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 Salem City Board of Education for the period July 1, 1997 to June 30, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.
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Salem City Board of Education

Scope

We have completed an audit of the Salem City Board of Education (SCBOE) for the period July 1, 1997 to June 30, 1999. Our audit included expenditures of the board for fiscal years 1998 and 1999. The prime responsibility of the SCBOE is to provide a quality education to approximately 1,400 pre-kindergarten to twelfth grade students. Expenditures of the board were approximately $13 million and $14 million in fiscal years 1998 and 1999, respectively.

Objectives

The objectives of our audit were to determine whether expenditure transactions were related to the school district's programs, were reasonable and were recorded properly in the 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 school 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 reviewed financial trends and interviewed agency personnel to obtain an understanding of the programs and the internal control.

In addition, we reviewed audit reports issued by the board's certified public accounting firm and the Department of Education, Office of Compliance.

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. Samples of transactions were randomly and judgmentally selected.

Conclusions

We found that the expenditure transactions included in our testing were related to the school district's
programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses or matters of compliance with laws and regulations meriting management's attention.
Purchasing - State Contracts

The Public School Contracts Law (N. J. S. A. 18A:18A-4) requires that all purchases of goods and services by a board of education from an individual vendor exceeding $12,900 are to be procured by competitive advertising bids. If the purchase exceeds 20 percent of the bid threshold ($2,580), the district is only required to obtain three telephone quotes. The board also has the option of utilizing an existing state contract vendor. The Department of the Treasury, Division of Purchase and Property specializes in government contracts and procurement. Treasury staff offers training to local governments in the proper use of state contracts. These contracts are intended to save both time and money for state and local governments. By using state contracts, local governments do not have to publicly advertise for bids and the prices may be better than if there was no competition.

During our audit period, the district spent more than $3 million annually on goods and services. In fiscal years 1998 and 1999, expenditures of $350,000 and $500,000, respectively, were made to 17 vendors that referenced state contracts. We tested 15 purchase orders that were referenced to state contracts. In nine cases, we found the contract did not match the items purchased, the contract did not exist at all, or the contract belonged to another vendor. Specifically, steel doors were bought under a contract for replacement automotive glass, athletic uniforms were bought when the contract did not allow for the purchasing of clothing, and cleaning chemicals were bought from a vendor in Delaware, but the contract belonged to a vendor in northern New Jersey.

By referencing the purchases to the state contracts, the administration avoided seeking bids or quotes. Of the nine invalid contract purchases that we identified, eight were above the minimum amount requiring bids or quotes. One other purchase for $28,000 was made after obtaining three quotes instead of the required public advertising.
Additionally, the vendor for office supplies had a valid state contract, but the prices charged exceeded the terms of the contract by 15 percent.

**Recommendation**

We recommend all purchases requiring quotes or bids be made in compliance with N.J.S.A. 18 A:18-4. Price data and other terms submitted by state contract vendors should be confirmed with the Division of Purchase and Property.

**Auditee’s Response**

The district has always obtained state contracts according to the guidelines indicated by state rules. The audit has correctly pointed out to us the fact that when a vendor affirms state contract numbers it does not mean that all of the items listed on the purchase order for that vendor are covered by that number. The district will in the future ascertain that every item on the purchase order is covered by a state contract number, and will assure this through the following actions.

a. Querying each vendor as to the coverage of the purchase order items under the state contract number given.

b. Extend every effort to confirm the state contract number with the NJ Division of Purchase and Property.

c. Stamping each district purchase order form with a statement to be signed by the vendor that the vendor verifies that all of the above items are governed by a valid state authorized number. This statement will include a signature by an authorized person of the vendor.

Savings can be realized by using the proper per diem rate for payment of unused vacation.

Upon retirement, employees are paid for accumulated unused vacation days. Although there are generally 261 paid days in a year, the district’s current practice is to use 219 days when computing the daily rate of pay. This rate is then multiplied by the number of vacation days accrued to ascertain the payment amount. The rationale of the administration is that
there are 219 working days in the year (260 days less 18 holidays, 20 vacation days and 3 comp days). The use of 219 days instead of 261 days results in a premium of 16 percent over what would have been paid if the vacation leave were used during employment. We reviewed all six eligible employees who terminated or retired during the audit period and found that they received additional payments totaling $4,300.

**Recommendation**

We recommend that the Salem City Board of Education negotiate a change in the calculation of per diem rates in the collective bargaining process.