Commercial Township Board of Education

July 1, 1997 to June 30, 1998
Enclosed is our report on the audit of the Commercial Township Board of Education for the period July 1, 1997 to June 30, 1998.

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

Richard L. Fair  
State Auditor  
April 29, 1999
Table of Contents

Scope ...................................... 1
Objectives ................................... 1
Methodology ................................. 1
Conclusions ................................. 2

Findings and Recommendations

Demonstrably Effective Programs Aid ............ 3
Segregation of Duties ............................. 4
Sick Leave Stipend ............................. 5
Commercial Township Board of Education

Scope

We have completed an audit of the Commercial Township Board of Education for the period July 1, 1997 to June 30, 1998. Our audit included revenues (state aid, federal programs and school taxes) and expenditures of the board for school year 1997-1998. The prime responsibility of the Commercial Township Board of Education is to provide a quality education to approximately 750 kindergarten to eighth grade students.

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, reviewed financial trends and interviewed district personnel to obtain an understanding of the district’s programs and internal controls. In addition to financial information, we reviewed classroom size, instructional hours and student scores.

A nonstatistical sampling approach was used. Our sample 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.
| Conclusions | We found that the 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, we did note certain matters of compliance with laws and regulations meriting management’s attention. |
Expenditures charged to DEPA should be properly supported and consistent with the program.

Demonstrably Effective Programs Aid

A district board of education receiving Demonstrably Effective Programs Aid (DEPA) is required to utilize the funds for eligible programs only as defined in N.J.A.C. 6:19-4.1. The district is also required to develop school level operational plans which provide a detailed budget and description of each program. DEPA expenditures totaled approximately $316,000 during fiscal year 1998. Of 30 transactions sampled, 26 totaling $28,560 were not consistent with program descriptions and established object level budgets. Noncompliance with established programmatic and budgetary controls results in funds being utilized for ineligible purposes. In addition, fiscal year 1998 salaries for instruction charged to DEPA totaled $130,000. Although these costs were contained within the budget, they could not be verified due to the lack of a reporting system for employee time. We found that approximately 88 percent of four employees’ salary was charged to the program, although these employees still performed their normal duties. It appears the amount allocated to this program is excessive.

Recommendation

We recommend that the district adhere to established budgets when expending Demonstrably Effective Programs Aid. In addition, the district should establish a system to accurately allocate salaries charged to DEPA.

Auditee’s Response

The Commercial Township School District became aware of the noncompliance with programmatic and budgetary controls during the Annual 1997-98 Audit. In the district’s Corrective Action Plan, filed with the State Department of Education and approved by the Board of Education, various items were addressed and corrected.
The corrective action that was implemented in December, 1998 included the following:

a) That the salaries of personnel charged to the grant are reviewed and then approved by the Board of Education. This approval then becomes part of the permanent minute book record.

b) The chart of accounts has been expanded to include all the program cost as stated in the proposed budget.

In addition, the principals of each school are responsible for the preparation of the budgeted salaries included in the grant. The principals use a reasonable estimate of time to allocate the salary costs, which are then placed in the budget. The budgeted program costs are then approved by the State Department of Education as part of the overall budget approval process. The district has also added a requisition system and an internal review system of purchase orders to see that the orders are consistent with the programmatic budget.

Payroll duties and purchasing functions should be segregated.

Segregation Of Duties

Management is responsible for establishing and executing internal controls that safeguard assets from loss or unauthorized use. The lack of segregation of duties increases the risk that errors and irregularities may go undetected. Adequate segregation of duties include subjecting the work of each employee to the review of another employee. Our review of the payroll and purchasing functions indicated a lack of this element. The following conditions were noted during the review:

The individual who enters new employees on the payroll system also receives the bimonthly pay checks for distribution.
Current purchasing practices allow for one individual to order and receive goods.

**Recommendation**

We recommend that management assign the conflicting duties noted above to other employees.

**Auditee’s Response**

The district is aware of its responsibility for establishing and executing internal controls that safeguard assets from loss or unauthorized use. However, the districts’ staff is too small to handle the segregation of duties as recommended noted by the State Report. The district does however allow for one individual to prepare purchase orders and another individual to receive the goods.

---

**Sick Leave Stipend**

Costs of retirement benefits could be reduced by limiting sick leave stipends.

**Recommendation**

We recommend the district negotiate limits on sick leave stipends in future collective bargaining agreements.

**Auditee’s Response**

At the present time the district is in its first year of a three year negotiated contract. When the current contract comes up for renewal the district will take this recommendation under advisement.

---