Department of Education
Marie H. Katzenbach School for the Deaf

July 1, 2003 to September 30, 2005
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Education, Marie H. Katzenbach School for the Deaf for the period of July 1, 2003 to September 30, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
March 23, 2006
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We have completed an audit of the Department of Education, Marie H. Katzenbach School for the Deaf for the period July 1, 2003 to September 30, 2005. Our audit included financial activities accounted for in the state’s General Fund and the school’s Student Activity Fund.

Expenditures were $13.9 million in fiscal year 2005. Marie H. Katzenbach School for the Deaf is under the direction of the Department of Education. The primary responsibility of the Marie H. Katzenbach School for the Deaf is to provide preschool, elementary, middle, and comprehensive high school programs for the deaf and multiple disabled children whose primary disability is deafness. Revenues were $10.5 million in fiscal year 2005 with the major component of revenue being tuition paid by various school districts.

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 systems. We also tested for resolution of significant conditions noted in our prior report dated November 8, 2001.

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.

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 school personnel to obtain an understanding of the programs and internal controls.

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

To ascertain the status of the finding included in our prior report, we identified corrective action, if any, taken by the school and tested the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the school’s programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with State Treasury regulations merit management’s attention. We also found that the school has resolved the significant issue noted in our prior report.
Business Office Operations

The school expends $300,000 in business office salaries to process $2.8 million in purchases and $10.5 million in revenue annually. Employee turnover, vacancies, leave of absences, and the lack of cross-training have adversely impacted the operations of the business office. In April 2005, the school hired a new business manager who had limited experience using the state accounting system. In addition, the business office has operated without a permanent accountant since March 2004. As a result, we noted internal control weaknesses over purchasing, off-line accounts, segregation of duties, system security, and cross-training.

During fiscal years 2004 and 2005, the school expended $950,000 for the purchase of goods and services which were not approved or recorded by the business office prior to their receipt. Confirming purchase orders were prepared after delivery. During this two-year period, 60 percent of all purchases were confirming orders. As a result, management did not know what the obligations of the school were and the various units had the ability to overspend their budgets. Most of the confirming purchase orders were for the maintenance and food service departments.

The business manager is not able to properly monitor accounting transactions involving tuition, receivables, and the Student Activity and Petty Cash Funds because the accounting software used by his staff is not on the school’s computer network.

We noted that the school does not properly segregate duties. The Student Activity Fund and Petty Cash Fund are not independently reconciled. Instead, the bookkeeper processed, recorded, and reconciled all transactions on the accounting system for these funds. Bank reconciliations should be prepared by an
employee who does not process accounting transactions. Another employee receives the cash receipts and posts them to the tuition receivable records. These responsibilities should be performed by different individuals to help safeguard assets.

We found a bookkeeper, while on extended leave of absence, provided her user id and confidential password to another business office employee. In addition, the former and current business managers also provided their user id to the same employee which allowed payments to be processed through the system without supervisory approvals. The state’s summer 2005 accounting system newsletter reminded agencies that user ids and passwords are confidential information and are not to be shared. We also noted that one individual had system access even though the individual was no longer employed by the school.

Two temporary employees were hired to fulfill the duties of the permanent accountant. When the last temporary employee terminated their employment in August 2005, cash receipts activity they were responsible for discontinued. As of November 10, 2005, there were 28 checks totaling $169,000 from September 29, 2005 through November 9, 2005, which had not been deposited or recorded in the accounting system. State regulations require cash receipts be deposited on the day of receipt. Furthermore, monthly bank reconciliations for the Student Activity Fund and Petty Cash Fund had not been prepared since June 2005. No other employees were cross-trained to perform these duties.

**Recommendation**

We recommend the school perform an overall assessment of internal controls over business office operations and modify current practices as follows:

The business office should enforce purchasing procedures requiring approval prior to an order being placed and the goods and services being received.
The off-line accounting software should be installed on the school’s network and used to monitor transactions.

Duties should be segregated to ensure that an individual cannot receive cash, record accounting transactions, and reconcile accounting records.

The sharing of user ids and passwords should be prohibited.

System access privileges for terminated employees should be removed promptly.

Business office staffing requirements should be evaluated, vacancies filled promptly, and staff cross-trained to perform functions of their co-workers.

Maintenance Operations

The school employs 13 people in the maintenance department. Staff are required to complete and submit a work order to the maintenance department when repairs or alterations are warranted. Maintenance has the “first right of refusal” on all work orders and will perform the work in-house with existing staff or authorize services to be performed by outside contractors if specialized licenses or qualifications are needed. The maintenance department is also responsible for preventative maintenance on campus buildings. Our review noted that employees in other departments routinely bypass the maintenance department by calling outside contractors directly. This practice results in maintenance employees being underutilized and creates unnecessary expenditures.

Annual expenditures for outside locksmith services were $6,800 and $19,400 in fiscal years 2004 and 2005, respectively. We noted several
instances where an outside locksmith was paid to change deadbolts and replace door knobs. The maintenance department staff is capable of performing these services. School staff contacted the locksmith directly and no work order was sent to maintenance for review and approval.

The school also paid $500 to an outside electrical contractor to move and change light fixtures in the boiler room. No work order was issued to the school electrician and the service was rendered before a purchase order was authorized.

In addition, the school paid an outside contractor $22,000 to plow snow during fiscal year 2005. The school’s old trucks were determined to be beyond repair by the state’s Central Motor Pool and new trucks were not ordered in time for the snow season. The school has four eight-foot snow blades and a four-wheel drive truck that could be used for this purpose. This vehicle is used by security personnel and has never been used for snow plowing as had been intended.

The superintendent’s house, which is over 200 years old, has been vacant for more than six years. During the 2005 winter, a frozen water pipe burst and leaked for days which caused extensive damage to the house. The preventative maintenance schedule did not include winterization for the house.

**Recommendation**

We recommend that the school:

- enforce maintenance procedures and not allow staff to contact outside vendors directly,
- adequately plan for equipment needs for the snow plowing season, and
- revise preventative maintenance schedules to include winterization on vacant buildings.
Utility Costs

Utility costs were $615,000 and $853,000 in fiscal years 2004 and 2005, respectively. The school enhances its revenues by leasing vacant buildings to other state agencies and several non-profit organizations. Some of the leases require tenants to reimburse the school for electricity and oil heat. Five electrical flow meters were installed to facilitate billing for electric usage, while oil heat is billed based on the square footage. The maintenance department is responsible for meter readings and the business office is responsible for using the readings for billing tenants timely.

One tenant has not been billed for electrical usage for two of three buildings it leases and has never been billed for oil heat usage for any of the buildings. Electrical usage billing for the one remaining leased building was discontinued in March 2003. Only one of the electric meters is operable. The school can not identify which buildings should be measured by the remaining four meters. We estimated that this tenant owes the school $26,000 in utility reimbursements through June 2005.

Recommendation

We recommend the school repair the remaining four electrical flow meters, identify which buildings are measured by the meters, and record meter readings on a regular basis. The school should also bill applicable tenants for electric and heat usages on a monthly basis.

Inactive Employees on Payroll

We noted 16 inactive employees on the payroll register for the pay-period ending June 10, 2005. These employees were inactive from 12 to 28 pay periods, with nine of the employees being inactive for a year or more. Fraudulent or unearned payroll checks may be produced and not detected when inactive employees remain on
the payroll. The school’s personnel department did not remove inactive employees timely from the payroll register due to a lack of written procedures identifying the process and who is responsible. At the end of our field work, the personnel department removed the inactive employees from their payroll register when we brought the issue to their attention.

Recommendation

We recommend the personnel department establish and follow written policies for the removal of inactive employees from the payroll register.

Employee Leave Records

We randomly tested nine employees from the pay-period ending September 30, 2005 and found leave records were not updated timely for five employees. The housekeeping department leave records for its 14 employees have not been updated since January 2005. Leave records are maintained and recorded in the school’s computer network by individual departments. The personnel department should be responsible for the accuracy of employee leave records, but it is not monitoring leave records for timely updates. When leave records are not updated timely, employees may get paid for leave not earned and it would not be detected in a timely manner.

Recommendations

We recommend that the personnel department monitor all leave records for timely updates, provide assistance in updating the housekeeping department’s leave records, and determine if any salaries were paid for unearned leave.
Employee Cash Advances

Cash advances should be processed through OMB.

The school improperly made cash advances from the Student Activity Fund. In September 2005, five employees received salary advances totaling $3,000 from the Student Activity Fund because their state payroll checks were not processed on time. These advances have been repaid in full. However, there is an outstanding receivable balance of $1,600 in this fund, representing payments to eight employees between 2001 through 2004. The collection efforts made by the school were inadequate. Emergency salary advances from the Office of Management and Budget (OMB) can be obtained, but the school did not use this method.

Recommendations

We recommend the personnel department seek reimbursement of the $1,600 outstanding cash advances and discontinue any future cash advances from the Student Activity Fund. Instead the school should request emergency payroll checks from OMB when warranted.

Timely enrollment into the pension system will eliminate pension penalties.

Delayed Pension Enrollment

To establish membership in the state’s retirement systems, an employee’s pension enrollment application must be submitted to the Division of Pensions within one year from the compulsory enrollment date. The personnel department did not require all employees to complete a pension enrollment application on their first day of employment and they failed to enroll the employees within one year. This resulted in delayed enrollment penalties of $10,300 paid in fiscal year 2005 for nine employees. The school actually paid $13,800 due to duplicate payments of $3,500. In addition, the school is delinquent in paying delayed pension enrollment penalties of $6,500 for five other employees billed from November 2002 to April 2005. These bills were mailed to the Department of Education and were never received by the school.
We reviewed the June 10, 2005 payroll register and found 26 of 28 employees who were not enrolled in the pension system did not have a pension application on file. Eleven of these employees were employed for over one year and should have been enrolled in the pension system. The check list for new hires, which lists the pension application as one of the attributes, was not used until August 2005. We also found the personnel department was not aware of the pension enrollment qualifications for non-teaching 10-month employees.

**Recommendations**

We recommend that the school require all employees to fill out the pension enrollment application on the date of hire and employees be enrolled in the pension system timely. The school should also pay the outstanding penalty bill of $6,500, less the duplicate payments of $3,500, to the Division of Pensions. Furthermore, pension enrollment training should be requested from the Division of Pensions.
March 21, 2006

Mr. Richard L. Fair, State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

Subject: Response to OLS Audit Report of the Department of Education, Marie H. Katzenbach School for the Deaf

The New Jersey Department of Education (DOE) has received and reviewed the findings and recommendations contained in the Office of Legislative Services (OLS) Audit Report of the Department of Education, Marie H. Katzenbach School for the Deaf for the period July 1, 2003 to September 30, 2005. The findings and recommendations at pages 3 through 10, along with our responses are as follows:

**Finding Number 1, Page 3**

Business Office Operations – Internal controls should be improved.

**Recommendation Number 1**

We recommend that the school perform an overall assessment of internal controls over business office operations and modify current practices as follows:

1. The business office should enforce purchasing procedures requiring approval prior to an order being placed and the goods and services being received.

2. The off-line accounting software should be installed on the school’s network and used to monitor transactions.

3. Duties should be segregated to ensure that an individual cannot receive cash, record accounting transactions, and reconcile accounting records.

4. The sharing of user ids and passwords should be prohibited.

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5. System access privileges for terminated employees should be removed promptly.

6. Business office staffing requirements should be evaluated, vacancies filled promptly, and staff cross-trained to perform functions of their co-workers.

**Department Response to Finding Number 1**

1. To ensure compliance, business office staff have begun an active process to provide technical training to all staff on proper purchasing procedures.

2. We concur with this recommendation and installation will occur after the Network Administrator vacancy is filled.

3. A careful review of all business office staff responsibilities was conducted to eliminate the potential for individual control of cash, transactions and records.

4. This situation has been resolved so that no IDs/passwords are exchanged and users must log themselves in/out.

5. IDs for all inactive employees have been removed from accessing the system.

6. Staff responsibilities have been evaluated (see Response #3 above). A permanent accountant has been hired with a start date of April 17, 2006. The cross-training process has begun with employees receiving instruction in NJCFS with upcoming plans for training in MACS-E and Business Objects.

**Finding Number 2, Page 5**

Maintenance Operations – Adherence to maintenance procedures will reduce costs and increase efficiency.

**Recommendation Number 2**

We recommend that the school:

- enforce maintenance procedures and not allow staff to contact outside vendors directly,

- adequately plan for equipment needs for the snow plowing season, and

- revise preventative maintenance schedules to include winterization on vacant buildings.
Department Response to Finding Number 2

We agree with the recommendations and are currently reviewing all internal procedures for compliance. In addition, we have retained the services of an outside firm which specializes in policy review, regulation and compliance.

Finding Number 3, Page 7

Utility Costs – Tenants should be billed for their utility usage.

Recommendation Number 3

We recommend the school repair the remaining four electrical flow meters, identify which buildings are measured by the meters, and record meter readings on a regular basis. The school should also bill applicable tenants for electric and heat usages on a monthly basis.

Department Response to Finding Number 3

Electrical meters have been installed and a meter reading schedule is being prepared so that the school can prepare billing statements on a regular and timely basis.

Finding Number 4, Page 7

Inactive Employees on Payroll – Timely removal of inactive employees from the payroll will improve internal controls.

Recommendation Number 4

We recommend the personnel department establish and follow written policies for the removal of inactive employees from the payroll register.

Department Response to Finding Number 4

We agree with the recommendation and are currently reviewing all internal procedures for compliance. All inactive employees have been removed from the payroll register.

Finding Number 5, Page 8

Employee Leave Records – Employee leave records should be maintained on a timely basis.

Recommendation Number 5

We recommend that the personnel department monitor all leave records for timely updates, provide assistance in updating the housekeeping department’s leave records, and determine if any salaries were paid for unearned leave.
Department Response to Finding Number 5

We agree with the recommendation and are currently reviewing all internal procedures for compliance.

Finding Number 6, Page 9

Employee Cash Advances – Cash advances should be processed through OMB.

Recommendation Number 6

We recommend the personnel department seek reimbursement of the $1,600 outstanding cash advances and discontinue any future cash advances from the Student Activity Fund. Instead, the school should request emergency payroll checks from OMB when warranted.

Department Response to Finding Number 6

Effective in 2003, the school no longer maintains a policy for issuing cash advances for employees. The term "cash advance" does not accurately describe the occurrences of issuing paychecks via Student Activity Fund after which regular paychecks are reimbursed to the school. Oftentimes, this involves our TES employees, who are not eligible to receive emergency checks from OMB. Lastly, $1,123 of the $1,600 in outstanding debt to the school has been repaid. Of the $477 balance, $275 has been deemed unrecoverable.

Finding Number 7, Page 9

Delayed Pension Enrollment – Timely enrollment into the pension system will eliminate pension penalties.

Recommendation Number 7

We recommend that the school require all employees to fill out the pension enrollment application on the date of hire and employees be enrolled in the pension system timely. The school should also pay the outstanding penalty bill of $6,500, less the duplicate payments of $3,500, to the Division of Pensions. Furthermore, pension enrollment training should be requested from the Division of Pensions.

Department Response to Finding Number 7

Revised procedures were implemented at the beginning of the school year to ensure that all new eligible employees are enrolled in the pension system during their new hire orientation. Furthermore, payment was authorized to the Division of Pensions for payment of the outstanding penalty. Pension enrollment policies are now being communicated to staff on a regular basis.
We trust that our responses satisfy the concerns raised in the audit report. Should you have any questions or need further information, please contact me at 984-5593.

Sincerely,

Ray Montgomery, Director
Office of Compliance Investigation

RM/DR/CP/response to OLS audit of Katzenbach School

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