City of Camden Board of Education

July 1, 2002 to June 30, 2004

Richard L. Fair
State Auditor
The Honorable Richard J. Codey
Acting Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
Speaker of the General Assembly

Mr. Albert Porrioni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the City of Camden Board of Education for the period July 1, 2002 to June 30, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
January 20, 2005
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City of Camden Board of Education

Scope

We have completed an audit of the City of Camden Board of Education (CCBOE) for the period July 1, 2002 to June 30, 2004. Our audit was limited primarily to payroll expenditures and payments to employees made by the school district during our audit period. The audit did not include district revenues other than food service and student activity funds which were tested as part of prior audit compliance. Other significant issues noted in our prior report were not included in this review.

The prime responsibility of the board is to provide a quality education to approximately 19,000 pre-kindergarten through twelfth grade students. The board employs approximately 4,000 employees. Expenditures for salaries approximate $150 million per year.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the school district’s programs, were reasonable, and were recorded properly in the district’s accounting system. We also tested for resolution of significant conditions noted in our prior audit report dated November 21, 2000.

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, and policies of the school district. 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, reviewed financial trends, and interviewed school district personnel to obtain an understanding of the programs and the internal controls. In addition, we reviewed audit reports issued by the school district's certified public accounting firm and the Department of Education's Office of Compliance Investigation.

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 findings included in our prior report, we identified corrective action, if any, taken by the district and walked through 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 district's programs, were reasonable, and were recorded properly in the accounting system, with the exception of elementary school food service receipts and employee leave time balances. In making this determination, we noted certain internal control weaknesses meriting management's attention.

We also found that the district has resolved some of the significant issues that we reviewed in our prior report dated November 21, 2000. The issues concerning food service receipts have been updated in our current report.

An entity's internal controls consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. A proper system of internal control provides checks and balances to ensure financial transactions are properly authorized and recorded. Inadequate internal controls increases the risk that errors or misapplications of funds could occur and
not be detected in the normal course of business. The district does not have sufficient controls over the collection of food service funds in elementary schools to ensure that all the revenue is collected, deposited, and accounted for properly. Fiscal year 2003 ending leave balances for over half the district’s employees were not properly carried forward on the electronic attendance system. Based on the lack of written policies or procedures for many of the areas reviewed and the numerous errors noted in our findings, the internal controls currently in place over CCBOE human resource and payroll functions are inadequate. The CCBOE should review its internal controls and design and implement procedures to ensure its objectives are being met effectively and efficiently.
Financial System

The district purchased a new financial system to effectively manage human resource information, maintain employee time and attendance, process payroll checks, and improve communication between the human resource and payroll departments. Bids for the financial system were received from several vendors and a committee was formed to determine which vendors met the bid specifications. Each vendor was graded utilizing a point system and the results were summarized on a bid specification worksheet. The vendor that was awarded the contract did not receive any points as the worksheet indicated “too many vital functions either partial compliant or not compliant”. The system became operational in fiscal year 2002 and has cost the district approximately $270,000 to date.

The district’s financial system does not maintain an audit trail or transaction history records. As a result, a record of system entries, corrections, and changes and the users responsible is not maintained. Without this record, supervisors are not able to perform reviews of transactions. This is important in an environment where internal controls are not adequate to provide management with reasonable assurance that salary appropriations are safeguarded against loss or misappropriation, as discussed later in this report.

Employee leave time is maintained on the human resources component of the financial system on a fiscal year basis. Year end balances should automatically carry forward. We compared sick leave balances on the system at June 30, 2003 with corresponding carry forward balances on July 1, 2003 and found discrepancies for 2,846 employees. The carry forward balances for 2,147 employees totaled 32,771 days greater than the ending balances at June 30, 2003, and carry forward balances for 699 employees totaled 8,901 days less than the ending balances at June 30, 2003. The net increase of
23,870 sick days to the employee balances could represent a major liability to the district as overdrawn leave could go undetected and most employees are paid between $45 and $100 for unused sick days upon retirement. District employees were aware of the system discrepancies and in certain instances relied on manual leave records which were also maintained for most employees.

Recommendation

We recommend the district assess the impact of the new financial system on its payroll and human resources operations and establish a time frame to conclude whether it is meeting its expectations, and consider alternatives if expectations are not met.

Internal Controls

Payroll expenditures totaled $150 million during fiscal year 2004. Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use. Proper segregation of duties and maintenance of accurate and complete documentation are necessary to assure the proper use of resources as authorized by the board. Currently, conditions exist which weaken this assurance and could lead to the misstatement of payroll records and the payment of unearned wages.

Approved time records were not always available to support payments to employees. The regular pay time for four of 20 sampled employees could not be traced to time sheets for a selected pay period. In addition, the time sheets reviewed for seven of the remaining 16 employees were not approved. Personnel files were also not available for three of the 20 sampled employees and we therefore could not verify their starting salaries and current salary guide placement.

The paycheck distribution and payroll processing functions are not properly segregated. The same

Strengthening internal controls could prevent payroll processing errors.
individuals who process the payroll also receive and distribute the paychecks. These individuals also have the ability to add employees to the payroll. Furthermore, since terminated employees cannot be removed from the payroll system, these individuals can change the employment status of former employees from inactive to active without independent review or authorization. The lack of segregation of duties presents a potential for loss because a phantom employee could be added to the payroll and the check could be removed prior to check distribution without being detected.

Separated employees were not removed from the active payroll in a timely manner. We tested the final regular pay of 361 employees who terminated employment between June 30, 2002 and December 31, 2003 and found that 52 were overpaid a total of $90,000 after their separation. In addition, 34 were paid a total of $23,000 for extra duties performed more than two months after their termination. Some payments occurred over a year after the employee terminated. Documentation was not readily available to determine whether any of the payments for extra duties were proper.

Teachers were paid approximately $4.7 million in calendar year 2003 for extra duties. Our test of ten employees who received more than $10,000 each in extra pay disclosed that there was no support documentation on hand for $67,500 of the $128,000 tested. In addition, there are no procedures to monitor those employees who perform multiple extra pay jobs to ensure time claimed for extra pay duties does not overlap.

**Recommendation**

We recommend that procedures be developed to ensure all employee pay time is properly supported and approved and that payroll checks be received and distributed by individuals other than the original processors. We also recommend that terminated employees be removed from the active payroll on a
Leave records should be properly maintained and reviewed to ensure accuracy and proper payments for unused leave.

timely basis. We further recommend that payroll employees be prohibited from having system access to human resources functions.

Leave Records and Payments for Unused Leave

The Human Resources (HR) department maintains employee leave time electronically on the time and attendance component of the district’s new financial system. Manual records for most employees are also maintained at the individual schools and other district facilities. We tested the electronic leave records for 17 employees and found that 13 had errors ranging from one to 30.5 days. The errors occurred because current year leave time allotments and/or carry forward balances were inaccurate. In addition, our review of manual leave records for 21 sample employees disclosed that 18 had taken a total of 71 sick days that were not posted to the system.

Employee contracts provide for payment of a fixed dollar amount for each unused sick day at the time of retirement or death. Employees are credited with a full year’s sick leave on the first day of the fiscal year or school year in anticipation that they will be employed the entire year. If an employee terminates employment prior to end of the year, the district does not prorate the leave for the partial year of employment. Although the district employment agreements are silent as to the prorating of leave time for partial-year employment, New Jersey state government requires such proration. Upon retirement, an employee’s sick leave balance should be obtained from the system, prorated if applicable, and multiplied by the contractual rate to arrive at the sick leave payment amount.

We tested 152 unused sick leave payments totaling $1.7 million and found errors on 90 payments
including overpayments of $154,000 and underpayments of $26,000. Employee balances on the system at the time of termination were utilized for testing purposes. The errors occurred because leave time is not properly maintained on the system and there is no adjustment of leave time for a partial year of employment. In addition, there is a lack of supervisory review of the amount to be paid. The HR department calculates each payment and forwards a “payroll change notice” to payroll which specifies the amount to be paid. The payroll change notice requires various approvals but documentation supporting the specified number of days to be paid is not provided for review.

Non-teaching staff also receive payment for unused vacation days upon retirement or death. As with sick leave, employees are credited with a full year’s vacation leave on the first day of the fiscal year or school year. As a result, their entitlement for that year should be prorated for any partial year of employment. We tested 13 payments totaling $70,000 to retirees and deceased employees for unused vacation leave and found overpayments totaling $55,000. The overpayments occurred because leave time was not prorated for any partial year of employment and the district calculates vacation leave by dividing the employee’s salary by 240 days. This methodology results in an overpayment of approximately eight percent as there are actually between 260 and 262 working days in a year.

**Recommendation**

We recommend the district develop and implement a comprehensive written policy for the maintenance of employee leave records and the payment of unused leave. Procedures covered by the policy should include a proper review to ensure system accuracy and proper postings as well as a method to prorate leave time for any partial year of employment. We further recommend that the current
method utilized to calculate vacation leave be changed to reflect the actual number of working days in a year.

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**Leave of Absence Without Pay**

Lack of formal policies and procedures weaken the internal control environment of an organization. The board’s current policy does not specify how salaries or leave time credits should be calculated for employees who are on a leave. Contractual provisions are not specific on this topic as well.

Board approval is required for all leave without pay. A total of 104 employees received board approval for leave without pay from January 2003 through June 2003. We tested 54 of these employees and found that the annual salary for 35 had been overpaid by a total of $233,100 and the annual salary for 13 was underpaid a total of $17,900 during fiscal year 2003. These errors occurred because of a lack of a formal policy and supervisory review of the work of the payroll clerks to ensure deductions were properly calculated. Our calculation was based on each employee’s daily salary and work calendar. For example, teachers were required to work 189 days in fiscal year 2003. Their daily salary was determined by dividing their annual salary by 189 days. Their daily salary was then multiplied by the number of days they were in a pay status to arrive at their total wages earned. This amount was then compared to the total wages paid.

Employees are credited with a full year’s sick leave on the first day of the fiscal year or school year in anticipation that they would work the entire year. Leave time should not accrue when an employee is on a leave of absence. The district, however, does not prorate leave time for any partial year of employment due to a leave of absence. As a result,
we found that sick leave balances for 42 sampled employees were overstated, resulting in a potential cost to the district of $63,000.

We recommend the district develop and implement a comprehensive written policy for employee leaves of absence without pay. Procedures covered by the policy should include a methodology to calculate salary and prorate leave time. We further recommend that the salaries for employees on a leave without pay be reviewed to ensure proper deductions are processed.

Custodial Overtime

The CCBOE has an agreement with the Communication Workers of America, AFL-CIO Union, Local 1079, which requires custodial personnel to perform building checks of all elementary and secondary schools on weekends and holidays. The building checks as stipulated in the contract shall be two hours. As a matter of practice, custodians are paid overtime at a rate of time and one-half their regular salary to perform the building checks. Custodial overtime totaled approximately $326,000 in calendar year 2003 and we estimate that $185,000 was incurred to perform the building checks. In addition, a clerk is paid seven hours of overtime each day a building check is performed to record the time each custodian arrives at and leaves their assigned building and to respond to any problems during that time. Overtime should be the result of nonrecurring unexpected events or emergency situations. It should not result from conditions which occur on a routine basis. No scheduling adjustments were attempted to alleviate the need for overtime.

The contract is not specific as to what duties should be performed. Our review noted that the building checks are more of a security function. Custodians,
however, are not trained to handle or react to criminal situations and thus their safety and subsequent investigations by school district security and local police could be jeopardized. Security is also handled by custodial and maintenance workers at three other district facilities on a routine basis.

In addition, the district calculates overtime for custodians and all other 12-month employees by dividing the employee’s salary by 240 days. This methodology results in an overpayment of approximately eight percent as there are actually between 260 and 262 working days in a year.

Recommendation

We recommend that the district employ security personnel to perform building checks and all other security related functions. Regular work schedules should be adjusted to eliminate the need for overtime where possible. We further recommend that the current method utilized to calculate overtime be changed to reflect the actual number of working days in a year.

Workers’ Compensation

The state provides for the continuation of full pay for up to one year to state employees who are injured or become ill on the job and the benefits are subject to income tax. After a year, employees are transferred to the state’s Workers’ Compensation (WC) Program. WC benefits are paid at a rate of 70 percent of the worker’s salary up to a weekly maximum of $650 for calendar year 2004. WC benefits are exempt from income tax. The district also provides for the continuation of full pay for up to one year to employees who are injured or become ill on the job. However, these payments are considered WC benefits and are exempt from income tax. The employee’s net pay is therefore greater than their regular compensation. After a year, the non-
taxable benefit is reduced to 70 percent of the worker’s weekly wages up to the current state maximum of $650. First year benefits provided under the district’s WC program during calendar years 2002 and 2003 totaled $551,000. The district could have saved a minimum of $165,300 if all WC benefits were paid at the rate of 70 percent of the worker’s salary up to the weekly maximum. We further noted that written procedures covering the district payment plan methodology were not available.

The district contracts with a third party administrator to operate their WC program. In addition to the monthly service fee, the district also reimbursed the administrator $1.4 million in calendar year 2003 for claimant medical costs, legal fees, indemnity costs, and settlement costs. An adequate review of the monthly billings cannot be performed prior to payment because the billings do not clearly specify the claimant and corresponding services. The lack of an adequate review could result in the payment of duplicate billings or inaccurate program costs.

The New Jersey Department of Education, Office of Compliance Investigation completed a review of the district’s WC program for the period July 1, 1999 to November 30, 2002. The report indicated that there are many instances of multiple claims being filed by the same employee for a similar injury or accident which results in recurring WC costs. The report recommended that the board institute procedures to ensure that a functional capacity examination be performed for employees who had serious injuries prior to returning to work. The district has not complied with this recommendation.

**Recommendation**

We recommend that the district review its wage continuation plan and determine if benefits provided during the first year should include full pay and be subject to income tax or be paid at the rate of 70 percent of the worker’s salary up to the weekly maximum in accordance with the state WC plan.
Written procedures covering the payment plan should also be established. We further recommend that the district obtain proper support documentation for all program charges. Bills should be reviewed for duplication and accuracy. We also recommend that the district comply with the recommendations set forth in the Department of Education report.

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**Food Service Receipts**

District elementary schools provide prepackaged meals to students. Applications are completed and reviewed to determine if students qualify for free or reduced-priced meals. District policy requires students who don’t qualify for free meals to pay cash or charge their meals and be billed monthly. Internal controls are not adequate to provide management with reasonable assurance that all fees due are collected and deposited intact. There are no written policies and procedures governing the collection, deposit, and accounting of elementary school food service receipts. Written procedures are necessary to establish proper internal controls over cash collections.

Meals served to paying students at 17 elementary schools from September 2003 to February 2004 were valued at $30,900 while only $7,700 was deposited in the bank as of April 2, 2004. Discrepancies noted for two schools were considerable. Meals with a combined value of $12,500 were served at the two schools and only $200 was deposited. We observed the food service operations at one of these schools and found that there was no expectation for the students to pay. We also found no evidence that accounts receivable records are maintained.

Our prior audit disclosed that food service receipts were not deposited timely. Our review found that this condition still exists. We randomly selected 12
days' receipts for various middle and high schools and found that seven were deposited from five to 12 working days after they were collected.

**Recommendation**

We recommend the district develop and implement written procedures over the collection, recording, and deposit of elementary school food service receipts. We further recommend that deposits be made in a timely manner.

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**Information System Security**

Access controls are necessary to prevent unauthorized access to computer resources. System users should only be provided with the access necessary to perform assigned job responsibilities and restricting access to inquiry only should be an option for all functions within a financial system.

Our review noted individuals who have assigned privileges beyond that required to perform their job responsibilities. Employees working within the payroll and human resources departments have the ability to add individuals to the financial system and process paychecks. In addition, several employees working in other departments can also perform one or both of these functions as well. This increases the risk of loss or misappropriation of funds.

One reason this situation exists is because many functions on the financial system including “Payroll Hours Entry” which is the menu screen used to process payroll cannot be restricted to a read-only capability. As a result, individuals requiring inquiry access only also have processing capabilities.

**Recommendation**

We recommend the district restrict employee system access and privileges to only what is required to perform job responsibilities. We further recommend
the district consult with the financial system vendor to determine if read/write restrictions can be placed on all functions.

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**Student Activities Account**

The district allows for the establishment of student activities funds for co-curricular activities operated for the benefit of pupils and approved by the board. All funds are maintained in a single checking account which is to be reconciled monthly and audited annually.

Deposits are prepared at the individual schools where they are picked up by an armored car service. A copy of the deposit slip and other documentation indicating the amount of the deposit and bank bag number used is forwarded to the business office to be recorded.

Our review of the January 2004 reconciliation found deposits in transit totaling $6,518. Of this amount, $1,764 has still not been deposited in the bank as of June 30, 2004. If the reconciliations were properly reviewed, an investigation could have been undertaken immediately to determine the cause for the outstanding deposits.

**Recommendation**

We recommend the district establish procedures for the timely review of bank reconciliations and the investigation of unexplained differences.
December 5th, 2004

Ms. Georgia M. Duval, CGFM
Manager
New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor
State House Annex
Trenton, NJ 08625-0500

Dear Ms. Duval;

I write this letter in response to your report to the “City of Camden Board of Education” dated Tuesday, December 14th, 2004. The following written comments are being submitted for your review and inclusion for the presentation of your final report.

1. Financial System – Recommendation: The district assess the impact of the new financial system on its payroll and human resources operations and establish a time frame to conclude whether it is meeting its expectations, and consider alternatives if expectations are not met.

   ➢ The district is currently contracted with Watson & Rice, LLP to assess the Financial System and Human Resources System to address the concerns raised in this report.

2. Internal Controls – Recommendation: It is recommended that procedures be developed to ensure all employee pay time is properly supported and approved and that payroll checks be received and distributed by individuals other than the original processors. We also recommend that terminated employees be removed from the active payroll on a timely basis. It is also recommended that payroll employees be prohibited from having system access to human resources functions.

   ➢ In it’s proposal accepted from Watson & Rice they will be drafting and recommending Internal Controls and Procedures as promulgated by AICPA, Green Book, and GOA.
3. Leave Records and Payments for Unused Leave – Recommendation: It is recommended the district develop and implement a comprehensive written policy for the maintenance of employee leave records and the payment of unused leave. Procedures covered by the policy should include a proper review to ensure system accuracy and proper postings as well as a method to prorate leave time for any partial year of employment. It is further recommended that the current method utilized to calculate vacation leave be changed to reflect the actual number of working days in a year.

➢ Procedures will be established with the hiring of the new Human Resources Officer. A meeting is currently scheduled upon her arrival to meet with the Superintendent of Schools and School Business Administrator to discuss developing policies and procedures.

4. Custodial Overtime – Recommendation: It is recommended that the district employ security personnel to perform building checks and all other security related functions. Regular work schedules should be adjusted to eliminate the need for overtime where possible. It is further recommended that the current method utilized to calculate overtime be changed to reflect the actual number of working days in a year.

➢ The School Business Administrator, Director of Buildings and Grounds, and the Chief of School Law Enforcement are currently meeting to address these concerns.

5. Workers Compensation – Recommendation: It is recommended that the district review its wage continuation plan and determine if benefits provided during the first year should include full pay and be subject to income tax or be paid at the rate of 70 percent of the worker’s salary up to the weekly maximum in accordance with the state WC plan. Written procedures covering the payment plan should also be established. We further recommend that the district obtain proper support documentation for all program charges. Bills should be reviewed for duplication and accuracy. It is also recommended that the district comply with recommendations set for the in the Department of Education Report.

➢ The School Business Administrator has met with the TPA and the District’s Insurance Broker to address these concerns. Further discussion will ensue upon the arrival of the new Human Resources Director to address the concerns aforementioned.

6. Food Service Receipts – Recommendation: It is recommended that the district develop and implement written procedures over the collection, recording, and deposit of elementary school food service receipts. It is further recommended that deposits be made in a timely manner.
The School Business Administrator has met with the Food Services Director and an Accounting Manager to discuss the development and implementation of a cash receipts procedure. In addition the School Business Administrator has directed the Food Services Director to ensure that deposits are made with a 48 hour time frame.

7. Information System Security – Recommendation: We recommend the district restrict employee system access and privileges to only what is required to perform job responsibilities. We further recommend the district consult with the financial system vendor to determine if read/write restrictions can be place on all functions.

In the proposal accepted by the District, Watson & Rice, LLP will be addressing this issue when they review “segregation of duties”, as part of written procedures to be developed and implemented.

8. Student Activities Account – Recommendation: It is recommended the district establish procedures for the timely review of bank reconciliations and the investigation of unexplained differences.

The School Business Administrator has met with the Accounting Manager for Student Activities to address the issue of completing bank reconciliations in a timely manner and identifying irreconcilable differences.

This addresses the draft recommendations as presented in your report. If there are any questions please do not hesitate to contact my office at (856)966-2037.

Sincerely,

[Signature]

Lee E. Brockington, RSBO
School Business Administrator/
Board Secretary

cc: Annette D. Knox, Superintendent