City of Camden School District

July 1, 2006 to February 28, 2009
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 City of Camden School District for the period of July 1, 2006 to February 28, 2009. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
July 8, 2009
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City of Camden School District

Scope

We have completed an audit of the City of Camden School District for the period July 1, 2006 to February 28, 2009. Our audit focused on issues from our prior report dated January 20, 2005 concerning termination pay, leave records, leave of absence without pay, custodial overtime, food service, student activity funds, and the district’s financial system. We also reviewed payroll deductions for contributory group life insurance, pension system membership enrollments, and expenditures for travel, meals and refreshments, and miscellaneous goods and services.

The prime responsibility of the district is to provide a quality education for 13,000 pre-kindergarten through twelfth grade students. The district has approximately 3,300 full-time employees.

Objectives

The objectives of our audit were to determine whether significant conditions from our prior report relating to termination pay, leave records, leave of absence without pay, custodial overtime, food service, student activity funds, and the district’s financial system have been resolved. We also determined whether payroll deductions for contributory group life insurance, pension system membership enrollments, and expenditures for travel, meals and refreshments, and miscellaneous goods and services were adequately controlled.

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.

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, circular letters promulgated by the Department of the Treasury
and policies of the school district. 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 school district budgets, reviewed financial trends, and interviewed school district personnel to obtain an understanding of the programs and the internal controls. In addition, we reviewed annual audit reports issued by public school accountants contracted by the district and a performance audit for the period July 1, 2004 through June 30, 2006, issued by a public accounting firm, which was ordered by the New Jersey Supreme Court.

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. Transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the district and performed tests to determine if the corrective action was effective.

**Conclusions**

Since our prior report in 2005 the district has enhanced the financial system to include the appropriate audit trails to assist in the review of activity. We also found that student activity funds and expenditures for travel, meals and refreshments, and miscellaneous goods and services were adequately controlled. However, improvements have not been made in the controls over termination pay, leave records, leave of absence without pay, custodial overtime, and food service which we had cited in our last audit. We have updated these conditions in our current report. Our current review also disclosed that controls over pension system membership enrollments and payroll deductions for contributory group life insurance are not adequate.

Organizational change and transition resulting from frequent turnover within managerial positions
is a common occurrence within this district. The district has had two interim business administrators since July 2008. This instability leads to a breakdown in internal controls as standard operating procedures are not followed, district staff are not held accountable for work performed, and errors become common and go undetected due to a lack of proper supervision.

Our current review identified errors totaling $287,000 based on our sample testing. Many of these errors were the result of control deficiencies identified in our 2005 audit and more recently in a January 2007 performance audit issued by a public accounting firm. Although the Commissioner of Education appointed a monitor to oversee fiscal operations in December 2006, increased departmental oversight is needed to ensure district policies and internal controls are properly established and followed. These efforts should assist in operational improvements and cost savings that could be used for educational efforts.
Internal Controls / Payroll

Payroll expenditures totaled $160.5 million during fiscal year 2008. Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use. Proper segregation of duties and maintenance of accurate and complete documentation are necessary to assure the proper use of resources as authorized by the school board. Currently, conditions exist which weaken this assurance and could lead to the misstatement of payroll records and the payment of unearned wages.

Approved time records and other pertinent documentation were not always available to support payments to employees. A total of 366 salary adjustment payments for $354,000 were processed in fiscal year 2008. Our test of 20 payments totaling $133,000 disclosed that documentation was not available to support five payments totaling $8,200. In addition, our review of 25 sampled employees for two selected pay periods disclosed that 18 of 46 time sheets reviewed were not properly approved.

The paycheck distribution and payroll processing functions are not properly segregated. The same individuals who process the payroll also receive and distribute the paychecks. In addition, separated employees were not removed from the active payroll in a timely manner. We tested the final regular pay of 249 employees who terminated employment between June 2006 and June 2008 and found improper payments totaling $132,800 were processed for 23 employees after their separation. According to the district’s financial system, ten checks totaling $19,700 were processed with the remaining $113,100 directly deposited into the former employees’ bank accounts. Six of the ten checks were subsequently voided while three totaling $6,000 were cashed. One check for $800 issued on January 30, 2008 is listed as outstanding.
We also noted one payroll employee has the ability to add employees to the payroll without independent review or authorization. While our review did not disclose any phantom employees, the lack of segregation of duties presents a potential for loss because a phantom employee could be added to the payroll and the check could be removed prior to distribution without being detected.

**Recommendation**

We recommend that procedures be developed to ensure all employee payments are properly supported and approved and that payroll checks be received and distributed by individuals other than the original processors. We also recommend that terminated employees be removed from the active payroll promptly. We further recommend that payroll employees be prohibited from having system access to human resource functions. Any residual payments owed to terminated employees should be processed and approved by human resources. The district should make efforts to recover all overpayments.

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**Pension System Enrollments and Contributions**

Adequate procedures, which include the periodic review of current employees who are not enrolled or contributing to the pension system, are necessary to assure the timely enrollment of new employees and required contributions for existing members are withheld through payroll deductions. Currently, conditions exist which weaken this assurance and could lead to the assessment of late enrollment penalties against the district and lost service credit for employees.

Employee membership into the Public Employees’ Retirement System (PERS) is generally required as a condition of employment if the position is covered by Social Security, the annual salary is $1,500 or more, and the
employee is not a member of any other state or local government retirement system. The compulsory enrollment date is the first of the month if the date of hire falls between the first and the 16th of the month and the first of the following month if the date of hire falls between the 17th and the end of the month. As of February 2009, 116 food service workers who qualify for membership in PERS have not been enrolled by the district. Earnings for all 116 employees exceeded $1,500 in fiscal years 2007 and 2008 and many have been employed with the district since calendar year 2000 and prior. In accordance with N.J.S.A. 43:15A-7.1, if more than one year has elapsed from the time that contributions would have been required, one-half of the employees’ cost will be paid by the district.

The contribution rate for members of both PERS and the Teachers’ Pension and Annuity Fund (TPAF) is 5.5 percent of salary effective July 2007. Contributions are reported to the Division of Pensions and Benefits on a quarterly basis. Our review of all 113 employees whose fiscal year 2008 pension contributions were less than 5.5 percent of their base salary noted the following errors.

- Pension contributions for three enrolled employees have not been withheld by the district since September 2002, November 2004, and January 2007, respectively, resulting in years of lost service credit. Contributions for another enrolled employee were not withheld from September 2003 through June 2007.
- Pension contributions totaling $9,000 for 13 employees were not reported to the Division of Pensions and Benefits for various quarters between fiscal year 2004 and fiscal year 2009. As a result, one employee who terminated employment on June 30, 2008 did
not receive a refund of contributions withheld totaling $1,150.

- Pension contributions totaling $6,200 for five employees were reported and paid to the Division of Pensions and Benefits but were not withheld from the employees' pay. Another employee was credited with making $5,000 in contributions from January 2005 through June 2007 that were never withheld from their pay. Since the employee was enrolled in TPAF by mistake after retiring from PERS, all contributions were refunded by the Division of Pensions and Benefits including the $5,000 posted in error.

- A net difference of $150 between actual quarterly pension contributions and amounts reported to the Division of Pensions and Benefits was noted for 14 employees. Contributions withheld for seven employees were $2,100 less than the amounts reported and contributions for the remaining seven employees were $2,250 more than the amounts reported.

Recommendation

We recommend that procedures be developed to ensure the timely enrollment of eligible employees in the pension system. Monitoring procedures should be implemented to ensure member contributions are accurately withheld from employee paychecks and properly reported to the Division of Pensions and Benefits. In addition, the district should work with the Division of Pensions and Benefits to correct the errors noted above.
Leave Records and Payments to Retirees

The human resources department maintains employee leave time electronically on the time and attendance component of the district’s financial system. In addition, manual records for most employees are maintained at the individual schools and other district facilities.

The contracts for most district employees provide a fixed dollar amount of $60 dollars or $90 dollars for each unused sick leave day accumulated at the time of retirement or death. Employees are credited with a full year’s sick leave on the first day of the fiscal year or school year in anticipation that they will be employed the entire year. All unused sick days at year end carry forward. If an employee terminates employment prior to the end of the year, their entitlement for that year should be prorated for the partial year of employment. Upon retirement or death, an employee’s sick leave balance should be obtained from the system, prorated if applicable, and multiplied by the contractual rate to arrive at the sick leave payment amount.

Payments for unused sick leave totaled approximately $1.1 million in fiscal year 2008. We tested 40 payments totaling $496,000 and found $47,200 in errors on 38 payments resulting from overpayments of $40,500 and underpayments of $6,700. Employee balances maintained on the attendance component of the financial system since becoming operational in fiscal year 2003 were utilized for testing purposes. The above errors occurred because balances carried forward into a new fiscal year did not match the prior fiscal year ending balances and there was no proration of leave time for any partial year of employment. For example, one employee who retired on December 31, 2007 was overpaid $9,400 because sick leave balances carried forward into fiscal years 2004 and 2008 were overstated by 38.5 and 57.5 days, respectively, when compared to ending balances.
at June 30, 2003 and June 30, 2007. In addition, the employee was paid for eight days that were not earned in fiscal year 2008.

Non-teaching staff receive payment for unused vacation days upon termination. For most employees, vacation days earned in one year are to be used in the following year. Payments for unused vacation leave totaled approximately $236,000 in fiscal year 2008. We tested 15 payments totaling $78,000 and found $5,200 in errors on 11 payments resulting from underpayments of $4,800 and overpayments of $400. The nine underpayments primarily occurred because vacation days earned in the final year of employment were not prorated correctly. An incorrect inflated salary was utilized on three of these payments which offset each underpayment. The two overpayments occurred because an incorrect salary was utilized in one case and unearned days were paid on the other.

We also noted the district calculates vacation leave payments by dividing the employee’s salary by 240 days instead of the usual 261 working days in a year. This methodology, which is also used by other school districts, results in a payment which is eight percent higher.

Leave time is maintained on a fiscal year basis which runs from July 1 to June 30 for twelve month employees and approximately September 1 to June 30 for ten month employees. Year end balances should automatically carry forward. We reviewed employee sick leave balances on the system at June 30, 2008 and found that 48 employees had overdrawn sick leave balances ranging from one half day to 13 days. The overdrawn balances were not carried forward into fiscal year 2009 thereby providing an extra 154 unearned sick days to the 48 employees. The value of the overdrawn sick days approximates $27,500.
Contractual provisions allow teachers and other district employees to cash in ten sick days per fiscal year if certain requirements are met. This is known as an attendance incentive. Payments are made in July of the following fiscal year. Attendance incentive payments totaled $195,600 in fiscal year 2008. Our test of 100 payments totaling $80,400 disclosed that the available sick leave balance for 15 of the 100 sampled employees was not reduced for the ten days they were being compensated resulting in a potential liability to the district of $12,120. In addition, fiscal year 2007 carry over balances for two of these employees actually increased by eleven and nine days, respectively, instead of being reduced by ten days resulting in an additional liability of $1,800.

**Recommendation**

We recommend the district develop and implement a written policy for the maintenance of employee leave records and the payment of unused leave. Procedures covered by the policy should include a proper review to ensure system accuracy and proper postings as well as a method to prorate leave time for any partial year of employment. As a cost savings measure, we recommend that the district consider changing the policy for calculating vacation leave to reflect the actual number of working days in a year and review the attendance incentive policy for reasonableness. Finally, we recommend that procedures be developed to ensure sick leave balances for employees receiving attendance incentive payments are properly adjusted.
Salaries paid should be properly reviewed to ensure deductions for leave without pay are accurate.

Leave of Absence Without Pay

Board approval is required for all extended leave of absences. The monthly board minutes from July 2007 through June 2008 identified 99 employees on a leave of absence without pay (LWOP). We tested payments to 25 of these employees and found that six were overpaid a total of $22,850 because they continued to be paid while out on LWOP.

Employees are credited with a full year’s sick leave on the first day of the fiscal year or school year in anticipation that they will work the entire year. Leave time should not accrue when an employee is on a leave of absence. The district, however, does not prorate leave time for any partial year of employment due to a leave of absence.

The board’s policy entitled “Salary Checks and Deductions” specifies that daily salary deductions for employees on unpaid leave be calculated using a 200 day work year for 10 month employees and a 240 day work year for 12 month employees which equates to 20 working days per month. Employees are paid twice a month. This methodology is questionable because 12 month employees are typically paid based on 261 available work days in a year. Annual work days for 10 month employees may not be 200 days as well. Our review noted that one employee received their full monthly pay in April and August of 2008 even though they took one unpaid leave day in each month.

Recommendation

We recommend the district develop and implement a written policy for employee unpaid leaves of absence. Procedures covered by the policy should include a proper review to ensure salary payments are processed correctly and leave time is properly prorated. We further recommend that the district consider changing the method
Controls over payroll deductions for premium costs need to be strengthened to ensure accuracy.

utilized to calculate salary deductions to accurately reflect the actual number of working days in a year.

Contributory Group Life Insurance

The law requires that members in the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund (TPAF) must be covered by contributory insurance for the first 12 months of membership. A member can withdraw at any time after completion of the first 12 months. Premiums are paid through payroll deductions and are not refundable. TPAF members are not required to pay premiums after attaining age 70 as such costs must be paid by the employer. Current procedures are not adequate to assure payroll deductions for member premiums are processed correctly. Our review of all 85 employees who did not have premiums deducted from their base salary in fiscal year 2008 noted the following exceptions.

- Prior to fiscal year 2008, premiums totaling $3,700 were deducted from the pay of 11 TPAF members after attaining age 70.
- Premium deductions totaling $525 for three participating members were not withheld at all in fiscal year 2008. Deductions for one of these members have not been processed for at least the last eight fiscal years.
- Prior to fiscal year 2008, premiums totaling $800 were deducted from the pay of five employees who did not have contributory insurance at the time.

Recommendations

We recommend that adequate procedures be developed to ensure payroll deductions for contributory insurance premiums are proper and in compliance with existing laws. The procedures
should include a periodic review of premiums paid for participating members.

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**Custodial Overtime**

As noted in our prior report, the district has an agreement with the Communication Workers of America, AFL-CIO Union, Local 1079 which requires custodial personnel to perform building checks of all elementary and secondary schools on weekends and holidays. The building checks as stipulated in the contract shall be two hours. As a matter of practice, custodians are paid overtime at a rate of time and one-half their regular salary to perform the building checks. In addition, a clerk is paid seven hours of overtime each day building checks are performed to record the time each custodian arrives at and leaves their assigned building and to respond to any problems during that time. Overtime should be the result of nonrecurring unexpected events or emergency situations. It should not result from conditions which occur on a routine basis. No scheduling adjustments were attempted to alleviate the need for overtime.

We continue to recommend that regular work schedules should be adjusted to eliminate the need for overtime where possible.

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**Food Service Receipts**

As noted in our prior report, internal controls are not adequate to provide management with reasonable assurance that all fees due from students who do not qualify for free meals are collected and deposited intact. Written policies and procedures governing the collection, deposit, and accounting of school food service receipts have not been established. Written procedures are
necessary to establish proper internal controls over cash collections.

The independent financial audit performed by the district’s public accountants for the fiscal year ended June 30, 2008 noted that cash collected did not reconcile to the number of paid meals claimed. The report recommends that district policy dictate when students should pay for meals and that cash collected should be reconciled to the number of meals sold.

**Recommendations**

We continue to recommend that the district develop and implement written procedures over the collection, recording, and deposit of school food service receipts.

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**Application Controls**

The district’s financial management and human resources functions are processed by the System of Management of Administrative Records for Today (SMARTS). The application was developed by an outside vendor and is utilized by other school districts. Our current review established that the district does not have documented internal policies and procedures for the SMARTS application. In addition, the district does not have a system administrator or designated individual that is responsible for the overall SMARTS operation. Well defined policies and procedures for the SMARTS application and oversight by a designated individual are necessary to ensure that the application functions as intended and that all necessary controls are in place with adequate review. Our review of the application and its capabilities disclosed no system weaknesses. However, the lack of documented policies and procedures exposes the district to the following control weaknesses.
- Output controls do not include procedures for the review of existing system reports which may result in payments to terminated employees and errors in employee leave balances going undetected.

- There are no procedures in place to review for proper segregation of user access to the application. Incompatible access may leave individuals with the ability to process unauthorized transactions.

- There is no systematic review of the master data file. We noted missing information, duplicate records, and active vendor files with no activity for more than two years. The lack of accurate vendor data may lead to unauthorized or duplicate disbursements.

**Recommendations**

We recommend that the district designate an individual as system administrator. In addition, the district should establish formal documentation of all policies and procedures related to the use of the SMARTS application.
Mr. Stephen M. Eells, Assistant State Auditor  
New Jersey State Legislature  
Office of the Legislative Services  
Office of the State Auditor  
125 South Warren Street  
P.O. Box 067  
Trenton, NJ 08625-0067

RE: OLS Audit Comments

Dear Mr. Eells:

The Office of Legislative Services (OLS) audit spanned a time period of one year and seven months. The district administrative team appreciates the efforts of the OLS auditors in researching and recommending areas needing improvement.

The district began correcting some of these areas during time the OLS auditors were still working in the district including enrolling employees in the pension fund who were thought to be exempt and more timely enrollments for new employees into the appropriate pension funds. Recommendations including improving the accuracy of leave records, recouping overpayments for unused sick leave, and segregation of duties will be acted on in the near future. Other recommendations such as the use of overtime, attendance incentives and the way severance pay is calculated will require changes to collective bargaining agreements.

An outside consultant began a review of the food service department just after the OLS auditors’ departure from district. The study has been completed and a number of recommendations will be presented in addition to those included in the OLS audit. District administration will be presenting the report to the Board of Education this month and will be requesting approval to implement most if not all of the food service recommendations.

These comments are not meant to be a detailed response to every recommendation of the OLS audit. This will be a part of the district’s corrective action plan. They are an attempt to show the public that the district takes this audit very seriously and will be taking corrective actions as quickly as possible.

Very truly yours,

Dr. B. LeFra Young
Superintendent of Schools

DS/dlp
Cc: Mr. David Shafter, School Business Administrator/Board Secretary
Ms. Sara T. Davis, Board President