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Trenton Board of Education

July 1, 2000 to October 31, 2001

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Enclosed is our report on the audit of the Trenton Board of Education for the period July 1, 2000 to October 31, 2001. If you would like a personal briefing, please call me at (609) 292-3700.

February 21, 2002
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Trenton Board of Education

Scope

We have completed an audit of the Trenton Board of Education (TBOE) for the period July 1, 2000 to October 31, 2001. Our audit was limited to certain expenditures made by the board; the audit did not include revenues other than student activity funds. We tested expenditures for payroll and benefits, tuition and equipment. The prime responsibility of the board is to provide a quality education to approximately 11,000 pre-kindergarten to twelfth grade students. The TBOE employs approximately 2500 employees. Total expenditures were $211 million in fiscal year 2001, of which $130 million was included in our scope.

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 report.

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, and policies of the board. 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 district personnel to obtain an understanding of the district’s programs and internal control.
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.

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 district’s accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

We found that the district had resolved most of the significant issues noted in our prior report. The issues of medical billings, cobra billings, computer inventory and home instruction have been updated in our current report.
Cost savings can be realized by reviewing monthly billings.

Medical Billings

The district provides health, prescription and dental coverage for its full-time employees and their dependents through contracts with various private health insurance companies. The total annual costs of the medical and dental plans are $14 million and $1 million, respectively. Each company bills the district monthly for the costs of premiums and submits a list of employees enrolled in its plan. Our review of these insurance bills revealed that the district’s review process is inadequate and that the district has been overpaying medical coverage for its employees. We compared the April 2001 monthly bills sent by the insurance carriers with the district’s April payroll register and found 526 errors which resulted in a monthly overcharge to the district of $48,000. If these mistakes were in effect for the entire year, the total potential overcharge to the district would be approximately $575,000.

Listed below are the number and types of errors found on the April bills, with the amount of the monthly overbilling in parentheses.

Medical Plans:
- 52 subscribers were not on the district payroll ($21,400).
- 18 employees had dual coverage ($5,700).
- 3 employees who had waived medical benefits had their premiums paid by the district ($600).

Prescription Plans:
- 44 subscribers were not on the district payroll ($5,300).
- 4 employees had dual coverage ($400).

Dental Plans:
- 316 subscribers, including seven who were deceased, were not on the district payroll ($11,300).
- 89 employees had dual coverage ($2900).
Similar conditions were noted during our prior audit two years ago. Although the overbillings have decreased, the number and dollar amount of the exceptions are still significant. These errors occurred because management failed to implement adequate procedures to review the monthly billings.

**Recommendation**

The district has already responded by beginning to submit requests to insurance carriers to correct their records and apply appropriate credits.

We recommend the district seek reimbursement from its insurance carriers for all overcharges after conducting a thorough review of billing records to identify overpayments. The district should request the insurance companies submit electronic records of their monthly bills to facilitate review. Written policies which include procedures for timely removal of employees upon death or termination of employment should be developed.

**Auditee’s Response**

The district is seeking reimbursement from its insurance carriers for all overcharges identified in the audit and conducting a review of its billing records to determine if there are any additional overpayments. Procedures are being developed to make certain that employees are removed from the district’s insurance billings in a timely manner upon their death or termination of employment. In addition, the district plans to reorganize its Human Resources Department after it hires a new department head and is also seeking a health insurance broker.

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**Cobra Billings**

The district makes medical, dental, and prescription coverage available for a limited amount of time to employees and their dependents who have terminated their employment with the district. The district pays the medical carriers for this coverage. These former employees are required to reimburse the district for...
the cost of their coverage by submitting monthly payments to Cobra Elect, the administrator of this program. Each month, Cobra Elect reimburses the district with the money it has collected.

We compared a list of active Cobra participants from Cobra Elect’s Current Status Report to the April medical billings. Our review revealed that the district is paying for 69 individuals that Cobra Elect does not have included on its active files, for a monthly overbilling of $7700. These overbillings occurred because the district does not reconcile monthly billings with the current status report.

**Recommendation**

We recommend that the Human Resources department reconcile Cobra Elect reports to the actual health plan billings to verify that billings are correct and proper coverage is provided.

**Auditee’s Response**

The district agrees with the recommendation and plans to see that the Cobra Elect reports are reconciled with the actual health plan billings.

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**Leave Records**

We noted numerous errors in the employee leave records maintained by the district. Leave records are maintained manually at the individual schools and then are input into the Human Resources department’s computerized time reporting system. We found that leave balances for 75 employees were improperly overdrawn, resulting in a cost to the district of $27,000. In addition, our review of 15 sample employees disclosed that 11 had taken a total of 33 leave days that were not posted to the time reporting system. These errors occurred because the time reporting system does not prevent overdrawn balances and there is no review of the work of the timekeepers.
### Recommendation

We recommend that the Human Resources department periodically review employee leave records for overdrawn balances and proper postings.

### Auditee’s Response

The planned reorganization of the Human Resources Department will include a review of staff and the district’s technology support related to the time reporting system.

### Extra Pay

Teachers are paid for extra services that they perform based on the pay scales set forth in their contract. Pay Sheets which summarize the hours worked by all teachers on a particular program are submitted by the schools to the Payroll unit for computation of extra pay. Our review of payroll records disclosed that many employees work multiple jobs during the school year. We found no procedures in place to monitor those employees performing multiple extra pay jobs. Numerous Pay Sheets that we reviewed did not detail the specific date and hours worked but only the pay period and total number of hours worked.

Our test of employees who received more than $20,000 in extra pay disclosed that there was no record of dates or times on the Pay Sheets for $48,000 of $194,000 of extra pay tested. It was not practical for us or school district management to determine whether the time claimed overlapped with other extra pay requests or whether a request had previously been submitted for the same program and time period.

### Recommendation

We recommend the district revise the Pay Sheet to include columns for dates and times worked. In addition, all extra pay programs should be included on one form to facilitate supervisory review.

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**Extra pay forms should be revised and monitored.**
Auditee’s Response

The pay sheets will be reviewed and revised to accommodate the auditor’s concerns.

Home Instruction

Home Instruction hours should be monitored.

The Board of Education is required to provide qualified students with home instruction in lieu of classroom instruction. New Jersey Administrative Code 6A:14-4.8 states “Instruction shall be provided for no fewer than 10 hours per week.” In addition, the administrative code states that home instruction due to temporary illness or injury for students with or without disabilities shall be provided for no fewer than five hours per week. Our review of home instruction records disclosed that five out of seventeen students sampled did not receive the required hours of instruction.

We found that several instructors’ reimbursement requests were not accurate and, as a result, they were compensated for time that was not spent teaching. Three instructors included zero travel time on their reports, even though they worked at various homes. Two instructors’ records stated that they provided home instruction to two students at different locations at the same time. This lack of compliance with the administrative code and the improper claims were not detected because time sheets are only reviewed individually by the Special Services department; there is no comparison of instructors’ time sheets for their various students.

Recommendation

As stated in our Extra Pay recommendation, we recommend that all of an individual teacher’s extra pay requests for a pay period be submitted together. In addition, the Special Services department should monitor the home instruction attendance records to ensure compliance with the Administrative Code and the accuracy of the time reported.
Auditee’s Response

The Special Services Department will monitor the home instruction attendance records as indicated.

Computer Inventory

The district’s management is responsible for establishing a fixed asset inventory system which will safeguard assets from loss or unauthorized use and will also help to fix responsibility for particular assets, obtain optimum insurance coverage, and identify surplus property. The district has established a property inventory policy which defines equipment, establishes a system of identifying assets and record-keeping, and requires physical counts of all district-owned equipment. The policy covers equipment valued at $500 or more.

The district does not maintain adequate inventory records of its computer equipment. The importance and volume of computers utilized by all the district’s schools make proper record-keeping essential. However, the district does not maintain records of the location, warranty expiration date, and service history of the thousands of computers that are located at its schools. In addition, there are no physical counts of computers at the end of the school year.

The district did not comply with the recommendations from our prior report which stated the district should ensure computers are included on its inventory records and computers missing from the high school should be located.

Recommendation

The district should ensure that all computers are included on its fixed asset master inventory list. These records should identify the location of the equipment and include historical service records and warranty information. In addition, periodic counts of computer equipment should be performed.
Auditee’s Response

The district is taking action through its computer lease program to maintain a fixed asset master inventory list for all computers.

Tuition

Attendance records should be reviewed more closely.

The district pays tuition for out-of-district placement of its special education students. Total tuition expenditures during fiscal year 2001 were $13 million. The various schools submit to the district monthly bills which list all students enrolled and the number of days attended. Individual tuition contracts are prepared for each student. The standard contract states that the school shall notify the sending district when a student is absent for five consecutive days. If notice is not given, the school waives its right to tuition beyond the five consecutive daily absences.

The district’s review process for tuition bills was found to be inadequate. The Special Education department did not verify student enrollment or review attendance records when bills were received. Our review of tuition payments to 8 sample schools disclosed 34 students who averaged more than 5 days of absences per month. Some total annual absences ranged as high as 95 days. However, no follow up to determine the reason for these excessive absences was performed by the district. In addition, we noted that two of the schools did not submit attendance records and five schools provided only a monthly summary of attendance. As a result, it was not possible for the district to determine whether its students had been absent for five or more consecutive days. Because of the lack of review, the district could not determine whether students’ placements should have been reevaluated and whether it was paying tuition for which it was not responsible.
**Recommendation**

The district should review the monthly attendance records and follow up on reports of excessive absences. Schools should be encouraged to report attendance by exception only.

**Auditee’s Response**

The district plans to review its entire attendance tracking system and the related technology in its Human Services Department and throughout the district.

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**Student Activity Funds**

All athletic event receipts should be deposited in the Student Athletic Account.

Student activity fund control procedures need to be strengthened.

The district maintains a Student Athletic Account which is used for the deposit of all funds collected from athletic events. We discovered that cash collected from football and basketball concession sales and other athletic fundraising activities was not being deposited in the bank. There were no records and no procedures regarding the receipt and disbursement of this money. Instead, the money remained in the custody of the respective coaches. We determined that one coach had $1126 from concession sales in a metal box in his office. There were no records or balances of receipts from the other sports.

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. The funds are to be reconciled monthly and audited annually. During fiscal years 2000 and 2001 the district’s student activity cash receipts totaled $513,000 and $118,000, respectively.

We determined that the controls over student activity funds at the various schools are inadequate because of the lack of segregation of duties. The same individual collects cash, makes deposits, writes checks, and performs bank reconciliations. We further noted that records were not maintained to disclose account balances for individual
organizations. The high school’s student activity fund receipts were not deposited timely. Twenty-eight of 38 cash receipts tested were deposited more than 3 days after receipt and some deposits had not been made for up to 43 days. In addition, we discovered undeposited cash of $1238 which had been collected two months ago and remained in the safe. These control weaknesses and errors resulted from the fact that the district has not exercised sufficient control over the operation of the student activity funds.

**Recommendation**

We recommend that athletic event cash receipts be deposited into the district athletic account and that procedures be established to govern the collection, deposit, and disbursement of these funds. All of the student activity fund bank statements should be forwarded to the business office for reconciliations.

**Auditee’s Response**

Appropriate procedures for the timely deposit of cash receipts have already been put into place. Student activity fund bank statements are being forwarded to the business office for reconciliation.