Marie H. Katzenbach
School for the Deaf

July 1, 2000 to August 31, 2001
The Honorable Donald T. DiFrancesco  
Acting Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Marie H. Katzenbach School for the Deaf for the period July 1, 2000 to August 31, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

November 8, 2001
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Marie H. Katzenbach School for the Deaf

Scope

We have completed an audit of the Marie H. Katzenbach School for the Deaf for the period July 1, 2000 to August 31, 2001. Our audit included financial activities accounted for in the state’s General Fund.

Annual expenditures are $12 million. Marie H. Katzenbach School for the Deaf is under the direction of the Department of Education. The prime responsibility of the Marie H. Katzenbach School for the Deaf is to provide preschool, elementary, middle and comprehensive high school programs for deaf and multiple handicapped children whose primary handicap is deafness. Annual revenues are $8 million with the major component of revenue being tuition paid by various school districts.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the school’s programs, were reasonable, and were recorded properly in the accounting system.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the school. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and
interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

**Conclusions**

We found that the financial transactions included in our testing were related to the school’s programs, were reasonable, and were recorded properly in the accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.
Weakened payroll controls resulted in salary overpayments.

Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use. Salaries for approximately 244 employees were $9 million during fiscal year 2001. Our review of payroll expenditures noted that management circumvented established state policy and implemented other controls that were ineffective. Since 1996, the Personnel and Payroll unit has been under the direct control of the Superintendent rather than the business office. Standard payroll procedures were circumvented by granting salary increases to seven employees without proper Department of Education approvals. This was done by issuing two checks under two position numbers for each employee. The employees’ regular payroll checks remained unchanged; however a second check was issued to each on the supplemental payroll for the difference of the previous salary and the new salary. Issuing two checks under two position numbers to one employee for the same time worked eliminates budgetary controls over payroll and allows the school’s payroll to increase without Department of Education authorization. This process contributed to an increase in payroll transactions processed and, coupled with inadequate managerial oversight over payroll processing, resulted in several errors and overpayments.

In one case, an instructor receiving an unapproved salary increase on the supplemental payroll was overpaid $21,000 over 14 biweekly pay periods. This error was never detected by the school nor was the amount of the checks ever questioned by the employee. The matter was referred to the Attorney General’s Office for further investigation. Other employees paid under the two check system were overpaid a total of $8,000.
Payrolls were often processed without employee time sheets. We tested 213 payments and found 23 instances where wages were processed through the payroll system without a time sheet. Our review also noted that 29 time sheets were never signed by a timekeeper or a supervisor.

Special employment service positions are temporary employment positions available to state agencies and are to be used for short-term projects or to address peak workloads or temporary backlogs. Payments to employees are to be based on employment contracts. Our review of one supplemental payroll noted 58 payments to employees with special services titles which were not supported by current contracts documenting their hourly rate or the duration of their employment. Hence, we could not determine whether the correct hourly rate was used in the calculation of the employees’ wages.

The school has 37 employees that appear on both regular and supplemental payrolls during the school year. These individuals perform two or more jobs. We noted 15 instances where employees’ sign-in and sign-out sheets overlapped, indicating they were compensated twice for the same hours.

The school’s Child Study Team Program performs psychology-educational testing on students to determine a child’s aptitude, performance, personality and developmental level. The tests are analyzed and interpreted with other findings into an educational plan for the child. Individuals were paid based on their expertise to perform the above educational evaluations. These individuals were to be paid $45 per hour not to exceed $350 per case. However, an eight percent payment over and above the $45 per hour contract was included in the calculation. We determined these individuals received an additional $1,300 over the proper amount. The school could not provide supporting documentation for the additional compensation.
Two employees were granted compensation for titles requiring a civil service exam, but the employees did not take the civil service exam for those positions. Instead they retained their lower title salary and were paid the salary difference on the supplemental payroll for their new title. Salary actions for these employees were never sent to the Department of Education for proper approvals.

**Recommendation**

We recommend that management review the current internal control system over the processing of payroll and make the following changes:

- The school should seek the assistance of the Department of Education in reestablishing strong payroll controls.

- The school administration should adhere to the Department of Personnel procedures in the processing of employee personnel actions. All employee salary actions should be approved by the Department of Education prior to effecting the increase.

- All payroll transactions should be based on a time sheet, sign-in sheet, or other documentation that employees worked the hours for which they are compensated. Rates of pay should be in accordance with Department of Personnel regulations or executed contracts.

- All employee time sheets should be approved and signed by a supervisor or timekeeper.

- Procedures should be implemented to ensure adequate supervisory review and monitoring of all payroll transactions.

**Auditee’s Response**

The Katzenbach School management will review the current internal control system over the processing of payroll and implement the OLS audit report’s recommendation.
Moreover, the following steps will be taken:

- Katzenbach School will develop a corrective action plan.

- The payroll office at Katzenbach School will implement and mirror the procedures used at the department’s central payroll office.

- The business administrator at Katzenbach School will have managerial oversight of the payroll functions.

- The department’s Office of Administration will provide technical assistance to Katzenbach School’s payroll office.

- Katzenbach School will submit quarterly progress reports to the department’s Offices of Administration and Compliance Investigation.

- The department’s Offices of Administration and Compliance Investigation will monitor each progress report.

- A final monitoring will be conducted at the conclusion of fiscal year 2002.

- Katzenbach School will recover overpayments to employees.