

# PERFORMANCE AUDIT

---

## Neshannock Township School District Lawrence County, Pennsylvania

---

March 2015



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

**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Ms. Amy Na, Board President  
Neshannock Township School District  
3834 Mitchell Road  
New Castle, Pennsylvania 16105

Dear Governor Wolf and Ms. Na:

We conducted a performance audit of the Neshannock Township School District (District) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period April 10, 2012 through May 27, 2014, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 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 relevant requirements, as detailed in five (5) findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and a number of different government entities, including the Pennsylvania Department of Education, the Pennsylvania Department of Banking, the Public School Employees' Retirement System, and the State Employees' Retirement System.

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,

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale  
Auditor General

March 5, 2015

cc: **NESHANNOCK TOWNSHIP SCHOOL DISTRICT** Board of School Directors

# Table of Contents

---

---

	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Finding No. 1 - Business Office Beset by Poor Internal Controls .....	6
Finding No. 2 - Error in Reporting Pupil Membership Resulted in an Overpayment of \$8,260 .....	11
Finding No. 3 - Ineffective Managerial and Board Governance Over Student Activity Funds .....	13
Finding No. 4 - PSERS and SERS Annuitants Employed by District .....	18
Finding No. 5 - Weaknesses in School Board Minutes and Violation of Sunshine Act .....	21
Status of Prior Audit Findings and Observations .....	24
Distribution List .....	26

## **Executive Summary**

---

### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Neshannock Township School District (District) in Lawrence County. Our audit sought to answer certain questions regarding the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the District in response to our prior audit recommendations.

Our audit scope covered the period April 10, 2012 through May 27, 2014, 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 2010-11 and 2011-12 school years.

### **District Background**

The District encompasses approximately eighteen (18) square miles. According to 2010 federal census data, it serves a resident population of 9,609. According to District officials, the District provided basic educational services to 1,411 pupils through the employment of 78 teachers, 54 full-time and part-time support personnel, and six (6) administrators during the 2011-12 school year. The District received \$4,991,263 in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the five (5) audit findings within this report.

**Finding No. 1: Business Office Beset by Poor Internal Controls.** Our audit of the Neshannock Township School District's business office operations revealed internal control procedural breakdowns that resulted in a lack of control over cash and a lack of appropriate preparation/presentation of financial information (see page 6).

**Finding No. 2: Error in Reporting Pupil Membership Resulted in an Overpayment of \$8,260.** Our audit of the Neshannock Township School District's pupil membership reports submitted to the Pennsylvania Department of Education for the 2010-11 school year revealed that resident membership for one (1) student was incorrectly reported as non-resident membership for 183 days. The error resulted in an overpayment of \$8,260 in tuition for children placed in private homes (foster children) payable in the 2011-12 school year (see page 11).

**Finding No. 3: Ineffective Managerial and Board Governance Over Student Activity Funds.** Our review of the Neshannock Township School District's (District) board meeting minutes and internal control procedures over student activity funds found no internal controls or procedures, poor recordkeeping, and a lack of involvement by the District's Board of School Directors (see page 13).

**Finding No. 4: PSERS and SERS Annuitants Employed by District.** Our audit of the Neshannock Township School District's documentation supporting the rehiring of an annuitant for the 2011-12 school year found that the District was unable to show that it provided the Public School Employees' Retirement System with adequate and accurate documentation to support the rendered approval.

Our audit also revealed that since August 2008, the District has employed several retired law enforcement officers, retired from the State Employees Retirement System (SERS), as security officers. Our review of this contract revealed that while the individuals were hired as independent contractors, the District was responsible for payroll taxes and Workers' Compensation insurance coverage; and the security officers were paid through the District's payroll system (see page 18).

**Finding No. 5: Weaknesses in School Board Minutes and Violation of Sunshine Act.** Our audit of the Neshannock Township School District's board meeting minutes from May 9, 2013 through February 13, 2014, found inadequacies in the recording of and documenting of the board actions (see page 21).

**Status of Prior Audit Findings and Observations.** With regard to the status of our prior audit recommendations to the Neshannock Township School District (District) from an audit released on January 14, 2014, we found that the District had taken appropriate corrective action in implementing our recommendations pertaining to errors in reporting pupil membership that resulted in a reimbursement underpayment of \$38,495, except for the error in reporting pupil

membership, which resulted in an overpayment of \$8,260 (see page 11).

## Audit Scope, Objectives, and Methodology

---

### 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 Section 403 of The Fiscal Code, 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 April 10, 2012 through May 27, 2014, except for the verification of professional employee certification which was performed for the period July 1, 2012 through February 25, 2014.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 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 (PDE) 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 certain relevant state laws, regulations, 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?

- ✓ 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, was the District, and any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ 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?
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ Were there any declining fund balances that may pose a risk to the District's fiscal viability?
- ✓ 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 there any other areas of concern reported by independent auditors, citizens, or other interested parties?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

## 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 certain relevant state laws, regulations, 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 certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). 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 relevant requirements 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 controls 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.

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.

To determine the status of our audit recommendations made in a prior audit report released on January 14, 2014, we reviewed the District's response to PDE dated April 11, 2013. We then performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

---

### Finding No. 1

---

*Criteria relevant to the finding:*

Public School Code (24 P.S. 6-607) states in part that: “no school order shall be authorized by the board, or signed by the president or secretary of any board of school directors, unless there are sufficient funds in the treasury of the district to pay the same . . .”

24 P.S. 4-439 states in part: “The treasurer . . . shall receive all appropriations, local taxes and other funds belonging to the district and make payments out of the same on proper orders approved by the board of school directors . . .”

24 P.S. 4-440 states in part: “The treasurer of each school district shall deposit the funds belonging to the school district in the school depository, if any, as directed by the board of school directors, and shall at the end of each month make a report to the school controller, if any, and to the secretary of the board of school directors of the amount of funds received and disbursed by him during the month.”

24 P.S. 4-427 (8) states in part: “. . . a statement of the finances of the district, at each regular meeting of the board, which statement shall be entered in full upon the minutes.”

### Business Office Beset by Poor Internal Controls

Our audit of the Neshannock Township School District’s (District) business office operations revealed internal control procedural breakdowns that resulted in a lack of control over cash and a lack of appropriate preparation/presentation of financial information.

During our fieldwork, we learned that between December 6, 2013 and December 20, 2013, the District’s bank returned seventeen (17) general fund checks totaling \$48,071 because of insufficient funds. The District’s Superintendent and two (2) Board of School Directors (Board) were made aware of the situation on January 9, 2014, and brought it to our attention during the audit.

According to the Superintendent, the “overdrafts” were attributed to fund transfers that the former business manager failed to make from other District bank accounts. The District conducted an investigation that revealed that the bank had allowed the District to overdraw their accounts without penalty since July 2011, one (1) month after opening the account. Our review of the District’s bank statements revealed that, on two (2) other occasions, the bank had returned District checks and no information was available concerning those checks.

#### Lack of Business Office Internal Controls

Business office personnel did not have defined job descriptions, written procedures, or adequate supervision in the performance of their duties. Support staff was authorized to override line item budgets and process payments without verifying if the necessary funds were available.

The District’s business manager, who also served as the Board Secretary, had sole responsibility to monitor the District’s depository accounts and prepare month-end reconciliations. No administrative or Board review was required, which resulted in the payment of invoices without

*Criteria relevant to the finding  
(continued):*

24 P.S. 6-687 (2) (b) states in part: “. . . shall adopt the budget and the necessary appropriation measures required to put it into effect. The total amount of such budget shall not exceed the amount of funds, including the proposed annual tax levy and State appropriation.”

24 P.S. 4-433 states in part that: “the secretary of the board of school directors shall perform the following duties:

- (1) . . . keep a correct and proper record of all the proceedings of the board . . .
- (2) . . . after the board has acted on and approved any bill or account for the payment of money . . . prepare and sign an order on the treasurer for the payment of the same.
- (4) . . . furnish, whenever requested, any and all reports concerning the school affairs of the district . . .
- (5) . . . have general supervision of all the business affairs of the school district subject to the instruction and direction of the board . . .
- (6) . . . be the custodian of all the records, papers, office property, and official seal of the school district . . .
- (8) . . . perform such other duties pertaining to the business of the district as are required by this act or the board of school directors may direct.”

adequate funds in the District’s General Operating Account.

Board Presented Financial Reports

Our review of the board meeting minutes from June 2011 through February 2014 revealed the following:

Treasurer Reports

Between June 2011 and March 2013, four (4) account overdrafts were shown on the board-approved *Treasurer Reports*. Review of the associated board meeting minutes did not reveal recognition or any discussion of the negative balances. In addition, our audit revealed that disbursements and transfers did not agree with the total expenses submitted for Board approval and ratification in the final column of the *Treasurer Reports*. Lastly, *Treasurer Reports* were not attached to the board meeting minutes for the period of April 2013 to February 2014.

Payments Awaiting Board Approval

Board Policy No. 616, *Payment of Bills*, requires that bills and obligations of the District must be fully itemized, verified, and approved by the Board prior to a check being drawn for payment. The policy further states that it is the responsibility of the business manager or designee to verify that funds are available to cover the payment and that the Board had budgeted for the item.

Our audit revealed that the Board did not approve summary listings or check registers for the payment of bills. In addition, no verification of fund availability was performed, and business office support staff could override line item budgets. In addition, the Board approved a generic resolution that allowed the business manager and the Superintendent to close-out the year including budget changes without Board review or approval.

*Criteria relevant to the finding  
(continued):*

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on basis . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*. (November 1999), pg. 1.

## Financial Statements

Our review of the board meeting minutes and discussion with administrative personnel revealed that the business manager/Board Secretary did not prepare or present monthly financial statements to the Board. Without these reports, the Board was not able to monitor the monthly financial position of the District and determine if the District's financial operations were suitable or if modifications were required.

## Lack of Periodic Budgetary Reports

The District's business office also did not provide the Board with budgetary reports. Without these reports, the Board could not effectively carry out their responsibilities by ensuring that expenditures reflected the line-item spending within the constraints defined by the budgets. In addition, it was more difficult for the Board to question the administration about the current operating position of the District in relation to the potential revenues and expenditures to be expected for the remainder of the school year.

The Board is ultimately responsible for the District's programmatic and financial operations. It is their duty to ensure that they are receiving the information they need to make prudent operational decisions. Unfortunately, the Board was encumbered by the District's serious internal control deficiencies. These internal control deficiencies within the business office have resulted in questionable cash management procedures, lax supervision, no preparation or disbursement of timely financial reports, and a communication breakdown between the administration and the Board.

## Depository Accounts

The Public School Code requires that, on an annual basis, a District's Board pass a resolution identifying the allowable depository institutions that the District can utilize. Our review found that the District had only approved one (1) of the District's depositories.

In addition, we also noted that in January 2014, the District changed the authorized signers on the District's checks. However, the District did not notify the bank in a timely manner and, as a result, the bank honored checks with improper signatures.

### **Recommendations**

The *Neshannock Township School District* should:

1. Develop job descriptions and procedures for all business office positions.
2. Ensure that all business office personnel are adequately supervised and budgetary override privileges are removed.
3. Require the business manager to develop cash control procedures to guarantee that future overdrafts do not occur and that administration and/or the Board sign off on all reconciliations.
4. Require the business manager or their designee to present bills to be paid and timely financial statements and budgetary reports for approval at monthly board meetings for inclusion in the official minutes.

The *Pennsylvania Department of Banking* should:

5. Determine if the local depository violated state banking regulations through the payment of checks that resulted in the overdraft of a public fund account.
6. Determine if the local depository violated state banking regulations by honoring checks with incorrect signatures.

### **Management Response**

Management stated the following:

“The District has contracted with the Midwestern IU IV to provide assistance with the development of job descriptions and procedures for all non-professional employees within the District.

All business activity and financial management within the District including, but not limited to, controls, privileges, and procedures have been reviewed and addressed by the new Superintendent and Business Manager.

The Superintendent and Business Manager have commenced implementation of newly devised business activity and financial management procedures within the District.

The Business Manager is timely disseminating appropriate and necessary financial information to the Board, specifically the Board Treasurer.

The District will notify the Pennsylvania Department of Banking concerning the District's banking institution's potential violation of state banking regulations.”

#### **Auditor Conclusion**

We are encouraged that the District is taking action to correct the deficiencies in the business office. We will follow up on the status of our recommendations during our next cyclical audit of the District.

**Finding No. 2** →

**Error in Reporting Pupil Membership Resulted in an Overpayment of \$8,260**

*Criteria relevant to the finding:*

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four important data elements from the Child Accounting perspective are: District Code of Residence; Funding District Code; Residence Status Code; and Sending Charter School Code. In addition, other important fields used in calculating state education subsidies are: Student Status; Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location of Residence. Therefore, PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases all local education agencies' (LEA) state subsidy calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating the LEA's state subsidy using the data the LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Our audit of the Neshannock Township School District's (District) pupil membership reports submitted to PDE for the 2010-11 school year revealed that resident membership for one (1) student was incorrectly reported as non-resident membership for 183 days. The error resulted in an overpayment of \$8,260 in tuition for children placed in private homes (foster children) payable in the 2011-12 school year.

The reporting error was the result of District personnel failing to perform an internal review of proper residency coding within the District's child accounting student information system. The District also failed to perform a comparison of PDE's preliminary summary child accounting reports to District reports. A comparison review would have identified that a correction in the coding of this student was made in the District's student information system but was not uploaded to the PIMS system. District personnel used a residency code that resulted in PIMS identifying the student as a non-resident foster student instead of as a resident.

It is the responsibility of management to have internal policies and procedures in place to ensure that student data is collected and reported accurately and timely. Without internal controls, the District cannot be assured that its student data is correct or that it is receiving the appropriate subsidy.

### **Recommendations**

The *Neshannock Township School District* should:

1. Thoroughly review all child accounting data for accuracy prior to submission to PDE.
2. Establish internal controls that include reconciliations of the data that is uploaded into PDE's PIMS program.
3. Review reports submitted subsequent to the years audited and, if errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

4. Adjust the District's future allocations to correct the \$8,260 overpayment of tuition for foster children.

### **Management Response**

Management stated the following:

“The District will monitor the student data entry into PDE's PIMS program and, the District will perform periodic reconciliation of the information uploaded to PDE's PIMS program. Further, the District will review and revise any or all erroneous reports submitted to PDE.”

### **Auditor Conclusion**

We are encouraged that the District is taking action to correct this error. We will follow up on the steps the District has put into place to address the deficiency during our next cyclical audit.

### Finding No. 3

### Ineffective Managerial and Board Governance Over Student Activity Funds

*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 exercise, 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 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 employee 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 review of the Neshannock Township School District’s (District) Board of School Directors (Board) meeting minutes and internal control procedures over student activity funds found no internal controls or procedures, poor recordkeeping, and a lack of involvement by the District’s Board.

This issue was brought to our attention by the District’s Superintendent, who on March 5, 2014, informed us that the District’s student activity funds had not been reconciled and/or balanced in the 2013-14 school year and the District placed no credence on the July 1, 2013 beginning fund balances.

During our review of the District’s student activity fund records for the most recently completed school year, 2012-13, we found that no written procedures or cash controls over the funds existed; the fund custodian was the business manager; the accounts payable clerk was authorized to process checks and payment requisitions without managerial approval or verification of sufficient fund balance; and that the fund custodian was not bonded. We also noted that the student activity fund board policy placed ultimate responsibility with the Board, although our audit found no evidence of Board involvement, except the approval of one (1) new account in the board meeting minutes.

Specific to our review, the audit revealed the following discrepancies:

- The Board did not annually approve a list of student clubs/organizations, faculty sponsors, or student officers.
- The fund custodian did not submit a quarterly financial statement to the Board.
- An annual audit of the student activity funds was not performed.



*Criteria relevant to the finding (continued):*

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. The principal shall serve as custodian of the funds. The principal shall be bonded.”

“The board shall appoint the high school principal as custodian and central treasurer.”

“The central treasurer shall submit a financial statement to the board, superintendent and principal on a minimum monthly basis.”

“The central treasurer shall submit complete records to the auditors.”

“Deficit spending is not permitted by a club/organization.”

“No disbursements can be made without documentation.”

- There was no evidence that student activity organizations were formed under written by-laws or constitutions for thirteen (13) of the fourteen (14) student activity accounts.
- No written minutes were available for any of the District’s fourteen (14) student activity accounts.
- No lists of student officers was available for any of the fourteen (14) accounts to document that students were involved in the decision making process.
- The custodian of the activity funds allowed clubs/organizations to deficit spend.
- Student treasurers and advisors did not maintain records of funds collected and disbursed.
- Inclusion of clubs/activities that did not meet the Public School Code definition of a student activity.
- The District did not utilize purchase orders.

Student activity fund operations should be an educational learning process for the students. Monies should be raised for a specific, approved, school-related 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.

Our audit of five (5) student activity funds revealed the following exceptions:

2012-13 School Year - Student Activity Funds									
Revenue/Deposits				Reimbursements/Payments					
	Deposits	Missing Support	Wrong Sch. Yr. Recorded	Payments Processed	Student Approval Missing	Missing or Incomplete Support	Payment Before Requisition	Incorrect Payment Amount	Wrong Sch. Yr. Recorded
<b>Fund 1</b>	5	2	-	13	2	4	8	-	-
<b>Fund 2</b>	4	-	-	6	-	3	-	-	-
<b>Fund 3</b>	3	1	-	5	-	3	-	-	1
<b>Fund 4</b>	12	2	2	34	1	13	-	1	5
<b>Fund 5</b>	<u>3</u>	<u>1</u>	=	<u>2</u>	=	=	=	=	=
<b>Total</b>	<b>27</b>	<b>6</b>	<b>2</b>	<b>60</b>	<b>3</b>	<b>23</b>	<b>8</b>	<b>1</b>	<b>6</b>

Supplementary 2013-14 School Year Documentation  
Received from the Superintendent During the Audit

On April 28, 2014, the District provided us with a Student Activity Funds Reconciliation<sup>1</sup> for the 2013-14 school year. The audit follow-up revealed that the administration was unfamiliar with the one (1) account and believed that it was listed in error. The second account's advisor's spreadsheet reflected a positive balance; however, our audit found that the spreadsheet did not include four (4) checks totaling \$14,805. Our review of these four (4) checks revealed that they were all for the benefit of the identified club and were dated between November 26, 2013 and March 29, 2014. All four (4) checks lacked adequate supporting documentation, and the club's treasurer did not sign one (1) check requisition. No explanation was available as to why these checks were excluded from the advisor's spreadsheet or why the business office processed the requests without sufficient club funds.

Student Activity Funds Check Signers

On January 13, 2014, the District signed new signature cards at the bank. Our review of the bank signature cards revealed three (3) signers; the Superintendent, the principal of the middle school, and the principal of the high school; two (2) signatures were required on the checks. Due to an internal error in the business office, the District's financial software company received a form identifying the student activity funds' signers as the Superintendent, Board President, and Board Treasurer.

This error went unnoticed by the District until the bank notified the District of the error on February 14, 2014. Our audit revealed that District personnel did not know when the error was corrected and had no documentation to support the financial software correction. Lastly, we noted that the bank honored the student activity funds presented checks even though they were improperly signed.

---

<sup>1</sup> Prepared by the District's Financial Consultant.

## **Recommendations**

The *Neshannock Area School District* should:

1. In consultation with the solicitor and the Board, ensure that proper procedures are developed and implemented to comply with the requirements of Section 511 of the Public School Code.
2. Review Board Policy No. 618, Student Activity Funds, to ensure compliance with board-established policy.
3. Establish formal business office procedures regarding deposits, disbursements, managerial approval of all transactions, and account reconciliation inclusive of supervisory and Board review and approval.
4. 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.
5. Ensure proper student authorization is obtained on all payment authorization forms and that premature payment is prohibited.
6. Remove all non-student activity funds from the fund listing and balance.
7. Require administrative personnel to ensure accounts have sufficient fund balance prior to check processing and require advisors and club treasurers to keep track of the individual account balances.
8. Provide training for all District administrative personnel, secretaries, and club advisors to ensure that the student activity funds' operations, recordkeeping, and student involvement is appropriate.

The *Pennsylvania Department of Banking* should:

9. Determine whether the involved depository institution violated banking law by honoring checks with improper signatures.

## **Management Response**

Management stated the following:

“The District will consult with its Solicitor to make certain organizational procedures are developed and implemented to ensure compliance with Section 511 of the Public School Code and Board Policy No. 618 regarding Student Activity Funds.

The Superintendent, Business Manager, Solicitor and newly contracted Student Activity Treasurers have commenced review of all Student Activity Funds and organizational procedures to ensure all matters identified are in satisfactory compliance.

The District will notify the Pennsylvania Department of Banking concerning the District's banking institution's potential violation of state banking regulations.”

## **Auditor Conclusion**

We commend the Superintendent for bringing this issue to our attention. And we are encouraged that the District has put a plan into place to correct these deficiencies. We will follow up on the status of our recommendations during our next cyclical audit of the District.

## Finding No. 4

## PSERS and SERS Annuitants Employed by District

### *Criteria relevant to the finding:*

Public School Employees' Retirement System's (PSERS) Return to Service Guidelines and Clarification states that a retiree may not be employed by a Pennsylvania public school and receive a public school retirement benefit at the same time. The Retirement Code, however, provides that a retiree may return to work for a Pennsylvania public school and continue to receive retirement benefits if one of the following exceptions applies: employment due to an emergency; employment in the event of a personnel shortage; or employment in an extracurricular position under a separate contract.

24 Pa.C.S. § 8346(b) Emergency or Personnel Shortage – the school employer makes the determination that an Employment Emergency or Personnel Shortage exists and that only a retiree is available to fill the position. PSERS has the right to review the employment of any retiree for compliance with the intent of the Retirement Code. If the school employer or retiree has any questions as to whether a particular situation will qualify, they may submit to PSERS for review the facts surrounding their determination. PSERS will advise the employer and retiree whether the employment of the retiree complies with the Retirement Code situation occurs.

Our audit of the Neshannock Township School District's (District) documentation supporting the rehiring of an annuitant for the 2011-12 school year found that the District was unable to provide evidence to show that it provided the Public School Employees' Retirement System (PSERS) adequate and accurate documentation to support the rendered approval.

Local education agencies are responsible for contacting the retirement systems in order to approve an annuitant's return to service before the individual begins employment. PSERS and the State Employees' Retirement System (SERS) are responsible for ensuring that any post-retirement employment is in compliance with the Internal Revenue Retirement Code, which specifically states that an individual cannot work for the same company from which they receive an annuity.

Documentation for the three (3) years revealed that the individual was hired as a gifted student consultant, gifted student teacher, and a gifted/enrichment activities facilitator. We also noted that the District informed PSERS that no qualified candidates applied and/or qualified candidates refused the position due to the salary in the first two (2) years. However, our audit revealed that while the salary offered to the qualified candidates was a set stipend, the annuitant was actually hired at an hourly rate.

Lastly, we were informed that the District already had a qualified employee in this position. When the annuitant was hired, this employee was relegated to the associated extracurricular position from which they eventually tendered resignation resulting in the need for PSERS to approve the 2013-14 school year hiring. After the resignation, the District did not reduce the employee's salary for the annual stipend.

Our audit also revealed that since August 2008, the District has employed several law enforcement officers, retired from SERS, as security officers. Our review of this contract revealed that while the individuals were hired as independent contractors, the District was responsible for payroll taxes and workers' compensation insurance

coverage; security officers were paid through the District's payroll system. We also noted that the contract required the District to obtain and maintain liability insurance coverage for acts or omissions of these security officers. Due to the inclusion of these requirements, the security officers were actually hired as employees and not independent contractors.

The same contract also stated that one (1) of the security officers was designated as the District's Director of Security and was also hired by the Board as the District's Attendance Officer. His responsibilities included the supervision of the other six (6) hired security officers, which contradicts previous provisions of the contract that stated that the Superintendent or designee would supervise the security officers. In addition, the Board delegated their supervision of security personnel to this individual.

We also learned that neither the District nor the involved officers had contacted SERS to determine employment eligibility after initiation of annuity payments.

### **Recommendations**

The *Neshannock Township School District School* should:

1. Consult with their solicitor to determine if all appropriate information was submitted to PSERS and determine if additional documentation may be warranted.
2. Request their solicitor to review the security officers' contract to determine if it is in compliance with applicable independent contractor's legal requirements.
3. Consult with their solicitor to determine if separate contracts need to be prepared for the hiring of independent school security officers and the District's director of security/school attendance officer to ensure Board responsibility is not circumvented.
4. Require the involved annuitants to obtain SERS approval of their employment at the District.

*The Public School Employees' Retirement System and State Employees' Retirement System should:*

5. Request the District to provide all information relating to the hired annuitants inclusive of contracts and in the case of PSERS information relating to the other involved employee.
6. If annuity payments are determined to be improper, make the necessary corrections to future pension benefits.

### **Management Response**

Management stated the following:

“The District will continue to consult with the Solicitor, PSERS and SERS relative to the matters addressed within the Auditors' findings.

Further, the Solicitor will review the terms and conditions contained within August 2008 Security Officer's Contract and identify what, if any, independent contractor's compliance issues and PSERS/SERS eligibility or payment issues may possibly necessitate corrective action.”

### **Auditor Conclusion**

Based on the District's utilization of their payroll system to compensate these individuals and their responsibility to provide the employer's share of Social Security and Medicare along with required employment liability insurances, the involved individuals may not be construed as consultants under the retirement provisions for return to service. The finding will stand as presented.

**Finding No. 5**

**Weaknesses in School Board Minutes and Violation of Sunshine Act**

*Criteria relevant to the finding:*

Section 433 of the Public School Code (PSC) provides, in part:

“The secretary of the board of school directors shall perform the following duties:

- (2) He shall keep a correct and proper record of all the proceedings of the board, and shall prepare such reports and keep such accounts as are required by the provisions of this act . . .”

He shall attest, in writing, the execution of all deeds, contracts, reports, and other instruments that are to be executed by the board.”

Section 518 of the PSC provides, in part:

“Every board of directors shall retain as a permanent record of the district, the minute book . . .”

Chapter 4 – Preparing Board Minutes of *The School Board Secretary’s Handbook* published by the Pennsylvania School Board Secretaries Associations identifies items that should be included in official minutes, including:

Secretary must sign all minutes, regular, adjourned, and special meetings.

Our audit of the Neshannock Township School District’s (District) Board of School Directors (Board) meeting minutes from May 9, 2013 through February 13, 2014, found inadequacies in the recording and documenting of the Board’s actions, as follows:

- Violation of provisions of the Sunshine Act related to executive sessions.
- Minutes were not properly signed and dated by the Board Secretary.
- Minutes were maintained either bound in a stack with rubber bands and/or loose leaf and were not permanently bound.

Executive Sessions

The audit found the District violated the provisions of the Sunshine Act related to executive session. Section 708 of the Sunshine Act requires executive sessions to be announced at an open meeting. Furthermore, according to Section 710.1 (c) of the Sunshine Act, the reason for the executive session must be announced immediately prior to, or subsequent to, the session.

The General Assembly passed the Sunshine Act to ensure the right of its citizens to have notice of, and the right to attend, all meetings of agencies at which any agency business is acted upon or discussed. The General Assembly determined that the public had the right to present at all meetings of agencies and to witness the deliberation, policy formulation, and decision-making. In addition, the General Assembly found this access to be vital to the enhancement and proper functioning of the democratic process. Moreover, it found that “secrecy in public affairs undermines the faith of the public in government and the effectiveness in fulfilling its role in a democratic society.”

Our audit found that the Board called executive sessions without announcing the purpose prior to adjournment or



*Criteria relevant to the finding  
(continued):*

Pennsylvania Sunshine Act 65 PA  
C.S.A. § 703 provides, in part:

“Executive Session is a meeting  
from which the public is excluded,  
although the agency may admit  
those persons necessary to carry  
out the purpose of the meeting.”

Section 708 – Executive sessions:

“(c) Limitation. Official action on  
discussions held pursuant to  
subsection (a) shall be taken at an  
open meeting. Nothing in this  
section or section 700 shall be  
construed to require that any  
meeting be closed to the public,  
nor shall any executive session be  
used as a subterfuge to defeat the  
purposes of Section 704.”

Section 710.1 – Public  
participation:

“(c) Objection. Any person has  
the right to raise an objection at  
any time to a perceived violation  
of this act at any meeting of a  
board or council of a political  
subdivision or any authority  
created by a political subdivision.”

subsequent to the session eight (8) times for the period  
reviewed.

### Signed and Dated

Our review found none of the board meeting minutes  
reviewed were properly signed and dated by the Board  
Secretary for the period noted.

The Board Secretary’s signature provides assurance that the  
minutes have been prepared accurately and have Board  
approval.

### Permanently Bound

Our review found that the District stopped binding the  
board minute books beginning in May 2013. When asked,  
no explanation was provided as to why the decision was  
made to stop binding the board minute books.

Permanently binding minutes ensures that pages cannot be  
removed and replaced. Without these internal controls,  
there is an increased risk that important information will  
not be maintained accurately or completely.

The District’s Superintendent stated the Board relied on the  
prior Board Secretary’s expertise in the proper preparation  
of the official board meeting minutes.

While law may not specifically require all these items, they  
are examples of official action and indicators of  
permanence and accuracy, which are required. Further,  
these items are consistent with best business practices for  
keeping board minutes. As such, the District’s failure to  
adequately record and document actions lessens the  
transparency and accountability to the public and resulted  
in violations of the Public School Code and the Sunshine  
Act.

### **Recommendations**

The *Neshannock Township School District* should:

1. Require the Board Secretary to sign and date all board  
meeting minutes in a timely manner.

2. Ensure that the board meeting minutes are complete, permanently bound, and kept in a secure place.
3. Announce at an open board meeting, the date, time, and reason for executive session, in compliance with the Sunshine Act.

### **Management Response**

Management stated the following:

“The Superintendent and the Solicitor will provide necessary oversight to ensure proper recording and filing of Board Minutes.

The Superintendent and the Solicitor will continue to monitor compliance with the Sunshine Act.”

### **Auditor Conclusion**

We are encouraged that the District is reaching out for guidance on this issue and again stress the importance of complying with the Sunshine Act.

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

---

Our prior audit of the Neshannock Township School District (District) released on January 14, 2014, resulted in one (1) finding. The finding pertained to errors in reporting pupil membership resulting in a reimbursement underpayment of \$38,495. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District's written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior finding. As shown below, we found that the District did implement our recommendations related to errors in pupil membership resulting in an underpayment of \$38,495.

### **Auditor General Performance Audit Report Released on January 14, 2014**

---

**Finding:** **Errors in Reporting Pupil Membership Resulted in a Reimbursement Underpayment of \$38,495**

Finding Summary: Our prior audit of pupil membership reports submitted to PDE for the 2009-10 school year found reporting errors. District personnel inaccurately reported membership for children placed in private homes (foster children) as resident membership. These errors resulted in a reimbursement underpayment of \$38,495.

Recommendations: Our audit finding recommended that the District should:

1. Strengthen internal controls over pupil membership and the coding of non-resident students prior to uploading District membership data into the Pennsylvania Information Management System to ensure accuracy.
2. Contact all districts educating District students in special education classes to verify that all District students are properly reported.
3. Review reports for subsequent school years and submit revised reports to PDE if errors are found.
4. Retain copies of student permanent records, and ensure that permanent record cards and entry and withdrawal forms are completed correctly.
5. Ensure consistency by developing a uniform registration form for use throughout the District and be sure the form shows administrative approval.

We also recommended that PDE should:

6. Adjust the District's future allocations to resolve the underpayment of \$38,495.

Current Status:

During our current audit, we found that the District did implement our prior recommendations in April 2012, except for recommendation 3 (see Finding No. 2 in our current audit report).

At the time of the audit, PDE personnel stated the underpayment was pending and the \$38,495 underpayment was scheduled to be made, possibly in August 2014. On November 25, 2014, the business manager informed us that on August 28, 2014, PDE paid the District \$38,495 in resolution of the previous audit finding.

## **Distribution List**

---

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

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Pedro A. Rivera  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

Christopher B. Craig, Esq.  
Acting State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Ms. Lori Graham  
Acting 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. Lin Carpenter  
Assistant Executive Director for Member Services  
School Board and Management Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

Ms. Connie Billett  
Assistant Internal Auditor  
Public School Employees' Retirement  
System  
P.O. Box 125  
Harrisburg, PA 17108

Ms. Christine Hodge  
Director  
Pennsylvania Department of Banking  
and Securities  
Consumer Services Office  
17 North Second Street  
13<sup>th</sup> Floor  
Harrisburg, PA 17101

Mr. David E. Durbin  
Executive Director  
State Employees' Retirement System  
30 North Third Street  
Suite 150  
Harrisburg, Pennsylvania 17101

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditor.gen.state.pa.us](mailto:news@auditor.gen.state.pa.us).