City of Millville
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 City of Millville, 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.

Peter M. Guilfoyle  
Assistant State Auditor  
September 28, 1999
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City of Millville
Board of Education

Scope
We have completed an audit of the City of Millville Board of Education (CMBOE) for the period July 1, 1997 to June 30, 1998. Our audit was limited to expenditures made by the board for the school year 1997-1998. The audit did not include revenues. The prime responsibility of the board is to provide a quality education to approximately 5600 pre-kindergarten to twelfth grade students. The CMBOE employs approximately 1,000 full and part-time employees. Total expenditures for salaries and benefits were $31.4 million and $4.7 million, respectively. The remaining $20 million of expenditures is comprised of general operating expenditures, tuition payments and transportation costs.

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 control.

A nonstatistical sampling approach was used. Our sample of financial transactions was 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 internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.
Segregation of Duties

Payroll duties and purchasing functions should be properly segregated.

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 processes overtime and other non-base wages on the payroll system also receives the paychecks for distribution. During our review, overtime and non-base wages totaled $1.8 million.

- Current purchasing practices permit an individual to request an item, obtain the bids and quotes, select a vendor and receive the item when delivered. During our review, transactions totaling $5.8 million were subject to a lack of segregation of duties.

- A signature plate is utilized to approve disbursements. The same individual who operates the check signing machine also processes purchase orders and vendor payments on the financial system. This individual also reconciles the checks with the vendor invoices.

Recommendation

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

Auditee’s Response

The same individual who receives the paychecks for distribution will no longer process overtime and non-base wages. A system will be implemented so that the individual entering the payroll will not process and receive the paychecks. A second individual will be involved in every payroll for this purpose. The duties of entering the payroll and receiving the checks will be on a rotating basis as a double check.
Millville public schools will develop procedures to provide adequate segregation of duties in the purchasing process. More than one employee will become involved in the purchasing process. Ultimately, the school business administrator will review all bids and quotes for procedural correctness before a purchase order is cut.

A new position will be established in the business office - Assistant Board Secretary - who will be assigned the duties of operating the check signing machine, thus segregating it from other individuals in the process.

The district’s computer inventory should be properly safeguarded.

**Computer Inventory**

The district spent approximately $850,000 on computer equipment in fiscal year 1998. Management is responsible for establishing and executing internal controls that safeguard assets from loss or unauthorized use. This responsibility includes maintenance of a fixed asset inventory record. Our review of inventory procedures for computers found that they are not adequate resulting in incomplete records. The following conditions were noted during the review:

- There are no standard procedures to track the movement of computers from one location to another.
- There are no standard procedures requiring an annual physical count of computers to verify the accuracy of inventory records.
- We were unable to locate 14 of 109 computers that were identified within the inventory records as being located at one school. In addition, several computers were located at a different school from that identified on the inventory.
- Computer equipment purchased during our audit period with an original cost of $52,000
was not recorded on the district’s primary fixed asset inventory.

- Inventory responsibilities for instructional use were duplicated by two management personnel.

- The district received free routers for Internet access from Bell Atlantic under their Access New Jersey Program. The agreement with Bell Atlantic was signed on March 19, 1998. The district also purchased and received seven routers at a cost of $10,000 between the period December 11, 1997 and March 5, 1998. The seven routers were found idle as they were replaced by those supplied by Bell Atlantic. Six of the seven routers, however, were not the same model as identified on the fixed asset inventory and vendor invoices. Management did not attempt to obtain a refund or a credit for future purchases from the vendor.

**Recommendation**

We recommend that written policies over inventory processing and control be developed and implemented. The policies should include annual physical counts, procedures to update the inventory for location changes and a procedure to record new computers on the inventory upon receipt. In addition, only one set of inventory records should be maintained to eliminate duplication of effort.

**Auditee’s Response**

The Millville public schools will formalize their procedures for tracking movement of computers.

MIS distributes copies of the fixed assets inventory to all schools each year for updates and correction. This update provides verification of the accuracy of the records. In addition, each summer an annual physical inventory will be taken to verify accuracy of computer records.

The “unlocated” computers are obsolete models which are in storage for public auction. Several of these were located and shown to the auditors. Once these computers are sold at public auction, inventory records will be updated to reflect their disposition.
As for the computers located at a different school, we are in the midst of opening a new school and our whole physical plant is in a state of flux. Computers, and other equipment, as well, are being relocated to adjust to the fact that all of our grade six and seven students are in one new building as opposed to the three schools where they had been housed. The auditors were inspecting inventory during July with all the movement and changing locations still taking place. The printed records they had in their hands were produced in March. Perhaps if our school district were a static entity without any growth or change, we could expect every item and every employee to remain in one place.

Had the auditors conducted their physical survey prior to the close of school, many of the items we had difficulty locating might have been more readily available. Our staff takes precautions to store equipment under cover and in locked areas during the summer months. During the school year, the equipment is out and in use.

Millville public schools will review procedures for moving items on to the fixed asset inventory. Any changes needed will be implemented as time and resources permit.

In an attempt to make certain that we do have all items on record in our inventory, and to assure that we meet the various requirements of both state and federal funding agencies, Millville Public Schools has assigned staff to cross check and complete inventories on the instructional computers, i.e., segregation of duties.

Millville Public Schools has contacted the vendor (for routers) and received verbal assurance that a credit will be issued towards a future purchase. Other parts of this item concerning model numbers were addressed in writing at the request of the auditors in July 1999.
Millville Public Schools will develop written policies for inventory processing and inventory control which will include:

1) Annual physical counts;
2) Procedures to update the inventory for location changes; and
3) Procedures to record new computers on the inventory upon receipt.

Retirement Bonus

State regulations allow employees to receive payment for portions of unused sick and vacation days only upon retirement and classify these payments not as salary, thus excluding them from pension calculations. Our review noted that two retired employees were granted pre-retirement packages by The City of Millville Board of Education (CMBOE) costing $32,000. The package included installment payments for accumulated sick leave which increased the employees’ annual salaries, and inflated the pensions of both employees. By classifying the payments as salary, the board compensated these employees for unused sick and vacation days in excess of their actual per diem rate. This resulted in overpayments of $15,000.

In addition, the board compensated four retired food service employees at 100 percent of their final accumulated sick day balances. Contractual requirements for these employees allow compensation for only 50 percent of accumulated sick day balances. This resulted in an overpayment of $4,000.

Recommendation

We recommend that the board seek reimbursement for all overpayments made to retired employees, and comply with state and contractual retirement requirements.

Auditee’s Response

The issue of the two retired employees who were granted pre-retirement packages by the Millville Board of Education, is now being resolved through the Pension Board of the Teachers’ Pension and Annuity...
Fun Fund. These employees will be required to make restitution if in fact it is deemed necessary.

The four retired food service employees who were paid more than their allotted sick time at retirement have been contacted by the Millville Board of Education to reimburse the Board of Education for this over-payment.

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**Health Benefits Cancellations**

The district requires that employees be deleted from health benefit coverage within 30 days of retirement or termination of employment. This procedure is initiated with a written request and sometimes a follow-up request when individuals are not removed timely. A review of monthly bills sent to the CMBOE by the various insurance carriers disclosed premium payments for two former employees who remained on health care billings for a period of fourteen and seven months, respectively. Premiums paid by the district for these employees were $9700. These errors occurred because management failed to implement procedures to review the monthly billings.

**Recommendation**

We recommend the board seek reimbursement from the insurance carriers and implement procedures to review monthly health benefit billings.

**Auditee’s Response**

Health Benefit billings will be reviewed on a monthly basis for correctness of each bill. If an individual has retired or been terminated, a notice will be sent to the health care provider at that time. If that individual shows up on the next month’s bill, a notice will be sent to our insurance broker for further action. The Millville Board of Education has been reimbursed by the insurance carriers for payments paid in error.
District sick leave stipends at retirement are limited to 25 percent of accumulated balances. A review of the payroll records disclosed 80 current employees (as of January 31, 1999) with entitlements exceeding $15,000, ranging up to $51,000. State policy is to limit the maximum reimbursable unused sick leave stipend at retirement to $15,000. Although the district does not have to comply with this state policy, it would be prudent to establish a limit.

Recommendation

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

Auditee’s Response

The Millville school district will attempt to negotiate a cap on reimbursed sick leave.

Home Instruction

The City of Millville Board of Education (CMBOE) provides qualified students home instruction. Our review of three employees providing home instruction disclosed that the required hour of instruction to students was not met. We found these employees submitting requests for reimbursement that included between zero and fifteen minutes to travel from one location to another. In addition, two employees provided home instruction to students at different locations during the same hourly time frame. This departure from the regulations was not detected because of a lack of a supervisory review prior to payment.

Recommendation

We recommend that the City of Millville Board of Education monitor home instructors hours to ensure home instruction students are receiving the required instruction period.

Auditee’s Response

An examination of the form upon which teachers reported their home instruction hours indicated form revision was necessary to ensure that irregularities can...
be more readily detected and effectively addressed. In this context, a new form and procedure has been instituted.