

LIMITED PROCEDURES ENGAGEMENT

North Clarion County School District Clarion County, Pennsylvania

August 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Steven L. Young, Superintendent
North Clarion County School District
10439 Route 36
Tionesta, Pennsylvania 16353

Mr. Scott Daum, Board President
North Clarion County School District
10439 Route 36
Tionesta, Pennsylvania 16353

Dear Mr. Young and Mr. Daum:

We conducted a Limited Procedures Engagement (LPE) of the North Clarion County School District (District) to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures (relevant requirements). The LPE covers the period July 1, 2013 through June 30, 2017, except for any areas of compliance that may have required an alternative to this period. The engagement was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania and the Fiscal Code, 72 P.S. §§ 402 and 403, but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

As we conducted our LPE procedures, we sought to determine answers to the following questions, which serve as our LPE objectives:

- Did the District have documented board policies and administrative procedures related to the following?
 - Internal controls
 - Budgeting practices
 - The Right-to-Know Law
 - The Sunshine Act
- Were the policies and procedures adequate and appropriate, and have they been properly implemented?
- Did the District comply with the relevant requirements in the Right-to-Know Law and the Sunshine Act?

Mr. Steven L. Young

Mr. Scott Daum

Page 2

Our engagement found that the District failed to maintain adequate internal controls over several key business office operations. The results related to our review of the District's internal controls are detailed in the finding in this report. We also found that the District properly implemented policies and procedures for the other areas mentioned above and complied, in all significant respects, with relevant requirements.

We also evaluated the application of best practices in the area of school safety. Due to the sensitive nature of this issue and the need for the results of this review to be confidential, we did not include the results in this report. However, we communicated the results of our review of school safety to District officials, the Pennsylvania Department of Education, and other appropriate officials as deemed necessary.

The finding and our related recommendations have been discussed with the District's management, and their responses are included in the finding section of this report. We believe the implementation of our recommendations will improve the District's operations and facilitate compliance with laws and regulations, administrative requirements, and best practices. We appreciate the District's cooperation during the conduct of the engagement.

Sincerely,



Eugene A. DePasquale
Auditor General

August 9, 2019

cc: **NORTH CLARION COUNTY SCHOOL DISTRICT** Board of School Directors

Table of Contents

	Page
Background Information	1
Finding	9
Finding – The District Failed to Maintain Adequate Internal Controls Over Several Key Business Office Operations	9
Status of Prior Audit Findings and Observations	20
Distribution List	21

Background Information

School Characteristics 2017-18 School Year ^A	
County	Clarion
Total Square Miles	112.3
Number of School Buildings	2
Total Teachers	50
Total Full or Part-Time Support Staff	50
Total Administrators	3
Total Enrollment for Most Recent School Year	609
Intermediate Unit Number	6
District Vo-Tech School	Clarion County Career Center

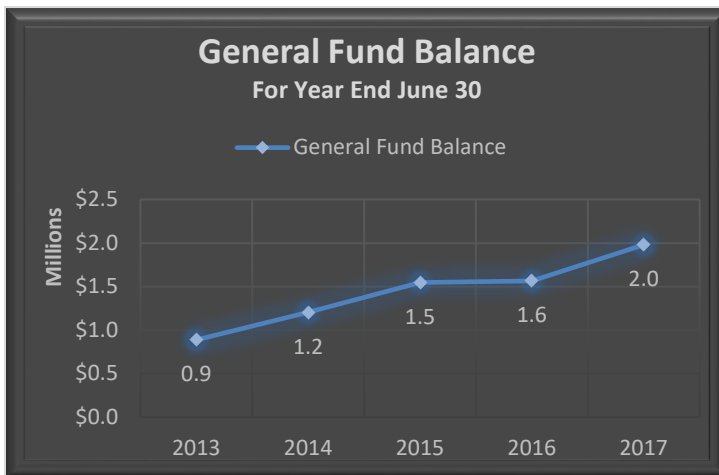
A - Source: Information provided by the District administration and is unaudited.

Mission Statement^A

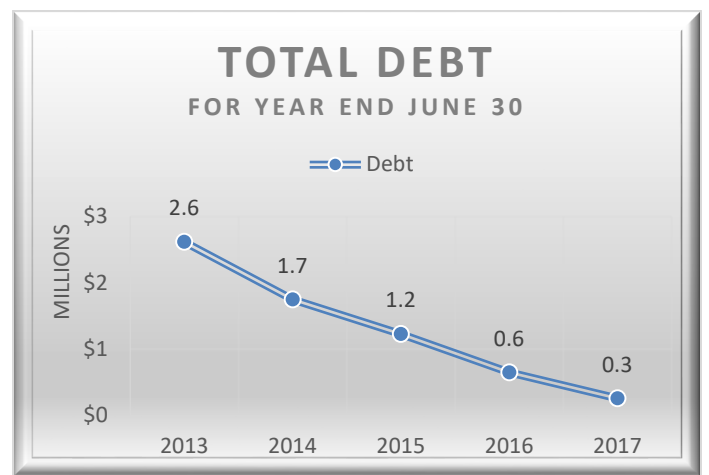
The community of North Clarion County School District will develop and maintain a positive educational environment designed to provide each student the opportunity to require the essential skills necessary for achieving academic, personal, and occupational success as a life-long learner.

Financial Information

The following pages contain financial information about the North Clarion County School District (District) obtained from annual financial data reported to the Pennsylvania Department of Education (PDE) and available on the PDE's public website. This information was not audited and is presented for **informational purposes only**.

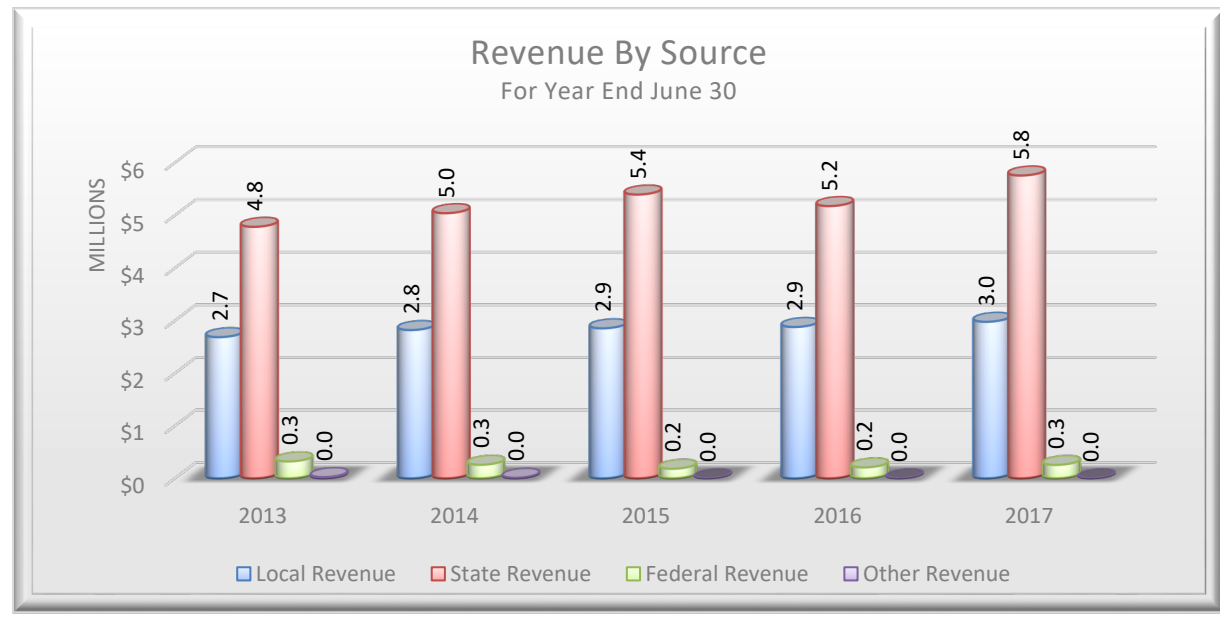
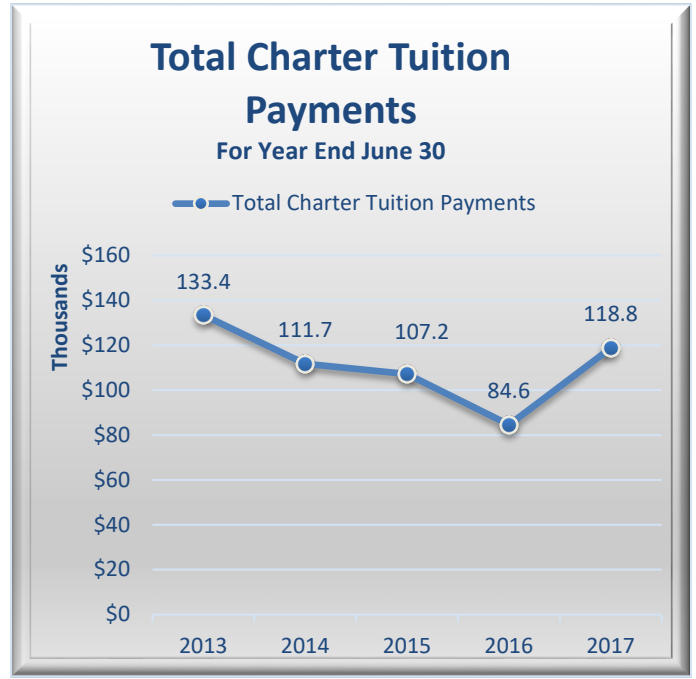
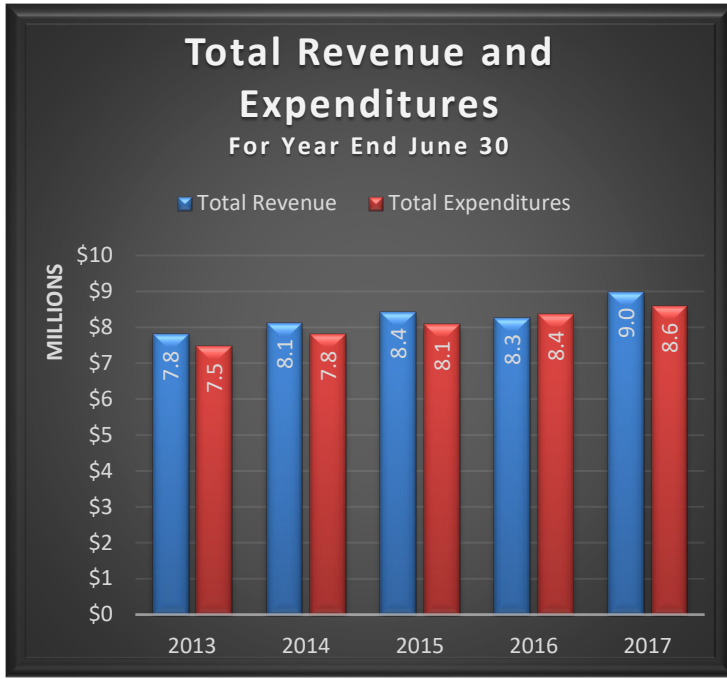


Note: General Fund Balance is comprised of the District's Committed, Assigned and Unassigned Fund Balances.



Note: Total Debt is comprised of Short-Term Borrowing, General Obligation Bonds, Authority Building Obligations, Other Long-Term Debt, Other Post-Employment Benefits, Compensated Absences and Net Pension Liability.

Financial Information Continued



Academic Information

The graphs on the following pages present School Performance Profile (SPP) scores, Pennsylvania System of School Assessment (PSSA) scores, Keystone Exam results, and 4-Year Cohort Graduation Rates for the District obtained from the PDE's data files for the 2014-15, 2015-16 and 2016-17 school years.¹ These scores are provided in the District's audit report for **informational purposes only**, and they were not audited by our Department. Please note that if one of the District's schools did not receive a score in a particular category and year presented below, the school will not be listed in the corresponding graph.² Finally, benchmarks noted in the following graphs represent the statewide average of all public school buildings in the Commonwealth that received a score in the category and year noted.³

What is a SPP score?

A SPP score serves as a benchmark for schools to reflect on successes, achievements, and yearly growth. The PDE issues a SPP score using a 0-100 scale for all school buildings in the Commonwealth annually, which is calculated based on standardized testing (i.e., PSSA and Keystone exam scores), student improvement, advance course offerings, and attendance and graduation rates. Generally speaking, a SPP score of 70 or above is considered to be a passing rate.

The PDE started issuing a SPP score for all public school buildings beginning with the 2012-13 school year. For the 2014-15 school year, the PDE only issued SPP scores for high schools taking the Keystone Exams as scores for elementary and middle schools were put on hold due to changes with PSSA testing.⁴ The PDE resumed issuing a SPP score for all schools for the 2015-16 school year.

What is the Keystone Exam?

The Keystone Exam measures student proficiency at the end of specific courses, such as Algebra I, Literature, and Biology. The Keystone Exam was intended to be a graduation requirement starting with the class of 2017, but that requirement has been put on hold until the 2020-21 school year.⁵ In the meantime, the exam is still given as a standardized assessment and results are included in the calculation of SPP scores. The Keystone Exam is scored using the same four performance levels as the PSSAs, and the goal is to score Proficient or Advanced for each course requiring the test.

¹ The PDE is the sole source of academic data presented in this report. All academic data was obtained from the PDE's publically available website.

² The PDE's data does not provide any further information regarding the reason a score was not published for a specific school. However, readers can refer to the PDE's website for general information regarding the issuance of academic scores.

³ Statewide averages were calculated by our Department based on individual school building scores for all public schools in the Commonwealth, including district schools, charters schools, and cyber charter schools.

⁴ According to the PDE, SPP scores for elementary and middle schools were put on hold for the 2014-15 school year due to the state's major overhaul of the PSSA exams to align with PA Core standards and an unprecedented drop in public schools' PSSA scores that year. Since PSSA scores are an important factor in the SPP calculation, the state decided not to use PSSA scores to calculate a SPP score for elementary and middle schools for the 2014-15 school year. Only high schools using the Keystone Exam as the standardized testing component received a SPP score.

⁵ Act 39 of 2018, effective July 1, 2018, amended the Public School Code to further delay the use of Keystone Exams as a graduation requirement for an additional year until the 2020-21 school year. *See* 24 P.S. § 1-121(b)(1).

What is the PSSA?

The PSSA is an annual, standardized test given across the Commonwealth to students in grades 3 through 8 in core subject areas, including English and Math. The PSSAs help Pennsylvania meet federal and state requirements and inform instructional practices, as well as provide educators, stakeholders, and policymakers with important information about the state's students and schools.

The 2014-15 school year marked the first year that PSSA testing was aligned to the more rigorous PA Core Standards.⁶ The state uses a grading system with scoring ranges that place an individual student's performance into one of four performance levels: Below Basic, Basic, Proficient, and Advanced. The state's goal is for students to score Proficient or Advanced on the exam in each subject area.

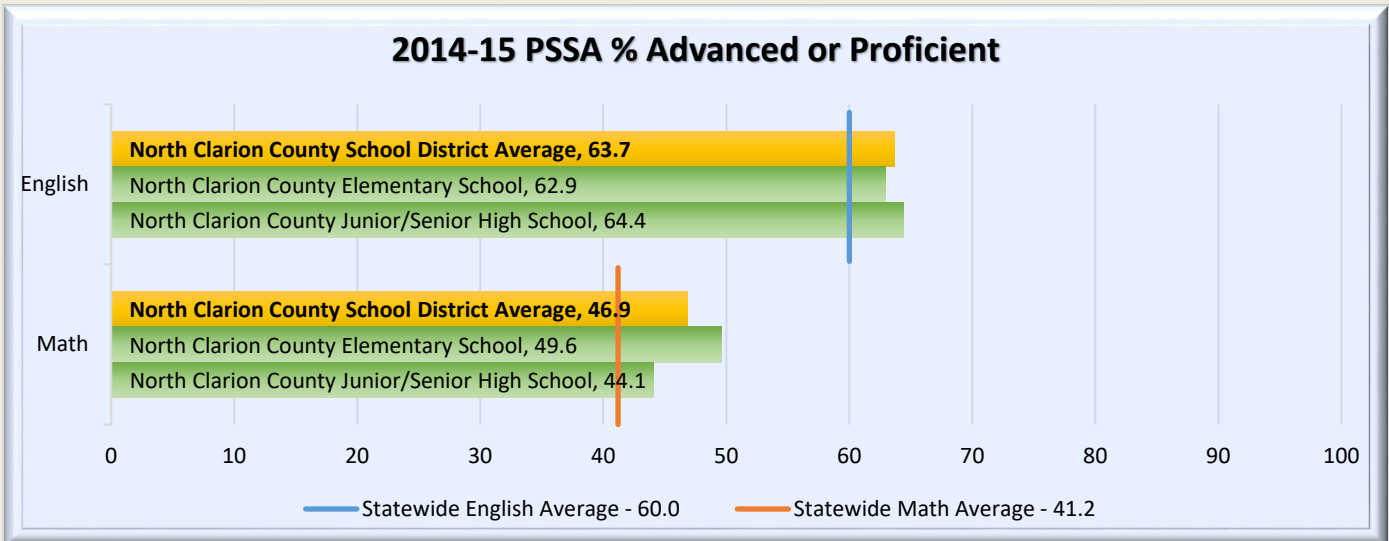
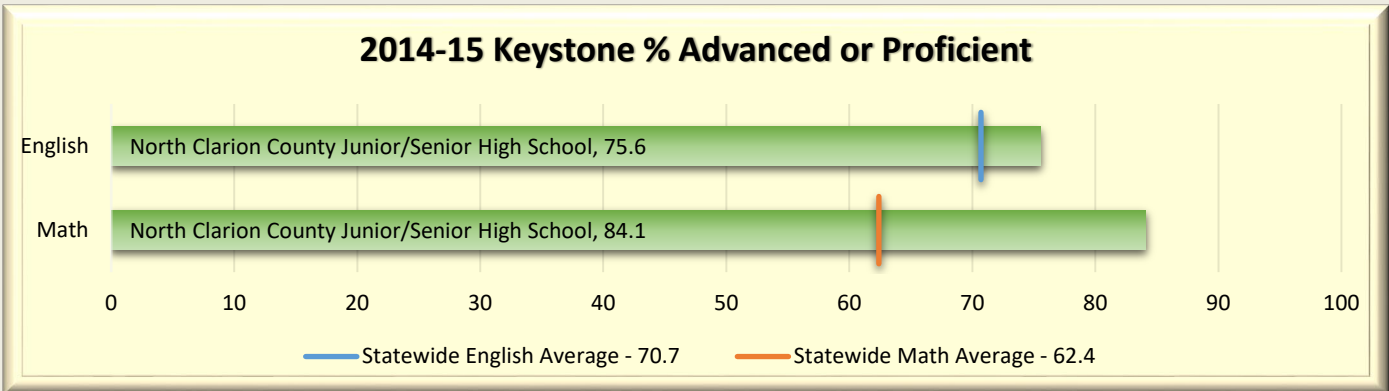
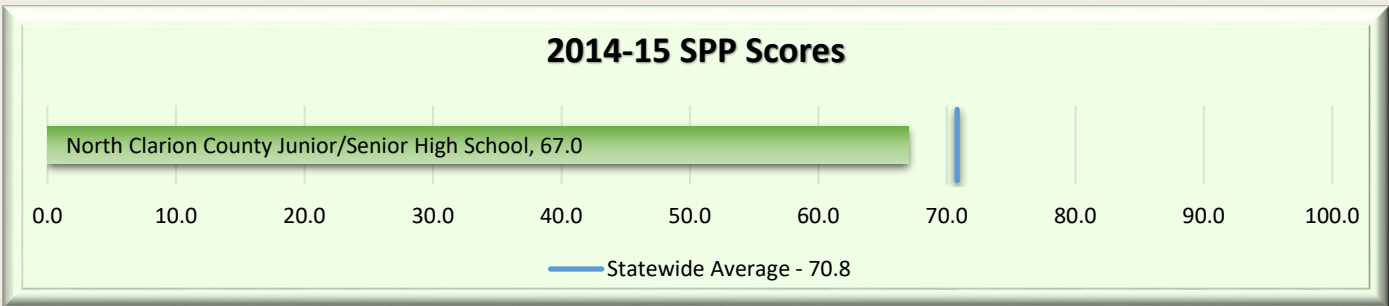
What is a 4-Year Cohort Graduation Rate?

The PDE collects enrollment and graduate data for all Pennsylvania public schools, which is used to calculate graduation rates. Cohort graduation rates are a calculation of the percentage of students who have graduated with a regular high school diploma within a designated number of years since the student first entered high school. The rate is determined for a cohort of students who have all entered high school for the first time during the same school year. Data specific to the 4-year cohort graduation rate is presented in the graph.⁷

⁶ The PDE has determined that PSSA scores issued beginning with the 2014-15 school year and after are not comparable to prior years due to restructuring of the exam.

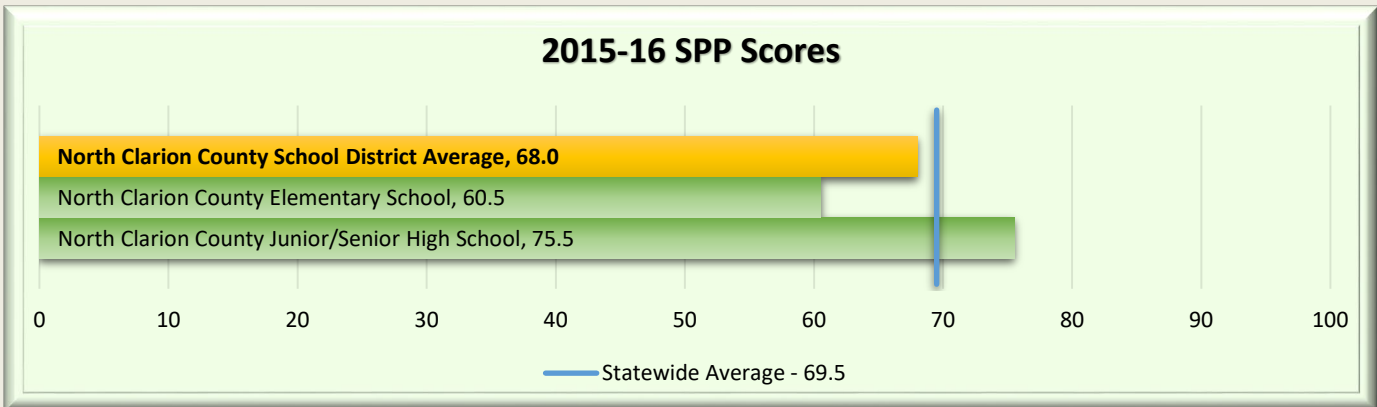
⁷ The PDE also calculates 5-year and 6-year cohort graduation rates. Please visit the PDE's website for additional information: <http://www.education.pa.gov/Data-and-Statistics/Pages/Cohort-Graduation-Rate-.aspx>.

2014-15 Academic Data
School Scores Compared to Statewide Averages

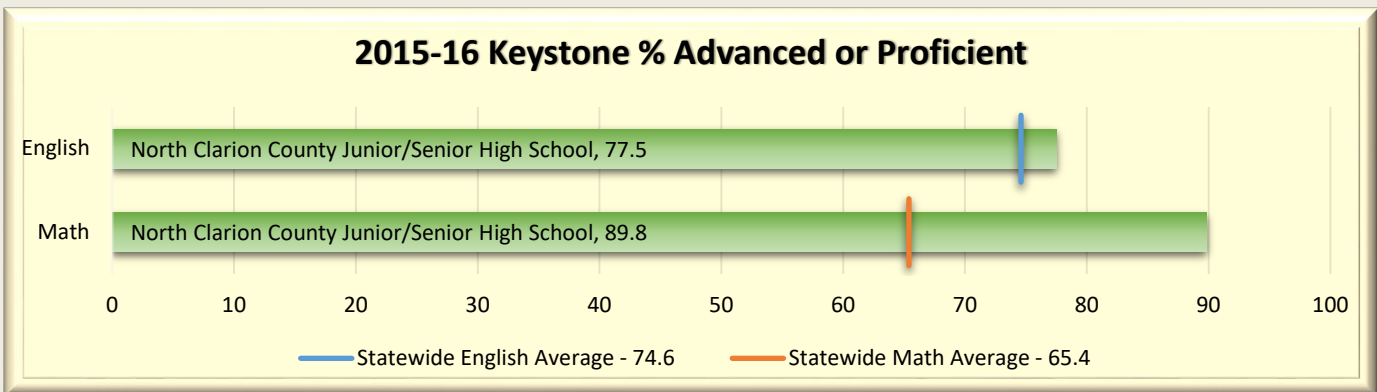


2015-16 Academic Data
School Scores Compared to Statewide Averages

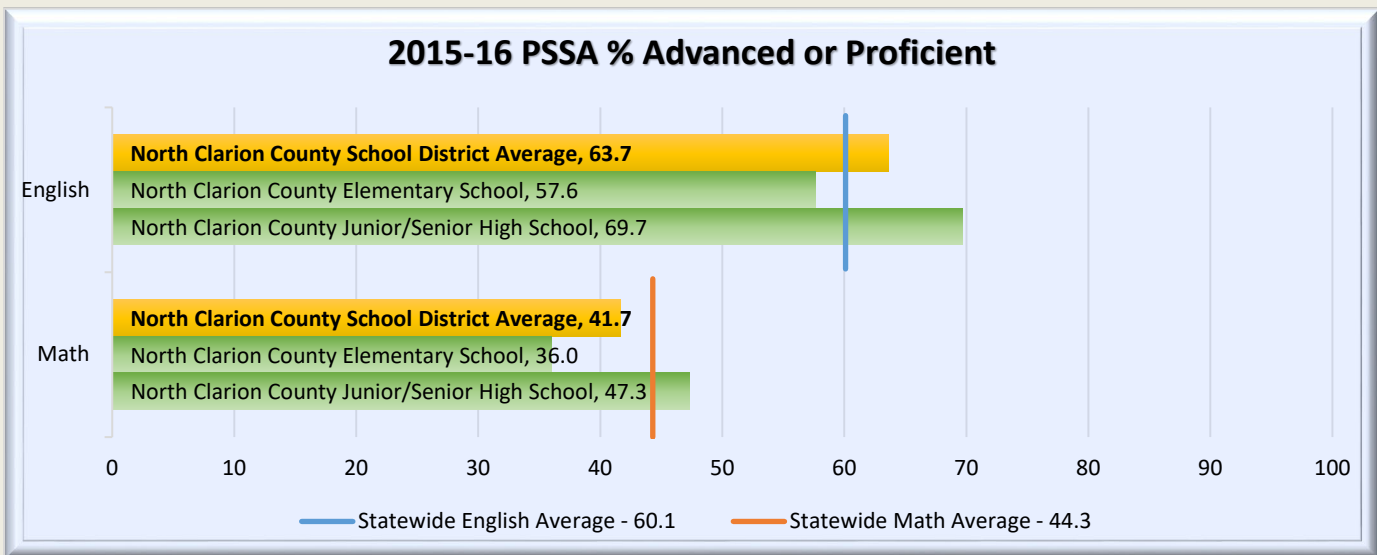
2015-16 SPP Scores



2015-16 Keystone % Advanced or Proficient

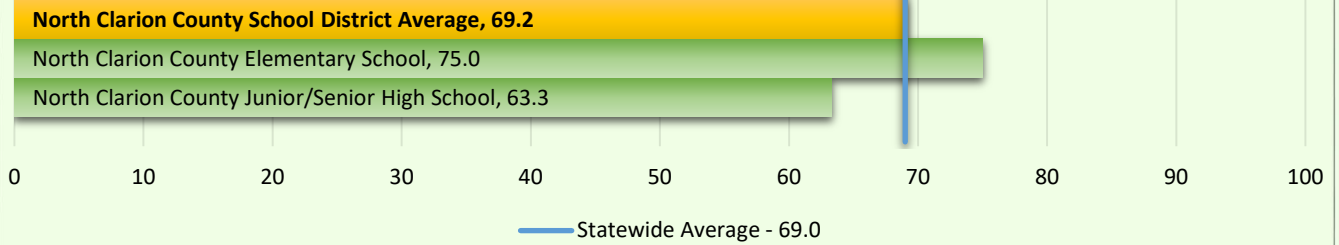


2015-16 PSSA % Advanced or Proficient

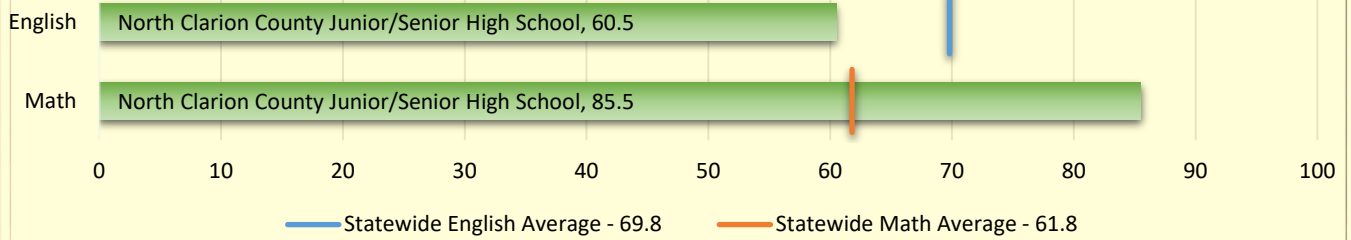


2016-17 Academic Data
School Scores Compared to Statewide Averages

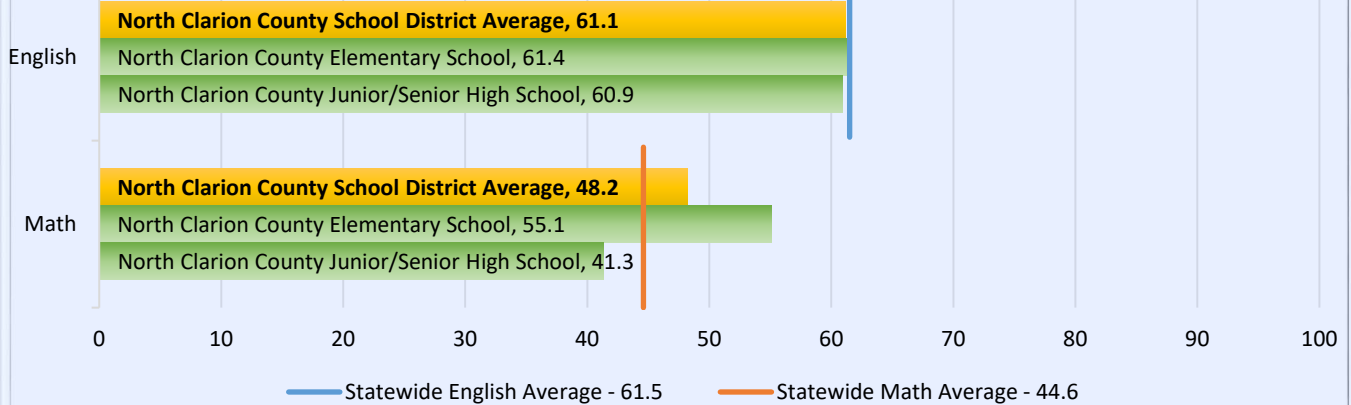
2016-17 SPP Scores



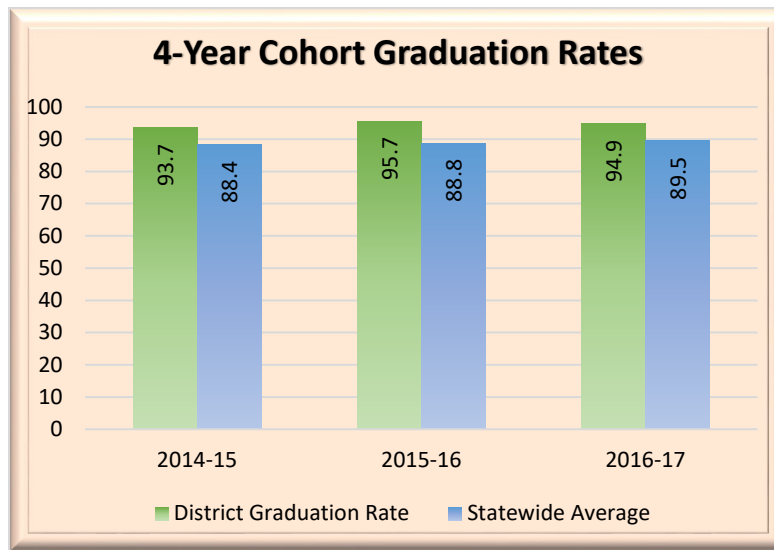
2016-17 Keystone % Advanced or Proficient



2016-17 PSSA % Advanced or Proficient



Graduation Data
District Graduation Rates Compared to Statewide Averages



Finding

Finding

The District Failed to Maintain Adequate Internal Controls Over Several Key Business Office Operations

Criteria relevant to the finding:

The **United States Government Accountability Office (GAO)** issued *Standards of Internal Control in the Federal Government* (known as the Green Book) which provides the overall framework for establishing and maintaining an effective internal control system. The Green Book sets the standard for internal control framework for state, local and quasi-governmental entities, as well as not-for-profit organizations. GAO states the proper segregation of duties helps prevent fraud, waste, and abuse in the entity by considering the need to separate authority, custody, and accounting in the organizational structure. (See Para. 3.08).

Green Book Principle 10 – Design of Control Activities related to *Segregation of Duties* states, in part:

- Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event. (paragraph 10.03)

Our review of the North Clarion County School District’s (District) internal controls over operations revealed the District failed to maintain adequate segregation of duties within its accounting functions, including the lack of oversight of controls around the use of District credit cards and the approval of employee expense reimbursements.⁸ The District also utilized and maintained two accounting software packages, which is inefficient and increases the risk of potential errors and omissions when transferring data from one software package to another.

The District’s business office consists of three individuals: the Payroll Clerk, the Business Manager, and the Superintendent. Due to the limited staffing in the business office, one individual was given responsibility for too many accounting functions without proper oversight. According to the United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*,⁹ commonly referred to as the Green Book, it is critical for management to divide or segregate key duties and responsibilities among different employees to reduce the risk of waste, fraud, and abuse. The Green Book states that management should consider the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties.

⁸ Local education agency accounting functions include accounting for all Funds of the District including the General Fund, Capital Reserve Fund, Student Activities Fund, Athletic Fund, and Cafeteria Fund.

⁹ The Department of the Auditor General has determined that its primary internal control analysis framework during the conduct of audits and other engagements is the Standards for Internal Control in the Federal Government, also known as the Green Book, issued by the GAO. Even though the Green Book was written for the federal government, it explicitly states that it may also be adopted by state, local, and quasi-governmental entities, as well as not-for-profit organizations, as a framework for establishing and maintaining an effective internal control system. Refer to <https://www.gao.gov/assets/670/665712.pdf> (accessed July 11, 2019).

Criteria relevant to the finding (continued):

- Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated, and where such segregation is not practical, management designs alternative control activities to address the risks. (paragraph 10.12)
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risks of fraud, waste, or abuse in the operational process. (paragraph 10.14)

Government Finance Officers Association (GFOA): *Internal Control Best Practices for School Districts.*

The GFOA recommends that state and local governments adopt the Committee of Sponsoring Organizations' (COSO) Internal Control—Integrated Framework (2013) as the conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives. To implement that guidance, a government needs to:

1. Establish a comprehensive framework for internal control that includes all five essential components identified by the COSO (control environment, risk assessment, control activities, information and communication, and monitoring);
2. Ensure that each component of internal control is functioning in a manner consistent with all relevant principles; and

Poor segregation of duties

Our review of business office operations disclosed that the Business Manager handled all accounting functions within the business office which included, but was not limited to:

- Purchasing of goods and services
- Authorizing invoices for payment
- Issuing checks
- Signing checks
- Electronically transferring funds
- Depositing District funds
- Recording transactions
- Reconciling the bank statement

The Business Manager controlled all key aspects of financial transactions with minimal to no oversight. The Business Manager's duties also included manually creating a monthly vendor report of invoices to be approved by the Board of School Directors (Board). The following hypothetical scenario illustrates how allowing a Business Manager to have such duties increases the risk of fraud, waste, or abuse:

- The Business Manager could purchase \$5,000 worth of supplies for the District.
- The Business Manager could then receive the invoice, issue and sign the check, and record the transaction within the general ledger without anyone at the District being aware of the purchase unless the transaction was included on the monthly vendor report presented to the Board.
- If the transaction was fraudulent, the Business Manager could intentionally leave the transaction off of the monthly vendor report and the Board and Superintendent would not be aware that the transaction occurred.

According to the District's Board Policy No. 828 *Fraud*, the Superintendent or a designee is responsible for maintaining a "sound system of internal controls" that identifies risks and manages those risks effectively. Neither the Superintendent nor his designee—the Business Manager—complied with this policy by developing

Criteria relevant to the finding (continued):

3. Ensure that the various components complement one another and operate together effectively.

Banking Transactions: The GFOA recommends that government consider the following steps to protect themselves against bank account fraud:

- Ensure appropriate security over signature plates, cards, and software.
- Require two party authorizations (initiation and release) on all wires and ACH files.
- Ensure proper segregation of duties among staff initiating, authorizing, preparing, signing, and mailing payments and reconciling bank statement.

Board Policy No. 828: Fraud; Adopted June 18, 2007 states, in relevant part:

Delegation of Responsibility

The Superintendent or designee shall be responsible to develop and implement internal controls designed to prevent and detect fraud, financial impropriety, or fiscal irregularities within the district, subject to review and approval by the Board.

The Superintendent or designee shall be responsible for maintaining a sound system of internal controls that is designed to identify potential risks, evaluate the nature and extent of those risks, and manage them effectively.

effective internal controls that include adequate segregation of duties.

Disbursements not approved

We randomly selected 68 of the 250 General Fund disbursement transactions during the 2016-17 and 2017-18 fiscal years to determine if the District had supporting documentation and to ensure the transactions were properly approved. We found that 52 of the 68, or 76 percent of the transactions selected for review, were not properly reviewed and approved for payment. We also found that all General Fund checks were electronically signed with three signatures, so there is no assurance that the individuals assigned the responsibility for authorizing payment actually reviewed and approved the disbursements.¹⁰

Single authorized signer without oversight

We discovered the Business Manager is the sole authorized signer on the Capital Reserve Fund. During our review of Capital Reserve Fund disbursements, we found that three of the six purchase orders we reviewed, or 50 percent, were created by the Business Manager, which is another example of duties related to authority, custody, and accounting of operations not being segregated.¹¹

Electronic transfer of funds without oversight

In addition to sole signing authority for the Capital Reserve Fund, the Business Manager is able to initiate and authorize electronic bank transfers of all District funds without an independent employee authorizing/releasing the transfer.

The concentration of these duties resides solely in the Business Manager function and is a serious weakness in the District's internal control that exposes the District to an increased risk of fraud or losses due to error. This structure also further restricts the District's ability to detect potentially fraudulent behavior, in the event there is any, on the part of the Business Manager.

¹⁰ The signature stamp includes the signature of the three individuals authorized to approve payments; Business Manager, Board Treasurer, and Board President.

¹¹ We randomly selected 6 of the 57 disbursements made from the Capital Reserve Fund in fiscal years 2016-17 and 2017-18.

Weak controls over district credit cards

The District maintains credit cards and/or store credit accounts with five vendors. The Business Manager maintains physical custody of the credit cards in the business office. We reviewed the credit card log sheets for each card and noted that the cards were not signed out by anyone outside of the business office, leading us to conclude that the Business Manager is the primary user of these credit cards.

We interviewed the Business Manager and Superintendent and both indicated that they were unsure if anyone other than the Business Manager reviewed every credit card statement. In order to corroborate this understanding, we reviewed each credit card statement with activity for the 2016-17 and 2017-18 fiscal years. The statements had adequate documentation attached to support the purchases, but there was no approval on the credit card statement authorizing and verifying the District purchases were reviewed and approved for payment by someone independent of the individual making the purchase (i.e., the Business Manager).

In addition, we found three invoices indicating that the items purchased were shipped to the Business Manager's home address rather than the school address. The Superintendent was unaware that the items were shipped to the Business Manager's home address, and he could not provide a reason why the items were not shipped to the school. He also could not confirm that all of the items were purchased for District purposes. The lack of oversight related to use of the District's credit cards is concerning. The ability of one individual to make purchases with the District credit cards, approve payments to the credit card issuers, and reconcile the general ledger creates the opportunity for potential fraud and abuse of District funds.

Lack of supervisory approval of Superintendent and Business Manager expense reimbursements

The District does not have employee procurement cards. Instead, the District allows key employees to use their personal credit cards to make purchases for the District, as deemed necessary. Employees then submit a request for reimbursement utilizing the District's expense report form. This same form is also used to request reimbursement for

mileage and tuition expenses. These forms are to be reviewed and approved by the Building Principal/Supervisor and/or the Superintendent.

We reviewed the expense report forms for all five administrative employees for the period of July 1, 2013 to June 30, 2018.¹² We noted the following instances of internal control deficiencies:

- We noted that there was no approval of the Superintendent's expense report forms.
- The Business Manager completed 29 expense report forms, and we found that only 2 forms were actually approved and signed by the Superintendent. One form did not have any approval signature, and the Superintendent's signature stamp, which is controlled by the Business Manager, was used to document approval on the remaining 26 forms. The Superintendent's signature stamp was kept locked in the Business Manager's filing cabinet for her use as she deemed necessary. However, this stamp was not utilized on any of the other employee expense reimbursement report forms, as the Superintendent manually signed every other expense report form we reviewed. We confirmed with the Superintendent that he did not review and approve the Business Manager's expense report forms. Therefore, the Business Manager approved payments to herself totaling \$5,100.

As noted earlier, the Business Manager performs the majority of the accounting functions within the District. The ability to use the Superintendent's signature stamp for authorization circumvents the control of supervisory review and approval and leaves the District susceptible to potential loss due to fraud or abuse.

Unnecessary Cash Disbursement Journal

The District utilizes and maintains two accounting ledgers. The Central Susquehanna Intermediate Unit (CSIU) offers a financial accounting software package that the District purchased and implemented to process payroll and to be the

¹² We reviewed the employee expense reports for 100 percent of the administrative employees, which included the Business Manager, Superintendent, High School and Elementary Principals, and IT Director.

general ledger of record for the General Fund.¹³ The District also uses *QuickBooks*™ as a cash log to record deposits and issue checks for the General Fund. All checks are issued from *QuickBooks*™ and then manually entered into the CSIU. The use of both software programs is unnecessary, inefficient, and the manual entry of expense information introduces further risk of errors. We compared check registers from the CSIU to those in *QuickBooks*™ and noted transposition errors, truncated check numbers, and other errors.

The CSIU software package was specifically designed for school entities and its fund accounting application includes tools for tracking, storing, and reporting fund accounting data, accounts receivable and payable, purchase orders, and budget preparations. The CSIU software can perform the same tasks as *QuickBooks*™ and could be used as the ledger of record. Discontinuing the use of *QuickBooks*™ would eliminate the duplication of effort and eliminate the opportunity of erroneous information being manually entered into or omitted from the CSIU.

Recommendations

The *North Clarion County School District* should:

1. Formally review internal controls over business operations on an annual basis. This review should include the District's assessment of the risk of fraud, abuse, and/or waste of District funds. After the District's assessment of internal controls, the Board should formally review and approve the written Internal Control Plan over operations.
 - a. In circumstances where the cost exceeds the benefit of properly segregating duties (i.e., hiring of another business office employee), the District should review their organizational structure and incorporate the Board or other employees charged with governance to assist in internal controls.
2. Designate an appropriate person, independent of the employee with access to the credit cards, to perform reconciliations of all credit card accounts monthly and

¹³ The CSIU was developed to stay current and respond to PDE reporting requirements. The financial accounting software package includes the capabilities to maintain ledgers for various funds, process payroll, issue checks, etc.

review and approve purchases to ensure they are for valid District-related purposes.

3. Institute a third-party approval system for all outbound electronic transfers so that at least one other member of management is aware of transfers and to ensure the appropriate approval is obtained.
4. Ensure all employee expense reimbursement reports are reviewed and authorized for payment by someone other than the employee requesting reimbursement.
5. Consider eliminating the Superintendent's signature stamp or at least strictly limit the use of the stamp. While we clearly understand that there are other valid uses of a signature stamp, such as correspondence, etc., internal controls can be greatly strengthened if the stamp's use is removed from the accounting area.
6. Evaluate the use of electronic signatures on General Fund checks. Electronic signatures circumvent the check signers review and approval of the invoice for disbursement.
7. Implement Board review and approval of check registers printed from the CSIU to replace the vendor report manually prepared by the business office.
8. Consider utilizing and maintaining only one accounting software package. More specifically, we recommend that the District utilize the CSIU software for all General Fund transactions, including issuing checks.

Management Response

District management provided the following response:

Identified Concern: Poor Segregation of Duties

Corrective Action:

“Segregation of duties have been reviewed and changes have been made to ensure stronger internal controls are in place.

“Payroll Clerk will perform a reconciliation of all credit card accounts monthly and review approved purchases to

ensure they are valid District-related purposes. This information will then be reviewed by the Superintendent prior to being placed on the Board report for Board approval.

“Payroll clerk will perform a reconciliation of all bank statements monthly. This information will then be reviewed by the Superintendent and Business Manager.

“All outbound electronic fund transfers will be approved by the Business Manager and Superintendent or Payroll Clerk and Superintendent. A log will be created to document that this has occurred.

“A FOB is kept in a secure area by Superintendent. The FOB generates a code which is needed to initiate any electronic fund transfer. The Superintendent will provide this code to the Business Manager so she can initiate the fund transfer.

Identified Concern: Disbursements not approved

Corrective Action

“We have monthly bills that come in after the Board meeting. If these bills are not paid this month, we will receive late fees. We have a section of the Board report listed as additional bills payable. This section includes names of vendors but there is not a dollar amount attached to it. The Board secretary pays these bills when they come in and includes them in the minutes for that month’s meeting. A copy of this is also given to the Board during the following months meeting for review and approval. Examples of this would include the electric bill, natural gas, cyber school, credit card (Walmart, Amazon), medical, dental and vision. Many of these bills must be paid prior to the first of the month in order to avoid late fees.

“Request will be made to companies that we receive a monthly bill from to adjust the billing cycle so all bills can be received prior to our Board meeting.

“We have begun adding North Clarion Payroll, Social Security and Bank fees to the monthly bills as separate ACH checks to help verify those transactions.

Identified Concern: Single Authorized signer without oversight

Corrective Action:

“The School Board approved to have the Board Treasurer as an authorized signer on the Capital Reserve Fund. All bills payable are also approved by the Board on a monthly basis.

Identified Concern: Electronic Transfer of Funds without oversight

Corrective Action:

“All outbound electronic transfers will be approved by the Business Manager and Superintendent or Payroll Clerk and Superintendent. A log will be created to document that this has occurred.

“A FOB is kept in a secure area by Superintendent. The FOB generates a code that is used in conjunction with the Business Manager to initiate wire transfers.

Identified Concern: Weak Controls over District credit Cards

Corrective Action:

“Logs have been created for all district credit cards. Employees will need to sign the card out and get approval from the Superintendent on purchases that will be made with the card. The Business manager and employee will initial the log when the card is returned.

“Payroll clerk will perform a reconciliation of all credit card accounts monthly and review approved purchases to ensure they are valid District-related purposes. This information will then be reviewed by the Superintendent prior to being placed on the Board report for Board approval.

Identified Concern: Lack of Supervisory Approval of Superintendent and Business Manager Expense Reimbursement

Corrective Action:

“Currently the Superintendent signs his own expense report and the School Board approves all expenses at monthly Board meetings. The Business Manager will also sign off on the Superintendent’s expense report prior to it being placed on the Board report for approval.

“The Superintendent’s signature stamp will only be used on an emergency basis as it relates to expense reports and will not be used for the approval of the Business Manager’s expense report. All expenses are approved by the Board on a monthly basis. Keep in mind, Board members frequently ask questions as it relates to bills payable prior to their approval at monthly Board meetings.

“We are going to reduce the number of trips that the Business Manager has to take to the bank each week for the purpose of depositing funds. Funds will be kept in a safe at the school in an effort to reduce the number of trips that are taken to the bank each week. This will help reduce the amount of travel related expenses as it relates to the Business manager.

Identified Concern: Unnecessary Cash Disbursement Journal

Corrective Action:

“The District is using CSIU financial accounting software for payroll and general ledgers. The District was also using QuickBooks as a cash log to record deposits and issue checks for the General Fund. In an effort to eliminate the duplication of effort and eliminate the opportunity of erroneous information being manually entered into or omitted from the CSIU program, we will proceed with recommendation concerning usage of CSIU software and discontinue the use of QuickBooks.”

Auditor Conclusion

We are pleased that the District has begun implementing corrective action to address the issues identified in our finding. As discussed, the lack of internal controls in the District’s business office during our audit period increased the risk of fraud, risk, and/or abuse and put the District in noncompliance with its own Board Policy No. 828 *Fraud*.

While the District has indicated that it has made procedural changes in its business office that should lead to better segregation of duties, we reiterate our recommendation that the District develop and annually review and revise (if necessary) a formal written Internal Control plan. We also continue to recommend that the Board require a formal written Internal Control plan and annually approve this plan at a public meeting.

Although we appreciate the District's effort to have a management employee (Business Manager) approve the Superintendent's expense report, we recommend that the Board approve the Superintendent's expense report separately from the other monthly bills. Since the Business Manager reports to the Superintendent, we don't believe the Business Manager is the appropriate District official to approve this expense in detail. In smaller districts like the North Clarion County School District, it is imperative for the Board to take a more "hands on" approach to operations and internal controls, and we believe the detailed review and approval of this expense should be under the Board's purview.

Finally, we noted that the District's response failed to specifically address the issue of credit card purchases delivered to the Business Manager's home address. It is imperative that the District ensure that procedures are implemented that expressly prohibit the delivery to any employee's home address.

We will review the above noted corrective actions along with any other corrective action taken by the District to address our recommendations during our next audit of the District.

Status of Prior Audit Findings and Observations

Our prior audit of the North Clarion County School District resulted in no findings or observations.

Distribution List

This letter was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Joe Torsella

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter

Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Nathan Mains

Executive Director
Pennsylvania School Boards Association
400 Bent Creek Boulevard
Mechanicsburg, PA 17050

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: News@PaAuditor.gov.