

CANTON AREA SCHOOL DISTRICT  
BRADFORD COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

JANUARY 2013





**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER  
AUDITOR GENERAL**

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Jared Wilcox, Board President  
Canton Area School District  
509 East Main Street  
Canton, Pennsylvania 17724

Dear Governor Corbett and Mr. Wilcox:

We conducted a performance audit of the Canton Area School District (CASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 30, 2009, through September 7, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, and June 30, 2009. 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 CASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We appreciate the CASD's cooperation during the conduct of the audit.

Sincerely,

/s/

**JACK WAGNER  
Auditor General**

January 14, 2013

cc: **CANTON AREA SCHOOL DISTRICT** Board Members



## **Table of Contents**

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	Page
Executive Summary .....	1
Audit Scope, Objectives, and Methodology .....	3
Findings and Observations .....	6
Status of Prior Audit Findings and Observations .....	7
Distribution List .....	11



## **Executive Summary**

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### **Audit Work**

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

Our audit scope covered the period June 30, 2009, through September 7, 2012, 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 2009-10 and 2008-09.

### **District Background**

The CASD encompasses approximately 204 square miles. According to 2010 local census data, it serves a resident population of 6,213. According to District officials, in school year 2009-10 the CASD provided basic educational services to 1,038 pupils through the employment of 80 teachers, 50 full-time and part-time support personnel, and 8 administrators. Lastly, the CASD received more than \$9.8 million in state funding in school year 2009-10.

### **Audit Conclusion and Results**

Our audit found that the CASD complied, in all significant respects, with applicable state laws, 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 CASD from an audit we conducted of the 2007-08 and 2006-07 school years, we found the CASD had taken appropriate corrective action in implementing our recommendations pertaining to the Superintendent's employment contract buy-out and their student accounting applications (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 June 30, 2009, through September 7, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2012, through September 7, 2012.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10 and 2008-09.

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 CASD's compliance with applicable state laws, 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?
- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?

- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ 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 does 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?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Were votes made by the District's board members free from apparent conflicts of interest?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

## **Methodology**

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

CASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, 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

*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, contracts, grant requirements and administrative procedures.

designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

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 analytical procedures in the areas of state subsidies/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes and pupil membership records.
- Deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 24, 2010, we reviewed the CASD's response to PDE dated December 8, 2011. 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 Canton Area School District resulted in no findings or observations.

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

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Our prior audit of the Canton Area School District (CASD) for the school years 2007-08 and 2006-07 resulted in one reported finding and one observation. The finding pertained to the Superintendent's contract buy-out, and the observation pertained to their student accounting applications. 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 CASD Superintendent's written response provided to the Pennsylvania Department of Education, performed audit procedures, and questioned District personnel regarding the prior finding and observation. As shown below, we found that the CASD did implement recommendations related to the Superintendent's contract buy-out and the observation of their student accounting applications.

### **School Years 2007-08 and 2006-07 Auditor General Performance Audit Report**

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**Finding:**                      **The District Terminated the Superintendent's Employment Through a \$35,372 Confidential Contract Buy-Out**

Finding Summary:        Our prior audit found that on June 30, 2008, the CASD entered into a contract for employment of District Superintendent (Contract) with an individual (Superintendent) to serve as the District's Superintendent.

The Contract set the Superintendent's term of employment as three years, from July 1, 2008, through June 30, 2011.

On January 8, 2009, the Superintendent and the District mutually agreed to amicably terminate the Superintendent's employment contract. The Superintendent had served only six months of his second three-year Contract with the District.

In addition to accepting the Superintendent's resignation, the Board unanimously approved the execution of an Agreement and General Release between the District and the Superintendent. The Agreement required the District to increase the Superintendent's present salary rate by \$5,000 retroactive to July 1, 2008. In addition, the Agreement required the District to pay the Superintendent a sum of \$25,000 on June 29, 2009, the last day of his employment with the District. The Agreement and General Release also provided other benefits totaling \$5,372.

Recommendations: Our audit finding recommended that the CASD:

1. Ensure that future employment contracts contain adequate termination provisions to protect the interests of the taxpayers of the school district in the event that the employment ends prematurely for any reason.
2. Provide as much information as possible to the taxpayers of the District explaining the reasons for the termination of the Superintendent and justifying the District's expenditure of public funds to buy out the Superintendent's contract.

Current Status: During our current audit procedures we found that the CASD did implement the recommendations. There has not been a termination of a Superintendent since the prior audit finding.

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**Observation: Unmonitored IU System Access and Logical Access Control Weaknesses**

Observation

Summary:

Our prior audit found that the District uses software purchased from Central Susquehanna Intermediate Unit #16 (CSIU) and BLaST Intermediate Unit #17 (BLaST IU) for its critical student accounting applications (membership and attendance). The servers are housed at both CSIU and BLaST IU.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District's data could occur and be detected because the District was unable to provide supporting evidence that they are adequately monitoring all CSIU/BLaST IU activity in their system.

Recommendations: Our audit observation recommended that the CASD:

1. Ensure the District's Acceptable Use Policy includes provisions of authentication (password security and syntax requirements).
2. Establish separate information technology policies and procedures for controlling the activities of CSIU/BLaST IU and have the CSIU/BLaST IU sign this policy, or the District should require the CSIU/BLaST IU to sign the District's Acceptable Use Policy.

3. Implement a security policy and system parameter settings to require all users, including the BLaST IU, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum, length of eight characters and include alpha, numeric and special characters. Also, the District should lock out users after three unsuccessful attempts and log users off the system after a period of inactivity (i.e., 60 minutes maximum).

Current Status: During our current audit procedures we found that the CASD did implement our recommendations.

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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 Tom Corbett  
Governor  
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Harrisburg, PA 17120

The Honorable Ronald J. Tomalis  
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