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

North Hanover Board of Education

July 1, 2000 to August 31, 2001

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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 North Hanover Board of Education for the period July 1, 2000 to August 31, 2001.  

If you would like a personal briefing, please call me at (609) 292-3700.
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North Hanover Board of Education

Scope

We have completed an audit of the North Hanover Township Board of Education for the period July 1, 2000 to August 31, 2001. Our audit was limited to expenditures recorded in the General Fund. The prime responsibility of the board is to provide a quality education to approximately 1500 pre-kindergarten through sixth grade students. The board employs approximately 250 full-time employees. General Fund expenditures totaled $16 million during fiscal year 2001.

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 district’s 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 audit reports issued by the board’s certified public accounting firm, 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 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 the district’s accounting system. In making this determination, we noted certain internal control weaknesses meriting management’s attention.
The board should strengthen controls over the processing of payroll expenditures.

Payroll and Personnel

Payroll expenditures totaled $8 million during fiscal year 2001. Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use.

Our review noted that paycheck distribution and payroll processing functions are not properly segregated. The same individual processing payroll also generates, receives, and distributes the paychecks. Furthermore, this individual can change the employment status of individuals from inactive to active without supervisory authorization.

We also noted that the board does not require the time sheets of hourly employees, substitutes, and teachers performing extra duties to be authorized by a supervisor. In addition, full-time support staff are not required to complete time sheets for regular pay time.

The lack of segregation of duties and supervisory approval weakens internal controls necessary to assure the proper use of resources as authorized by the board.

Recommendation

We recommend that payroll checks be received and distributed by someone other than the original processor. We further recommend that the board require all employee pay time to be approved by a supervisor.

Auditee’s Response

The payroll secretary reports to the Business Administrator, whose office is in the C.B. Lamb Elementary School, but works in the Office of the Superintendent located in the Columbia School. Checks are printed in the Business Office, located in the C.B. Lamb Elementary School. The checks are signed by the Treasurer of School Monies in the Business office and forwarded to the payroll secretary in the Office of the Superintendent for stuffing in envelopes and distribution to the various
offices on payday. The Treasurer of School Monies on a monthly basis reconciles the payroll account. Any further segregation of duties would require additional staffing or additional workload placed on existing staff.

The Board Secretary, Superintendent of Schools and the Board President certify payroll registers.

We believe there is sufficient segregation of duties and accept any risk.

Timesheets for hourly employees requiring the signature of a supervisor have been instituted. Also, recently instituted is the requirement that the parent/guardian and the supervisor sign timesheets for staff providing home instruction.

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**Computer Inventory**

The board has established a policy which requires an accurate and complete inventory of all equipment to be maintained and verified in order to provide proof of loss for insurance claims and continuous accountability. Our review, however, revealed instances of noncompliance with this policy. The district spent approximately $450,000 on computer equipment in fiscal year 2001. None of these items could be individually identified on the fixed asset inventory listing and there were no inventory tags on any of these computers observed at five schools. In addition, all 27 computers observed in one school’s computer lab, which were purchased prior to July 2000, were not tagged or included on the district’s inventory listing.

**Recommendation**

The district should develop and improve existing procedures to ensure that all computers are adequately recorded on its fixed asset inventory list.
Auditee’s Response

A professional appraisal and inventory firm has been retained by the district to inventory, tag and depreciate all assets in compliance with GASB 34.

Since four schools are on a military installation, and all five schools are well secured, risk is minimal.