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

City of Perth Amboy
Board of Education

July 1, 2000 to June 30, 2001

Richard L. Fair
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 Perth Amboy Board of Education for the period July 1, 2000 to June 30, 2001.

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

December 4, 2001
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City of Perth Amboy
Board of Education

Scope
We have completed an audit of the City of Perth Amboy Board of Education for the period July 1, 2000 to June 30, 2001. Our audit included revenues (state aid, federal programs, and school taxes) and expenditures of the board for school year 2000-2001. The prime responsibility of the City of Perth Amboy Board of Education is to provide a quality education to approximately 8000 pre-kindergarten to twelfth grade students. Revenues totaled $110 million, of which $84 million was from state sources. Expenditures totaled $105 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, observation, and through our samples of financial transactions. We also read the budget and board minutes, reviewed financial trends, and interviewed district personnel to obtain an understanding of the district’s programs and internal control. We also reviewed audit reports issued by the board’s certified public accounting firm.
Both statistical and nonstatistical sampling approaches were used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample 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 their accounting system. In making this determination, we noted certain matters concerning internal control weaknesses and an operational inefficiency meriting management’s attention.
Internal Controls

A proper system of internal control provides checks and balances to ensure financial transactions are properly authorized and recorded. Inadequate internal controls, including a lack of segregation of duties, lack of supervisory authorization, and the absence of bank reconciliations, increase the risk that errors or misapplications of funds could occur and not be detected. Our review of the district’s internal controls disclosed weaknesses in payroll, overtime, purchasing, and food service.

Payroll

The board, in July 1999, hired a part-time treasurer to reconcile various checking accounts. The payroll account, representing $63 million in annual disbursements for 1500 employees, is one of the major accounts that the treasurer is responsible for. During our review, we found that the treasurer had not reconciled the payroll account since January 2000. Although management is aware that the treasurer is not completing his contractual requirements, the board continues to renew his annual employment contract. In addition, there is a lack of segregation of duties over payroll preparation. The payroll clerk processes payroll, prepares payroll checks, and signs payroll checks with the treasurer’s signature stamp. Proper internal controls require a person signing checks be independent from payroll processing.

Overtime

During a test of overtime payments, six out of 76 time sheets submitted for overtime did not have supervisory approvals. Although the business office staff realized these time sheets lacked supervisory approvals, the overtime documentation was forwarded to the payroll clerk for further processing. Furthermore, management does not have a written policy on overtime. Proper internal controls require
a written policy on overtime which includes, but is not limited to, a provision that all overtime time sheets must have supervisory approvals.

_Purchasing_

The district spends approximately $34 million during the school year procuring goods and services from vendors. The same employee processes purchase orders and payments on their computerized accounting system. Proper internal controls should not allow an employee to have system access to both purchasing and payment processing.

_Food Service_

The food service department receives approximately $320,000 in cash register receipts annually from school cafeterias. The same employee handles cash, prepares the deposit ticket, maintains the checking account, and prepares the bank reconciliation. Proper internal controls require an employee preparing the bank reconciliation not have access to the cash.

**Recommendation**

We recommend:

- The board require contracted employees to fulfill the requirements of the contracts or not renew the contracts. The board’s internal accountant should temporarily reconcile the payroll account.

- The payroll clerk not have access to the signature stamp for the preparation of payroll checks.

- Written procedures be developed and enforced for overtime.

- Employees be prohibited from having system access to both purchasing and payment processing.
• The food service checking account be independently reconciled by someone who does not have access to cash.

**Auditee’s Response**

**Payroll**

The district feels that some progress has been made with respect to the performance of the individual in question. However, it has been made clear that a contract renewal will not be recommended unless bank reconciliations are completed in a timely and accurate manner for a sustained period of time.

The payroll specialist will no longer affix signature to payroll checks as this duty will be assumed by another employee.

**Overtime**

Written policies regarding overtime will be developed and enforced.

**Purchasing**

The administration will investigate the possible realignment of duties regarding the purchasing and payment systems. However, given the current office workload, it may not be possible to accomplish this without additional staff.

**Food Service**

The food service checking account will be reconciled by the director who does not have access to the cash.

**Economies could be achieved if the food service department**

**Adult School Meals**

The adult school prepares approximately 60 meals daily. The food service department has three schools
prepares the meals for the adult school. That prepare and deliver 8400 meals daily. Combined annual salaries for three food service workers at the adult school amount to $52,000. Average labor cost per adult school meal is $5 compared to $1 per meal at the food service department. In addition, the adult school duplicates bookkeeping duties by maintaining separate accounting records, checking account, and making their own bank deposits. It would be more economical and effective if the food service department prepares the meals for the adult school. Subject to attrition, we estimate $42,000 in annual cost savings if the food service department prepares the meals for the adult school. Management stated the adult school originally benefitted from self-prepared meals when there was a culinary program for students; however, it is no longer in operation.

**Recommendation**

The food service department should prepare meals and maintain accounting records for the adult school.

**Auditee’s Response**

The administration will pursue restructuring the adult school cafeteria program.