Beverly City 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 Beverly City 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.

Stephen M. Eells  
Assistant State Auditor  
September 27, 2007
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Beverly City School District

Scope

We have completed a forensic audit of the Beverly City School District for the period July 1, 2004 to June 30, 2005. Our audit included financial activities accounted for in the district’s general fund, enterprise fund, and special revenue funds. The district provides regular and special education programs to approximately 225 pre-kindergarten to eighth 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 $235,000.

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 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 compliance attributes. Sample transactions were judgmentally selected for testing.
We found that the preparation and approval of a budget that was insufficient to meet the cost of district programs and services was the primary cause of the general fund deficit in fiscal year 2005. This issue is discussed in further detail below.

We also noted weaknesses in financial and administrative controls which have been reported to management in a separate letter dated September 27, 2007.

State law requires a district board of education to submit a budget application to the county superintendent for review and approval. Prior year expenditures for each budgetary line item account should be considered when preparing a budget. Adjustments should then be made for any programmatic changes, enrollment and/or staff fluctuations to arrive at the final projected budget for the ensuing school year. The county superintendent shall only approve budgets that contain funding sufficient to meet all existing statutory and regulatory mandates.

The fiscal year 2005 budget was clearly insufficient to meet the cost of district programs and services as illustrated below.

A total of $279,000 was budgeted for tuition to private schools in fiscal year 2005. By comparison, actual expenditures totaled $451,000 in fiscal year 2004 and increased to $502,000 in fiscal year 2005. Our testing disclosed that 13 students
returned to the same private school during fiscal year 2005 that they attended during the previous year. Fiscal year 2005 costs for these students totaled $409,000.

The district also significantly underbudgeted for special education costs incurred on behalf of students attending other schools. A total of $55,000 was budgeted for this line item in fiscal year 2005. By comparison, actual expenditures totaled $133,000 in fiscal year 2004 and increased to $181,000 in fiscal year 2005.

In addition, the district did not provide sufficient funding in its fiscal year 2005 budget for health benefit costs. The district budgeted a total of $312,000 for health benefits in fiscal year 2005 even though it incurred costs of $385,000 in fiscal year 2004. The budget did not indicate any plans for a reduction in staff or health benefits. Actual costs increased to $419,000 in fiscal year 2005.

**Recommendation**

We recommend that the board and county superintendent perform a comprehensive review of proposed budgets prior to approval. Prior year expenditures should be considered for each budgetary line item account.
Response to State Audit

The 2004-2005 budget was developed several months prior to completion of the 2003-04 audit which revealed the final expenditures.

In addition the budgets are capped by the state and the district budgeted up to the cap limit. There is no cap waiver for special education tuition unless it exceeds $40,000.00 per pupil.

Another flaw in the system is due to the send/receive relationship Beverly has with Palmyra High School. The Palmyra Child Study Team has the authority to place students in private schools out of district and Beverly is responsible to pay the tuition. In 2004-2005 there were also placements made by the State of New Jersey through DYFS and Human Services. We are not aware of these placements until we receive the bill.

Special Education funding is the real issue with the deficit situation. It is a systemic problem not the fault of the district.

Submitted by:

Glenn T. Gray, Ed.D., Superintendent