Woodlynne Borough
Board of Education

July 1, 1997 to June 30, 1998
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 Woodlynne Borough 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 16, 1999
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Woodlynne Borough Board of Education

Scope

We have completed an audit of the Woodlynne Borough 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 made by the board for school year 1997-1998. The prime responsibility of the Woodlynne Borough Board of Education is to provide a quality education to approximately 450 kindergarten to eighth grade students. Revenues totaled $4.2 million, of which $3.6 million was from state sources, and expenditures totaled $4.4 million.

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 were 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.

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.
**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 noted certain matters of compliance with laws and regulations meriting management’s attention.
Retirement Package

Woodlynne Borough Board of Education granted a pre-retirement package costing $15,382 to a secretary retiring in November 1998. The package included several elements such as appreciation pay, cash payment for health benefit coverage, a retroactive raise, excessive sick leave buy back and vacation pay. The employee, a relative of a board member, was the only employee who received such a package.

- One month’s salary of $2,976 was approved by the board and paid to the employee for appreciation. The board paid $5,760 which represented one year of health benefits coverage. The school district is a participant in the State Health Benefit Program, under which coverage ceases immediately upon the termination of employment.

- The employee received a 10 percent retroactive raise from July to November 1998 of $1,353. This was unusual since the raise was granted after the notice of retirement was submitted and no other employees received raises at that time.

- The board paid for 98.5 days of sick leave at a rate of $40 per day or $3,940. The Woodlynne Borough Board of Education Policy 4432 provides for the purchase of unused accumulated sick leave upon retirement of support staff at a rate of $27 per day. Nonadherence to this policy resulted in an overpayment of $1,281.

- The board paid for two weeks vacation, versus the two unused vacation days indicated on the employee’s leave records, resulting in an overpayment of $1,082.
**Recommendation**

The Woodlynne Borough Board of Education should ensure compliance with board policies, as well as state statutes, state Division of Pensions regulations and the New Jersey Administrative Code regarding retirement benefits. Additionally, the board should take action to collect all overpayments.

**Auditee’s Response**

The Woodlynne Borough Board of Education will ensure compliance with the board policies, as well as state statutes, state Division of Pensions regulations and the New Jersey Administrative Code regarding retirement benefits. We will send a letter requesting the refund of the overpayment given to the retiree and send a second letter if we don’t receive a response.

### Health Benefits

Prescription drug and dental insurance coverage should be discontinued upon an employee’s retirement.

The business administrator/board secretary verbally agreed and allowed six retired employees to continue their dental and/or prescription drug program coverage through the school district with the understanding that they would reimburse the district for the cost of their premiums. This practice was not approved by the board. The superintendent was not involved in the payment approval process. Additionally, it appears that the board approved disbursements without detailed supporting documentation via a listing of checks and payees prepared by the business administrator/board secretary.

The board paid $7,192 for the retirees’ dental and prescription coverage in fiscal year 1998. Records show retirees remitted only $2,841. There were neither periodic billings or follow up to ensure full reimbursement. The retirees were only notified when the premium rates changed. We noted that these employees have been retired from 2.5 to 12.5 years and receiving these benefits.
The district is a participant in the State Health Benefit Program and must adhere to the rules and regulations of the program. In accordance with N.J.A.C 17:9 - 8.3, prescription drug coverage ceases for an employee upon resignation or termination of employment. Similarly, N.J.A.C 17:9 - 9.1 states that dental coverage stops in the event of retirement.

Woodlynne Borough Board of Education Policy 6421 requires that all payments be within budget line items and with the purposes for which school funds were appropriated. Payment of health benefit coverage for retired employees clearly violated the policy. This practice of continuing health benefits coverage also inappropriately allowed individuals to obtain medical coverage under group rates which is less expensive than individual coverage.

**Recommendation**

We recommend that the board comply with the State Health Benefits Program regarding dental and prescription coverage for retired employees. The board should recover all unreimbursed amounts from retirees. Additionally, we recommend that the superintendent or the board review supporting documentation before approving expenditures.

**Auditee’s Response**

The Board will comply with the State Health Benefits Program regarding dental and prescription coverage for retired employees. However, the Business Administrator disputes that the former employees didn’t submit payments to our school. The Business Administrator will check the records for the former employees and send a letter to them informing them that they will have to deal directly with the insurance carrier and pay any money owed to us.
Disbursement Controls

It is the board’s responsibility to develop and execute internal controls to safeguard assets from unauthorized use.

Expenditures processed by the Woodlynne Borough Board of Education during the period totaled $4.4 million. It is the board’s responsibility to develop and execute internal controls to safeguard assets from unauthorized use. Proper segregation of duties in the area of payroll/personnel is an important element of internal control because each employee’s actions should be subject to review by another employee.

Woodlynne Borough Board of Education Policy 6510 states that all payroll journals shall be certified by the secretary and the president of the board and approved by the superintendent. Woodlynne’s payroll input documents were prepared by the business administrator/board secretary and were not certified by the superintendent nor board president.

Supporting documentation for disbursements was not reviewed by the business administrator/board secretary, the administrative staff, nor the board prior to approval of expenditures and the subsequent disbursement of funds as required by Woodlynne Borough Board of Education Policy 6470. This policy requires that the business administrator/board secretary provide a list of claims, including the amount, payee and reason for expenditure and must be accompanied by the original records that include copies of the purchase order, receiving reports, vendor’s invoice and purchase requisitions.

The board made overpayments totaling $2654 to three of eight individuals terminating employment during the 1997-1998 school year. These overpayments resulted from a failure to verify final payments to leave records and sign-in sheets indicating remaining leave balances and the last date of employment. Two individuals were paid for one and four weeks of salary subsequent to their termination dates, while the remaining employee was paid for four unearned sick days.
Additionally, transaction recording, bank reconciling, and check disbursing functions were not adequately segregated. During the period of review, the business administrator/board secretary authorized purchase orders, had the ability to access the accounting system, prepared monthly reconciliations and initiated check payments.

** Recommendation **

The Woodlynne Borough Board of Education should ensure that all expenditures are properly reviewed and supported. Additionally, the disbursement function should be segregated from the recording, reconciling and approval functions.

** Auditee’s Response **

The Woodlynne payroll input documents will be prepared by the business administrator-secretary and certified by the superintendent and the board president.

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** Travel Allowances **

The business administrator/board secretary and the former superintendent received $100 per month for travel expenses incurred in the performance of their duties. Documentation was not attached to payment vouchers to substantiate the reimbursed expenses as required by IRS Guideline - Accountable Plan resulting in the amount being subject to income tax withholding and other deductions. The allowance was not reported on form W-2 as income to the IRS nor the state, and applicable withholdings were not made according to the business administrator.

** Recommendation **

Employee allowances should be accounted for in accordance with IRS guidelines and be reported as income on form W-2, and all applicable withholdings made.

** Auditee’s Response **

The business administrator will submit a voucher for travel expenses. This is written in her contract.
Employment Contracts

The use of facsimile signatures on employment contracts should be discontinued and approval of salary actions should be included in board minutes.

Annual salaries for administrative staff are shown in the employment contract between the board and the employees. Any raises are to be approved by the board and indicated in these contracts. To ascertain all board actions of a fiscal nature are indeed approved by the board, the approval should be clearly indicated in the board minutes.

Based on a comparison of the salary reports and salary master control reports for school years 1996-97 and 1997-98, the 23 members of the administrative staff received raises ranging from 2.5 to 24.2 percent. Although the salary reports are presented in a package to the board each year, there was no evidence of the board taking specific action for approval of these salaries.

These new salaries were in the employment contracts. One employee’s contract, which had a facsimile signature for the board president, for 1996-97 indicated a salary that was higher than the amount on the salary report. Finally, 51 of 55 employment contracts had a facsimile signature for the board president.

Recommendation

The Woodlynne Borough Board of Education should ensure that all salary actions are indeed approved by them and so indicated in the board minutes. Additionally, they should investigate the salary discrepancy for the one employee. Finally, the board should require that the use of facsimile signatures be discontinued immediately and that the board president sign all contracts.

Auditee’s Response

The Woodlynne Borough Board of Education will ensure that all salary actions are approved by the board and indicated in the board minutes. The board is in the process of investigating the salary discrepancy for one employee. The board president will no longer use a facsimile signature to sign any contract.