

# PERFORMANCE AUDIT

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## Salisbury Township School District Lehigh County, Pennsylvania

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October 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

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

Mr. Russell Giordano, Board President  
Salisbury Township School District  
1140 Salisbury Road  
Allentown, Pennsylvania 18103

Dear Governor Corbett and Mr. Giordano:

We conducted a performance audit of the Salisbury 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 May 18, 2012 through June 9, 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 that the District complied, in all significant respects, with relevant requirements.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale  
Auditor General

October 30, 2014

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

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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 Salisbury Township School District (District) in Lehigh 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 May 18, 2012 through June 9, 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 eleven (11) square miles. According to 2010 federal census data, it serves a resident population of 13,501. According to District officials, the District provided basic educational services to 1,609 pupils through the employment of 137 teachers, 117 full-time and part-time support personnel, and seventeen (17) administrators during the 2011-12 school year. The District received \$5,274,125 in state funding in the 2011-12 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit resulted in no findings or observations.

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

With regard to the status of our prior audit recommendations to the Salisbury Township School District (District) from an audit released on June 10, 2013, we found that the District had taken appropriate corrective action in implementing the recommendations pertaining to ineligible wages reported for retirement purposes and compensation for unused vacation days that was not included in contract language (see page 6). We found that the District had chosen not to implement the recommendations regarding the transportation contractor being paid significantly over state formula (see page 7).

## Audit Scope, Objectives, and Methodology

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### 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 May 18, 2012 through June 9, 2014, except for the verification of professional employee certification, which was performed for the period July 1, 2013 through May 5, 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?

- ✓ 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?
- ✓ 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

*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

*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.

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.

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 and reimbursements, pupil transportation, pupil membership, and comparative financial information.

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 June 10, 2013, we 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 Salisbury Township School District resulted in no findings or observations.



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

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Our prior audit of the Salisbury Township School District (District) released on June 10, 2013, resulted in one (1) finding and one (1) observation. The finding pertained to ineligible wages reported for retirement purposes and compensation for unused vacation days that was not included in contract language, and the observation pertained to the transportation contractor being paid significantly over state formula. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and interviewed District personnel regarding the prior finding and observation. As shown below, we found that the District did implement our recommendations related to ineligible wages reported for retirement purposes and compensation for unused vacation days. The District chose not to implement the recommendations in our transportation observation.

### **Auditor General Performance Audit Report Released on June 10, 2013**

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**Finding:** **Ineligible Wages Reported for Retirement Purposes and Compensation for Unused Vacation Days Not Included in Contract Language**

Finding Summary: Our prior audit of the employment contract and payroll records for the District's former Superintendent found that the District improperly reported supplemental wages and a portion of unused vacation days as retirement wages. The former Superintendent received supplemental wages in the amount of \$3,240 for the 2008-09 school year, and \$3,604 was reported to the Public School Employees' Retirement System (PSERS) for the 2009-10 school year, for a total of \$6,844 in wages improperly reported to PSERS.

We also noted that at the time of her retirement, the former Superintendent received \$7,679 for fifteen (15) unused vacation days, which was in conflict with language in her contract.

Recommendations: Our audit finding recommended that the District should:

1. Contingent upon PSERS's final determination, report to PSERS only those wages allowable for retirement purposes, as stated in the PSERS Employer Reference Manual.
2. Implement procedures for reviewing all salary and employment contracts, in order to ensure that only eligible wages are being reported to PSERS for retirement contributions.
3. Adhere to the compensation language in employee contracts.

We also recommended that PSERS should:

4. Review the propriety of the wages for the former Superintendent who received supplemental reimbursements and make any necessary adjustments.

Current Status:

During our current audit, we found that the District did implement our recommendations. As noted in our prior audit, the District was aware of the error in reporting retirement wages and had contacted PSERS to correct this mistake. PSERS subsequently corrected the matter on July 11, 2012.

The District stated in its response to our prior finding that it disagreed with our citation of the payment for vacation days, noting that the intention had been to consider these days as used vacation days.

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**Observation:**

**Transportation Contractor Paid Significantly Over State Formula**

Observation

Summary:

Our prior audit of the District's transportation records for the 2008-09 and 2009-10 school years found that the District paid its bus contractor significantly more than the state formula allowance for allowable costs. This action may have resulted in an unnecessary expenditure of taxpayer funds.

Recommendations:

Our audit observation recommended that the District should:

1. Consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.
2. Be cognizant of the State's final formula allowance prior to negotiating transportation contracts.

Current Status:

During our current audit, we found that the District did not implement our recommendations, choosing not to do so at this time. The Board of School Directors extended the terms of the existing transportation contract on June 13, 2012, with no alteration in the terms of payments to the contractor.

As noted in District management's response to our prior observation, the District is in close proximity to many parochial schools, charter schools, and private schools. Under current legislation, the District is required to provide transportation for students attending such educational institutions that are within ten (10) miles of the District's boundaries. Accordingly,

the District is currently transporting students to 47 different schools, which the District stated is driving up the cost of transportation.

Districts are not required by law to bid their transportation. However, if significant changes in the District's transportation requirements occur, we recommend that the District renegotiate its contract to be more favorable to the District and the taxpayers.

## **Distribution List**

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

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

The Honorable Carolyn Dumaesq  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

The Honorable Robert M. McCord  
State Treasurer  
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Harrisburg, PA 17120

Ms. Lori Graham  
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). 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@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).