Township of Irvington Board of Education

July 1, 1997 to November 30, 1999

Richard L. Fair
State Auditor
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 Township of Irvington Board of Education, for the period July 1, 1997 to November 30, 1999.

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

Scope

We have completed an audit of the Township of Irvington Board of Education for the period July 1, 1997 to November 30, 1999. Our audit was limited to payroll payments and general expenditures made by the board during the audit period. Annual expenditures totaled $93 million. The board employs approximately 1,100 full and part-time employees. The prime responsibility of the board is to provide a quality education to approximately 9,100 students.

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 controls.

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.
Health Benefits Program

The Township of Irvington Board of Education agreed to pay 100 percent of the premium cost of medical health coverage to eligible employees and their immediate families through a private insurance carrier. Annual cost to the district for this coverage is $7 million. We compared the State Health Benefits Program (SHBP) rates with the district’s insurance rates and estimate that the district can save $700,000 annually if the board switches its coverage to the State Health Benefits Program.

As of July 1999, there were 282 school districts participating in the state’s program.

The district provides retired employees with the option of choosing between the state’s health benefits or the district’s private carrier. N.J.S.A. 18A:16-19 provides that retired employees and dependents who are eligible for and elect to take state-paid coverage under the SHBP shall not be eligible for employer paid coverage. During our review of the district’s monthly charges, we found three retired employees (two in 1988 and one in 1994,) who are covered by the SHBP and the district’s private health insurance plan at an annual cost of $15,000. This occurs because retiring employees are not required to provide the SHBP with an employer certification that they are not covered by a district plan. In addition, we tested the records of retirees aged 65 and over with family coverage. Seventeen of the 21 retirees tested are improperly classified as family coverage instead of husband and wife coverage which results in an annual overpayment of $18,000.

We also noted that, since 1996, three former employees were not removed from the district’s dental plan coverage billings which resulted in an annual overpayment of $1,500.
**Recommendation**

We recommend that the board review the advantage of enrolling in the state’s health benefits program. They should also discontinue medical coverage to retired or former employees who are no longer entitled to these benefits.

**Auditee’s Response**

The Board of Education will review the advantages of enrolling in the State Health Benefits Program. The Board of Education will also review the District’s current method of discontinuing medical coverage for retired or former employees who are no longer entitled to benefits.

The Office of the Personnel Benefits’s Manager will be held accountable for the continual review of former employees no longer entitled to benefits.

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**Legal Fees**

The district’s legal expenses during fiscal years 1998 and 1999 were $841,000 and $632,000, respectively. Included in fiscal year 1999 expenses is the cost of a contract between the district and a law firm in the amount of $375,000 which was increased to $450,000 for fiscal year 2000. This law firm was appointed through a board resolution rather than through a formal bidding process, which is permitted by law. Contract fees are paid primarily for the attorneys’ attendance at all regular and special board meetings, review and negotiation of employee contracts, and providing representation in litigation matters. The cost of legal contracts at other North Jersey districts audited by our office average approximately $100,000, which indicates that the Irvington contract may be excessive. Based on the compensable rate of $125 per hour for services by the law firm beyond the expiration of the agreement, the law firm is providing the district 3,600 hours per year, which is equivalent to more than 14 hours per day, of legal services. Although there may be explanations for the high cost of the contract, there was no mention made in the district files, nor was there a list of litigation cases against the board.

**Recommendation**

Management should maintain financial accountability for the legal contracts by requiring supporting documentation of the hours performed by the law firm and for increases in the contract base amount from one year to another. In addition, management should consider seeking “Requests for Proposals” for the purpose of promoting competitive legal fees from
other law firms to ensure that the district is paying fees comparable to other districts.

Auditee’s Response

The Board of Education will take the recommendation to maintain accountability for legal contracts by requiring supporting documentation of hours performed by the law firm under advisement.

In the future, the Board of Education will consider requesting proposals for legal services.

**The district needs to improve its policy regarding the use of donated sick leave.**

**Donated Sick Leave Policy**

The district has a donated sick leave policy whereby employees can donate one day each year to a “sick bank”. The purpose of the sick bank is to provide additional paid sick leave for employees who are disabled as a result of illness or injury. Current policy requires employees applying for sick bank leave to use only 30 of their own accumulated sick days prior to drawing on the bank. We noted that one employee used 60 sick bank days and then retired within a month, subsequently collecting $5,550 for 55 unused accumulated sick days. This represents an unnecessary cost to the district, due to the current policy.

**Recommendation**

We recommend that the use of donated sick leave by employees requiring extended time off from work due to serious illness not begin until after the employees have utilized all of their available sick leave.

**Auditee’s Response**

The Board of Education will review the District’s current policy regarding sick bank procedures and make recommendations for change.
Purchasing Procedures

The district should utilize the full range of its accounting system’s features to eliminate unnecessary and duplicate paperwork.

During our review of purchasing procedures, we noted that the district does not utilize features of their accounting system that would allow schools and other departments to directly enter purchase orders into the system and transmit them to the purchasing department for final approval and printing. The current procedure requires the schools and other departments to create the purchase orders manually and submit them to purchasing for approvals and inclusion in the accounting system. Due to the current procedure, there is an unnecessary duplication of paperwork, resulting in typing the same information twice for approximately 3,900 purchase orders processed annually. The unnecessary creation of manual purchase orders creates the potential for longer processing time due to document delivery, as well as the added risk of errors in the manually typed documents.

Recommendation

The district should allow schools and other departments access to the purchasing system to reduce unnecessary paperwork and the manual movement of purchase orders. This would provide increased assurance of both the accuracy and completeness of the purchase orders.

Auditee’s Response

Cost constraints currently keep the District from implementing the State Auditor’s recommendation at this time. Currently, funds are not available to cover the cost of wiring each school, provide in-service training and, for the purchase of compatible hardware and software.

Cellular Phones

The district disburses $18,000 in cellular phone call charges annually. Of 51 cellular phones listed on monthly phone bills, 19 were reported stolen by the transportation department; however, the district continues to pay more than $300 in monthly fees for these stolen phones. The transportation department did not provide timely notification to the business office stating when each phone was stolen so that the service could be terminated. Due to the district’s inability to provide a complete phone listing, eight cellular phones could not be identified with their assigned users. In addition, there is no written policy governing the use of cellular phones. A written policy for cellular phones should provide guidelines over usage, accountability, and justification of all cellular phones.

The district needs to strengthen internal controls over cellular phone usage.
**Recommendation**

The district should implement a written policy for cellular phones and account for all phones used.

**Auditee’s Response**

The Board of Education will consider writing a policy covering the District’s use of cell phones. A list of all employees assigned a cell phone along with that cell phone’s telephone number will be kept on file in the Superintendents’s Office.

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### COBRA Program

COBRA (Consolidated Omnibus Reconciliation Act of 1985) is a federally-regulated program that gives employees and their eligible dependents the opportunity to remain in their employer’s group health coverage when they would otherwise lose coverage because of the occurrence of certain events.

The school district collects $43,000 annually in COBRA premiums, including a two percent premium surcharge from 40 enrollees. In the benefits section, we noted that the same person who maintains the COBRA receivable records also receives its cash receipts. Proper internal controls require that the person maintaining receivable records should not have access to cash receipts. We also found that the district’s insurance carrier has the ability to administer and collect COBRA premiums for a two percent premium (employee paid) surcharge. Therefore, it may be cost effective to have the insurance carrier administer the COBRA.

**Recommendation**

We recommend that the district consider having their insurance carrier administer the program. In the alternative, the district should segregate COBRA receivable and cash receipt duties.

**Auditee’s Response**

The task of COBRA billing, and the collection of cash receipts has already been departmentally segregated.

The Board of Education will consider utilizing the District’s insurance carrier as its COBRA administrator.