

# PERFORMANCE AUDIT

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## Parkland School District Lehigh County, Pennsylvania

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April 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Ms. Roberta M. Marcus, Board President  
Parkland School District  
1210 Springhouse Road  
Allentown, Pennsylvania 18104

Dear Governor Wolf and Ms. Marcus:

We conducted a performance audit of the Parkland 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 April 20, 2012 through November 13, 2014, except as otherwise stated 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

April 8, 2015

cc: **PARKLAND 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 Parkland 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 April 20, 2012 through November 13, 2014, except as otherwise stated 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 72 square miles. According to 2010 federal census data, it serves a resident population of 54,946. According to District officials, the District provided basic educational services to 9,270 pupils through the employment of 620 teachers, 716 full-time and part-time support personnel, and 61 administrators during the 2011-12 school year. The District received \$20.3 million 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 Parkland School District (District) from an audit released on April 18, 2013, we found that the District had not implemented our recommendations pertaining to our observation regarding payment for unused sabbatical leave, because the terms of the administrative contract were approved prior to the recommendations made during the prior audit (see page 7). The District did take corrective action in implementing our recommendations pertaining to our observation regarding the District's Interest-Rate Management ("SWAP") Agreement (see page 8).

## 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 April 20, 2012 through November 13, 2014, except for the verification of professional employee certification which was performed for the period July 1, 2014 through October 16, 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?
  - To address this objective, auditors reviewed and evaluated certification documentation for 68 of 681 teachers and administrators who were currently employed by the District.

- ✓ Did the District ensure that bus drivers transporting District children at the time of the audit have the necessary license, physicals, training, background checks, and clearances as outlined in 24 P.S. § 1-111, 24 P.S. § 2070, 67 P.S. § 71.1, 22 *PA Code Chapter 8*, and 23 PA C.S. § 58-6354, and did they have written policies and procedures governing the hiring of new bus drivers?

To address this objective:

- The auditors initially selected the 5 newest drivers from the 149 current school year bus driver list who were eligible to transport students during the 2014-15 school year.
  - The auditors also requested copies of the written policies and procedures governing the hiring of bus drivers to determine that these processes included requesting background checks and clearances.
- ✓ Were votes made by the District's Board of School Directors free from apparent conflicts of interest?
    - To address this objective, auditors reviewed all nine (9) of the sitting and recent board members' employment history, Statements of Financial Interest, board meeting minutes, and any known outside relationships with the District for the 2011, 2012, and 2013 calendar years.
  - ✓ Did the District take appropriate steps to ensure school safety?
    - To address this objective, the auditors reviewed a variety of documentation including safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the District followed best practices in school safety and 24 P.S. Sect. 13-1302, 1302.1A, 13-1303.1, and 13-1303 A. Generally, the auditors evaluate the age of the plan, whether it is being practiced through training and

whether the school has an after action process for trying to improve on the results of its training exercises.

- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- The auditors interviewed District administrators to determine whether they had taken corrective action.
- The auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or observed these changes in person.

## 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 certain relevant state 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 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 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 and pupil transportation.

Our audit examined the following:

- Records pertaining to bus driver qualifications, professional employee certification, and state ethics compliance.
- 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 April 18, 2013, we reviewed the District's response to PDE dated November 20, 2013. We then performed additional audit procedures targeting the previously reported matters.



## Findings and Observations

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For the audited period, our audit of the Parkland School District resulted in no findings or observations.

## Status of Prior Audit Findings and Observations

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Our prior audit of the Parkland School District (District) released on April 18, 2013, resulted in two (2) observations. The first observation pertained to a questionable payment for unused sabbatical leave, and the second observation pertained to possibly jeopardizing taxpayer funds by entering into an Interest-Rate Management (“SWAP”) Agreement. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior audit recommendations. We analyzed the District’s written response provided to the Pennsylvania Department of Education (PDE), performed audit procedures, and interviewed District personnel regarding the prior observations. As shown below, we found that the District did not implement our recommendations related to a questionable payment for unused sabbatical leave because the Board of School Directors prior to review approved the current Superintendent’s contract. We found that the District did implement our recommendations related to the “SWAP” Agreement.

### Auditor General Performance Audit Report Released on April 18, 2013

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#### **Observation No. 1:      The School Boards’ Employment Agreements with the Former Superintendent Included Payment for Unused Sabbatical Leave**

Observation Summary:      During our review, we found the former Superintendent received the retirement incentive based on the Administrative Agreement and received the retirement incentive in lieu of sabbatical leave. The former Superintendent retired effective July 1, 2011, and was eligible for a severance payment based on sabbatical salary of \$81,721, to be paid over a three-year period. The former Superintendent was also eligible for the Administrative Agreement retirement incentive totaling \$28,417, to be paid over a two-year period. These payments are to be paid into the former Superintendent’s 403(b) account.

Recommendations:      Our audit observation recommended that the District should:

1. Ensure that future employment agreements with prospective administrators do not contain overly generous early termination provisions that may negatively affect the District and its taxpayers.
2. Make certain that the District’s employment agreements are as transparent as possible, so that the District’s taxpayers can evaluate their appropriateness.

Current Status: During our current audit, we found that the District did not implement our prior recommendations, because the current Superintendent's contract was already approved by the Board of School Directors (Board) prior to the engagement of our last audit. His contract also includes similar benefits, and the contract does not expire until June 2016. When the Superintendent's new contract is negotiated, we again recommend the Board consider eliminating overly generous early termination provisions.

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**Observation No. 2: The District Financed Some of its Debt with Interest-Rate Management ("SWAP") Agreements, Which Could Have Jeopardized Taxpayer Funds**

Observation Summary: On June 16, 2004, the District entered into an Interest-Rate Management ("SWAP") Agreement related to its issuance of \$47,660,000 of bonds. In theory, "SWAPs" allow school districts to enter into variable-rate debt financing, and thereby take advantage of low interest rates, while at the same time mitigating the possibility of those same interest rates rising. In reality, however, "SWAPs" are complicated, risky financial instruments that can needlessly waste taxpayer funds if the District bets incorrectly on which way interest rates will move.

Recommendations: Our audit observation recommended that the District should:

1. Avoid entering into any new "SWAP" Agreements in the future.
2. Terminate its "SWAP" Agreement as soon as it is fiscally responsible to do so, and refinance, if necessary, with conventional fixed-rate bonds.

Current Status: During our current audit, we found that the District did implement our prior recommendations. The District initially received an upfront payment of \$1,060,000 to enter into this "SWAP" Agreement. The "SWAP" cost the District \$260,824 in additional interest payments and \$43,350 in termination fees with the investment company when the "SWAP" was terminated on May 12, 2014. The District realized a net gain of \$755,826 upon termination. The District has not entered into any new "SWAP" Agreements.

## Distribution List

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This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Pedro A. Rivera  
Acting Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

Christopher B. Craig, *Esq.*  
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Mechanicsburg, PA 17055

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). 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@PaAuditor.gov](mailto:news@PaAuditor.gov).