Keansburg Borough
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 Keansburg Borough, 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.

Richard L. Fair  
State Auditor  
October 27, 1999
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Keansburg Borough
Board of Education

**Scope**

We have completed an audit of the Keansburg Borough Board of Education for the period July 1, 1997 to June 30, 1998. Our audit included revenues (state aid, federal programs and school taxes) and expenditures of the board for school year 1997-1998. The prime responsibility of the Keansburg Borough Board of Education is to provide a quality education to approximately 1900 kindergarten to twelfth grade students. Revenues totaled $21.8 million, of which $16.4 million was from state sources. Expenditures totaled $21.9 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. 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. However, 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 board should compare and review current health insurance cost with the state’s plan.

The Keansburg Board of Education provides medical health coverage to eligible employees through a private insurance carrier. Annual medical insurance cost totaled $1.3 million. School districts may elect to participate in the State Health Benefits Program instead of a private insurance carrier. As of July 1999 there were 282 school districts participating in the State Health Benefits Program. Comparing the current rates paid by the district to the state rates, there is a $95,000 annual cost savings if the district changes medical insurance to the state’s program. We also found one former employee who retired after 25 years of service and was covered, since May 1, 1996, by the state’s health benefits program. The school district continued to pay for this individual’s medical insurance at an annual cost of $8,400. 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 state health benefits program, shall not be eligible for employer paid coverage. Another employee who retired in June 1989 with less than 25 years of service continues to receive medical benefits from the district. Although she reimburses the district for the cost of the medical coverage, COBRA benefits should have ended 18 months after her retirement date.

Recommendation

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

Auditee’s Response

The State Health Benefits Program, although an excellent health insurance program, places certain restrictions upon employers. Some of the monetary advantages that the board has gained from our employee union contract negotiations could not be realized as participants in the SHBP.
The Board of Education currently utilizes a cafeteria plan for employee medical and dental coverage, which provides savings to the district. During the 1998-1999 school year, the employees could only share savings on the dental program; in 1999-2000 employees can participate in both medical and dental program savings. This is accomplished by the employee waiving his right to the full medical or dental coverage to which he would otherwise be entitled; instead, he chooses a lesser coverage or no coverage if he can provide proof of other medical or dental coverage. In lieu, he gains a cash payment for one-half the savings, the board receiving the other half.

In addition, the Board has negotiated that, until an employee receives tenure, the board provides only the cost of single coverage for medical and dental insurance, with the employee picking up the cost of any additional coverage he requires. Once an employee gains tenure, the board provides the cost of full coverage at the HMO rate, as required by the individual employee. Again, this provision in the contract provides savings to the board.

It is my understanding that, as a participant in the SHBP, the board could not take advantage of these provisions. The board would have to cover all employees alike, in full. I have confirmed these facts with a professional negotiations attorney. It stands to reason that this requirement of the SHBP must cost the Board of Education more than they now pay, even if the individual rates are lower.

Lastly, the board has negotiated in good faith with its bargaining unions, and has an agreed-upon contract in place through June of 2002. Any changes the board would like to make to the health insurance of its employees would have to be negotiated with its unions, since it would be deemed a change in terms and conditions of employment. The board will continue to seek methods of savings wherever they can be found, within the limits of its power.
Regarding the two retired employees who are receiving medical benefits through the Board of Education, the board has asked its attorney to review the matter and render an opinion and a course of action for the board.

Unreported Taxable Income

Cash in lieu of medical insurance and mentorship reimbursements should be included in taxable income.

The agreement between the Keansburg Board of Education and the district teachers and administrative staff allows the board to pay an employee fifty percent of the savings on insurance premiums, when an employee switches from family or husband and wife coverage to either single or no coverage. The program applies only when the employee is eligible for the more costly coverage and voluntarily waives such coverage. The employee must provide proof of alternative health coverage satisfactory to both the board and the Keansburg Teachers Association. During fiscal year 1998, the district reimbursed 20 employees $10,400 for savings in dental premiums, however, these reimbursements were not included in the employees’ taxable income.

The mentorship program is on-the-job training experience provided to provisional teachers. Program fees collected by the school district are distributed to the experienced mentor teachers working with the provisional teachers. Amounts distributed during fiscal year 1998 were $2,685. The district failed to include these amounts in the mentors’ taxable income.

Recommendation

We recommend that the district comply with federal and state income tax codes by including these reimbursements in employees’ taxable income.

Auditee’s Response

After reviewing the health benefits contract provisions and the mentorship program with the board’s auditor, appropriate taxable income reports will be issued annually by the Board’s business office.
Competitive bids or state contracts should be used for annual purchases exceeding $12,900.

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 on either an individual or annual basis are to be procured by competitive bids solicited from at least three vendors. If the board does not wish to solicit any bids, they have the option to utilize an existing state contract vendor to provide the goods or services (N.J.S.A. 18A:18A-10). The Keansburg Board of Education’s internal policies and procedures (Policy Numbers 604 and 605) direct purchasing staff to consider using state contract vendors whenever such usage has the potential to save the district money. During our review of 24 disbursements for adherence to proper procurement procedures, we noted six transactions in which the board failed to seek competitive bids for the items purchased. The board purchased $426,000 from these six vendors during fiscal year 1998. In some cases the board may have had prior business with the vendors and simply continued dealing with them. As a result of not seeking competitive bidding for these items or attempting to procure them through a state contract, the board may not have obtained the best prices available for the goods and services purchased.

Recommendation

We recommend that the board comply with the statutory procurement requirements and seek competitive bidding when mandated. They should also utilize state contract vendors whenever such contracts result in cost savings to the Keansburg School District.

Auditee’s Response

The board’s business office is in agreement that the state contract purchases should be utilized wherever savings can be had as a result of such utilization. The board’s business office will monitor closely purchasing, and when required, quote and/or bid, as required by statute. In some instances, local vendors can provide savings over state contract pricing, and when such is the case, the board will approve such purchases, as required by NJSA 18A:18A-5e.
The board should require written certification of claims audited by the board secretary and provide signatures evidencing review of the bill list by its finance committee.

Payment Processing

N.J.S.A. 18A:19-4 requires that all claims against a board of education are to be examined, audited, and certified in writing by the board secretary. N.J.S.A. 18A:19-2 also requires that such claims be properly presented to the board of education by persons designated by the board for that purpose. During our review of 24 disbursements, we noted that none of the bill lists contained a written signature by the board secretary certifying these claims. In addition, bill lists containing four of these disbursements totaling $415,000 also lacked the required review signatures by the two members of the board’s finance committee. Although the standard language on the bill list form declares that the board secretary has reviewed the claims included in the report, there was no space provided for her signature. There is no apparent cause to explain the lack of review signatures by the finance committee other than an oversight. Failure to document review of expenses by the board secretary and the finance committee members weakens internal control over expenditures, increasing the risk that erroneous or improper payments could occur.

Recommendation

We recommend that the board adhere to the requirements of N.J.S.A. 18A:19-4 and N.J.S.A. 18A:19-2 by having the board secretary certify her audit of claims via a written signature on the bill list and by assuring that the two members of the board’s finance committee affix their signatures every time they review the bill list.

Auditee’s Response

The board’s business office has instituted procedures whereby the board secretary now audits the bills and claims list and affixes her signature, as required by statute. In addition, the finance committee, consisting of the three board members, is now certifying the bills and claims list that is presented to the board for approval.
Fixed Assets

The Keansburg Board of Education procedure No. 7021 dated March 12, 1992, requires the district to maintain a fixed asset inventory system. Items classified as equipment must meet certain criteria regarding cost and a useful life of more than one year. The equipment inventory should show description, model and serial number; identification of the grant under which the district acquired the equipment; acquisition cost; location; use and condition of equipment and date reported; and ultimate disposition data, when applicable. Our review indicates the district does not maintain a fixed asset inventory system. During fiscal year 1998, the district purchased computers and computer related equipment totaling $1.5 million. The lack of a system to maintain records of equipment inventory may result in items being lost or misappropriated without being detected.

Recommendation

We recommend that the district establish a system for recording and updating fixed assets. Also, a periodic physical inventory should be taken to verify the existence of the items.

Auditee’s Response

An outside contractor during this past summer did a physical inventory of the district; a fixed inventory is now in place as required by GAAP. A procedure will be established by the board’s business office to maintain and update it as appropriate.
Administrative Manual

The Keansburg School District’s administrative manual is incomplete and has not been updated since July 1993. The manual is designed to assist the district administrative staff on current Board of Education policies and procedures. The lack of a current and complete manual increases the risk that established standards will not be followed within the school district.

Recommendation

We recommend that the Board of Education complete and update its administrative manual.

Auditee’s Response

The Board’s Policy Manual is being updated in sections. The Finance and Operations sections are scheduled to be thoroughly reviewed and updated during the upcoming winter months, as the workload in the business office slows.

Payroll Processing

Payroll expenditures were $11 million for 298 full and part-time employees during fiscal year 1998. In reviewing the payroll function at the board, we noted the following internal control weaknesses:

- The same employee processing payroll also signs payroll checks with the treasurer’s authorized signature stamp. Proper internal control requires an authorized signature on payroll checks be independent from payroll processing.

- Payrolls are not certified by the board secretary, superintendent, and the president in accordance with the district’s internal policy No. 611.
Only one employee has the training and experience to process payroll. Should that employee be temporarily unavailable or leave unexpectedly, the district may be unable to issue paychecks timely to employees. Proper business practices should provide for cross-training other employees within the district’s administration unit to perform payroll processing in case the assigned employee is not available. Although staffing is limited, we believe cross-training can still be achieved.

These weaknesses are partly due to the limited size of the administration staff. As a result of these weaknesses, the potential exists for unauthorized employee payments, improper payroll adjustments and record keeping, and other errors and irregularities. Our tests did not, however, disclose any irregularities.

**Recommendation**

We recommend that the district have an employee who is otherwise independent of payroll functions, sign payroll checks instead of the employee processing payroll. We also recommend that the board secretary, superintendent, and president certify the bi-monthly payrolls as required by the board’s policies and procedures. Finally, we recommend that the board cross-train other administration staff to perform payroll processing in the absence of the regular payroll staff member.

**Auditee’s Response**

Procedures are currently being instituted to safeguard the control of the signature stamps. The stamps are maintained in a locked drawer with only the Superintendent and the School Business Administrator having access to them. A live signature is now in place on all bills and claims checks. The payroll checks are only required to have a single signature, that of the Treasurer of School Moneys. The Board’s School Business Administrator now signs all payroll checks, providing a separation of payroll processing from signature processing.

The Board Secretary, Superintendent and Board President now certify all payrolls as required. In addition, as recommended, cross-training of employees
for all business office functions will be undertaken over the course of the next twelve months.