New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

The City of Orange Township
Board of Education

July 1, 1999 to March 31, 2001

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State Auditor
The Honorable Donald T. DiFrancesco  
Acting 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 City of Orange Township Board of Education for the period July 1, 1999 to March 31, 2001.

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

November 5, 2001
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The City of Orange Township Board of Education

Scope
We have completed an audit of The City of Orange Township Board of Education for the period July 1, 1999 to March 31, 2001. Our audit included financial activities accounted for in the school district’s General Fund, Special Revenue Fund, Trust Funds, and Capital Projects Fund.

General Fund operating expenditures total $46 million annually. In addition, the various other funds of the district expended $13.5 million per year. The primary responsibility of the district is to provide a quality education to all school age children residing in the City of Orange Township. The district is governed by a seven member Board of Education appointed to three-year terms by the mayor of the City of Orange Township. The Superintendent of Schools oversees the day-to-day operations and the School Business Administrator is responsible for the fiscal operations of the district. Included in the district is a high school, a middle school and seven elementary schools. The district also operates a special education program.

Operating Revenues for the school year 2000 were approximately $58 million, consisting of $47 million in state aid, $9 million from local property tax assessments and $2 million in federal education grants.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the district’s programs, were reasonable, and were recorded properly in the accounting systems.

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 district personnel to obtain an understanding of the district programs and internal control. We also reviewed audit reports issued by the board’s certified public accounting firm.

A nonstatistical sampling approach was used. Sample items for our reviews were judgmentally selected from the total financial transactions population. 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 both randomly and 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 recorded properly in the accounting system. In making this determination, we noted certain matters concerning internal control meriting management’s attention.
Payroll and Personnel

The district needs to maintain a master personnel file.

The district’s payroll section (accounting) maintains a list of both active and inactive employees. However, a proper system of internal control provides that the personnel department maintain an employee master file along with the authority to approve additions, deletions, and changes to the payroll master file. No such master file exists and there is no assurance that unauthorized persons cannot be entered on the payroll records. Our tests did not disclose any such instances.

Employees should be removed from health benefits in a timely manner.

When comparing names per health benefits invoices to payroll records, we noted four individuals receiving health insurance and ten receiving dental insurance who were not on the payroll list and could not be confirmed as district employees. While reviewing procedures to remove terminated employees from insurance coverage (22 health and 7 dental), we found delays in the process of up to 14 months. Total insurance charges for these individuals cost the district $40,500 in unnecessary premiums. The district has no procedure whereby the personnel department effectively notifies health insurers to remove employees from insurance coverage 30 days after their termination of employment.

Recommendation

We recommend that the personnel department be responsible to maintain a master personnel file and approve all additions to and deletions from it. The payment of employee health benefit invoices should be made based on the approval of the personnel department. The district should develop an effective means to ensure terminated employees are removed from health insurance policies after the 30 day grace period.

Auditee’s Response

The district is currently engaging its Computer Software Company to purchase a computerized Personnel Package that will provide the district with a better ability to manage position control. In
addition, the district was in the process of performing a self-audit of the health benefits program at the time the audit was being commenced. The individual who was previously responsible for monitoring the health and dental program resigned from the district in January 2001. The responsibility has since been transferred to another employee who has deleted old employees from the health and dental programs. That process has netted the district over $50,000 in credits on its health and dental premiums. The district will continue to monitor this process on a monthly basis and cross-train another employee.

Accounting System Controls

The district should strengthen accounting system controls. The City of Orange Township Board of Education’s total expenditures, excluding payroll, was approximately $29 million for fiscal year 2000. The district uses a computerized financial system to control and record expenditures. Our review of the system controls used for expenditures revealed a weakness in the system’s ability to prevent unauthorized purchases and payments.

The system allows changes to be made to vendor and payment information on purchases subsequent to payment. Incomplete purchase orders cannot be deleted from the system after a purchase order number is assigned, but the order may be accessed and unauthorized changes can be made. During our test of expenditures, we noted that printed copies of all purchase orders could not be located to substantiate authorization. Because of these control weaknesses, unauthorized purchases or irregularities could exist and remain undetected, although our tests disclosed no such instances.

Recommendation

We recommend the district establish authorization levels within the financial system software to ensure purchases and expenditures are properly authorized and recorded in the accounting records and reports.
Auditee’s Response

As noted in the audit, there were no instances of unauthorized purchases or irregularities noted during testing. The district, however, will strengthen its controls over purchasing and payments as follows:

- Authorization levels in the financial system software will be changed to only allow management the abilities to enter vendors.

- The district has contacted and will be working with the financial software vendor to change the program to preclude information from being changed in the system once an item has been processed.

- Additional employee assistance will be sort to file purchase orders timely and to improve the filing system.