Bridgeton Board of Education

July 1, 1997 to June 30, 1999
The Honorable Christine Todd Whitman  
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 Bridgeton Board of Education, for the period July 1, 1997 to June 30, 1999.

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

Richard L. Fair  
State Auditor  
November 16, 1999
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Bridgeton Board of Education

Scope

We have completed an audit of the Bridgeton Board of Education (BBOE) for the period July 1, 1997 to June 30, 1999. Our audit was limited to expenditures relating to payroll and the purchase of services excluding transportation and tuition, and revenues relating to state aid and school tax collections. The prime responsibility of the Bridgeton Board of Education is to provide a quality education to approximately 3,900 pre-kindergarten to twelfth grade students. Expenditures were approximately $86 million for the audit period. Our audit testing included the areas of payroll and personnel. The board employed approximately 1100 full and part-time employees. Expenditures for salary and benefits were approximately $31 million each year or 70 percent of the total. We also tested expenditures relating to the purchase of services except for transportation and tuition. These expenditures were $3.2 million in fiscal year 1998 and $3.9 million in fiscal year 1999. Revenues were $94.3 of which $69.8 was from state aid and $6.2 from school taxes. Our testing also included the cash balances of the student activity accounts.

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 their accounting system.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in N.J.S.A. 18A:7F-6d.

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, policies of the board and the Department of Education Comparative Spending Guide. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends and interviewed the board’s
personnel to obtain an understanding of the district’s programs and internal control.

In addition, we reviewed audit reports issued by the board’s certified public accounting firm, the state’s Local Government Budget Review Program and the Department of Education, Office of Compliance.

A mixed 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. Payroll transactions were randomly selected and other transactions were judgmentally selected. We tested financial transactions at BBOE administrative offices and we reviewed the student activity funds at two of the seven schools.

Conclusions

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

Auditee’s Response

The BBOE declined our invitation to respond to the report.
The BBOE should establish an effective contract maintenance system.

Contract Management

During the audit period, the Bridgeton Board of Education (BBOE) spent approximately $7 million for the purchase of professional, technical and educational services other than transportation and tuition. We found a lack of compliance with board policies regarding contracts for services and a lack of consistency in contract administration. Because the BBOE did not establish responsibility for contract maintenance, the staff was not sure who should be maintaining these records. This was further complicated by the fact that within the past three years the BBOE has had six business administrators. There was no continuity of supervision over the daily operations to maintain an effective contract management system which ensured payments were in compliance with contracts.

The BBOE made payments without referring to the contracts. Some of the BBOE’s copies of contracts were attached to the initial purchase order and filed in permanent storage. Others could only be obtained from the contractors, including on-going contracts for the architect, warehouse lease, insurance policy, multi-year construction projects, etc. Additionally, the copier leases could not be obtained at all. Finally, there was no contract with the BBOE’s solicitor for legal services. This internal control weakness regarding contract maintenance impacted the BBOE’s ability to manage contractors and to determine that payments made were accurate and in accordance with contract terms. This condition was also noted during the review of purchasing procedures and practices by the Department of Education, Office of Compliance for the period from July 1, 1994 to June 30, 1995.

Contract administration is an ongoing review and management of the contractors’ performance. It should compare performance against the scope of services specified in the contract and review expenditures for compliance with the requirements. Contract administration also includes fiscal management which assures adherence to laws, administrative codes, board policies, contractor payment terms and other requirements regarding the expenditure of funds.
Recommendation

We recommend the BBOE establish an effective contract maintenance system. This system should include:

- assigning the responsibility for contract administration to one person or section for continuity,
- enforcing their procedures to ensure that payments are not made prior to ensuring compliance with the terms of the contracts, and
- maintaining contracts where they can be accessed at any time.

Cost savings can be achieved by timely termination of health benefit coverage for former employees.

Termination of Health Benefits

The BBOE participates in the State Health Benefit Program. In accordance with the State of New Jersey Pensions and Benefits Administration Manual, an employee’s coverage terminates on the first of the month following the month in which the employee receives no pay or has requested a termination of coverage. For ten-month employees who terminate their employment in June, coverage continues in July and August. Coverage terminates on August 1 for employees retiring as of July. In addition, according to BBOE Policy 4142, purchases of goods and contracts for services shall be within the framework of applicable laws and regulations, and in accordance with good business practices.

During fiscal years 1998 and 1999, the BBOE paid health, dental, and prescription benefit premiums to providers for former employees. By comparing the June 1998 billing records to the active employee list as of May 13, 1998, we identified $23,609 in health premiums for 13 individuals, $6,363 in dental premiums for 20 individuals, and $12,682 in prescription premiums for 25 individuals. The coverage for these individuals should have been terminated. The overpayments of premium occurred because providers were not promptly notified to terminate coverage. In
addition, adequate reviews of billed premiums were not being performed. Even when providers were notified of coverage termination, no one verified that the employee was removed from the billing records and whether there should have been adjustments made for premiums billed in error. This problem was first identified in the report issued by the Local Government Budget Review Program which covered the school year 1996-1997 and continued because the Business Administrator did not institute procedures for improvement.

**Recommendation**

We recommend the BBOE promptly notify providers when coverage terminates, verify the removal of employees from billing records and review billings for correctness. The BBOE should conduct a thorough review of billing records from fiscal year 1998 to the current date for other premium overpayments. Reimbursements for all overpayments to providers should be pursued.

**Student Activity Accounts**

Specific procedures are needed for the handling and recording of transactions relating to student activities.

Bridgeton Board of Education authorizes each school to maintain a student activity checking account for fees collected and disbursed. We reviewed the transactions of two of the seven accounts and noted internal control weaknesses and procedural problems.

Bridgeton High School (BHS) Student Activity checking account contains various student organizations including the athletic account which receives appropriations from the BBOE to pay for athletic related expenditures. The athletic portion of the account had ending cash balances of $48,000 and $74,000 in fiscal years 1998 and 1999, respectively. Unexpended appropriations at the year end were not refunded to the BBOE. These funds were carried over to cover expenditures occurring in July, August, and September of the subsequent school year. We also noted that some expenditures were not for student activities, but were of a general operational nature, such as employee travel expense reimbursement, and
purchases of athletic supplies and equipment. These expenditures should have been handled by the administrative purchasing unit and recorded in accounts designated for such purposes.

Individuals received compensation for officiating games. Because the account custodian did not know in advance who the officials were, checks were distributed without the payee name at the event and later cashed without the payee line being filled in. Some payees’ names did not match with the name on the receipt. Additionally, the BBOE did not comply with the IRS regulation stating that Form 1099-MISC must be filed if payments of at least $600 are made to an individual during the year for services rendered.

Student workers received cash payments for time worked. A check was issued to the coach, who in turn cashed the check and issued cash payments to the student workers. However, those students were not required to sign as proof that they received the cash.

**Recommendation**

We recommend the BBOE revise their policies to include specific procedures and guidelines for allowable expenditures and for the handling and recording of transactions relating to student activities. All unexpended appropriations should be refunded to the BBOE accounts. All payments should be identified by payee and reported to the IRS annually.

**Garnishments**

Title III of the Consumer Credit Protection Act defines earnings subject to garnishment as compensation for personal services, whether denominated as wages, salary, commission, bonus, or otherwise. Currently, the BBOE’s payroll system is not programmed to deduct garnishments when paying employees overtime and other types of extra compensation. Additionally, we noted an instance where payments remitted were not in agreement with an IRS Notice of Levy on Wages, but instead were withheld at ten percent. Failure to withhold the required amounts and to make
the payments in accordance with court orders and levies can render BBOE liable for increased court costs and to the employee’s creditors.

**Recommendation**

We recommend the BBOE modify the payroll system to properly handle garnishments in accordance with court ordered wage attachments and garnishment notices.

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**Abbott Funds**

The Bridgeton Board of Education received $4.5 million of Abbott funds during fiscal year 1998. Under the terms of funding, this money was to be spent by September 1, 1998 (fiscal year 1999). The funds were expended in areas of salary, purchased services, employee benefits, equipment purchases and facility acquisition and construction services.

Open obligations of $229,000 were carried over to fiscal year 2000 for high school lab renovations. Although the BBOE said that they received special permission from the New Jersey Department of Education (DOE) approving their special proposal for long-term facilities projects to carry forward the unexpended funds for a maximum of one year, neither the BBOE nor DOE could provide documentation.

**Recommendation**

We recommend the BBOE file the applicable proposal for a time extension. Additionally, these obligations should be reviewed to determine if they remain valid or the BBOE should return the unused funds to the DOE.