



**SALISBURY TOWNSHIP SCHOOL DISTRICT  
LEHIGH COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT**

**JUNE 2013**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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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 applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 18, 2010 through May 18, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies 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 District complied, in all significant respects, with applicable state laws, 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 the District's management, and their responses are included in the audit report. We believe the implementation of 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,

/s/

EUGENE A. DePASQUALE  
Auditor General

June 10, 2013

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). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period June 18, 2010 through May 18, 2012, 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 2009-10 and 2008-09 school years.

### **District Background**

The District encompasses approximately 11 square miles. According to 2010 federal census data, it serves a resident population of 13,505. According to District officials, the District provided basic educational services to 1,660 pupils through the employment of 153 teachers, 110 full-time and part-time support personnel, and 18 administrators during the 2009-10 school year. Lastly, the District received \$5 million in state funding in the 2009-10 school year.

### **Audit Conclusion and Results**

Our audit found that the District complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for one compliance-related matter reported as a finding. In addition, we identified one matter unrelated to compliance that is reported as an observation.

**Finding: Ineligible Wages Reported for Retirement Purposes and Compensation for Unused Vacation Days Not Included in Contract Language.** Our audit of the District's employment contract and payroll records for the former Superintendent found that the former Superintendent received supplemental wages and a portion of unused vacation days that were improperly reported as eligible retirement wages to the Public School Employees' Retirement System (PSERS) in the amount of \$3,604 for the 2009-10 school year. She also received supplemental wages in the amount of \$3,240 for the 2008-09 school year for a total of \$6,844 in wages improperly reported to PSERS. Additionally, at the time of her retirement, the former Superintendent received \$7,679 for 15 unused vacation days which was in direct conflict with language in her contract (see page 6).

**Observation: Transportation Contractor Paid Significantly Over State Formula.**

Our audit of the District's transportation records for the 2009-10 and 2008-09 school years found that the District paid its bus contractor significantly more than the state formula allowance calculated by Pennsylvania Department of Education. This action may have resulted in an unnecessary expenditure of taxpayer funds (see page 10).

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

There were no findings or observations included in our prior audit report.

## 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 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 18, 2010 through May 18, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10 and 2008-09 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 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 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:

- ✓ Did the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System was complete, accurate, valid, and reliable?
- ✓ In areas where the District received state subsidies and reimbursements based on payroll (e.g. retirement), did it follow applicable laws and procedures?

- ✓ In areas where the District received transportation subsidies, were the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers were properly qualified, and did they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Were there any declining fund balances that may pose a 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 did 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?
- ✓ 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 votes made by the District's Board of School Directors free from apparent conflicts of interest?
- ✓ 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.

*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.

The District's 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. 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 applicable state laws, regulations, contracts, grant requirements, and administrative procedures 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 control 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, 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.



## Findings and Observations

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### Finding

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

*Criteria relevant to the finding:*

Public School Employees' Retirement System (PSERS) allows only qualified salary and wages to be included for retirement purposes. According to Pennsylvania School Employees' Retirement Board Regulations, Section 211.2, reported compensation should: exclude . . . payments for unused sick leave, unused vacation leave . . . or similar emoluments which may be negotiated in a collective bargaining agreement for the express purpose of enhancing the compensation factor for retirement benefits.

PSERS Reference Manual for Reporting Units, Section III, states in part:

Bonuses, severance payments, or any payments received that are not based on the standard pay schedule are not compensation for retirement purposes and should not be reported on the quarterly reports.

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

Additionally, at the time of her retirement the former Superintendent received \$7,679 for 15 unused vacation days, which was in direct conflict with language in her contract.

In regards to the supplemental wages, the former Superintendent's contract for the term of August 1, 2005 to, and including, June 30, 2010, states:

The Superintendent shall receive a monthly flat rate mileage reimbursement/automobile allowance of \$250 for the use of her personal automobile in fulfilling her responsibilities within the District and within the Commonwealth of Pennsylvania. . . .

The District will reimburse Superintendent for use of her personal cellular telephone at a flat \$20.00 per month.

District payroll records showed that for the 2009-10 school year the former Superintendent received supplemental wages that totaled \$2,580 for the 9½ months of the school year she served. These benefits were inappropriately reported to PSERS as eligible retirement wages. In addition, when the District prorated of the former Superintendent's salary for the remainder of the 2009-10 school year, it incorrectly reported \$1,024 of

unused vacation days to PSERS as eligible retirement wages. Thus, the grand total amount of inappropriate wages reported to PSERS for that year was \$3,604.

Likewise, the District's payroll records also showed that in the 2008-09 school year the former Superintendent received \$3,240 in supplemental benefits, as outlined above, and that these too were inappropriately reported to PSERS for inclusion in her retirement.

District payroll personnel were aware of the errors at the time of the audit and they were forthcoming with the cause. The payroll personnel indicated it was the result of a software reporting error that had been corrected.

According to the criteria included in the PSERS regulations any payments received that are not based on the standard pay schedule are not compensation for retirement purposes and should not be reported on the quarterly PSERS reports.

The District also made a payment of \$7,679 to the former Superintendent at the time of her retirement, which was composed of 15 unused vacation days at the per diem rate. However, the former Superintendent's contract included the following language:

“The Superintendent will not be compensated for vacation days unused at the termination of this contract.”

PSERS has been provided discrepancy reports for their review and final determination.

## **Recommendations**

The *Salisbury Township School District* should:

1. Contingent upon PSERS final determination, report to PSERS only those wages allowable for retirement purposes, as stated in 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.

*PSERS* should:

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

## **Management Response**

Management stated the following:

“Management partially agrees with a portion of this finding and also disagrees with part of this finding. Although management agrees with the finding, we want to make it abundantly clear that the District discovered the error and corrected it before the state auditors found the problem. Additionally, the District alerted the state auditor of the problem and did not wait for the state auditor to uncover the problem.

The District reimbursed the [former] Superintendent for traveling expenses per the contract for a period beginning in 2006 and ending in 2010. These travel expenses totaled \$10,680 over the five year period and were reimbursed through payroll. The error that the District made is categorizing these funds as income subject to PSERS reduction and contribution.

Additionally the district paid the departing Superintendent \$1,024.02 in vacation pay that was due. Although the district had an obligation to pay the unused vacation days, it should not have treated it as income for retirement purposes.

The total amount of income that should have been excluded from retirement amounted to \$11,704.02. That means the District withheld \$877.80 from the employee and also contributed \$662.16 of employer funds into the employees PSERS account.

This error has been corrected by the District staff. The District’s Payroll and Benefits Specialist immediately contacted [the] Regional Representative at Public School Employees’ Retirement System (PSERS) when the problem was discovered. The district was able to correct

this situation with PSERS and a credit was issued to the district for the contribution that was made.

Management disagrees with portion of finding stating compensation for unused vacation days not included in Superintendent contract language.

The [former] Superintendent's contract includes language that states "Superintendent shall be entitled to five (5) weeks (25 business days) vacation per year. The vacation periods should be taken during the year when it least interferes with the operation of the District. All vacation time shall be used in the year it is earned, unless a carryover of any time is agreed to by the Board. The Superintendent shall not be compensated for vacation days unused at the termination of the contract."

The intention of the Board was to not allow vacation days to be carried over from year to year resulting in excess of the twenty five (25) vacation days allotted each year. It was intended to provide (25) vacation days per year to the Superintendent. The [former] Superintendent, could have extended her date of resignation for (15) days and used the vacation days owed to her for 2009-10. Her contract was not expiring and she could have chosen to remain an employee of the district for (15) additional business days and taken them as vacation days. None of these vacation days were a carryover from a previous year."

### **Auditor Conclusion**

While we appreciate the District's cooperation in discovering and correcting the errors of treating the supplemental wages as income for retirement purposes, PSERS has not made any adjustments as of our fieldwork completion date.

Additionally, regardless of the Board's intentions, the District did not follow the language in the former Superintendent's contract.

**Observation**

**Transportation Contractor Paid Significantly Over State Formula**

*Criteria relevant to the observation:*

The Pennsylvania Department of Education’s final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District’s aid ratio.

Our audit of the Salisbury Township School District’s (District) transportation records for the 2009-10 and 2008-09 school years found that the District paid its bus contractor significantly more than the state formula allowance calculated by the Pennsylvania Department of Education (PDE). This action may have resulted in an unnecessary expenditure of taxpayer funds.

PDE prepares a final formula allowance for each district, which it uses to determine reimbursement for transportation services. This allowance is based on a number of factors, including the approved daily miles driven, the age of the vehicles, and the greatest number of pupils transported. Each district then receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by its aid ratio.

The District paid its contractor significantly more than its calculated formula allowance. The amounts were as follows:

<u>School Year</u>	<u>Contracted Cost</u>	<u>Final Formula Allowance</u>	<u>Contracted Cost Over Formula</u>	<u>Percentage Increase</u>
2008-09	\$1,425,479	\$873,957	\$551,522	63.11
2009-10	\$1,518,940	\$856,061	\$662,879	77.43

While bidding of pupil transportation service is not required under state law, competitive bidding can result in a lower cost to District taxpayers.

Since PDE provides a state allowance, it would be prudent for the District to consider a better alternative in spending taxpayer monies.

**Recommendations**

The *Salisbury Township School 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.

**Management Response**

Management stated the following:

“Although management somewhat agrees with the observation, it is difficult for the district to significantly address this situation based on current legislation. Salisbury Township School District borders both Allentown and Bethlehem. Since the District borders both of these urban areas, the district is in close proximity to many non-public and public schools such as parochial schools, charter schools and private schools. Under current legislation, the district is required to provide transportation for students attending these educational institutions for up to ten miles outside of the district's boundaries. The district is currently transporting students to thirty five (35) different schools. As a result, there are a disproportionate amount of vehicles that have an abnormally high amount of “daily miles without students” being recorded. This situation is driving up the cost of transportation to the district. It is also adversely affecting the amount of subsidy that the state will reimburse the district. Because there are so many factors that can affect transportation, including district size, location, student enrollment, topographical makeup, charter schools, private schools, etc., it is difficult to quantify what the average transportation cost should be for a district.”

**Auditor Conclusion**

As stated above the District should consider bidding transportation contracts to determine if taxpayers would benefit from a more favorable contract for the District.

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

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**O**ur prior audit of the Salisbury Township School District resulted in no findings or observations.

## **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.auditor.gen.state.pa.us](http://www.auditor.gen.state.pa.us), and the following stakeholders:

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

The Honorable Ronald J. Tomalis  
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