Gloucester City Board of Education

July 1, 1998 to May 31, 2000
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  


If you would like a personal briefing, please call me at (609) 292-3700.

July 28, 2000
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Gloucester City Board of Education

Scope

We have completed an audit of the Gloucester City Board of Education for the period July 1, 1998 to May 31, 2000. Our audit was limited to salary expenditures recorded in all funds and non-salary expenditures recorded in the General Fund. The prime responsibility of the board is to provide a quality education to approximately 2000 pre-kindergarten through adult high school students. The district employs approximately 300 full-time employees. Salaries approximated $14 million per year. General Fund non-salary expenditures approximated $8 million per year.

Objectives

The objectives of our audit were to determine whether expenditures 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 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 audit reports issued by the board’s certified public accounting firm, read the budget, reviewed financial trends and interviewed district personnel to obtain an understanding of the district’s programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of expenditures were designed to provide conclusions about the validity of transactions as well
Conclusions

The board should improve internal controls over payroll and personnel functions.

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 the accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

Payroll and Personnel

Payroll expenditures totaled $13.7 million during fiscal year 1999. Management is responsible for establishing and implementing internal controls that safeguard assets from loss or unauthorized use. Segregation of duties is an essential element of internal control that decreases the risk that errors and irregularities may occur and go undetected. Adequate segregation of duties include subjecting the work of each employee to the review of another.

Our review of the payroll and personnel functions indicated a lack of this element. The individual who processes pay time on the payroll system also processes personnel actions including new hires and terminations. Although we found no improprieties, this employee also has the ability to make changes to the payroll records, including changes of employment status from inactive to active, without supervisory review. Furthermore, terminated employees remain on the payroll system until the year following termination.

The same individual processing payroll also prints and distributes the paychecks. Payroll checks are printed with the treasurer’s authorization signature, therefore the treasurer’s authorization does not serve as an internal control. Proper internal control re-
quires an authorized signature on payroll checks be independent from payroll processing.

Payrolls during fiscal year 1999 were not certified by the board secretary and president. Both signatures are required by N.J.S.A. 18A:19-9.

**Recommendation**

We recommend that management segregate the conflicting duties noted above. Additionally, terminated employees should be removed from the payroll immediately.

**Auditee’s Response**

The internal controls for the segregation of payroll duties is currently being reviewed by District management. Immediate controls have been implemented that will have the employee, add or delete function, overseen by the office of the Superintendent. The physical printing and distribution of payroll checks will be overseen by the Board Secretary Business Administrator. Per the attached letter of the computer consultants, the file for terminated employees must remain on the system until calendar year ends in order to process W-2’s for tax reporting purposes. Currently 60% of the Gloucester City payroll is direct deposited to the employees payroll account. The district is moving toward a 100% direct deposit that will eliminate the need for manual or electronic computer image signatures. Until 100% direct deposit is achieved the above separation of payroll functions will be implemented.

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**Board Payment Authorization**

N.J.S.A. 18A:19-2 stipulates that no claim or demand against a school district will be paid unless it is authorized by law and approved by the board. Our review noted that two retired employees were granted retirement packages costing $10,725 to date. The district paid a former superintendent $9,225 for 20 vacation days that were not earned. A former facilities manager has received free dental coverage since retirement costing the district $1,500 to date. In
addition, the district compensated the current business administrator $1,500 for 5 vacation days not used during the year. Evidence of authorization by the board for the above payments was not present in the board minutes.

**Recommendation**

We recommend that the district comply with state and contractual requirements when authorizing future payments.

**Auditee’s Response**

All payroll authorizations including vacation and retirement packages have been overseen by District management and Board personnel committees, but these items were not memorialized in the official minutes of the Board of Education. All personnel matters will be made a part of the official minutes of the Board of Education.