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

Willingboro Township School District

July 1, 2004 to June 30, 2005

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Willingboro Township School District for the period of July 1, 2004 to June 30, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
June 8, 2007
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Willingboro Township School District

Scope

We have completed a forensic audit of the Willingboro Township School District for the period July 1, 2004 to June 30, 2005. A forensic audit is initiated to confirm or dispel suspicions of wrong-doing. Our audit included financial activities accounted for in the district’s general fund and special revenue funds. The district provides regular, vocational, and special education programs to approximately 5,600 pre-kindergarten to twelfth grade students.

Objectives

The objective of our audit was to determine the primary factors that contributed to the district’s fiscal year 2005 year-end general fund deficit of $5.9 million.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in the “School District Fiscal Accountability Act”, Title 18A:7A–57 of the New Jersey Statutes.

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, and policies of the school district. We read school district budgets, reviewed financial trends, and interviewed school district personnel to obtain an understanding of the programs and the internal controls. We also interviewed officials from the Department of Education and the Burlington County Superintendent’s Office to gain an understanding of their oversight and monitoring functions. In addition, we reviewed annual audit reports issued by public school accountants contracted by the district.

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
Conclusions

We found that the preparation and approval of a budget that was grossly insufficient to meet the cost of district programs and services was the primary cause of the general fund deficit in fiscal year 2005. We also found that certain inappropriate transactions processed in the financial system resulted in the significant overstatement of available funding on the district’s financial reports. In addition, the board and county superintendent were not adequately monitoring the district’s fiscal operations throughout the year. These issues are disclosed in further detail below.

We also noted weaknesses in financial and administrative controls which have been reported to management in a separate letter dated June 8, 2007.

An unrealistic budget was adopted.

A total of $13.6 million was budgeted for regular program teacher salaries in fiscal year 2005. By comparison, actual salary expenditures in fiscal years 2003 and 2004 totaled $15.7 million and $16.6 million, respectively. Furthermore, the collective bargaining agreement with the Willingboro Education Association approved in June 2004 provided for retroactive salary adjustments of approximately $800,000 which were to be paid in fiscal year 2005. If no staff reductions occurred, teacher salaries should have approximated $17.5 million which is almost $4 million greater than the amount budgeted in fiscal year 2005.

The district Superintendent and Business Administrator sent a memorandum to the board on March 5, 2004 to support the salary budget reductions which suggested that fiscal year 2005 salaries could be reduced by $2.2 million without layoffs. The memorandum also identified additional cost reductions for health benefits, tuition, and “other expenses” totaling $1.9 million which were needed to balance the budget. In addition, district management reported to the County Superintendent, who is responsible for the
review and approval of the budget application, that adequate funding, including the retroactive payments, was budgeted for salaries in fiscal year 2005. However, detailed documentation supporting how the salary cost reductions would be realized was not provided.

The actual implementation of the deficit reduction plan was not verified by the board or the county superintendent. No subsequent action was taken by the district to reduce fiscal year 2005 payroll, health benefits, and tuition costs. Actual costs for teacher salaries in regular programs totaled $17.7 million in fiscal year 2005 thereby creating a deficit of $4.1 million when compared to the original budget of $13.6 million. In addition, fiscal 2005 costs for health benefits and tuition actually increased $700,000 and $1 million, respectively, from the prior year.

State law requires the board secretary to prepare a monthly report that shows the financial activity of each budgetary line item account. The reports are required to be submitted to the board monthly and to the county superintendent within 30 days after December 31 for review. Our review disclosed that the fiscal year 2005 reports generated by the board secretary did not include all budgetary line item accounts. The budget category “Regular Programs – Instruction” is comprised of eleven accounts. The board secretary’s reports did not show the financial activity of each of the eleven accounts, only the combined total. If each individual account was disclosed, the report for the period ending December 31, 2004 would have reported net appropriations of $4.6 million and expenditures of $3.2 million for salaries of teachers in grades one through five. Upon review of this information, the board and county superintendent could have questioned if sufficient funds were available for the remainder of the fiscal year since approximately 70 percent of the appropriation had already been expended with six months remaining in the school year.
In addition, our review disclosed that the financial information contained in the fiscal year 2005 board secretary’s reports was falsified by district staff to cover up the district’s deteriorating financial position. Specifically, the district’s fiscal year 2005 budget provided $8.2 million for salaries of teachers in grades one through eight. Conversely, district staff established $12.6 million on the financial system for this expense category which consisted of each employee’s projected annual salary. In order to avoid the disclosure of a deficit balance at July 31, 2004, district staff reduced the amount that was set aside (encumbrances) on the financial system by $4.4 million. As a result, the board secretary’s report for the period ending July 31, 2004 erroneously reported a positive available balance of $2.4 million for budget category “Regular Programs – Instruction” instead of a $2 million deficit.

**Recommendation**

We recommend that the board and county superintendent perform a comprehensive review of proposed budgets and verify the legitimacy of any cost reduction plans prior to approval. Documentation obtained and verified for salary reductions should include position control tables that identify annual cost savings for each eliminated or replaced position. Follow-up reviews should be undertaken to verify that positions have been eliminated or savings have been achieved through attrition. We further recommend that the board and county superintendent perform periodic reviews of monthly financial reports to ensure budgetary compliance and to investigate any unusual discrepancies.
June 6, 2007

Mr. Stephen M. Eells  
Assistant State Auditor  
New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor  
125 South Warren Street  
Trenton, NJ 08625-0067

Dear Mr. Eells:

We are in receipt the forensic audit dated May 23, 2007. Please find attached the response to this audit from the Willingboro Board of Education. This response is being submitted according to the time schedule indicated in the letter from the Office of Legislature.

It is the Board's understanding that this response will be included as part of the final forensic audit report for the Willingboro School District to be released on Friday, June 8, 2007.

Sincerely,

Edward A. Kern  
Interim Superintendent of Schools

EAK:lelh

Attachment

Cc: Board of Education
The State Auditor found (page 2) that “certain inappropriate transactions processed in the financial system resulted in the significant overstatement of available funding on the district’s financial reports.”

Specifically the State Auditor found (pages 3 and 4) that financial information reported to the Board of Education was “falsified by district staff to cover up the district’s deteriorating financial position.”

This “cover up” by the district staff (the superintendent and/or business administrator/board secretary) concealed from the Board of Education, the County Superintendent and the public the magnitude of the budget shortfall and led to approval of a budget the State Auditor describes (page 2) as “grossly insufficient.”

To “avoid the disclosure” to the Board of Education that funds set aside (encumbrances) for teachers’ salaries as of July 21, 2004 exceeded the budget by $4.4 million, “district staff;” according to the report (page 4), reduced those set asides of $4.4 million—by converting a $2 million shortfall into an illusory $2.4 million balance. This abuse of the encumbrance process by “district staff” (the superintendent and/or the business administrator/board secretary) grossly understated financial obligations and overstated available funds.

Moreover, according to the Auditor, (p. 2 and 3) financial reports to the Board of Education did not itemize teacher salary accounts, thereby concealing that 70 percent of the money for teaching grades one through five had been spent in half the school year, denying the Board, and the County Superintendent the opportunity to raise questions.
Although the audit report "noted weaknesses in financial and administrative controls," the Auditor decided not to specify these "weaknesses" and findings in this audit report, choosing instead to report them to "management" in a separate letter dated on June 8, 2007, the same day this audit report is to be submitted to the Legislature and the Governor. The Board will respond to any weaknesses in financial and management controls after reviewing the June 8th letter to management.

The Board of Education is concerned that the audit report does not clearly distinguish the roles of the Board and "district staff," which by law (N.J.S.A.18A:17-20) is the superintendent as chief executive and administrative officer and supervisor over all aspects, including financial operations. Although the Auditor notes that the financial reports are "generated" by the board secretary, the reality is that the board secretary is the business administrator/board secretary which is a single position under the supervision of the superintendent.

Then the Superintendent and Business Administrator/Board Secretary advised the Board of Education how they would close the budget gap, according to the audit report (page 3) but "detailed documentation supporting how the salary cost reductions would be realized was not provided" to the Board of Education.

Although the auditor finds that "the actual implementation of the deficit reduction plan was not verified by the Board of Education or County Superintendent (page 3), the audit report does not recognize the persistent efforts by the Board of Education to obtain the documentation from the superintendent and his continued refusal to provide such information, even after voter rejection of the budget and the Town Council’s review. The
auditors would have learned of these fruitless efforts if it had included Board members among the many officials and employees it interviewed as part of the audit process (page 1).

Even the Board of Education’s own auditors (whose reports were reviewed by the State Auditor) acknowledged that they were unable to certify the accuracy of the 2004/2005 fiscal records.

As for the finding that the Board of Education and the County Superintendent “were not adequately monitoring the district’s fiscal operations through the year, the Board of Education observes that monitoring cannot be adequate when superintendents or their staff withhold or even “falsify” information.

With this critically important qualification, the Board accepts the Auditor’s recommendation (page 4) underscoring its role in reviewing proposed budgets and financial reports, verifying the legitimacy of cost reduction plans and conducting follow-up reviews. In fact, the Board of Education has already implemented independently many of the report’s recommendations. This Board of Education performed a comprehensive review of the proposed 2007-08 budget and will continue to ask for detailed backup information for all proposed budgets. The Board currently receives additional detailed expense and revenue reports in addition to the Board Secretary’s and Treasurer’s reports and the Board had previously engaged the school district auditor to perform quarterly reviews of financial statements beginning September 30, 2007. The Board will immediately implement the remaining recommendations.