

DONEGAL SCHOOL DISTRICT  
LANCASTER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

AUGUST 2010



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Steven Cafrelli, Board President  
Donegal School District  
1051 Koser Road  
Mount Joy, Pennsylvania 17552

Dear Governor Rendell and Mr. Cafrelli:

We conducted a performance audit of the Donegal School District (DSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period February 24, 2006 through December 22, 2009, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008, 2007, 2006 and 2005. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the DSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures.

We appreciate the DSD's cooperation during the conduct of the audit.

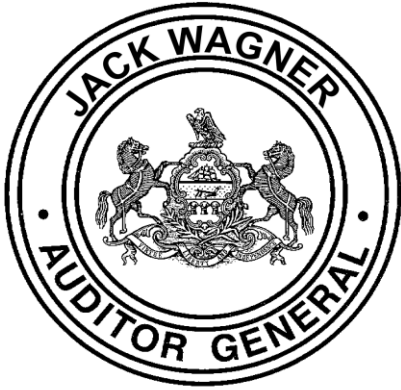
Sincerely,

/s/

JACK WAGNER  
Auditor General

August 25, 2010

cc: **DONEGAL SCHOOL DISTRICT** Board Members

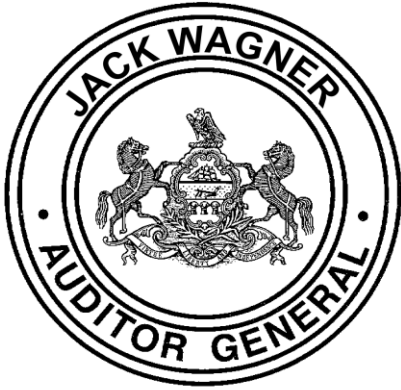


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## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period February 24, 2006 through December 22, 2009, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08, 2006-07, 2005-06 and 2004-05.

### **District Background**

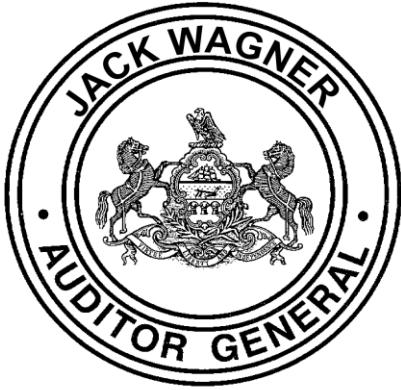
The DSD encompasses approximately 35 square miles. According to 2009 local census data, it serves a resident population of 18,052. According to District officials, in school year 2007-08 the DSD provided basic educational services to 2,797 pupils through the employment of 209 teachers, 160 full-time and part-time support personnel, and 15 administrators. Lastly, the DSD received more than \$10.3 million in state funding in school year.

### **Audit Conclusion and Results**

Our audit found that the DSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

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

**Observations.** With regard to the status of our prior audit recommendations to the DSD from an audit we conducted of the 2003-04, 2002-03, 2001-02 and 2000-01 school years, we found the DSD had taken appropriate corrective action in implementing our recommendations regarding a decrease in the DSD's general fund balance and weak internal controls over the student activity fund (see page 7).





## Audit Scope, Objectives, and Methodology

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### Scope

*What is a school performance audit?*

School performance audits allow the 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 PA Department of Education, and other concerned entities.

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

Our audit covered the period February 24, 2006 through December 22, 2009.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08, 2006-07, 2005-06 and 2004-05.

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 Department of Education (DE) 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 law, regulation, 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, regulations, and defined business practices. Our audit focused on assessing the DSD's compliance with applicable 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:

- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?

- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District use an outside vendor to maintain its membership data and if so, are there internal controls in place related to vendor access?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## Methodology

### *What are internal controls?*

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

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, 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 findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed an analytical procedure in the area of comparative financial information.

Our audit examined the following:

- Records pertaining to professional employee certification, state ethics compliance, and financial stability.
- Items such as Board meeting minutes.

Additionally, we interviewed selected administrators and support personnel associated with DSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on October 24, 2006, we reviewed the DSD's response to DE dated May 21, 2009. We then performed additional audit procedures targeting the previously reported matters.

## **Findings and Observations**

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**F**or the audited period, our audit of the Donegal School District resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

Our prior audit of the Donegal School District (DSD) for the school years 2003-04, 2002-03, 2001-02 and 2000-01 resulted in two reported findings. The first finding pertained to a decreasing general fund balance, and the second pertained to weak internal controls in the student activity fund. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We analyzed the DSD Superintendent's written response provided to the Department of Education, performed audit procedures, and questioned District personnel regarding the prior findings. As shown below, we found that the DSD did implement recommendations related to the District's decreasing fund balance and weak internal controls over student activity funds.

| <i>School Years 2003-04, 2002-03, 2001-02 and 2000-01 Auditor General Performance Audit Report</i>                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Prior Recommendations</i>                                                                                                                                                                                                                                                                                                                                                                                                                          | <i>Implementation Status</i>                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p><u><i>I. Finding No. 1: District Fund Balance Decreased Approximately \$2.2 Million During the Last Five Years</i></u></p> <ol style="list-style-type: none"> <li>1. Prepare realistic budgets based on historical data and verifiable revenue projections.</li> <li>2. Use monthly budget status reports to control budgetary activity.</li> <li>3. Approve expenditures only when assured budgetary limitations will not be exceeded.</li> </ol> | <p><b>Background:</b></p> <p>Our prior audit of the District's annual financial reports, local auditor reports and general fund budgets for fiscal years ended June 30, 2005, 2004, 2003, 2002 and 2001 found that the balance in the District's general fund decreased during the review period from a \$2,745,216 surplus at June 30, 2001 to a \$536,635 surplus at June 30, 2005.</p>                                                                    | <p><b>Current Status:</b></p> <p>Our current audit of the District's annual financial reports, local auditors' reports and general fund budgets for 2005-06 through 2008-09 found that the board and administration complied with our recommendations and the District's fund balance increased to \$6,041,808 at June 30, 2009. Additionally, we verified that the board had not over-expended the general fund budget in any of the four years we reviewed.</p> |
| <p><u><i>II. Finding No. 2: Weak Internal Controls in Student Activity Fund</i></u></p> <ol style="list-style-type: none"> <li>1. Require the nursing assistants and concert and jazz band student groups to formally organize, elect officers, adopt by-laws and prepare minutes of their meetings as needed. Also, the Ski Club-High School group should be required to adopt</li> </ol>                                                            | <p><b>Background:</b></p> <p>Our prior audit of the Donegal High School student activity accounts at June 30, 2005, found the following:</p> <ol style="list-style-type: none"> <li>1. Three accounts were not properly organized.</li> <li>2. Four general accounts and two memorial accounts were commingled with the student activity fund.</li> <li>3. One account had a deficit balance.</li> <li>4. One account was inactive for two years.</li> </ol> | <p><b>Current Status:</b></p> <p>Our current audit of student activity fund operations found that the board and District administration complied with our recommendations by:</p> <ol style="list-style-type: none"> <li>1. Closing two accounts and transferring their balances to the District's general fund, and having the Ski Club group adopt by-laws governing its operation.</li> </ol>                                                                  |

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| <p>by-laws.</p> <ol style="list-style-type: none"><li>2. Ensure general fund/trust fund accounts are removed from the student activity fund and properly accounted for.</li><li>3. Implement procedures to ensure accounts do not operate with deficit balances.</li><li>4. Close the Class of 2003 account in accordance with board policy.</li></ol> |  | <ol style="list-style-type: none"><li>2. Three general fund accounts and a memorial fund were closed and their balances transferred to the District's general fund; one memorial account was closed and its balance transferred to the Student Council account; and one account was determined to be for the benefit of an actual student group.</li><li>3. District regulations governing the operation of student activity funds were revised to prohibit any organization from operating with a deficit balance. No student activity accounts had a deficit balance as of June 30, 2009.</li><li>4. The Class of 2003 account was closed and its balance was transferred to the Student Council account.</li></ol> |
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## **Distribution List**

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This report was initially distributed to the superintendent of the school district, the board members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Thomas E. Gluck  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

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

Senator Jeffrey Piccola  
Chair  
Senate Education Committee  
173 Main Capitol Building  
Harrisburg, PA 17120

Senator Andrew Dinniman  
Democratic Chair  
Senate Education Committee  
183 Main Capitol Building  
Harrisburg, PA 17120

Representative James Roebuck  
Chair  
House Education Committee  
208 Irvis Office Building  
Harrisburg, PA 17120

Representative Paul Clymer  
Republican Chair  
House Education Committee  
216 Ryan Office Building  
Harrisburg, PA 17120

Ms. Barbara Nelson  
Director, Bureau of Budget and  
Fiscal Management  
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

Dr. David Davare  
Director of Research Services  
Pennsylvania School Boards Association  
P.O. Box 2042  
Mechanicsburg, PA 17055

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