

CANTON AREA SCHOOL DISTRICT
BRADFORD COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

NOVEMBER 2010

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

Mr. Duane Castle, Board President
Canton Area School District
139 East Main Street
Canton, Pennsylvania 17724

Dear Governor Rendell and Mr. Castle:

We conducted a performance audit of the Canton Area School District (CASD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit covered the period September 18, 2007 through June 30, 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 and June 30, 2007. 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, regulations, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding, observation and recommendations have been discussed with CASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve CASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the CASD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

JACK WAGNER
Auditor General

November 24, 2010

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

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Executive Summary

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, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period September 18, 2007 through June 30, 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 and 2006-07.

District Background

The CASD encompasses approximately 204 square miles. According to 2000 local census data, it serves a resident population of 6,213. According to District officials, in school year 2007-08 the CASD provided basic educational services to 1,053 pupils through the employment of 88 teachers, 53 full-time and part-time support personnel, and 9 administrators. Lastly, the CASD received more than \$9.2 million in state funding in school year 2007-08.

Audit Conclusion and Results

Our audit found that the CASD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding and one matter unrelated to compliance that is reported as an observation.

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

On January 8, 2009, the Superintendent of Schools and the CASD mutually agreed to amicably terminate the employment of the Superintendent with the CASD effective June 29, 2009. The Superintendent had served only six months of the three-year contract. The Board unanimously approved the acceptance of the voluntary resignation of the Superintendent, as well as, the execution of an Agreement and General Release between the CASD and the Superintendent (see page 6).

Observation: Unmonitored IU System Access and Logical Access Control

Weakness. The CASD 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). We noted that CASD personnel should strengthen controls over the CSIU/BLaST IU access to the student accounting applications (see page 12).

Status of Prior Audit Findings and Observations. Our prior audit resulted in no findings or observations for the school years 2005-06 and 2004-05.

Audit Scope, Objectives, and Methodology

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 September 18, 2007 through June 30, 2009.

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

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 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 CASD'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:

- ✓ 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?
- ✓ Is the District's pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?

- ✓ 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?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ 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?

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 finding, observation and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding, observation and 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, 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 analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications.
- 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.

Findings and Observations

Finding

Public School Code section relevant to this finding:

Section 1073(a) provides in part:

. . . the board shall elect or approve a properly qualified district superintendent to serve a term of from three to five years from the first day of July next following his election or from a time mutually agreed upon by the duly elected district superintendent and the board of school directors . . .

The District Terminated The Superintendent's Employment Through A \$35,372 Confidential Contract Buy-Out

On June 30, 2008, the Canton Area School District (District) entered in to 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.

The Contract contained the following provisions relevant to the early termination of the Superintendent's employment with the District:

10. Discharge or Termination

- A. This Agreement or any subsequent extension of renewal thereof may be terminated prior to the stated term by mutual consent of the parties and upon prior written notice from the party seeking such termination to the other party at least sixty (60) days prior to such termination.
- B. This Agreement or any subsequent extension or renewal [t]hereof may be terminated prior to the stated term due to an arbitrator's ruling that 24 P.S. 10-1080 REASONS EXIST FOR [Superintendent's] removal or official retirement [i.e., "neglect of duty, incompetency, intemperance, or immorality"].
- C. In the event that Board of School Directors/District or [Superintendent] breaches the covenants contained in this Agreement or there is any dispute between the parties, including the dismissal of [the Superintendent], all such disputes or claims shall first be submitted to mediation and if mediation does not resolve the dispute or claims, the parties shall submit the same to binding arbitration pursuant to the Labor Arbitration Rules of the American Arbitration Association. [Superintendent] and the Board of School Directors, by agreeing to

submit disputes to binding arbitration, waive the right to insist upon a hearing before the Board of School Directors as is provided for in the Public School Code.

- D. In the event that the Board of School Directors elects to terminate [the Superintendent] for any reason set forth in [Section 1080 of] the Public School Code, no public resolution or disclosure announcing or commencing discharge proceedings against the Superintendent shall be effected by filing a demand for arbitration with the American Arbitration Association. Such arbitration proceedings shall be private and not disclosed or opened by the public by [the Superintendent] or the Board.

On January 8, 2009, the Superintendent and the District mutually agreed to amicably terminate the Superintendent's employment contract. This agreement was in response to the Superintendent's letter of resignation dated January 8, 2009, and effective June 29, 2009. The Superintendent had served only six months of his second three-year Contract with the District. (The Superintendent's first contract with the District began July 1, 2005).

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 of \$99,360 per year by \$5,000, so that his annual salary rate for the 2008-09 school year would be \$104,360. This salary increase was retroactive to July 1, 2008. In addition, the Agreement required the District 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 contained the following provisions:

- Continue all health care insurance coverage and life and disability insurance currently applicable to [the Superintendent] and to his family for a period ending June 29, 2009.

- Pay [the Superintendent] for all accumulated vacation and sick days, minus all deductions as required by law, as delineated in his contracts with the District dated June 30, 2005 and June 30, 2008.
- Provide positive references to prospective school districts acknowledging only that [the Superintendent] was employed as the District's Superintendent of Schools between July 1, 2005 and June 29, 2009, and that he received satisfactory evaluations during his tenure.
- Reimburse [the Superintendent] for reasonable expenses incurred in connection with his attendance at continuing educational programs and seminars. It is understood that all requests for such reimbursement must be submitted in advance to the District and approval of reimbursement of such expenses shall be within the discretion of the District.
- Provide [the Superintendent] full and complete indemnification from any and all demands, claims, suits, actions or legal proceedings brought against him in his individual or official capacity as agent and [Superintendent] and of the District, provided that such incidents arose while [Superintendent] acting within the scope of his employment.
- Withdraw and terminate any and all pending charges or complaints [against the District] that may have been brought before any federal, state, or municipal, administrative agency, or any court of law, or any other judicial or quasi-judicial forum, against District. Further, [the Superintendent's] signing of this Agreement and General Release constitutes legal withdrawal and termination of any and all charges and complaints filed with the above referenced agencies.
- Covenants and agrees that he [the Superintendent] shall not engage in any communications which shall disparage District or unlawfully interfere with its existing or prospective professional relationships.

- Agrees, further, that he [the Superintendent] shall make himself available and cooperate with District in any reasonable manner in connection with any matters that may arise in the future which relate to [the Superintendent's] term of employment with the District.

In addition, the District paid its newly hired superintendent \$5,372, a rate of \$537 per day, for the last two weeks of June 2009, even though his official start date was July 1, 2009. Consequently, when this additional pay-out is added to the payments required by the Agreement and General Release the District spent a total of \$35,372 to terminate the former Superintendent's contract.

A buy-out of the Superintendent's Contract may have been averted, or the cost of such buy-out significantly reduced, if the District would have included provisions in its original employment contract regarding the compensation and benefits payable to, or on behalf of, the Superintendent upon the premature termination of the Contract. The time to negotiate those terms is at the outset of the employment relationship, not when matters turn potentially adversarial between the parties.

The Department of the Auditor General requested an explanation of the reasons for the District's termination of the Superintendent. The District simply stated that it was a mutual decision. However, if the District had no cause sufficient to unilaterally terminate the Superintendent pursuant to the terms of the initial employment contract that it negotiated and/or state law, then why did the District feel compelled to buy out that contract only six months after entering into a new contract? The residents of the District, whose hard-earned tax dollars were used to fund the contract buy-out, are entitled to a clear answer to that question. Without an answer, the taxpayers, the Department of the Auditor General, and others are prevented from evaluating whether the District's expenditure of funds was legal and appropriate.

Recommendations

The *Canton Area School District* should:

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.

Management Response

Management stated the following, in a letter signed by the Board Secretary/Business Manager:

This correspondence addresses the audit finding dated June 2, 2009 regarding the Canton Area School District entering into a separation agreement with [the Superintendent], retiring superintendent. . . .

Respectfully, I disagree with the audit finding. The Board of Education, acting on behalf of the taxpayers of the Canton Area School District, and [the Superintendent], collectively decided that it would benefit both parties to separate. As you are aware, the conditions of [the Superintendent's] contract are silent with respect to a mutual separation by both parties, prior to the expiration of the contract term. Consequently the terms relating to mutual separation are negotiable.

The Board of Education exercised good faith on behalf of the taxpayers of the Canton Area School District by negotiating a minimal severance of \$25,000, to be paid to [the Superintendent] at the end of June 2009. The Board was able to obtain separation with [the Superintendent] under amicable terms in light of the fact that there were two years remaining on his existing contract. In addition, the other specific severance considerations were drawn from existing language from [the Superintendent's] current contract with the district.

Finally, although the specific terms of the separation agreement were not publicly advertised, the agreement was unanimously approved at a duly advertised, regular Board meeting. The separation agreement is available for public inspection under Pennsylvania's Right to Know Law.

Please accept this correspondence as the official reply from Administration, to the audit finding dated June 2, 2009.

Auditor Conclusion

We want to emphasize that our intent is not to question the wisdom of the District's decision to terminate the Superintendent contract. Rather, our concern is that the District include language in all superintendent employment contracts to mitigate the cost of such a separation. Moreover, without full disclosure by the District, neither this Department nor the taxpayers can evaluate the merits of the District's termination decision in order to determine whether the District's expenditure of funds for the buy-out was indeed appropriate.

Observation



Unmonitored IU System Access and Logical Access Control Weaknesses

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

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 not be detected because the District was unable to provide supporting evidence that they are adequately monitoring all CSIU/BLaST IU activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the District would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored CSIU/BLaST IU system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over CSIU/BLaST IU’s access to the District’s system:

1. The District’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).
2. The District does not have current information technology (IT) policies and procedures for controlling the activities of the CSIU/BLaST IU, nor does it require the CSIU/BLaST IU to sign the District’s Acceptable Use Policy.

3. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the BLaST IU, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to lock out users after three unsuccessful attempts and to log off the system after a period of inactivity (i.e., 60 minutes maximum).

Recommendations

The *Canton Area School District* should:

1. Ensure the District's Acceptable Use Policy includes provisions authentication (password security and syntax requirements).
2. Establish separate IT 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).

Management Response

Management stated the following:

1. The district will alter its existing Acceptable Use Policy to include provisions for authentication.
2. The district will begin requiring outside vendors such as BLaST IU and CSIU to sign our Acceptable Use Policy on an annual basis.
3. The district will begin requiring password complexity for all its employees.

Status of Prior Audit Findings and Observations

Our prior audit of the Canton Area School District for the school years 2005-06 and 2004-05 resulted in no findings or observations.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at 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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