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 City of Millville Board of Education for the period July 1, 1998 to September 30, 2000.

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

January 24, 2001
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City of Millville
Board of Education

**Scope**
We have completed an audit of the expenditures of the City of Millville Board of Education (CMBOE) for the period July 1, 1998 to September 30, 2000. The audit did not include revenues. The prime responsibility of the board is to provide a quality education to 5,600 pre-kindergarten to twelfth grade students. The CMBOE employs 1,000 full and part-time employees. Expenditures for school year 1999-2000 were $61 million including $41 million for salaries and benefits.

**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, 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.
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. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.
Multiple extra pay duties should be properly reviewed.

Extra Pay Duties

The City of Millville Board of Education pays employees additional income (extra pay) through stipends as intramural supervisors and hourly jobs at specified rates. Our review disclosed that various employees work multiple jobs during the school year. We found no procedures in place to monitor those employees performing multiple extra pay jobs. Time sheets do not detail the specific hour(s) worked but only the date and total number of hours worked.

Intramural seasons (days and hours) are not consistent at each of the district’s nine schools although the stipends are compensated at a fixed contractual rate for all supervisors. A review of the intramural stipends disclosed that, based on an unwritten policy, the schools provide 90 minutes of after school intramural activity and supervision from Monday to Thursday at each school. Each season runs for approximately eight weeks. However, we contacted the principal of each school and found that the intramural programs were conducted for 60 to 75 minutes on average, and in one instance was only conducted one day per week. Given that intramural seasonal stipends are compensated based on 90 minutes of activity for four days per week, the district could be overpaying intramural supervisors.

Our test of employees who received more than $20,000 in extra pay disclosed that one employee was compensated for supervising three intramural programs and for teaching home instruction simultaneously during the past three school years. The review of the hours worked disclosed that approved time sheets were submitted for home instruction hours worked while at the same time performing intramural supervision. Unearned compensation may have occurred because there was no review process of employees performing multiple jobs in the district. This matter has been referred to the Attorney General’s Office.
Recommendation

We recommend the district formulate procedures to review all employee extra pay time sheets for accuracy. We also recommend that the district change its compensation policy to be consistent with hours of service. In addition, the district should seek recovery for all unearned compensation.

Auditee’s Response

The board of education and the teachers’ union will mutually establish minimum work day obligation in all co-curricular areas. In addition, a system of spot check review of time slips will be developed where multiple jobs exist with individual personnel.

Cost savings to the CMBOE can be realized through timely reviews of the insurance carriers’ monthly billings.

Health Benefits

The City of Millville Board of Education pays for medical, prescription, dental and vision care coverage for eligible employees through various private insurance carriers. Monthly bills from each provider consist of a list of employees enrolled in its plan. District policy requires that employees be deleted from benefit coverage within thirty days of retirement or termination of employment. This policy is effected through a written request to the carrier and follow-up requests for individuals not removed timely. However, these procedures are not being followed. Our review of monthly bills revealed that the district has been overpaying its premiums for health benefits. We compared the May 2000 billings for medical, prescription, dental and vision coverages with the district’s employee listing and found 63 errors. This resulted in a total overcharge for these individuals of $55,500 for the period July 1999 to May 2000 as shown in the chart on the next page. Errors detected included former employees not removed timely, duplicate coverages for current employees, part-time employees covered and individuals not employed by the district. Further review by the district disclosed additional overpayments totaling $15,000.
Overpayment Errors

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<td>Medical</td>
<td>$42,075</td>
<td>11</td>
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<tr>
<td>Dental</td>
<td>5,208</td>
<td>9</td>
</tr>
<tr>
<td>Prescription</td>
<td>4,417</td>
<td>11</td>
</tr>
<tr>
<td>Vision</td>
<td>3,815</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>$55,515</td>
<td>63</td>
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</table>

**Recommendation**

We recommend the district seek reimbursement from the insurance carriers. Additionally, the district should follow their procedures requiring timely notification of changes in employment status and a review of the monthly billings to ensure proper removal of ineligible individuals.

**Auditee’s Response**

A system has already put in place where all health benefit bills will be reviewed on a monthly basis to determine proper additions and deletions of personnel. When an employee has not been properly deleted by a health benefit company, the company will immediately be notified and the board will seek reimbursement from its carrier. To date, the vision carrier has already agreed to a reimbursement based on errors that have been called to their attention. Credits are also pending with our other benefit carriers.

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**Compensation should be paid in accordance with contractual provisions.**

**Architectural Services**

The district agreement with the architect provides a separate fee schedule for basic services and additional services. During our audit period compensation for basic services, which include schematic designs, was eight percent of construction value plus reimbursable expenses. Additional services per the agreement are compensated at hourly rates. These services include “Providing interior...”
design and other similar services required for or in connection with the selection, procurement or installation of furniture, furnishings and related equipment.” The district spent $1,191,000 on furnishings for Lakeside Middle School in school year 1999-2000 and the architect was paid eight percent of this amount which totals $95,251. Services rendered for the procurement of furniture should have been billed at hourly rates.

**Recommendation**

We recommend the district recalculate the fee paid to the architect utilizing the hourly rates per the agreement and seek reimbursement for any overpayment. Future payments should be made in accordance with established fee schedules and vendor invoices should be thoroughly reviewed before making payment.

**Auditee’s Response**

It is believed that the architectural services provided in conjunction with the procurement and installation of furniture and equipment far exceeded what is ultimately intended as services to be performed in conjunction with the A.I.A. contractual language. State requirements call for an architect to do a space index of furniture layout, as well as other drawing details for labs, etc. that goes far beyond the simple ordering of furniture. As such, it is felt that the architect was fairly compensated. We will, however, look at more specific contract language to cover this issue in the future.

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**Vacation Leave**

The district allows unlimited vacation carry-over for its administrative management, who have no union affiliation. Other 12 month employees are limited to a maximum carry-over of the prior year vacation allotment per contract. Our review of the accumulated vacation balances for the eight administrators at May 31, 2000 disclosed four with balances ranging from 40 to 117 days. The unlimited...
accumulated vacation balance carryover is the result of individual employment contracts which do not restrict the vacation carryover. By permitting this unlimited vacation carryover the district may incur additional cash payments at the time of employment termination.

**Recommendation**

We recommend that unlimited accumulated vacation carry-over be discontinued.

**Auditee’s Response**

It is felt that the carry-over of vacation time is totally legal and proper since it has been negotiated and approved by the board and ultimately reduced in the form of contractual language.

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**Paychecks**

Contractual requirements state that paydays shall be scheduled on the 15th and 30th of each month. Our review noted that the district distributes paychecks for ten-month employees on the first day of the school year which is routinely not the 15th of the month. This situation was caused by the district’s past practice of convenience to the employees.

**Recommendation**

We recommend that the City of Millville Board of Education issue all paychecks in accordance with contractual terms.

**Auditee’s Response**

The board of education and its administration will begin paying strictly on the 15th and the 30th of each month as per the union contract. Ultimately, this is currently a grievance issue with the teachers’ union. We will begin making plans to pay on the 15th of September after the opening of school each year.
Payments for travel expenses should be more effectively controlled.

Travel and Mileage Costs

Board member daily expenses at conferences for meals and lodging are not to exceed $60 and $150, respectively. The board, however, has not established a formal written policy regarding travel expenses for district employees. Although current employment contracts provide for the payment of reasonable travel expenses including transportation, meals and lodging, a more comprehensive policy should be developed to control costs. In our review of payments for mileage and other travel expenses, we noted the following:

- Twenty staff members including board members and administrators attended the N.J. School Boards Association 1999 Annual Workshop. A total of $1,765 was spent on meals on October 28, 1999 which amounts to $88 per person.

- The district paid $239 for airfare for a board member’s spouse to attend a conference. Although the board has established a policy which permits a maximum of $250 annually to be spent on a board member’s spouse for attendance at professional meetings, other school districts audited by our office do not permit such expenditures.

- Two staff members attended a two-day conference in Washington, DC which took place on November 19 and 20, 1999. Hotel and meals costs totaling $174 on November 17, two days before the conference, were reimbursed.

- Reimbursement for a rental car for a five-day period totaling $463.

- Reimbursements for a hotel health club, an in room movie, parking at Universal Studios, maid fees and airport tips.
• An electrician employed by the district during the summer of 1999 was paid $562 for mileage incurred as part of normal duties. Appropriate documentation including origination and destination points as well as the purpose of each trip was not provided or required for payment.

**Recommendation**

We recommend the board establish a comprehensive policy for employee travel expenses. The procedures should detail allowable expenses and limits and require proper authorization and support documentation for mileage reimbursements. As an alternative, the policy could provide for a per diem allowance covering all travel costs. We further recommend the board eliminate the travel reimbursement policy for board member spouses.

**Auditee’s Response**

A written policy will be developed regarding travel and mileage costs for employees by the district office that will spell out those items that may or may not be requested for reimbursement. Current board policy allows $250 for board members’ spousal expense per year. The airfare quoted of $239 is below the policy figure. The staff members attending the conference in Washington two days before the conference date had professional commitments prior to the conference which is documented.

A form has been developed for all employees to document mileage that will include point of origin, destination, and purpose.