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

Township of Lakewood
School District

July 1, 2006 to June 30, 2009

Stephen M. Eells
State Auditor
The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Township of Lakewood School District for the period of July 1, 2006 to June 30, 2009. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
State Auditor  
June 2, 2010
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Township of Lakewood
School District

Scope

We have completed a performance audit of the Township of Lakewood School District for the period July 1, 2006 to June 30, 2009. We focused primarily on the purchasing and payroll functions of the district. We have also completed a forensic audit for the period July 1, 2006 to June 30, 2007. Our audits included financial activities accounted for in the district’s general fund. Total expenditures were $89 million, $96 million, and $101 million in fiscal years 2007, 2008, and 2009, respectively. The district is comprised of six schools with approximately 5,000 students. In addition, the Township of Lakewood has 63 non-public schools with approximately 15,000 students.

Objectives

The objective of our performance audit was to determine whether financial transactions were related to the school district’s programs, were reasonable, and were recorded properly in the accounting system. This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

The objective of our forensic audit was to determine the primary factors that contributed to the district’s June 30, 2007 fiscal year end general fund deficit. 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 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 Ocean 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.

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.

**Conclusions**

We found that financial transactions included in our testing were related to the school district’s programs; however, they were not reasonable and were not properly recorded in the accounting system. In making these determinations, we noted certain internal control weaknesses meriting management’s attention. Certain questionable items will be referred to the Division of Criminal Justice.

During our audit of the Lakewood School District we noted a lack of communication within the different sections in the business office and at the schools. The district does not have a detailed procedural manual governing their financial activities. Each section established their own set of policies and procedures and kept their own records. A significant number of documents were processed by the business office without proper approvals and supporting documentation.

We also found the district underbudgeted salary accounts in the general fund for fiscal year 2007. The district did not take into account the actual prior year salaries in establishing an accurate base year amount for their budgeting process. In addition, the budgeted increase was three percent less than the actual increase in salaries during the fiscal year.
Vendor and Employee

The district's board attorney also works as an employee of the district. The board attorney was paid $326,000 for fiscal year 2009 as a vendor and was also paid $123,000 plus benefits as an employee in the title Non-Public Special Education Consultant. As the board attorney he may have to recuse himself from giving legal advice on employee matters which may impact him or other employees where there is an appearance of a potential conflict of interest.

We noted several control issues regarding the above arrangement. Time sheets were not being submitted to document time worked as an employee. Also, the employment contract did not contain a termination clause which is commonly used in other district employee contracts.

We recommend the Board of Education refrain from hiring individuals who are also current vendors in situations which might present the appearance of a conflict of interest during the performance of their duties. We also recommend that the controls be strengthened to adequately document time reporting requirements where vendor and employee situations exist.

Segregation of Duties

Certain employees are granted edit access within the accounting system which is outside the scope of their job responsibilities. Management has not implemented the necessary security controls that assess user needs in relation to their applicable job functions.

Payroll personnel have edit access to various functions for human resources. The business
office also has edit access to human resources and payroll functions. In addition, three other employees who do not work in the human resources unit have edit access.

Exception reports are not generated and sent to the business office, human resources, or payroll personnel when modifications are made to wages or when individuals are added or removed from the system. These reports should identify who actually initiated the changes.

Additionally, the security administrator of the system who works in the business office has final approval needed to process expenditure transactions. This individual also has edit capabilities for human resources and payroll functions. System reports identifying any activity by this individual are not generated and sent to the business administrator as a monitoring tool.

**Recommendation**

We recommend the district grant access to individuals based on their job duties. The district should generate an exception report and review system activity for propriety.

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**Expenditure Accruals**

District-wide financial statements are prepared using the accrual basis of accounting; expenses should be recognized at the time they are incurred. In fiscal year 2007 the district received permission from the Department of the Treasury to delay premium payments for state health benefits for up to two months. Upon instituting this delay, payments were recognized in the month of payment rather than the date expenditures were incurred. In fiscal year 2007 only ten months of health benefits were recognized in the financial statements, resulting in a $1.2 million underreporting of expenditures.
The district failed to recognize the liability for May and June 2007 and continues to base its financial statements on a method not consistent with generally accepted accounting principles.

Also, there is a clause in the business administrator’s contract that stipulates that his 2009-2010 employment contract was “dependent on there being a surplus” for the 2008-2009 school year. This clause further increases the risk of improper activity by providing an incentive to misstate financial activity or statements.

**Recommendation**

We recommend the district account for all expenditures by conforming with generally accepted accounting principles and recognizing expenses when they are incurred. Also, we recommend one’s employment status not be directly linked to financial statement performance.

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**Budgeting**

Employee salary accounts increased an average of seven percent per year from fiscal years 2006 to 2008. The district’s budgetary totals increased an average of four percent per year which only accounted for the contractual step and cost of living increases as outlined in collective bargaining unit contracts. The increase in the budget did not include the actual historical increase in salaries. During fiscal year 2006, the district budgeted a three percent increase from the previous year’s budgeted totals to arrive at a $30.6 million amount; however, actual expenditures increased by 6.5 percent to $31.3 million. This resulted in an inaccurate base year amount for future salary budgets. In fiscal year 2007, the year of the deficit, the district continued to use a base of the previous year’s budget totals instead of projected actual totals. The fiscal year 2007 budget was increased four percent to $31.9 million which was $1.8 million lower than the $33.7 million actual salaries.
Recommendation

We recommend the district use actual prior year salaries when determining their future budget projections. In addition, modifications should be based on historical changes and known or projected contractual changes.

Management is not properly monitoring extra compensation payments.

Extra Compensation Monitoring

Extra compensation is approved at Board of Education (BOE) meetings for various reasons including substitute teacher wages, non-contractual stipends, extra curricular activities, overtime, home instruction, mentoring, latchkey, or payments for unused sick time. Extra compensation totaled ten percent of payroll for fiscal year 2009 or approximately $4.4 million. Once approved for extra compensation and the work assignment is completed, the employee will fill out a payroll voucher and submit it to the payroll unit. This unit does not verify if the extra compensation has prior BOE approval. The voucher is not always signed by the immediate supervisor and the overtime rate is indicated on the voucher by the employee and is not verified by the payroll unit. The employee usually will document total hours worked per day, but not the actual time of day worked. In addition, we noted that the business administrator does not approve the payroll vouchers.

We tested 103 employees and 700 vouchers for extra compensation payments during calendar year 2008 and identified the following issues.

- Thirty-three percent of the employees received extra compensation payments in excess of what should have been paid based on BOE approval. The excess totaled approximately $45,000.
• Supporting documentation for 49 percent of the vouchers submitted was not found. Often payments were made with little or no support. Total unsupported payments amounted to approximately $667,000 of the extra compensation dollars tested. A total of $600,000 related to missing employee attendance records documenting payment for unused leave time.

• Thirty percent of vouchers paid did not receive prior BOE approval and/or the direct supervisory approval for payments amounting to approximately $200,000. In addition, vouchers needed approval from the administration and the business office. Seventy-seven percent lacked the proper signatures and dates on the payment vouchers.

• Three percent of the vouchers were submitted more than 60 days after the work was completed. There is no time limit set by management for submission of vouchers. Some vouchers were submitted a year after work was completed.

Examples of the above weaknesses follow.

• Unused sick, vacation, and personal time totaling $295,000 was approved by the BOE for the district superintendent who retired June 30, 2008. This payment was made in accordance with the employee’s contract; however, leave time records indicated the payment exceeded the available balance by 12.25 days or $10,000.

• One full-time teacher received two stipends in December 2008 totaling $11,100. One $3,150 stipend was not approved by the BOE. This employee also submitted a separate payroll voucher for duties as a coach which did not have prior
approval by the BOE. The $3,600 voucher was paid on October 24, 2008 for work completed June through August 2008. A signature stamp from the assistant superintendent was the only form of approval.

- An employee received prior approval in fiscal years 2008 and 2009 from the BOE for extra compensation for in-house printing services at the rate of $30 per hour. After a new collective bargaining contract was approved, employee billings reflected the new approved rate of $40 per hour from May 5, 2008 to August 21, 2008. The employee was paid $32,750 for printing services in addition to their $23,000 salary. The employee listed total hours worked each day on the vouchers including hours during weekends, holidays, and days when the district was closed. Billings for printing services increased during the summer months. The vouchers were not approved by the on-site supervisor.

- A substitute teacher received a non-contractual stipend payment for $15,750 in September 2008. There is no supporting documentation for this payment nor is there BOE approval. After questioning the payroll unit the business office became aware of an agreement between the employee and the payroll vendor for that year stipulating the employee would continue substitute duties without pay until the employee paid back everything owed. The employee informed the business office that a balance of $3,250 remained as of January 1, 2009 and the business office used this information as a starting point towards recouping the funds. We were not provided any supporting documentation substantiating the accuracy of this balance.
We recommend all payroll vouchers contain direct supervisory approval and prior approval from the BOE. The payroll unit should verify that vouchers are submitted with proper supporting documentation including approvals, hours worked, and the correct hourly rate. The district should recoup any payments in excess of amounts earned and a determination should be made by the BOE on all unapproved vouchers.

Manual Paychecks

While reviewing payroll bank statements, we noted manually processed checks were not recorded in the payroll register in calendar year 2008. As a result, $200,000 of payments was not recorded in the district’s financial system. In addition, we could not determine whether the related income and social security taxes were properly withheld and remitted. Annual reporting to federal and state governments is also inaccurate.

Furthermore, since payroll personnel have system edit access to human resources, the risks of improper payments is heightened. This includes the risks of payments to non-district individuals as well as unauthorized payments to district employees. We tested 31 manual paychecks and noted the only supporting documentation available for 61 percent of the payments was the bank statements. Due to the lack of supporting documentation, it is unknown whether the payments were approved and calculated correctly.

The current payroll software in use by the district since January 2009 has lessened the risk of manual checks being processed.
**Recommendation**

We recommend the district determine whether the 2008 manual payments were approved and recoup any inappropriate payments. The district should also review any manual payments to determine their cause and any possible operating risk. Employee wage reporting should be corrected for 2008 to properly reflect these payments.

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**Inappropriate Payroll Activity**

Inappropriate payments were made from the payroll account.

Disbursements from the district’s payroll bank account should be directly related to net payroll expenditures as approved by the district. Inappropriate activity was disbursed from the payroll bank account and appeared on the bank statements from December 2007 to April 2009. We noted 11 payments made to various vendors (i.e. JC Penney, Verizon, HSBC Bank, etc.) for amounts up to $1,000. Total inappropriate payments approximated $5,000.

The district informed us that these payments were found by the business administrator when monitoring the bank statements and that he had contacted the bank in September 2008. We were told that the initial documentation provided to the business administrator was discarded. We requested the district contact the bank and obtain the documentation. The district’s account manager received copies of affidavits sent from the district to the bank claiming specific unauthorized and inappropriate charges and proof of the bank approving these claimant requests to reimburse the account for the specific charges. Although the district began submitting these filings of unauthorized payments in September 2008, we observed the inappropriate payments continuing through April 2009. The district did not provide any type of documentation that would indicate that these payments were investigated by law enforcement.
**Recommendation**

We recommend the district refer the inappropriate payment matter to the proper authorities for further action. The district should also continue monitoring the bank statements for any questionable activity.

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**Employee Contracts**

Employee contracts should be retained as a means to verify acceptance of terms by all parties involved. The school district records retention schedule per the Division of Archives and Records Management stipulates that employee contracts should be kept on file up to six years after termination. We selected 98 employees to determine if an approved salary contract for 2008-2009 school year was on file. All employees tested were approved during the public Board of Education (BOE) meetings. We identified 19 exceptions as follows:

- nine employee contracts could not be located in their file,
- eight contracts were not signed by the BOE,
- one contract was not dated, and
- one contract was approved by the BOE more than two months after the employee had commenced work.

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**Recommendation**

We recommend the district sign and approve contracts timely and retain all contracts in the employees' files in accordance with the Division of Archives and Records Management.
Employee Working Days

We observed that employees who commenced work after the start of the work year were being inaccurately paid. The district uses 220 days in their calculation for non-teaching staff when arriving at their biweekly pay.

The district also calculates unused leave time and overtime rates for non-teaching staff by dividing an employee's salary by 220 days. This is in accordance with the employees' contracts. However, this methodology results in an overpayment of approximately 15 percent when compared to a method using the actual number of compensable work days, between 260 and 262, in a year. We tested nine payments totaling $345,000 in unused leave time and identified additional payments totaling $53,000 when using the 220 day basis.

We recommend the district consider modifying future non-teaching staff contracts to reflect the actual number of working (compensable) days in a year.

Purchasing Controls

The district has a decentralized purchasing approach. This requires many individuals to obtain a working knowledge of purchasing requirements which typically involves a buyer's field of expertise. Maintenance of accurate and complete documentation is necessary to ensure the proper use of resources as authorized by the district. Our review disclosed that the documentation to support transactions was often vague, inadequate, or incomplete. Examples of the types of exceptions noted during our testing follows.
- Fifty-one of 124 expenditures tested were not recorded by the district prior to the receipt of goods or services being rendered. Paperwork involving requests and approvals were prepared after delivery of the goods and services. As a result, the business office did not have full knowledge of the obligations of the district and each department within the district had the ability to overspend their budget without the knowledge of the business office. For example, the district paid $15,000 for data analysis and reporting services. The vendor invoice date was May 23, 2008 and the purchase order date was September 16, 2008 which makes this a confirming purchase order.

- One hundred seven of 124 expenditures tested lacked all required approvals.

- Sixty-one of 136 expenditures tested lacked proper supporting documentation. Twelve of these expenditures had no support on file.

- Payment amounts for 32 of the 124 expenditures tested were incorrect. For example, the district is providing occupational, physical, and speech therapy services to public and non-public children. The district has approximately 16 employees and 50 consultants providing these services. Every child has an Individual Education Plan (IEP) that documents the type of services being given and the number of hours. The consultants are paid as vendors at a predetermined hourly rate. All invoices are being approved by the Related Services Unit. The unit spot checks selective invoices with IEPs to verify the hours of therapy being provided and hours being billed. The IEPs are not routinely
submitted with every invoice. The invoice process and the number of total hours being charged is a manual process. The district pays these consultants approximately $1.7 million annually. We summarized two invoices and found that the invoiced amounts should have been $5,500 which was $9,500 less than the actual billings.

- Twenty-two expenditures totaling $800,000 of the 124 tested were charged to the wrong fiscal year. This practice misrepresents the school district's financial position.

- We could not verify that a reasonable price was obtained for 9 of 17 expenditures tested.

- The district maintains a student activity account and an athletic account with annual receipts and disbursements of approximately $100,000. Both accounts have their own checking account and they are maintained by the same teacher at Lakewood High School. The district partially funds the student activity account and significantly funds the athletic account. Our review found that the district does not have an adequate system of internal controls because of the one person operation. The business office is involved in the check approval process but it does not perform a review of activity and it does not monitor the cash receipts for the various athletic events. We observed that the checks were not kept in a secure location, but instead they were left out in an office at the Lakewood High School. Our expenditure testing found no significant errors.

- In one instance 34 teachers went on a field trip to Washington, D.C. from the
Metro Park train station in New Jersey. An Amtrak train was taken to Washington, D.C. at a round trip cost of $5,000. The district also paid for a bus from New Jersey to drive empty to Washington, D.C. to shuttle them around the area for an additional $3,900.

During our review we noted two possible related party transactions. The executive director for two non-public schools purchased equipment such as computers and printers from a company that he owns. These purchases were made through the New Jersey Non-Public School Technology Initiative Program. This non-public school executive director was also a contracted vendor that was used to transport and install temporary classroom units. An additional potential related party transaction from another vendor for a different non-public school exists. We noted that the district could not provide proof of registration with the State of New Jersey for these vendors which is required before the school district can enter into a contract. The district could not provide political contribution disclosure forms and stockholder disclosure certifications for the vendors.

**Recommendation**

We recommend the school district develop and strengthen internal purchasing control policies and procedures to cover all transaction cycles in order to adequately safeguard district assets.

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**Fixed Assets**

The goal of the New Jersey Non-Public Technology Initiative Program is to provide non-public school pupils with computers, educational software, distance learning equipment, and other technologies that can improve their education by meeting their specific educational needs and to provide non-public school teachers with the skills, resources, and incentives to use
educational technologies effectively to improve teaching and learning in their classroom. Four schools were selected and purchase orders were reviewed from the 2007 to 2009 school years and fixed assets were verified for existence. Twenty-nine of 188 assets tested were missing at three of the four schools. Items missing included computers, printers, and digital cameras. All four schools purchased equipment that was used for administration which is a violation of the program guidelines. A further review of equipment purchased for all the non-public schools for the 2007 to 2009 school years disclosed that 61 invoices totaling $80,000 were for non-allowable items such as printer ink and toner.

None of the schools tested had any packing slips, fixed asset logs, and tags stating that the equipment is “Property of Lakewood School District.” Also, the non-public schools were not returning broken equipment to the district as required by the program.

**Recommendation**

We recommend the school district periodically verify the fixed assets at the non-public schools for existence and compliance with program guidelines. In addition, the district should reiterate existing guidance to the non-public schools for the proper disposal of any broken or old equipment.
May 28, 2010

Mr. Stephen M. Eells, State Auditor
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Re: District Response to Audit Findings and Recommendations

The Office of Legislative Services (OLS) audit spanned a time period of one year and two months. The administration appreciates the efforts of your audit staff in recommending areas of improvement in district financial operations.

It should be noted that most if not all of the recommendations noted in your report began implementation prior to your auditors arriving in the district during October 2008. Upon hiring a permanent business administrator in February 2008, revisions to procedures and internal controls were initiated. During the time period your auditors were on-site, the district prepared and the board approved a Standard Operating Procedures/Internal Control Manual, brought payroll processing back in-house for greater accountability and control, ended the 2008-09 school year with a surplus in excess of $1.2 million, reduced audit recommendations from 17 for 2007-08 to 3 for 2008-09, received an unqualified opinion (best opinion possible) from our auditor for 2008-09 and passed NJQSAC monitoring for Fiscal Management with a score of 90%. The credit for these improvements goes deservedly to the staff of the Business Office whose hard work and dedication is appreciated by both the administration and the board.

We do want to comment directly regarding the recommendations in your report that the district is not in agreement:

1. There is an appearance of a potential conflict of interest for the board attorney to also work as an employee of the district.

The District appreciates the concern expressed as to the appearance of a potential conflict of interest (with no conclusion being made that an actual conflict exists) because the board attorney also has served as an employee in the title Non-Public Special Education Consultant. First of all, it is important to note that steps were previously taken to ensure that there was no inherent conflict in the
functions served in both capacities. Prior to the commencement of the Audit, opinions had been obtained from three well-respected law firms, with each of them opining that there was no such inherent conflict. In addition, from time to time this issue was raised in litigation by parties adverse to the District. In each such case, the Court has determined that there was no conflict. Secondly, the Consultant position was created, in part, at the suggestion of the New Jersey State Department of Education which issued a Report (the COPA Report) recommending such a position, because of the District’s unique situation in having a large number of special education students from non-public schools. Also, in the spirit of a recent directive of the Department of Education auditors, such positions are required to be funded from a State administrative allotment for nonpublic education programs and not from local District funds that has been complied with. Third, the Administration and the Board has repeatedly determined that the present consultant (who is also the Board attorney) has unique knowledge and experience in the special education arena and particularly as it affects this District. His evaluations and accomplishments have been excellent. Indeed, he recently resigned from the position, but was importuned by the Board to reconsider. Fourth, although the Consultant position has been contracted for as an employee, the Consultant has never been part of any bargaining unit.

In terms of the dual employee/vendor status and the singular appearance issue, it is important to realize that there are over a dozen school board attorneys in the State who, upon information and belief have employee status. Presumably, they face the same potential issue that their advice may be sought with regard to an issue affecting them as employees. The traditional remedy for any such potential conflict is recusal and hiring of special counsel to advise on that particular issue. The same would apply in this situation should the need arise.

Moreover, we understand from our discussions with the State Auditor and his staff that there is no inherent conflict other than an appearance of a potential conflict, not with regard to educational issues but only possibly with regard to employment issues. Again, it is our opinion based on independent legal counsel that the recusal mechanism as described above would satisfy any such potential issue should it arise.

2. **Access controls within the accounting system should be improved. Access should be granted to individuals based on their job duties. The district should generate an exception report and review system activity for propriety.**

The recommendation will be discussed with the school district auditor to determine the cost effectiveness of implementation. Due to the limited number of staff, full implementation of your recommendation could result in additional costs that the district cannot afford at this time. In addition, our accounting/payroll/personnel system cannot generate an exception report. We will discuss this with our software vendor to see if such a report can be developed and implemented.
3. **District expenditures are not being properly accrued.** District did not properly account for NJ State Health Benefit Plan two month premium delay. There is a clause in the district’s business administrator contract for 2009-2010 that the contract renewal is contingent upon there being a surplus for 2008-2009. This clause increases the risk of improper activity by providing an incentive to misstate financial activity or statements.

During the 2006-07 school year, the district received permission from the Department of the Treasury to delay premium payments for health benefits for up to two months. The district’s auditors, Bowman & Company, advised the district that since the district was on the modified accrual basis of accounting, these delayed payments would be considered a long-term liability and would not be booked on a current year basis. A December 21, 2009 letter from Jarred Corn, CPA of Bowman & Company detailing their position and the rationale therefor was provided to your auditors after the preliminary exit conference and again on March 9, 2010 prior to the exit conference.

Regarding the contract clause requiring a surplus, it should be noted that the clause was added to the contract after it had been determined that the district had a surplus at June 30, 2009. Furthermore, the district’s records are audited annually and the audit process includes testing to determine if the financial statements are materially correct and in accordance with Generally Accepted Accounting Principles (GAAP). Our auditor has determined that the financial statements are in fact materially correct and in accordance with GAAP as of June 30, 2009. The Business Administrator has always acted in good faith and in the best interest of the district and any suggestion the he might act otherwise in uncalled for and totally unsupported.

4. **Employee salary accounts were not budgeted properly.**

Beginning with the 2008-09 school year, salary accounts have been budgeted correctly by fully utilizing the functions in the personnel and accounting software.

5. **Management is not properly monitoring extra compensation payments.**

Beginning in January 2009 when the payroll function was brought back in-house from an outside payroll company, timesheets and vouchers have been modified to include more information and documentation before being approved for processing. In addition, vouchers require supervisory and prior approval by the board, if not already part of the contract. Documentation was forwarded to your office on March 9, 2010 as well as during the audit process.

It should be noted that documentation was provided to your auditors regarding the payment to the former superintendent. The calculation was reviewed by both Human Resources and Payroll staff and determined that it was calculated correctly. Documentation was provided to your auditors again on March 9, 2010. The documentation confirmed that there was no overpayment.
Documentation was also submitted regarding the overpayment in 2008 to the substitute teacher. That information was again forwarded to your office on March 9, 2010. The balance owed by the substitute teacher was in fact confirmed by the district’s payroll office.

The payroll office has been recouping overpayments to employees for those overpayments discovered and identified since bringing payroll back in-house in January 2009.

6. All expenditures should be recorded in the district’s financial records. Manually processed paychecks were not recorded in the district’s records in 2008.

Manual checks are no longer issued since January 2009 when the district brought payroll back in-house. The payroll office has reviewed, to the extent possible, manual checks issued in 2008 and has made corrections going forward.

7. Inappropriate payments were made from the payroll account. Total inappropriate payments of $5,000 made to various vendors from December 2007 to April 2009.

The business administrator, accounts manager and treasurer review the bank statements monthly. Any inappropriate charges have been identified and sent to the district’s bank for correction. It should be noted that all inappropriate charges were removed and all funds restored to the district’s payroll account by the bank. The bank determined that these were in fact bank errors. As stated by the branch manager, had the bank determined these were not errors on the bank’s part, the district would have been notified and appropriate action would have been taken by district officials including reporting to law enforcement. It should be noted that district staff have never had the ability to make wire transfers out of the payroll account to another bank or vendor. The only transfers district staff are allowed to initiate are to other district bank accounts and to the Automated Clearing House for direct deposit of paychecks.

8. Employee contracts should be properly executed and kept on file.

Contracts are prepared within a few days after a board meeting, processed by the Human Resources Office, reviewed by the Payroll Office, sent to the Board President for signature, reviewed by the Board Attorney and then signed by the Board Secretary. This process began shortly after the district hired a full time business administrator in February 2008.

9. The district should use actual working days to calculate certain payments for non-teaching staff. Twelve month employees use 220 days to calculate per diem rate of pay instead of 260 or 262 days.

The calculation used is by contract and by past practice and can only be changed as part of the collective bargaining process when the current contract
expires. It is one of the items to be discussed during negotiations when the contract expires June 30, 2010.

10. **Internal purchasing controls need to be strengthened to safeguard assets.**

The district’s Standard Operating Procedures/Internal Control Manual adequately addresses the additional controls needed to safeguard assets. In addition, the most recent audit for the period ended June 30, 2009 indicates that improvements were made to the district’s purchasing procedures. The addition of an accounts payable staff member during the 2009-2010 school year has improved the implementation of already existing purchasing controls.

It should be noted that the student activity and athletic checks were locked and secured during the summer months. According to the treasurer, when the auditors from your office were given the use of the room at the high school where the checks were stored, someone on the district staff inadvertently removed the checks from the secured area to make room for your auditors.

The district staff followed all required procedures for payments to vendors under the Nonpublic Technology Initiative grant. There is no requirement for district staff to determine if there are any related party transactions as this is beyond the scope and ability for any school district staff to undertake. However, the district will review the documentation required from vendors to determine if any changes should be effectuated in this regard. Political contribution disclosure forms are only required if expenditures will exceed $17,500 in a fiscal year. District software now checks to see if a vendor has a business registration form on file. If not, we request the registration from the vendor prior to making any further payments. It should be noted that a business registration certificate is only required if payments to the vendor will exceed $4,350 in a fiscal year.

11. **Controls are lacking in the New Jersey Nonpublic Technology Initiative Program. Purchases were made for non-allowable items and broken equipment was not returned to the district.**

It should be noted that the Nonpublic Technology Initiative grant is no longer funded by the New Jersey Department of Education effective with the 2009-2010 school year. Should the program be re instituted by the NJDOE, purchasing staff will follow all applicable rules in effect at the time. We will also contact nonpublic schools to remind them that broken equipment should be returned to the school district and not discarded.

The following attachments should be included with this letter and the audit report when posted on your website:

1. Letter from Jarred Corn, CPA regarding the two month premium delay from the New Jersey State Health Benefits Plan not having to be posted as an expense on the district’s accounting records
2. Presentation from the districts’ website regarding annual audit report opinions, surplus and recommendations
3. Letter from the Commissioner of Education regarding NJQSAC reflecting that the district has a 90% score in Fiscal Management
4. Letter from the Executive Ocean County Superintendent of Schools regarding improvement in Fiscal Management for NJQSAC
5. May 27, 2009 Board resolution approving the Standard Operating Procedure and Internal Controls Manual

I would like to acknowledge the district’s appreciation for the work done by your auditors and their recommendations to make the district more efficient and effective. Please be assured that the board and district administration will review and consider all of the recommendations in your report.

Sincerely yours,

Lydia R. Silva
Superintendent of Schools

Robert S. Finger
Business Administrator/Board Secretary

c: Leonard Thomas, Board President
Members of the Board of Education
Michael I. Inzelbuch, Board Attorney
Dr. Bruce Greenfield, Ocean County Executive Superintendent of Schools
December 21, 2009

Mr. Robert S. Finger, Business Administrator
Township of Lakewood School District
1771 Madison Avenue
Lakewood, New Jersey 08701-2895

Dear Mr. Finger:

In response to your request to provide accounting guidance in regards to the two-month premium delay option selected by the School District upon enrollment in the New Jersey State Health Benefits Program (SHBP) in fiscal year 2007, please consider the following:

In accordance with the resolution provided by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, a participant could elect a two-month premium delay upon enrollment in the program. The State resolution further indicates that should the participant terminate its relationship in the future with the SHBP, any delayed premium would become due and payable immediately. As a result of the accounting basis upon which the School District’s governmental fund financial statements are prepared, that being the modified accrual basis of accounting (current financial resources measurement focus), only current assets and current liabilities are included on the balance sheet. Likewise, the statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. Since the School District had no plans or intentions of leaving the SHBP, an expenditure charged to the fiscal year 2007 general fund budget, and corresponding accounts payable, should not have been recorded as it would be, by definition, considered a long-term liability (a liability not expected to be paid within one operating period subsequent to fiscal year end). If and when the School District ever opts out of the SHBP, the aforementioned two month premium delay would then have to be funded and paid with current financial resources (meaning that a current general fund budget appropriation would have to be raised and charged). Based on these facts, it is my opinion that the School District should not have charged the general fund budget and recorded a corresponding accounts payable for this two-month premium delay since it is conceivable that the liability may never be required to be paid.

In regards to another matter concerning the charging of the budget for monthly health care premiums, generally accepted accounting principles require an expenditure to be recorded in the period in which goods or services have been rendered or received. For example, monthly health care premiums for the months of July 1, 2008 through June 30, 2009 should be charged as an expenditure to the School District’s fiscal year 2009 budget. If, however, as a result of the timing in receiving the actual vendor invoices, the School District was charging the 2009 fiscal year budget as the invoices were received (i.e.: monthly health care premiums for the months of May 2008 through April 2009 received by the School District in fiscal year 2009), as long as twelve months of health care premiums were charged and expended, this would maintain consistency as to the number of charges during the fiscal year. Although this is not technically in accordance with generally accepted accounting principles, in normal situations, the result of a material misstatement in the financial statements would be remote.
If you have any further questions regarding these matters, please do not hesitate to contact me. Thank you.

Sincerely,

L. Jarred Corn, Partner
Bowman & Company LLP
Certified Public Accountants
& Consultants
Jeff,

In response to your request, below is the explanation on how the management of the Township of Lakewood School District accounted for the two-month premium delay option upon their enrollment in the New Jersey State Health Benefits Program (SHBP) for the fiscal year ended June 30, 2007. Management's accounting treatment for the fiscal year ended June 30, 2007 was based on the following documents and information provided by the State of New Jersey:

- State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, New Jersey State Health Benefits Program Resolution - "We understand that, should our group elect to terminate SHBP participation sometime in the future or the Program ceases to exist, any delayed premiums will become due and payable immediately."

- State of New Jersey Department of Education Audit Program - "Members of the New Jersey Health Benefits Program were given the option of delaying the payment of one or possibly two month's premium for the fiscal year. Under the modified accrual basis of accounting, any school district that selected this option was required to book an expense and a liability against the applicable budget year as an account payable. The net effect was only to positively impact the cash flow; however, there was no reduction of the liability. The only exception to this treatment is if a school district was able to prove a budgetary hardship, and received approval from the Assistant Commissioner Division of Administration and Finance to defer both the cash payment and the expense to a subsequent year or amortize the unfunded liability over a longer period of time."

During fiscal year June 30, 2007, the School District was experiencing a budgetary hardship. Throughout the fiscal year, the management of the School District was in constant communication with the office of the County Superintendent, which included several meetings, on the potential general fund deficit, and in discussing things that could be done to prevent, or minimize, any such deficit. Ultimately, at the end of the fiscal year, the School District ended with a general fund deficit of $1,050,591.36. One of the methods investigated by management was to consider enrolling in the SHBP as they were made known of the option of the two-month payment delay, which would not come due unless the School District terminated its participation in the SHBP. In addition, based on the Audit Questionnaire that is authored by the State of New Jersey Department of Education, if a school district is not enrolled in the SHBP, the school district must state the reason(s) as to why as a result of the State of New Jersey Department of Education stating that enrollment in the SHBP is considered a "cost savings" measure to be investigated by a school district.

In addition to the above, management of the School District reviewed guidance from the State of New Jersey Department of Education from the May of 1994 Audit Program, which is referenced
above in the second bullet point. Although the guidance does indicate that if a school district opted for the two-month premium delay, they were required to book an expense and a liability against the applicable budget year as an account payable, the State Department of Education, however, provided an exception to the rule by stating that if a school district was able to prove a budgetary hardship, and received approval from the Assistant Commissioner Division of Administration and Finance, they could defer both the cash payment and the expense to a subsequent year or amortize the unfunded liability over a longer period of time. Being that the School District was able to prove a "budgetary hardship", this guidance was further reviewed.

Upon further review of this guidance, management determined that, if the two-month premium delay should be recorded as an expense, with a corresponding payable, in the fiscal year of enrollment, as indicated by the State Department of Education, then recording the expense in a subsequent accounting period, or amortizing the unfunded liability over a period of time, would not be a proper expense recognition in accordance with generally accepted accounting principles. In addition, if the unfunded liability were to be amortized over a period of time, the annual amortization expense would have to be provided for in the annual general fund budget, which contradicts the purpose of the two-month premium payment delay to aid in relieving a budgetary hardship. Also, whether the delayed payments required an interest expense component, or if the delayed payments were considered interest free, other generally accepted accounting principles would have to be considered on the School District's financial statements.

Based on the review of the aforementioned information provided, established guidance promulgated by the State Department of Education, communications with the office of the County Superintendent, and the reporting requirements of generally accepted accounting principles, management of the School District accounted for the two-month premium delay as a contingent liability, and the likelihood of the School District terminating its participation in the SHBP was considered to be remote. As a result, during the fiscal year ended June 30, 2007, management did not record an expense, or corresponding accounts payable, for the two-month premium delay on either of the accrual basis financial statements or the modified accrual basis financial statements. If, in the future, management determines that it is reasonably possible that they may terminate its enrollment in the SHBP, footnote disclosure of the contingent liability would be considered, and upon the termination of enrollment, the School District will have to provide for a general fund budget appropriation to charge (fund) the expense related to the two-month payment delay.

If you have any further questions regarding these matters, please do not hesitate to contact me. Thank you.

L. Jarred Corn, CPA, RMA, PSA, Partner
BOWMAN & COMPANY LLP
Certified Public Accountants & Consultants
601 White Horse Rd.
Voorhees, NJ 08043-2493
P 856.435.6200
D 856.821.6870
AUDIT OPINIONS ISSUED

FISCAL YEAR 2008

Adverse Opinion is an audit report in which the auditor expresses an opinion that the financial statements do not present fairly the financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

FISCAL YEAR 2009

Unqualified Opinion is an audit report in which the auditor expresses an opinion that the financial statements do present fairly the financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.
General Fund - Unreserved Undesignated Fund Balance (Budgetary Basis)

Fiscal Year 2008  $ 7,316
Fiscal Year 2009  $ 1,274,677

General Fund Unreserved Undesignated Fund Balance

Fiscal Year 2008  $7,316
Fiscal Year 2009  $1,274,677
NUMBER OF AUDIT FINDINGS PER CAFR

Fiscal Year 2008   17

Fiscal Year 2009   3
April 5, 2010

Mrs. Lydia Silva
Superintendent
Lakewood School District
653 Princeton Avenue
Lakewood, NJ 08701-2895

Dear Ms. Silva:

In April 2007, the Department issued an evaluation of the Lakewood School District pursuant to the requirements of the New Jersey Quality Single Accountability Continuum (NJQSAC), N.J.A.C. 6A:30 et seq. At that time, the district was placed on a continuum in each of the areas evaluated in the district performance review (DPR): instruction and program, fiscal management, operations, personnel and governance.

Following that initial evaluation, the district developed an improvement plan, which was approved in June 2008. Staff from the Ocean County Office of Education conducted a six-month review of the district's progress toward addressing the missed indicators in the DPR areas of instruction and program, fiscal management and governance. In September 2009, updated QSAC placement results were issued in the DPR areas of instruction and program, fiscal management and governance. The district revised its improvement plan and continued to implement corrective actions. The Ocean County staff conducted another interim review in the three DPR areas below 80%. Based on that review, I am updating the placement of the district on the QSAC continuum in the areas of instruction and program, fiscal management and governance. Listed below are both the initial placement and the interim review placement scores for your district:

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction and Program</td>
<td>60%</td>
<td>74%</td>
<td>57%</td>
</tr>
<tr>
<td>Fiscal Management</td>
<td>51%</td>
<td>68%</td>
<td>93%</td>
</tr>
<tr>
<td>Operations</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Personnel</td>
<td>81%</td>
<td>81%</td>
<td>100%</td>
</tr>
<tr>
<td>Governance</td>
<td>66%</td>
<td>56%</td>
<td>100%</td>
</tr>
</tbody>
</table>

While the district has now satisfied at least 80% of the weighted indicators in four DPR areas, instruction and program remains below 80%. Therefore, the district will need to revise its improvement plan (DIP) to address areas of need. Enclosed is a file containing the results of the interim review and a DIP template. Please complete the DIP template and e-mail it to your county office and to Pam Castellanos (pam.castellanos@doc.state.nj.us) by May 1, 2010. If you have any questions about this process, please contact Dr. Greenfield.

Sincerely,

[Signature]

Bret Schundler
Commissioner

BS: PIC Lakewood/interim review
c: Bruce Greenfield
March 23, 2010

Mrs. Lydia Silva, Superintendent
Lakewood School District
1771 Madison Avenue, Route 9
Lakewood, NJ 08701-2895

Dear Mrs. Silva:

In lieu of the official letter from the Department of Education stating Lakewood’s placement on the New Jersey Quality Single Accountability Continuum, I am writing to give the district a general overview of your status following the latest County Office review based on the district’s Corrective Action Plans in the DPR areas of Instruction and Program, Fiscal Management and Governance.

In general, the district has shown improvements in Fiscal Management and Governance, as indicated on the DPR’s. In Instruction and Program, because of the ongoing need to improve test scores and the closing of the achievement gap, continues to provide the district with challenges that hopefully will be met and allow the district to achieve the highly performing status in that area also. Under your leadership and the leadership of your Assistant Superintendent, Mr. Andersen, the district continues to provide programs, activities, professional development opportunities and other methodologies to help students achieve to their highest potential. Hopefully, more of these opportunities guided by current educational research will enhance achievement.

Sincerely,

[Signature]

Dr. Bruce Greenfield
Executive County Superintendent of Schools

Cc: Michael Inzelbuch, Attorney
of Education pursuant to N.J.S.A.18A:22-8 and 18A:22-8.1, that the District financial accounts have been reconciled and are in balance.

ROBERT S. FINGER
BOARD SECRETARY

MAY 27, 2009
DATE

H. Board Resolution

Through the adoption of this resolution, we, the Lakewood Board of Education, pursuant to N.J.A.C. 6A:22-2.1 (c) 4, certify that as of April 30, 2009 after review of the Secretary’s monthly financial report (appropriations section) and upon consultation with the Business Administrator and other appropriate district officials, that to the best of our knowledge no major account or fund has been overexpended in violation of N.J.A.C. 6A:22-21.11(c) 4I-VI and that sufficient funds are available to meet the district’s financial obligations for the remainder of the fiscal year.

I. Acceptance of the Treasurer’s and Secretary Reports for April 30, 2009. The Treasurer of School Funds and the Board Secretary reports are in balance for the cash receipts and disbursements for the month of April 30, 2009.

J. Approval of payment of New Jersey State Health Benefit Plan premiums for the month of May 2009 in the amount of $717,924.34.

K. Approval of applications from the Community School of use of building permits as approved by the director of the Community School and reviewed by the Business Administrator.

L. Certification of Funds Available for Personnel Items – The Business Administrator certifies that upon review of the proposed Personnel Items with the Position Control Roster that sufficient funds are available for these positions.

M. Approval of the Manual of Standard Operating Procedures and Internal Controls, which is required under the School Accountability Regulations and NJAC 6A:23-6.4 and 6.6.

N. Acknowledge receipt of Requests for Proposal for Adult High School Program for the 2009-10 school year, opened on Thursday, May 14, 2009. There was one bidder, Catapult Learning, LLC in the amount of $307,931.68. The amount exceeds the projected cost of operating the program with district employees. Approve the rejection of said proposal and resolve to continue the program for the 2009-10 school year with district employees.

O. Approve a transfer of funds for the Lakewood High School Student Activities Account. These funds are from accounts that are no longer active and are to be transferred into the High School Project Prom line account.

Class of 1991 $1,335.15
Class of 1993 $ 493.80