Gloucester City Board of Education

July 1, 2000 to March 15, 2002

Richard L. Fair
State Auditor
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 Gloucester City Board of Education for the period July 1, 2000 to March 15, 2002. If you would like a personal briefing, please call me at (609) 292-3700.
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Gloucester City Board of Education

Scope

We have completed an audit of the Gloucester City Board of Education (GCBOE) for the period July 1, 2000 to March 15, 2002. Our audit was limited to operating expenditures and revenue and expenditure transactions related to student activity accounts and the student athletic account. The GCBOE employs approximately 400 full and part-time employees. Annual operating expenditures are $27 million, of which $18 million are for salaries. Annual revenue transactions for the student activity and athletic accounts were $70,000. The prime responsibility of the board is to provide a quality education to approximately 2,100 pre-kindergarten through adult high school 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. 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, reviewed financial trends, and interviewed personnel to obtain an understanding.
of the district’s programs and the internal controls. In addition, we 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 included 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 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.

We also noted the district has complied with one finding and partially complied with the remaining finding from our prior report.
Payments of unused sick and vacation days should comply with board policy.

Payroll and Personnel

Article V of the agreement between the Gloucester City Board of Education and the Gloucester City Administrators Association states administrators retiring in school year 2000 - 2001 after 20 years of continuous service in the Gloucester City School System shall be paid for accumulated unused sick days at a rate of $75 per day up to a maximum of $20,000. Our review of payments to retired employees noted that the board authorized an employee be paid $48,000 for unused sick days based upon annual installments of $16,000. At the end of our field work, $32,000 had been paid.

Recommendation

We recommend the board comply with the contractual agreement when issuing payments related to unused sick leave. We also recommend that the board seek reimbursement.

Auditee’s Response

The current contract for the Gloucester City Administrators Association states that administrators retiring after 20 years of continuous services shall be paid up to a maximum of $20,000 for unused sick days. Your review noted an exception to that rule in that an administrator upon retiring after 20 years was paid $48,000 of unused sick days. The Boards’ decision to deviate from the contract was a result of a contractual sidebar agreement. The administrator who was eligible to retire within a year had medical issues that would have caused the district to hire an interim. Our reasoning was based on a practical business decision. It was more cost-effective to pay the employee all of his unused sick days in lieu of maintaining his current salary and paying an interim. Our decision was also based on maintaining continuity by hiring a permanent replacement. Both the district and the employee benefitted from this decision. The district disagrees with the recommendation to seek reimbursement.
Proper internal controls should be adopted.

Student Athletic Fund Account

Receipts generated from student athletic games are remitted to the board and credited to the general fund account. Our review noted the following internal control deficiencies over the processing of athletic game receipts:

- One employee receives, records, and deposits cash receipts.
- Management does not independently reconcile tickets sold to receipts deposited per event.
- Management has no expectation of athletic game receipts.
- The district does not have operating procedures for the processing of athletic game receipts.

Total athletic game receipts from school year 1995-1996 to school year 2001-2002 through January 23, 2002 were $61,000. Annual receipts have declined during this period. We were unable to substantiate total deposits made from actual receipts generated from athletic games because we were informed by management that financial records were unavailable for examination.

Our review further noted that receipts were not deposited timely. We compared the date when games were played to the date deposits were made in school year 2001-2002. We noted that a total of 18 games were played and receipts from only 3 games were deposited within one day after the game was played. One deposit was made 33 days after the game was played. Untimely deposits were also noted for prior years’ receipts.

Recommendation

We recommend that the district improve internal controls over the processing of student athletic receipts by:

- Establishing written procedures for the collection, accounting, and monitoring of athletic game receipts;
Segregating the collecting, depositing, and recording functions;
• Performing an independent reconciliation of tickets sold to deposited game receipts;
• Establishing expectations of athletic event receipts and monitoring results; and
• Depositing receipts timely.

Auditee’s Response

The district acknowledges that improvement was warranted. We had immediately implemented interim procedures to assure a separation of duties in collecting, depositing and recording receipts from athletic events. The principal will be taking an active role and the business office will be verifying gate receipts.

Proper control procedures are needed to safeguard assets.

Student Activity Account

The Gloucester City School Student Activity account contains 22 student organizations. We reviewed the activity of the Play Account, which receives a board appropriation to pay for expenditures related to the annual school play. Revenues generated were deposited to the student activity account. Expenditure transactions were charged to the board appropriation until exhausted. The remainder was charged against revenue generated.

Our review disclosed internal control weaknesses related to the Play Account. We noted that management does not independently reconcile receipts to ticket sales. We also noted a lack of segregation of duties in the procurement area in that the account custodian prepares purchase requisitions, selects vendors, receives merchandise, and initiates payment. When we attempted to review the propriety of receipts deposited, we were informed that the financial records, such as tickets sold, were unavailable for review. Our testing of transactions noted a lack of proper supporting documentation related to disbursements and deposits. Five payments issued were not properly supported by
vendor invoices and purchase orders. Eight deposits could not be verified because receipts supporting deposits were not found.

Our review also disclosed that the Play Account had an ending cash balance of $17,000 and $20,000 for school year 1999-2000 and 2000-2001, respectively. Our review noted that unexpended balances at the end of the school year are neither refunded to the board nor considered during future board appropriations.

**Recommendation**

We recommend that management independently reconcile receipts to ticket sales, segregate the procurement duties, reinforce the need for proper documentation, and consider either refunding unused balances to the general fund or adjusting future appropriations.

**Auditee’s Response**

The district for school year 2002-2003 will institute a budgeting and control process for the school play accounting for total expenses for that activity all in one account. Additionally, any balances in the Student Activity Account will be refunded to the General Fund in 2002-2003.