside financial interests, file corrected SFIs and obtain advice from the State Ethics Commission concerning reporting and disclosure requirements. (A copy of this report will be sent to the Commission for review.)

NCASD should also adopt and implement policies and procedures concerning sales of its food for any purpose outside of regular cafeteria operations. To the extent any such sales are allowed, the policy should require full disclosure and prior school board authorization and be in compliance with PDE requirements.

⁷ The Ethics Act requires that any office, directorship or employment of any nature whatsoever in any business entity and any financial interest in any legal entity engaged in business for profit be reported. 65 Pa. C.S.A. § 1105(b) (8) and (9).

⁸ 24 P.S. § 5-504(a) and (c). This section appears to apply to sales in the cafeteria during the regular course of cafeteria operations.

⁹ There also may be restrictions on the disposal by school districts of food obtained through federal surplus food programs.

Observation – The record of the assistant superintendent’s prior conduct in regard to NCASD travel, as well as Finding Nos. 1 and 2, indicates that the school district should exercise greater oversight and control over his involvement in such activities.

In 2001, the assistant superintendent and two school board members traveled to San Diego, CA to attend the March 2001 NSBA conference. The assistant superintendent received a \$600 travel advance, submitted a TEV and was paid reimbursement for expenses in excess of the advance. NCASD school board members went to San Diego on March 22. The conference was from March 24 to 27. The assistant superintendent did not arrive in San Diego until March 25. According to him, he was in Las Vegas on a vacation from March 21 to 25; he attended the NSBA conference as a substitute for the superintendent. On March 25, the assistant superintendent went back to Las Vegas and from there traveled to Pennsylvania. By not returning home directly with the NCASD board members, he caused the school district to incur an additional \$231.15 in unnecessary costs.

In 1996, the Department released an audit report on NCASD for the years ended June 30, 1994, and 1993, with findings through March 25, 1996. One of the findings related to inadequate control over conference travel expenses. The assistant superintendent was one of the individuals who made the trips and whose expenses were questioned. He also prepared all of the TEVs for the questioned trips. The complete text of the finding, including the school district’s response, is on the following pages.

NEW CASTLE AREA SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - Inadequate Control Over Conference Travel Expenses

Review of conference travel expenses incurred during the 1994-95 and 1993-94 school years disclosed violations of the Public School Code and inadequately documented travel expenses claimed by board members and administrators. Review of expense reports submitted for attendance at National School Boards Association conferences in San Francisco, CA, in 1995 and in New Orleans, LA in 1994 disclosed the following:

- . advance payments were made to board members/administrators for conference and travel expenses without presentation of an estimate of expenses;
- . direct payments for airfare, lodging, and registrations were not accounted for on individuals' expense reports;
- . individuals' expense reports were not completed within one (1) week of conclusion of travel and expenses were not disclosed to the public in a timely manner at monthly board meetings;
- . adequately detailed receipts supporting claimed expenses were not submitted with individuals' expense reports; and
- . expense reports were supported by receipts manufactured by district personnel.

Section 516.1 of the Public School Code provides, in part:

When, in the opinion of the board of school directors or of the board of public education, attendance of one or more of its members...will be of educational or financial advantage to the district, it may authorize the attendance of any of such persons at such meeting within the Commonwealth and at the annual convention of the National School Boards Association or any other educational convention...Each person so authorized to attend and attending shall be reimbursed for all expenses actually and necessarily incurred in going to, attending and returning from the place of such meeting, including travel, travel insurance, lodging, meals, registration fees and other incidental expenses necessarily incurred. Actual travel expenses shall be allowed. All such expenses shall be itemized and made public at the next meeting of the board. Such expenses shall be paid by the treasurer of the school district in the usual manner out of the funds of the district, upon presentation of an itemized verified statement of such expenses: Provided, that advanced payments may be made...upon presentation of estimated expenses to be

NEW CASTLE AREA SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS

Finding No. 2 (Continued)

Section 516.1 (continued)

incurred, to be followed by a final itemized, verified statement of such expenses actually incurred upon return from such conventions, and a refund be made to the district of such funds remaining or an additional payment be made to meet the verified expenses actually incurred.

District policy also requires, in part, that expense account forms must be submitted within one week following attendance at a conference.

Our review disclosed that \$1,330 of the \$1,800 claimed expenses for the 1994 New Orleans convention were not verifiable and \$1,538 of the \$2,812 claimed for the 1995 San Francisco convention were not verifiable.

Recommendations

The board should require:

- . adherence by board members and administrators to provisions of the Public School Code and district policy concerning conference and convention expenses;
- . submission of advance payment requests detailing estimated expenses;
- . submission of expense reports within one week of conclusion of travel supported by proper, verifiable receipts and detailing total travel costs, including costs of lodging, transportation, and registration; and
- . approved and verified expense reports to be made public at the next meeting of the board following conclusion of travel.

Response of Management

District management indicated that it is in the process of obtaining and reviewing convention travel policies from other school districts and any change in policy which is warranted will be implemented.

NCASD'S RESPONSE

The school district's response was contained in the following June 23, 2003, letter from the solicitor. (The attachments have been omitted.)

**New Castle Area School District
Office of the Superintendent
420 Fern Street
New Castle, Pennsylvania 16101
724 656-4757**

June 23, 2003

Mr. Peter J. Smith, Director
Office of Special Investigations
Department of the Auditor General
Room 327, Finance Building
Harrisburg, PA 17120

Dear Mr. Smith:

Please be advised that the undersigned represents the New Castle Area School District (NCASD) as its Solicitor. The purpose of this correspondence is to offer a response to the "Summary Report" prepared by your office in connection with the audit.

Initially, the District understands and fully appreciates the findings and observations as well as the recommendations as set forth in the preliminary report. In an effort to avoid any confusion, the findings and recommendations will be addressed individually as set forth in the report.

Finding No. 1

The District does not take issue with the conclusions of the Auditor General relative to the hotel room charges. However, as the Board Members explained to the Department's Office of Special Investigator (OSI) each were unaware of the arrangements regarding the room charges, nor, the understanding or agreement that they were expected to "Play." None of the Board Members had any contact with PCT representatives or representatives of Harrah's. Although the arrangements made by the Assistant Superintendent resulted in a substantial savings to the District, the District recognizes the appearance of inappropriateness and will take steps to avoid similar circumstances or arrangements relating to future travel by Board Members. Specifically, the District will adopt a written policy related to travel relative. The policy will take into consideration and will be consistent with the Public School Code and the State Ethics Act. It must be noted that prior to receipt of the Summary Report, the Administration has undertaken a review of all the District's policies and has been and will continue to review and consider the Pennsylvania School Board Association's suggestions relative to certain policy issues as well as the Public School Code and Ethics Act. Those policy considerations continue to be reviewed and will be presented to the Board for consideration once completed.

It must be further noted that travel arrangements for Board Members were usually made by the Business Administrator. Essentially, following the Board's approval for travel, the Business Administrator would make all appropriate arrangements of the individual Board Members. With regard to this matter, the Business Administrator was suffering from a fatal disease and may not have been capable of undertaking the tasks of making travel arrangements. The Business Administrator was undergoing chemotherapy and was working at her best to meet her day-to-day responsibilities.

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The Assistant Superintendent was called upon by the Business Administrator to aide her in making travel arrangements. As set forth in the report, the Assistant Superintendent made arrangements for air travel and rooms. As stated in the report, the arrangements for the room charges saved the District money; but nonetheless are questionable as it relates to the manner and circumstances by which the savings occurred. At no time were the arrangements made by the Assistant Superintendent intended to be for any other purpose other than attendance at the NSB Convention. The Assistant Superintendent believed and did accomplish a savings for the District regarding room charges. The District recognizes the Assistant Superintendent's motivation as being genuine, but understands that his methods were questionable and in retrospect lacked sound judgment. At no time did the Assistant Superintendent intentionally believe that his actions could be in violation of Subsection 3-327 of the School Code.

The Board does not believe that the lack of registration was negligent. The District submits that the lack of registration was an oversight due to a miscommunication or lack of communication between the Assistant Superintendent and the Business Administrator. The Assistant Superintendent was under the mistaken belief that the Business Administrator would have pre-registered the participants. The Business Administrator did not make the arrangements for flight nor room accommodations; and, therefore, it is reasonable to conclude that she may have assumed that registration was being handled by the Assistant Superintendent. The Business Administrator is not available, due to her untimely passing, to comment on this issue.

With the above in mind, the District will be adopting a written policy and procedure for travel expense reimbursement that complies and is consistent with the requirements of the Public School Code and the State Ethics Act. Part of the written policy will include the appropriate controls to limit if not exclude any potential reimbursement, gifts, or complementary grants from third parties.

Finally, the District will take the necessary steps in placing safeguards in the written policy for full disclosure with regard to any and all travel arrangements.

Finding No. 2

Once again the District does not take issue with the Auditor General's Office relative to the School Board Members not being registered for the April 2002 NSBA Conference. However, as stated previously, the Business Administrator had usually made all of the appropriate arrangements relative to travel and registration for conference events. As pointed out in the report, due to the negligence of School District officials, the School District's representatives were not pre-registered for the conference. However, Board Members attempted to take any and all necessary steps to register once at the conference event. Registration could not occur, but the Board Members did in fact attend several lectures. Specifically, on Saturday, April 5, 2003, all three Board Members did attend the lecture provided to conference attendees by Bernard Shaw. On Sunday, April 6, 2003, the individuals attended the lecture featuring Bishop Desmond Tutu. The District recognizes that without appropriate registration or some other record, the Board Members cannot provide objective evidence indicating that these lectures were attended. The facts and circumstances surrounding the lack of registration were discussed further in Finding No. 1. However, the Board recognizes that the three (3) members which attended the conference did so for the sole purpose of educational or financial advantage to the School District.

In any event, it is clear that the New Castle Area School District officials were not registered for the convention events. The Board Members, however, did attempt to take alternative steps to register and attend conference activities. The District does not believe that the entire trip had been a misuse of School District resources and funds, however, in an effort to avoid even the appearance of impropriety, the individual Board Members have agreed to reimburse or pay back the District any and all funds that had been expended for the costs of the convention. The reimbursement will include the payment of airfare as well as those monies expended by individual Board Members as part of their travel expense vouchers. The payback of these sums in no way represents an admission by any or all of the School Board Members of any wrong doing or acquiescence that the trip had been a misuse of School District resources and funds. A repayment of these funds is in an effort to show good faith to the Auditor General's Office as well as the New Castle Area School District constituents. At all times relevant hereto, The District representatives attempted to use good faith in the attendance of convention events as well as travel arrangements to and from the convention site.

As stated above in Finding No. 1, the District will and shall consider written policies and procedures relative to travel which will include documentation of pre-registration for attendance at any future conventions.

Finding No. 3

The Assistant Superintendent, since receipt of the Auditor General's Summary Report, has filed the appropriate amended documents listing any and all financial interest in real estate, business, and any and all other endeavors. He has amended the Statement of Financial Interest, and has forwarded the same to the appropriate offices of the State. Copies of those amendments are attached and included in this response.

Regarding the Assistant Superintendent's activities as well as the Food Service Department Director, the District does not take issue with any of the conclusions reached by the Auditor General. The District did not authorize the Assistant Superintendent nor the Food Service Department Director to enter into an arrangement where the Assistant Superintendent purchased food from the District's cafeteria. Notice of these arrangements and these circumstances were made known to the District through the Auditor General's Summary Report.

The recommendations of the Auditor General with regard to disclosure in writing of all outside financial interests, corrected Statements of Financial Interest, as well as the adoption and implementation of policies and procedures concerning sales of the District's food for the purposes outside of the regular cafeteria operation will reviewed, scrutinized, and a written policy regarding these issues will be considered. The Solicitor will review the extent that any such sales are permitted under School Code and the laws of the Commonwealth of Pennsylvania. The District must also consider the Assistant Superintendent's actions concerning this issue.

Observation

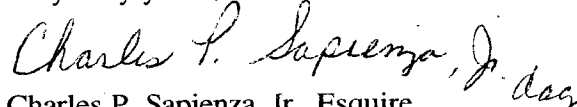
The District has hired a new Superintendent as of July 2003. The circumstances surrounding the Assistant Superintendent's actions on previous travel for the 201 NSBA Conference and NSB 2002 Conference in New Orleans have been carefully considered. As part of the proposed written policy to be considered and adopted by the Board of Directors, the Assistant

Mr. Peter J. Smith
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Superintendent will not be responsible for making any arrangements relative to travel and attendance at conference events or other Board or District functions.

The District would request that should you require any additional information or wish to discuss this matter further, please do not hesitate to contact the undersigned or Superintendent George J. Gabriel.

Very truly yours,


Charles P. Sapienza, Jr., Esquire
Solicitor for New Castle Area School District

CPSjr/md/dag

Enclosures

Certified 7099 3400 0003 1120 5293

cc: Board of School Directors
Mr. George J. Gabriel, Substitute Superintendent
Mr. Nick DeRosa, Assistant Superintendent
Mr. Richard Schultz, Special Investigator

THE DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS

Based on the response, it appears that NCASD and the school board members are taking appropriate steps to begin the process of correcting the deficiencies and questionable activities described in the report. Hopefully, the school board will ensure that the report's recommendations are followed by adopting the policies and procedures described in the response. The adoption and implementation of the policies will be subject to review as part of the Department's next regular audit of NCASD.

REPORT DISTRIBUTION LIST

This report was distributed initially to the members of the NCASD school board, the Acting Superintendent, the Assistant Superintendent and the Solicitor for NCASD and to the following:

The Honorable Vicki L. Phillips, Ed.D
Secretary of Education
Pennsylvania Department of Education

The Honorable Barbara Hafer
State Treasurer

William A. Hardenstine, Jr.
Comptroller
Labor, Education and Community Services

John J. Contino, Executive Director
State Ethics Commission

Jeffrey Bowers
National School Boards Association

Ann Boyko
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