City of Salem
Board of Education

July 1, 2000 to July 16, 2002
The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
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 Salem Board of Education for the period July 1, 2000 to July 16, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

October 2, 2002
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City of Salem
Board of Education

Scope
We have completed an audit of the City of Salem Board of Education for the period July 1, 2000 to July 16, 2002. Our audit was limited to expenditures related to food service, extra pay, and health benefits. The prime responsibility of the Salem School District is to provide a quality education to 1,400 pre-kindergarten to twelfth grade students. Annual expenditures are $17 million. The board employs 230 full and part-time employees. Expenditures for areas included in our scope were $2.9 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. 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, 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 message, reviewed financial trends and interviewed board personnel to obtain an understanding of the programs and internal controls. We also reviewed audit reports issued by the board’s certified public accounting firm.
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 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 accounting system. In making this determination, we noted certain internal control weaknesses meriting management’s attention.

We also found that the school district has resolved the significant issues from the prior audit.
The district could save over $500,000 if they participate in the State Health Benefits Program.

Health Benefits

The health benefits contract expired on June 1, 2002. Health benefits is one of the negotiating points between labor and management and the negotiations have resulted in a delay in contracting for long-term health benefits. As of July 16, 2002, the district had not awarded a new contract. They are operating on a month-to-month basis under the prior contract terms. A review of the various health benefits plans revealed an annual savings of $590,000 could be accomplished by changing to the State Health Benefits Program.

Recommendation

We recommend that the district switch to the State Health Benefits Program as soon as possible in order to maximize savings.

Auditee’s Response

Mid-winter of 2002, the district commenced negotiations with the teachers association and switching health benefits to the State Health Benefits Programs was part of the negotiation process. The district has reached a settlement with the teachers association and will commence coverage with the State Health Benefits Program as of October 1, 2002.

Food Service Operations

The district needs to improve their monitoring of the food service operation.

The food service management company overcharged the district $12,500 for payroll and management fees in fiscal year 2001. The overcharge for payroll and incentive pay ($11,000) was found in the annual school audit. The management company reimbursed the overcharge in July 2002. Monitoring of these monthly bills could have eliminated the overcharges. The remaining $1,500 was for net overcharges in the management and administration fees for fiscal year 2001. Repayment for these charges is currently pending.
**Recommendation**

We recommend the district review bills for propriety and consistency with contractual terms.

**Auditee’s Response**

Repayment of the $11,000 (overcharge for payroll and incentive pay) was made to the district in the beginning of July 2002 and $1,500 (net overcharges in management and administration fees) was deducted from the May/June payment to the food service management company.

A spreadsheet has been developed to track monthly expenditures and a comparison will be done of expenditures to the same month from the previous year.

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**Extra Pay**

The labor contract for the custodial employees states the work week shall be 40 hours a week or eight hours a day inclusive of a one-half hour lunch period each working day. Our review disclosed the district computes custodians overtime rate based on a 37.5 hour work week. This results in an overpayment of over six percent. Additionally, the contract states sick days shall not count towards the 40 hours worked in calculating overtime hours. Our review disclosed the district computes overtime hours incorporating sick time taken. This non-compliance with contractual provisions has resulted in unnecessary overtime payments.

Some employees work additional jobs for the district and receive extra pay through stipends or an hourly rate. The extra pay category includes substitutes, home-bound instruction, summer school, overtime, salary adjustments, after school child care, and various contractual stipends. Calendar year 2001 extra pay totaled $620,000 or 6.5 percent of total payroll. Disbursements for extra pay are based on time cards, pay claims or other necessary documents. Our audit found that pay claims do not identify the
time of day spent on each job, but rather the dates and total hours worked. Information on the time of day spent on each job is needed for a proper review and authorization by the employee’s immediate supervisor prior to being forwarded to the payroll department. Examples of erroneous or questionable payments, or inappropriate practices follow.

- Some district custodians work as security guards at athletic events. Our review noted the district paid custodians their overtime rate rather than the authorized stipend.

- Errors in computing extra pay occurred because reviews were not performed prior to payment issuance.

- Payment for home instruction is granted at a rate of one hour per day for regular students and two hours per day for special need students. Our review disclosed one employee tutored multiple students within the same time frame and dates. The employee was paid the per hour per student rate. We found such payment to be excessive. This employee was also paid for tutoring one regular student two hours per day for 14 days, when only one hour per day was authorized.

**Recommendation**

We recommend that the district develop additional procedures to ensure overtime and other extra pays are properly supported, calculated, authorized and reviewed. Rate and hour calculation for extra service compensation should be consistent with contracts and board policies.