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★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

Salem City School District

July 1, 2018 to September 30, 2023

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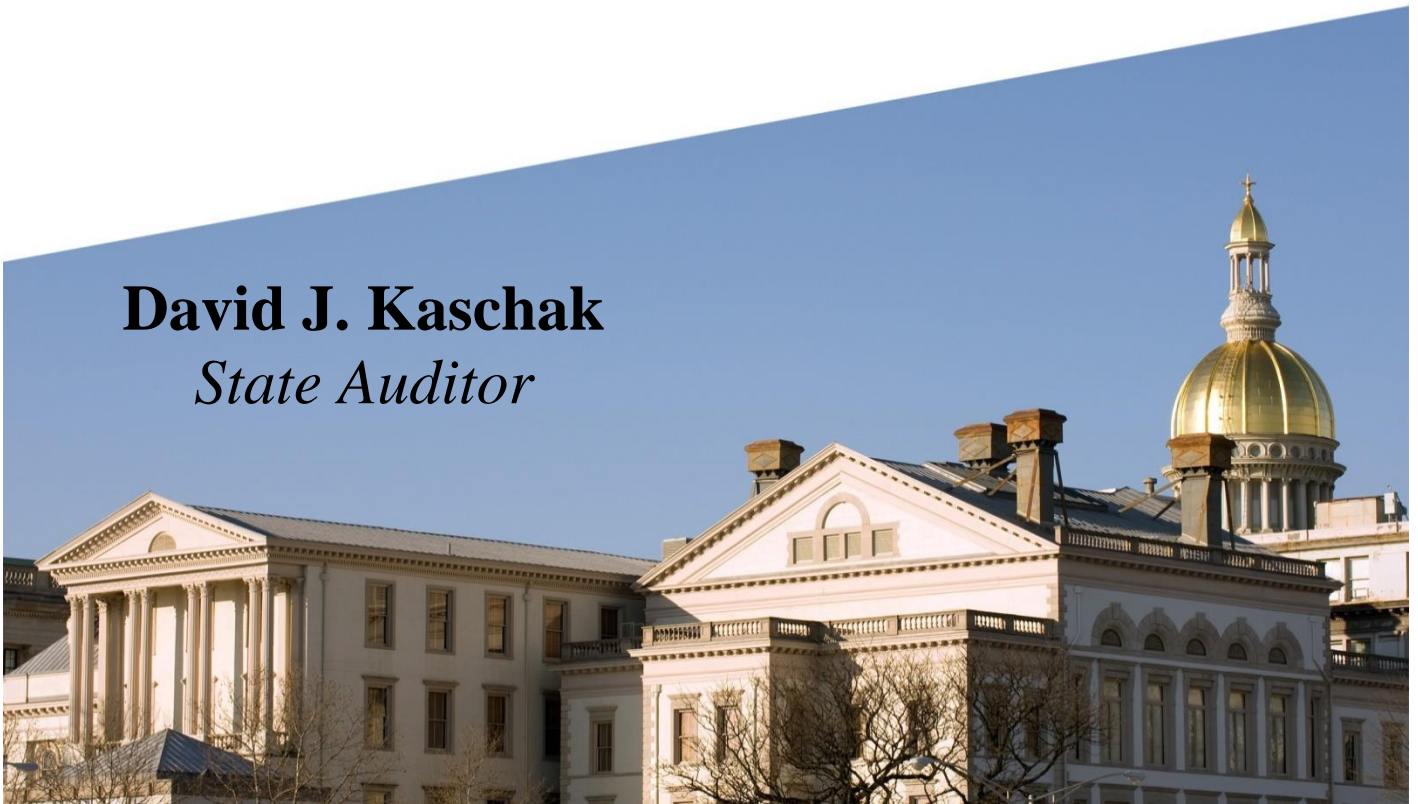


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Scope

We have completed an audit of the Salem City School District (district) for the period of July 1, 2018 through September 30, 2023. Our audit included financial activities accounted for in the district's general and special revenue funds.

Annual General Fund revenues and expenditures averaged \$26.9 million and \$25.8 million, respectively, in fiscal years 2019 through 2023 and Special Revenue Fund revenues and expenditures averaged \$5.9 million. The state funded approximately 76 percent of revenues during this period, with state support exceeding 80 percent in fiscal year 2019. The district provides regular and special education services for grade levels pre-kindergarten through 12. From fiscal year 2019 through 2023, the average daily enrollment was 1,202 students, and there were approximately 202 full-time employees.

Objectives

The primary objective of our audit was to determine the factors that contributed to the fiscal year 2019 General Fund budgetary deficit of \$621,115 as reported in the district's audited financial report. Additional objectives were to determine whether financial transactions were related to the district's programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Title 18A:7A-57 of the New Jersey Statutes (School District Fiscal Accountability Act); Title 18A:7F-6(d), originally known as the "Comprehensive Educational Improvement and Financing Act of 1996" and amended to the "School Funding Reform Act of 2008"; Article VII, Section I, Paragraph 6 of the State Constitution; and Title 52 of the New Jersey Statutes.

Methodology

We conducted this forensic and performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine the factors that contributed to the fiscal year 2019 year-end General Fund budgetary deficit, we applied forensic analytical procedures to datasets; performed analyses of financial and demographic information from the district's information systems and Annual Comprehensive Financial Reports prepared by the district's public school accountant; and interviewed key personnel from the district and the New Jersey Department of Education (DOE).

In preparation for our performance audit testing, we studied legislation, the administrative code, and policies of the DOE and the district. Additional guidance for the conduct of the audit was taken from the New Jersey *Statewide Information Security Manual (SISM)*, published by the New

Jersey Office of Homeland Security and Preparedness, and from the National Institute of Standards and Technology (NIST). Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing. We also reviewed the district's budgets, read board minutes, and interviewed district personnel to obtain an understanding of the district's programs and internal controls.

In order to achieve our objectives, we performed various tests and analyses, as we determined necessary. Additional detail regarding our methodology and work performed can be found in the Appendix, as well as in the finding section when testing resulted in a reportable condition.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted, and transactions were judgmentally and randomly selected for testing. Because we used a nonstatistical sampling approach for our tests, we cannot project the results to the respective populations.

Data Reliability

We assessed the reliability of expenditures and payroll data obtained from the district's accounting system (Systems 3000) by reconciling the data to the district's audited financial statements. We assessed the reliability of student enrollment data obtained from the district's student information system (OnCourse) by comparing the data to district reports. We assessed the reliability of data obtained from the district's bookkeeping system by tracing the data to bank statements. We determined that the data were sufficiently reliable for the purposes of this report.

Certain other data in our report were used to provide background information. Data that we used for this purpose were obtained from the best available sources. *Government Auditing Standards* do not require us to complete a data reliability assessment for data used for this purpose.

Conclusions

We identified the following factors that contributed to the fiscal year 2019 budgetary deficit in the General Fund: a payroll posting error, a transfer of anticipated surplus, and unrealized revenue. We also found the district ended fiscal year 2020 with a budgetary deficit in its General Fund of \$290,389. The primary factor contributing to the fiscal year 2020 deficit was the write-off of an account receivable related to a legal settlement.

We found financial transactions included in our testing were not always related to the district's programs, reasonable, or properly recorded in the accounting system. In making these determinations, we noted multiple areas meriting management's attention. We also made an observation regarding the solicitation of scholarship donations from vendors.

Salem City School District is a Schools Development Authority (SDA) district that received 81-85 percent of its General Fund funding from the state during our audit period and is statutorily required to ensure an effective and efficient use of the funds.

General Fund Budgetary Deficit

The district failed to ensure spending was within budgetary limits as required by N.J.A.C. 6A:23A-16.10, resulting in a deficit of \$621,115.

Fiscal Year 2019

According to N.J.A.C. 6A:23A-16.10(a)1, a district board of education shall only approve an encumbrance or expenditure that, when added to the total of existing encumbrances and expenditures, does not exceed the amount appropriated. In fiscal year 2019, district spending was in excess of budgetary constraints, resulting in a General Fund budgetary deficit of \$621,115. Our review of the district's finances for fiscal year 2019 identified three primary factors, listed below, that contributed to the deficit. Additional factors that may have also contributed to the deficit are included in the findings section of our report.

- The district's financial auditor found that the district did not properly post two payroll cycles to the general ledger. As a result, the district's General Fund expenditures were understated by \$948,211.
- In June 2019, unaware of the payroll error and therefore thinking it had a larger balance, the district transferred \$632,759 in anticipated General Fund surplus to its Capital Reserve account for the construction of new track and field facilities at the high school.
- The district included a revenue line item (Other Restricted Miscellaneous Revenue) on its fiscal year 2019 budget with anticipated revenue of \$824,698; however, only \$14,265 in revenue for this line item was recognized during the fiscal year. No one we interviewed at the district, including the School Business Administrator (SBA) and Superintendent, could provide an explanation for the inclusion of this revenue item in the district's budget.

Continuation of Deficit Fiscal Year 2020

During fiscal year 2020, the General Fund budgetary deficit was reduced from \$621,115 to \$290,389 (53 percent). We found the district had an unbudgeted legal settlement with a local non-profit organization in which the district agreed to write off an account receivable of \$133,736 and return \$15,011 in funds that it had previously received from the organization. The General Fund budgetary deficit was resolved in fiscal year 2021.

Recommendation

We recommend the district ensure its payroll expenditures are properly posted to the general ledger and confirm a surplus exists before making transfers out of the General Fund. We also recommend the district maintain support documentation to explain budgeted items. We further

recommend the district have a contingency plan for pending legal matters that may impact its fund balance.



Procurement

Internal controls over the district's procurement process were ineffective.

According to N.J.A.C. 6A:23A, management is responsible for establishing specific internal control policies and procedures designed to provide a reasonable assurance that the district's goals and objectives will be achieved. Internal controls shall promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with laws and regulations.

Our tests and analyses of the district's procurement process identified multiple breakdowns in internal controls. Noncompliance with state laws, regulations, district policies, and procedures was also noted in multiple areas.

Bid Threshold

N.J.S.A. 18A:18A-4 states that every contract for goods or services, where the aggregate cost exceeds the bid threshold, shall be awarded only by resolution of the board of education to the lowest responsible bidder after publicly advertising for bids, with some exceptions. Since fiscal year 2021, the bid threshold applicable to the district has been \$44,000.

We prepared an analysis of vendors that received payments in excess of the bid threshold during fiscal years 2021 or 2022 and identified 21 vendors subject to the public bidding requirement. No public bidding was done for goods or services obtained from 12 vendors (57 percent). Without public bidding, we cannot confirm the district obtained a fair price or that other vendors were given the opportunity to participate. Management acknowledged the district was aware of the bidding requirement but did not always comply. Examples of goods or services acquired without proper bidding include the following:

- The district has contracted with a college admissions consultant since 2015 without public bidding. During our audit period, the annual cost for these services was \$187,000. The vendor agreement on file in the business office lacked specifics regarding the scope of work to be performed.
- Various construction projects with costs in excess of the threshold were not bid, including the installation of generators for \$157,049; flooring for \$149,637; locker room renovations for \$52,880; tennis court renovations for \$48,700; and construction of a pole barn for \$45,138.

- Other goods purchased included laptop computers for \$325,900; air purifiers for \$119,788; sporting goods and apparel for \$79,827; and water heaters for \$44,620. Purchased services included \$72,251 for transportation and \$65,161 for supplemental janitorial services.

In lieu of publicly bidding for its new track and field project during fiscal year 2019, the district hired a vendor through a cooperative purchasing agreement. The vendor was paid \$1,313,490 for this project. We were unable to match amounts in the vendor's proposal and invoices to the terms of the cooperative purchasing agreement. The procurement for this project was handled by a general contractor on the district's behalf. We reached out to the general contractor to verify compliance with the terms of the cooperative agreement; however, no information was provided.

Quotation Threshold

N.J.S.A. 18A:18A-37(a) requires the purchasing agent for any contract that in the aggregate is less than the bid threshold but 15 percent or more of that amount to award the contract after soliciting at least two competitive quotations, if practicable, and retain a record of the quotation solicitation. The applicable quotation threshold for the district has been \$6,600 since fiscal year 2021.

We identified 95 vendors with aggregate purchases during fiscal year 2021 and/or 2022 that exceeded the quotation threshold but were less than the bid threshold. We randomly selected 20 of those vendors and judgmentally selected each of the vendors' highest-dollar purchase to verify at least two quotations were obtained, if required. We determined quotes were required for 12 of 20 purchases totaling \$81,302; however, support documentation for 11 of the 12 purchases (92 percent) totaling \$68,983 lacked any evidence that a second quotation was obtained. Without additional quotations, we cannot confirm the district received a fair price or that other vendors were given the opportunity to participate.

Professional Services

N.J.A.C. 6A:23A-5.2 requires each district to establish by policy a strategy to minimize the cost of professional services. The policy shall include having professional services contracts be issued in a deliberative and efficient manner that ensures the district receives the highest quality services at a fair and competitive price. This may include, but is not limited to, issuance of such contracts through a request for proposals (RFP) based on cost and other specified factors.

The district has adopted formal policies that include provisions for the procurement of professional services through a deliberative process such as an RFP; however, we noted that no deliberative process was used. Professional services contracts for architectural, legal, and auditing services were awarded annually without any competitive or deliberative process.

Segregation of Duties

According to N.J.A.C. 6A:23A-6.5, the SBA shall identify processes in violation of sound segregation of duties and shall segregate the duties of all processes among business office staff, based on available resources. Specifically, the functions of purchasing and accounts payable shall be segregated and completed by different employees. Inadequate segregation of duties for these functions increases the risk of improper purchases and payments.

Including the SBA, the district's business office has only four employees; therefore, employees must perform multiple functions. Our review of the district's purchasing and accounts payable functions found that those functions were not adequately segregated. The district's accounts payable clerk is also the primary employee responsible for approving purchase orders. We analyzed non-payroll purchases from fiscal year 2021 through 2023 and found that the district's accounts payable clerk approved 97 percent of all purchase orders, comprising 80 percent of dollars expended during this period. Additionally, we noted that this employee not only approved but also entered 28 percent of all purchase requisitions comprising 59 percent of dollars expended during this period.

Purchase Orders

As of September 2022, the district expended \$25,231,337 from its general and special revenue funds on 1,579 purchase orders created during fiscal years 2021 and 2022. We randomly selected 40 purchase orders totaling \$239,849 to test for compliance with the district's policies and procedures and noted the following:

- The district's purchasing procedures require a rationale to determine why the purchase is essential to the school district. There was no evidence that a rationale was provided for 29 of the 40 purchase orders (73 percent) we tested. Purchase orders generally only stated *what* goods or services were being purchased but not *why*. The lack of a rationale for purchase orders increases the risk that district funds could be used for nonessential or improper purchases.
- District policy requires that all vendors doing business with the district are registered with the State of New Jersey and provide proof of that registration to the business office. Copies of business registration certificates shall be kept on file. The business office did not have copies of business registration certificates for 22 of 33 vendors (67 percent) we tested. We looked up these vendors on the New Jersey Division of Revenue and Enterprise Services (DORES) website but were unable to verify state business registrations existed at all for 9 of the 22 vendors. We expanded our sample and attempted to verify that the district had business registration certificates on file for all vendors with purchases exceeding the bid threshold during fiscal years 2021 and 2022. Of 37 vendors that were required to register, no business registration certificates were on file for 23 vendors (62 percent). We looked up these vendors on the DORES website but were unable to verify state business registrations existed at all for six of these 23 vendors.

- Nine of the sampled 40 purchase orders (23 percent) were confirming orders. A confirming order is a purchase of goods or services before a purchase order has been authorized. The use of confirming orders is a violation of district policy and increases the risk that the budget could be overspent because of unrecorded liabilities.

Receipt Verification

Prior to issuing payment, district procedures require the responsible employee to sign a gold copy of the purchase order (receiving copy) and forward it to the accounts payable clerk as an acknowledgement that purchased goods or services were received. Breakdowns in these procedures could result in erroneous payments for goods or services.

Excluding payroll and fringe benefits transactions, the district made payments on 1,599 purchase orders from its general and special revenue funds totaling \$16,537,205 during fiscal years 2021 and 2022. We randomly selected 26 purchase orders totaling \$161,115 to verify receipt of goods or services. Our review noted the following issues:

- Four of 23 signed receiving copies (17 percent) totaling \$4,340 were signed by the accounts payable clerk instead of an individual in the school or unit where the goods or services were received.
- Three of 26 purchase orders (12 percent) totaling \$24,328 did not have a signed receiving copy available for inspection.
- When partial payments are necessary, the district's purchasing procedure requires notification to the business office for the item(s) that were received; however, of six purchase orders we tested where partial payments were made, three (50 percent) totaling \$21,995 lacked evidence to support partial payment amounts.

Recommendation

We recommend the district comply with state laws and regulations regarding bid and quotation thresholds; use a deliberative process, such as an RFP, for the procurement of professional services; and segregate its purchasing and accounts payable functions. We also recommend the district ensure purchase orders include a rationale, retain copies of vendors' business registration certificates, and limit the use of confirming orders to emergency purposes only. We further recommend the district require adequate proof of receipt before issuing payments.



International Baccalaureate Program

The district's International Baccalaureate program had excessive travel costs and lax admissions standards.

The district's high school offers a two-year International Baccalaureate Diploma Programme (IB program) for students in grades 11 and 12. It is a rigorous academic program, similar to Advanced Placement (AP) courses, where students study six subjects over two years to better prepare them for success in college and beyond. Enrollment in the program has increased steadily since the program began, from 6 students in fiscal year 2013 to 53 students in fiscal year 2024.

It is the responsibility of management to ensure an efficient and effective use of the district's resources. Our review of the IB program disclosed issues regarding international trips and admissions criteria for the IB program.

International Trips

The district finances an all-expenses-paid international trip during the summer between 11th and 12th grade for IB students and employee chaperones from its General Fund. Destinations during our audit period included Scotland (twice), Costa Rica, Croatia, and Portugal. We reviewed support documentation and noted the following issues regarding these trips:

- On average, 19 students traveled at a total cost of approximately \$75,000 per trip, or \$3,900 per student. Students did not contribute or raise funds to offset the cost of the trips.
- We noted several instances where the district purchased airfare and accommodations that were not used. Over the five trips we reviewed, the district paid \$6,789 for 8 unused roundtrip tickets and \$28,080 for unused accommodations. Unused airfare and accommodations accounted for nine percent of the total cost of trips.
- On average, there was one employee chaperone for every 3.2 students even though the organization that hosts the trips provides chaperones. Employee chaperones were primarily responsible for getting students to and from the destination. Once they arrived, most employee chaperones (53 percent) stayed offsite and would check in with students periodically. Over the five trips, the district paid \$15,997 for 12 offsite chaperone hotel rooms.
- We were informed that spouses were permitted to travel with the group at their own expense; however, we noted three instances where the district was billed by the travel agency and paid for the IB coordinator's spouse's airfare totaling \$2,941. The district received refunds for two of these instances totaling \$1,285 after we brought the issue to the travel agency's attention.

- According to district policy, the board of education must approve all field trips. Of the five trips we reviewed, only two were included on board meeting agendas and only one agenda included the full cost of the trip. The other agenda included only 39 percent of the total cost. Airfare and hotel charges were listed as “to be determined”.

In our research, we were unable to identify any other IB-participating school districts that provided free international trips for students. The district acknowledged that Salem City is the only district that pays for it. According to management, the rationale is that the IB program teaches students to be internationally minded, and as a low-income district, most students have never traveled outside of the country.

To determine whether IB students were from low-income households, we reviewed demographic information from fiscal years 2019 through 2024 in the district’s student information system to see if they qualified for free or reduced lunch. Only 33 percent of IB students qualified for free or reduced lunch, significantly less than the overall high school rate of 52 percent and district-wide rate of 70 percent during the same period.

IB Admissions

Prior to fiscal year 2024, the only requirements for entrance into the IB program were that students “must be hard workers and want to earn the IB diploma”. Beginning in fiscal year 2024, they must also have a minimum unweighted grade point average of 2.0. Students who successfully complete all requirements of the IB program and score well enough on examinations can earn an IB diploma. Examination fees are \$714 per student, and the district’s average annual expenses for these examinations were \$15,956 for fiscal years 2019 through 2023.

According to data released by the International Baccalaureate Organization, the worldwide diploma rate for IB students was 84 percent from 2019 to 2023. The district’s IB diploma rate over the same period was only 12 percent.

Recommendation

We recommend attendees pay for international trips, not the district. We also recommend the district include field trips and all associated costs on board meeting agendas for the board’s approval. We further recommend the district adopt more stringent admissions criteria for its IB program.



College Tuition and Fees

The district financed college tuition, fees, room, and board for district graduates from its General Fund.

The purpose of the General Fund is to provide thorough and efficient educational services for students in grades K-12. During the audit, we found that the district made improper payments from the General Fund to colleges and universities on behalf of former district students. In total, we identified \$115,650 paid to nine colleges and universities on behalf of eight former students during fiscal years 2019 and 2020. We noted that these payments included amounts for tuition, fees, room, and board. Payments were authorized by the Superintendent, who informed us that reimbursements were expected from an outside organization; however, no reimbursement was ever received. These payments may have contributed to the district's General Fund deficits in fiscal years 2019 and 2020 because they were not included in the district's original budget.

Recommendation

We recommend the district refrain from using its funds to pay for college tuition and fees.



Preschool Program

The district's universal preschool program did not comply with state regulations.

As a former Abbott district, the district is required to offer a universal preschool program for eligible 3- and 4-year-old children. The program is hosted at the district's elementary school, and the average daily enrollment for fiscal years 2019 to 2023 was approximately 129 pupils. During this period, annual program revenues and expenditures averaged \$2.2 million.

Waitlist

N.J.A.C. 6A:13A-2.2(b) requires a district with a universal preschool program to ensure all age-eligible children who reside in the district and are seeking enrollment to be offered a seat in the program and not placed on a waiting list. During our audit, we found the district was using a waitlist. We reviewed enrollment records for fiscal year 2023 and identified 17 students who were waitlisted. The district's administration was unaware that a waitlist could not be used.

Additionally, we noted that 17 preschool students, including several waitlisted students, were erroneously included in the district's enrollment count on its October 2022 Application for State School Aid (ASSA). The DOE relies on the ASSA enrollment count to substantiate the preschool program budget for the subsequent fiscal year and might be inclined to deny a budget increase if seats are left unfilled. During fiscal year 2023, the district was funded for an estimated enrollment

of 150 students and reported an enrollment of 145 students on the ASSA but had only 128 seats filled at that time.

Nonresident Students

According to N.J.A.C. 6A:13A-2.1(d) and (e), a district with a universal preschool program is only permitted to enroll nonresident students through an agreement between boards of education if the student is at-risk or if the parent(s) or guardian(s) pays tuition at a rate comparable to the per pupil rate provided in State Aid. For fiscal years 2021 through 2023, the per pupil rate the district received in State Aid for its universal preschool program averaged \$13,252. Nonresident enrollment is also contingent upon ensuring all age-eligible resident children are given priority.

To verify eligibility, we selected a sample of 40 students enrolled in the preschool program during fiscal years 2022 and/or 2023. We judgmentally selected 11 students we assessed as potential nonresidents because they did not have a Salem City address or did not subsequently enroll in the district for kindergarten. We randomly selected an additional 29 students to complete our sample.

We were unable to verify whether two students resided in the district because their enrollment files could not be located. Of the remaining 38 students, our test identified four students (11 percent) who did not reside in the district. Three were children of district employees, and one student resided in another district. This student's parent was notified they must first attempt to register the child in their home district's preschool program before they could be admitted into the district's program. Support documentation included a falsified letter stating that the resident district's preschool program was full, and the student would have to enroll in Salem City's program.

The district believed nonresident students were permitted to enroll because the district participates in the Interdistrict Public School Choice Program (choice program); however, the choice program is only applicable to grades K to 12. The district did not receive tuition for the nonresident students; therefore, resources intended to provide preschool education services to resident district children were used for nonresidents while resident children were waitlisted.

Program Expenditures

The district receives grant funding from the DOE to operate its preschool program. Funding should only be used for the preschool program unless otherwise authorized by the DOE.

From fiscal year 2019 through 2022, the district made 324 purchases from preschool funds totaling \$822,835. We judgmentally selected the five highest dollar purchases totaling \$300,544 and randomly selected an additional 15 purchases totaling \$34,706 to verify purchases were related to the preschool program. We identified five purchases (25 percent) that were not exclusively for the district's preschool program. This included two purchases totaling \$443 for goods and services to be used by other grade levels and three purchases totaling \$4,648 for goods and services for the entire elementary school. The district's purchase order review process failed to detect and prevent these purchases from charging preschool program funds.

Recommendation

We recommend the district ensure all age-eligible resident students who are seeking enrollment in the universal preschool program are offered enrollment. We also recommend the district charge tuition for nonresident students enrolled in the program in accordance with N.J.A.C. 6A:13A-2.1 (d) and (e). We further recommend the district strengthen its controls to ensure preschool program funds are only used for the preschool program.



Travel Agency Services

Services provided and billed by a travel agency were not adequately monitored leading to overcharges and increased costs.

The district uses a local travel agency to book and purchase travel for professional development and overnight field trips. The agreement with the travel agency states that the district pays cost plus service fees of \$30 per person for airfare and \$30 per hotel room.

We reviewed all 48 purchase orders totaling \$301,399 for the travel agency's services from fiscal year 2019 through fiscal year 2024 (as of July 31, 2023). Our review of these purchase orders disclosed the following:

- Support documentation for 41 of 48 purchase orders (85 percent) totaling \$270,977 lacked evidence to substantiate the actual cost of goods or services. Support included the travel agency's invoice without copies of original invoices or receipts detailing the cost for airfare, hotels, or other services. We cannot confirm that the district was billed accurately without this information.

In one instance, we were able to generate a receipt for airfare on the airline's website and found that the travel agency overcharged the district \$2,170. The actual cost paid by the travel agent was \$838.27 per person (plus a \$20 booking fee for 20 passengers) but the district was charged \$950 per person on the travel agency's invoice. The travel agency offered to provide a refund after we informed the district of this issue.

- Support documentation did not identify travelers for 23 of 48 (48 percent) purchase orders we reviewed. We found two instances where the district was overcharged for airfare totaling \$4,809. Had the district reconciled the invoices to a list of travelers, the overbillings likely would have been identified. Upon our inquiry, the district was issued a refund by the travel agency.

- We identified \$10,390 in service fees on the invoices we reviewed; however, we could not determine the service fees for nine invoices (19 percent) because they were not itemized. In four instances, the service fees were the only item on the invoice because the district paid hotels directly via purchase orders, calling into question whether the use of a travel agency was necessary.

When we initially questioned the service fees, the business office could not provide an explanation and had to reach out to the travel agency for information. On several invoices, the travel agency provided services that were not specified in the agreement, such as buses, activities, meals, and individual gift cards to be used for group meals. Because the service fees for these items were not specified in the agreement, the travel agency charged fees at its discretion.

The SBA informed us the travel agency was used for convenience and to take advantage of their industry expertise; however, we noted the district might have saved if it had used its own employee reimbursement procedure for travel expenses. For training-related travel, the district's procedures allow reimbursement for hotel rooms, limited to the General Services Administration (GSA) rate for the region at the time of travel, and at least three online quotes are required for airfare. We noted that 8 of 14 hotels (57 percent) booked by the travel agency charged in excess of the GSA rates and none of the 26 airfare purchases included evidence of price quotes for comparison.

Recommendation

We recommend the district discontinue its use of the travel agency unless industry expertise is required and rely on its employee reimbursement procedure whenever feasible. If the travel agency is used, we also recommend the district ensure adequate support is received to substantiate costs on the invoice and that service fees are consistent with the terms of the agreement. We further recommend the district include a list of travelers with support documentation for travel-related expenses.



Questionable Use of Resources

District resources were not always used in a reasonable manner.

The district is responsible for ensuring its resources are used responsibly. N.J.A.C. 6A:23A-5.1 allows the DOE to withhold or recover State Aid related to excessive, unreasonable, ineffective, or inefficient expenditures. The use of district resources for discretionary purchases that are not necessary for the district's programs diverts resources from the district's primary mission of providing a thorough and efficient education. During our audit, we noted the district did not have an effective review process to prevent unnecessary and unreasonable purchases. These areas included student stipends, athletic expenditures, catering, and flower purchases.

Student Stipends

The district encourages students to take the American College Testing (ACT) exam for college admissions. To help students prepare for the exam, the district purchases an ACT prep course, which students can attend free-of-charge on weekends during summer. To motivate students to attend, the district pays students \$50 per session, up to \$700. From July 2018 to September 2023, the district spent \$103,075 in student stipends, an annual average of \$20,615.

Athletics

According to audited financial statements for fiscal years 2020 through 2022, the district averaged \$452,456 in annual expenditures for co-curricular athletics: \$264,033 for payroll (58 percent) and \$188,423 for goods and services (42 percent). We compared these expenditures to other K-12 districts with average daily enrollments of between 1,000 and 1,500 and found the district's percentage of co-curricular athletic expenditures for goods and services (42 percent) was the highest of 24 similar-sized districts. Additionally, the district's cost per pupil (\$150) for athletic goods and services was 57 percent higher than the average (\$95) for similar-sized districts. We reviewed purchases for athletic goods and services and noted the following questionable expenses:

- The district provided an annual three-day bus trip for coaches and members of its football team to visit recruitment football camps at out-of-state colleges and universities. The district paid for lodging, transportation, and some meals. During our audit period, the district spent \$42,308 for these trips, with an average cost of \$10,577 per trip.
- The district provided lodging and airfare for members of its football team to attend the National Combine in Texas for recruitment purposes. The average cost per student was \$783 and the total expended during our audit period was \$26,613.
- From fiscal year 2019 through 2023, the district spent \$45,315 for personalized championship jackets and rings for players, coaches, team managers, trainers, district administrators, board members, and others. Support documentation in the business office did not identify recipients for five of 13 purchases; therefore, we were unable to determine who received 271 items (56 percent).

Catering

N.J.A.C. 6A:23A-7.12d prohibits expenses for meals and refreshments at on-site staff meetings and in-service days. During our field work, we observed catered breakfasts and lunches for administrators at on-site monthly leadership meetings. In total, we identified \$4,543 in catering expenses for staff meetings from fiscal years 2019 through 2023.

Additionally, N.J.A.C. 6A:23A-7.12f allows light meals and refreshments to be served to board members and required staff at regular and special meetings of the board of education. The average

cost per meal shall not exceed \$10. The district provided meals catered by a local restaurant for its annual board retreats at the district's high school. The average cost per person for these meals increased from \$25 in fiscal year 2019 to \$46 in fiscal year 2024. The total cost for catering at the annual board retreats was \$8,337.

Flowers

During the audit period, the district purchased flowers totaling \$5,078. Of this amount, \$3,336 was for events and \$1,742 for sympathy gifts to employees and board members. The purchase of flowers is not an appropriate use of public funds. These expenditures have been increasing, as fiscal year 2023 purchases were \$784 more than fiscal years 2019 through 2022, combined.

Recommendation

We recommend the district prevent unnecessary or unreasonable purchases and restrict the use of district funds to essential purchases only.



Employee Reimbursements

The district's review process for employee reimbursements was inadequate.

The district has policies and procedures to allow for employee reimbursements for travel, tuition, and other expenses. Employees receive payments through purchase orders, and the business office is responsible for ensuring compliance and accuracy.

From fiscal year 2019 through 2022, the district processed 164 employee purchase orders totaling \$50,656. To test for compliance with the district's employee reimbursement policies and procedures, we judgmentally selected the ten highest-dollar transactions totaling \$21,849 and randomly selected an additional ten transactions totaling \$2,670. Our testing of these transactions disclosed the following issues:

- Three of 19 payments (16 percent) were unreasonable. Two payments totaling \$4,152 were loan payments to a recently retired employee. The retiree's pension benefits were delayed, and the district agreed to provide a loan in the interim. The loan was repaid in full. One payment of \$174 was a reimbursement to an employee for a "student inoculation". The recipient of the inoculation was not a student but a part-time custodian.
- Five of 17 reimbursements (29 percent) totaling \$12,968 were overpaid by \$2,189.
- Eight of 15 reimbursements (53 percent) totaling \$7,166 required prior authorization but lacked evidence that prior authorization was obtained.

- Six of 17 reimbursements (35 percent) totaling \$5,029 were not allowable according to the district's policies and procedures. These reimbursements included items that should have been purchased through the district's purchase order process.
- Five of 17 payments (29 percent) totaling \$11,968 were not timely, including four reimbursements that were made at least three months after the items were purchased and one tuition reimbursement that was completed in 2020 for classes taken in 2014.
- Three of 18 payments (17 percent) totaling \$1,596 lacked adequate support documentation, including one for which there was no support at all.

The business office's review of employee reimbursements was inadequate to identify noncompliance with policies and procedures. Without a thorough review, district resources could be wasted on erroneous or improper payments.

Recommendation

We recommend the district improve its review process for employee reimbursements to ensure accuracy and compliance with policies and procedures. We also recommend the district recoup the overpayments and unreasonable reimbursements noted in the finding.



Application for State School Aid (ASSA)

Errors in resident pupil counts on the district's ASSAs resulted in overpayments of \$1 million to the district.

School districts must annually submit an ASSA to the DOE. The ASSA includes a district's resident pupil enrollment count as of the last school day prior to October 16th of the current school year. It is critical for districts to submit accurate information because the DOE uses this information to calculate State Aid for the following school year. The SBA works with an employee in the technology unit to extract enrollment information from the district's student information system to complete the ASSA before submitting it to the DOE.

We compared resident pupil counts according to the district's student information system to those submitted by the district for the October 2020, 2021, and 2022 ASSAs and noted variances of 48, 39, and 20 resident pupils, respectively. Detailed support documentation for the district's October 2020 ASSA submission was not available for inspection, and our review of support for the 2021 and 2022 ASSAs noted variances between the information submitted and the student information system, including: students not enrolled as of the ASSA date(s), nonresident students counted as district residents, and duplication of choice students. The district relied on reports provided by the technology department and acknowledged it was unaware of the need to back out nonresident students.

We reached out to the DOE’s fiscal unit responsible for calculating State Aid to request an estimate of the excess State Aid the district received as a result of the resident enrollment errors we identified. According to the DOE, the district received excess State Aid for fiscal years 2022, 2023, and 2024 totaling \$1,033,328. This estimate is conservative because it does not consider whether overcounted students were classified as “at-risk” (low income and/or limited English proficiency), which would result in additional State Aid under the funding formula.

Recommendation

We recommend the district ensure its enrollment records are updated before preparing its ASSA. We also recommend the district follow the DOE’s guidance when completing the ASSA. We further recommend the district retain copies of all support documentation used to prepare its ASSA. The district should consult with the DOE as to the disposition of the \$1,033,328 overpayment of State Aid.



Sending District Tuition

The district underbilled sending districts for regular education tuition and used an arbitrary rate for its resource room.

Regular Tuition

The district provides regular education services to high school students from four nearby sending districts. Tuition revenue for regular education services from those districts averaged \$1.8 million in fiscal years 2020 through 2022 for an average of 112 students. According to tuition agreements between the district and sending districts, tuition is paid at an estimated rate for an estimated number of students. After the district’s financial audit, the DOE certifies the “actual cost per student”, which the district uses to adjust for variances between estimated and actual tuition amounts. To calculate the cost per pupil, the DOE relies on expenditures from the district’s audited financial statements and average daily enrollment (ADE) information that is self-reported by the district on its Student Register Summary (SRS). The ADE counts provided in the SRS are not audited by the district’s financial auditor or the DOE, increasing the risk that errors could go undetected.

We generated ADE reports from the district’s student information system to reconcile to the ADE counts submitted on the district’s SRS and noted significant discrepancies. For fiscal years 2020, 2021, and 2022, the ADE counts reported by the district exceeded the ADE counts per its own records by 293 students (24 percent), 102 students (9 percent), and 92 students (8 percent), respectively. The district’s SRS submissions were prepared by an employee in the district’s technology department who was unable to provide any support documentation for the SRS submissions upon our request.

As a result of these errors, the district's certified costs per pupil for fiscal years 2020, 2021, and 2022 were understated by \$2,463; \$1,375; and \$1,199; respectively. The district thereby limited the amount it could recover from sending districts by \$558,861 for the three fiscal years we reviewed.

Additionally, tuition adjustments were not calculated properly. For the three fiscal years, net overcharges to the sending districts totaled \$135,879 based on the DOE certified cost per pupil. The district did not account for the variance between estimated and actual enrollments in fiscal years 2021 and 2022. We were unable to determine the cause of errors in fiscal year 2020 because of a lack of support documentation.

Resource Room

According to N.J.A.C. 6A:23A-17.1(e)(8), a receiving district may charge for students receiving services in a resource room an additional amount up to the actual direct instructional cost per student for such services calculated on an hourly basis. DOE Policy Bulletin 100-1 explains that the hourly rate is calculated by dividing the total cost of the resource room, according to audited financial statements, by the total number of pupil hours in the resource room.

The district charges sending districts an hourly rate of \$25.40 for an estimated number of hours for use of its resource room. This hourly rate has not been updated in at least eight years. The district does not have any data to support this rate nor does it record the number of pupil hours in the resource room. Without this information, we were unable to calculate the hourly cost; therefore, we cannot determine if the district is accurately charging the sending districts for resource room services.

Recommendation

We recommend the district provide accurate ADE information on its SRS and retain copies of support documentation. We also recommend the district properly calculate tuition adjustments. We further recommend the district record pupil hours in the resource room and calculate an updated hourly rate for sending district tuition billing.



Health and Dental Benefits

The lack of a competitive process, errors in the calculation of employee contributions, and ineligible members enrolled in health and dental benefits resulted in increased costs to the district and employees.

Potential Savings

The district procured its employee health and dental plans through a broker. The broker's services are paid via a commission from the health and dental providers as a percentage of premiums billed. This arrangement, while not uncommon in the insurance industry, gives the broker no incentive to recommend less expensive alternatives because it earns more when the district pays more for benefits. We estimated the average annual broker commissions for health and prescription drug coverage were \$216,146 from fiscal year 2021 through 2023.

N.J.S.A. 18A:55-3 requires school districts to examine all available group options for insurance policies and participate in the most cost-effective plans as a condition of State Aid. Additionally, N.J.S.A. 18A:18A-5 states that insurance contracts should be treated as extraordinary unspecifiable services, which would require quotations to be solicited when the estimated cost will exceed 15 percent of the bid threshold, if practicable. The district has not competitively procured broker services since at least January 2016, and management was unaware if any analysis was ever completed comparing costs of different plan options.

We compared the district's health plans (including medical and prescription drug coverage) to comparable plans offered through the School Employees Health Benefits Program (SEHBP) administered by the NJ Division of Pensions and Benefits. Premiums would have been approximately \$761,000 (seven percent) less from fiscal year 2021 through 2023 by using the SEHBP, attributable to the difference in the cost of prescription drug coverage. Approximately \$620,000 of this amount would have been cost savings to the district and \$141,000 to employees through reduced employee contributions.

Employee Contributions

N.J.S.A. 18A:16-17.1 requires employees to contribute to the cost of their health benefits. Premium rates are manually entered in the district's accounting system, which calculates employee payroll deductions for health benefits using the employee's salary, plan selected, and level of coverage: single, married, family, or parent and child(ren).

We found that premium rates were not updated in the accounting system after rates increased in fiscal years 2021 and 2022. Using the actual premium rates, we recalculated employee health benefits contributions for all affected employees during this period and determined the district under-collected \$26,440 in employee contributions. The district pays health benefits invoices in full and then offsets the cost with employee contributions; therefore, this was an additional cost to the district.

In addition, we performed a test of dental benefits contributions by selecting all 168 employees on the district's April 2022 invoice to determine if employees were making required contributions. According to the district's collective bargaining agreements, the district will pay dental premiums up to \$350 per employee, per year, and if an employee selects a more expensive plan, they must pay the difference. We found 12 employees whose premiums exceeded \$350 but did not contribute toward dental coverage.

Ineligible Members

According to the district's collective bargaining agreements, employees and eligible dependents may enroll in its health and dental benefits plans. The district is responsible for reviewing benefits invoices to ensure only eligible members are enrolled. We tested all 173 members enrolled in medical, prescription drug, and/or dental benefits as of April 2022 to determine whether only eligible people were enrolled and found the following:

- Two retired employees remained on the district's prescription drug and dental plans from September 2020 until September 2022 when we brought it to the district's attention. Prescription drug premiums paid by the district during the period of ineligibility totaled \$22,279.
- Two over-age dependents remained on the district's dental plan until September 2022 after coverage should have been terminated in 2013 and 2014.
- One former employee was erroneously enrolled in dental coverage after separation in May 2021. This was corrected in October 2022 when we brought it to the district's attention.

The district did not perform an adequate review of monthly benefits invoices to ensure only eligible members were enrolled, leading to increased costs.

Recommendation

We recommend the district evaluate various employee benefit options, including the SEHBP, to ensure it receives the most cost-effective price for benefits. Should it determine the services of a broker are necessary, those services should be procured through a deliberative process. We also recommend the district ensure premium rates are updated in the accounting system in order to properly calculate employee contributions. We further recommend the district perform an adequate review of invoices for health and dental benefits to ensure only eligible members are enrolled in coverage.



Criminal History Background Checks

The district did not ensure all employees completed required criminal history background checks.

According to N.J.S.A. 18A:6-7.1, all prospective employees of a school or school system under the supervision of the DOE whose job duties include regular contact with pupils must submit to a criminal history background check as a condition of employment. Employees hired prior to the enactment date of October 8, 1986 are not subject to this requirement.

We obtained from the DOE a list of individuals cleared to work for the district as of August 2022. We compared this list to the district's payroll records for fiscal year 2022 and found the district failed to ensure a proper background check was completed for 30 of 250 individuals (12 percent) who were subject to the requirement. Twenty-three of the 30 individuals were approved to work in other New Jersey school districts; however, the district may not be notified if any of these individuals were to commit a disqualifying offense. The remaining seven individuals were not approved for any New Jersey school district. The failure to ensure proper background checks are completed could place students at risk and result in potential liability for the district.

Recommendation

We recommend the district comply with N.J.S.A. 18A:6-7.1 and ensure a proper background check is completed for all employees, as required.



Employee Leave

The district allowed administrators to carry forward excess vacation leave and miscalculated lump sum leave payouts.

Carryover Vacation Leave

According to N.J.S.A. 18A:30-9, vacation leave not used within the year it is accrued must be used in the following year. Under this statute, the maximum amount of vacation leave an employee may carry forward is one year's allotment of time.

We reviewed leave balances for all 14 district administrators as of July 1, 2022 and identified 5 with a total of 92 vacation days in excess of the limit. Allowing employees to carry over days in excess of the limit increases the district's liability for uncompensated absences. Based on the employees' fiscal year 2023 salaries, the district's liability for the 92 excess vacation days we identified was \$38,645. District administration was not aware of the statutory restriction.

Lump Sum Payouts

Upon separation from employment, employees are entitled to receive compensation for unused leave time that has been earned, subject to certain statutory restrictions and terms of the district's collective bargaining agreement. The district's business office manually calculates amounts payable upon separation. The district's collective bargaining agreement also allows administrators to cash out up to five vacation days at the end of each fiscal year and receive a lump sum payment.

From fiscal year 2021 through the third quarter of fiscal year 2023, the district made 20 lump sum payments totaling \$92,974 to 13 administrators. We tested these payments for accuracy and identified the following errors:

- Leave balances for an administrator who retired only two months into fiscal year 2023 were not properly pro-rated, resulting in overpayments for sick, vacation, and personal leave totaling \$13,032.
- An administrator separated at the end of fiscal year 2022 and was overpaid for five days of vacation totaling \$1,791. The administrator cashed out five days of vacation pay before separation; however, these days were not deducted from their leave balance before the calculation of the lump sum payout.

Recommendation

We recommend the district comply with N.J.S.A. 18A:30-9 and limit the amount of vacation leave that can be carried forward at year end. We also recommend the district accurately calculate lump sum payouts for unused leave and seek recovery of the overpayments we identified.



Post-Retirement Employment

The district failed to follow guidelines regarding the re-employment of a retired administrator.

The New Jersey Division of Pensions and Benefits (NJDPB) Post-Employment Restrictions guidelines state that an employee who is enrolled in the Teachers' Pension and Annuity Fund (TPAF) retirement system cannot return to employment with their former employer unless there has been a "bona fide severance of employment" as defined under N.J.A.C. 17:1-17.14(a)2. For the severance to be bona fide, the employee's relationship with the employer must be terminated for a period of at least 180 days, and Internal Revenue Service (IRS) rules shall be used to determine whether an employment relationship exists. The IRS does not consider a prearranged agreement to return to the former employer, in any capacity, to be a bona fide severance of

employment. These rules exist to protect the qualified status and prevent abuses of the pension systems.

During our audit period, an administrator retired from the district with an effective date of September 1, 2022. Prior to retirement, this employee had informed us they would be returning in a part-time capacity after six months to assist their successor. Additionally, we observed the district provide this employee with a laptop computer on their last day of service in order to continue accessing their district workstation remotely. We also noted this employee was listed on the October 2022 board agenda, only 42 days after retirement, for approval to return in March 2023 at a daily rate of \$522.87. The employee returned in March 2023, exactly six months after retiring. Based on these factors, we question whether this constituted a bona fide severance of employment.

Employers are required to notify the NJDPB when a retiree of a state-administered pension system is hired to ensure compliance with post-retirement restrictions. This notification must be completed within 15 days of the retiree's return to employment. The district was unaware of this requirement and failed to notify the NJDPB of this employee's return for over five months, when we brought the issue to management's attention. If the NJDPB were to determine that the employee's separation was not bona fide, it could invalidate the retirement and result in negative implications for the employee's pension benefits.

We also noted that the employee's daily rate was not calculated properly. The district based the daily rate on the employee's salary at the time of retirement but divided the salary by 240 days instead of 260 days, resulting in an overpayment of \$40 per day. From March 2023 to July 2023, this overpayment totaled \$2,494.

Recommendation

We recommend the district contact the NJDPB to determine whether there was a bona fide severance of employment and ensure a bona fide severance exists before retirees are rehired. We also recommend the district correct the employee's daily pay rate and seek recovery of any overpaid amount.



Teacher Workload

The district did not ensure all high school teachers had a full teaching load in accordance with terms of the collective bargaining agreement.

Annual General Fund expenditures for salaries averaged \$11.5 million according to audited financial statements for fiscal years 2019 through 2022. Teachers' salaries accounted for approximately \$6.9 million (60 percent). According to the district's collective bargaining

agreement with the Salem City Education Association (SCEA), the standard teaching load shall be six teaching periods per day.

To verify that teachers had a full teaching load, we obtained all high school class schedule data from the district's student information system for fiscal years 2022, 2023, and 2024 (through September 2023). Our test disclosed the following:

- In fiscal year 2022, 14 of 41 high school teachers (34 percent) taught fewer than six periods. Eleven teachers taught five periods, and three teachers taught four periods.
- In fiscal year 2023, 14 of 40 high school teachers (35 percent) taught fewer than six periods. Eight teachers taught five periods, five teachers taught four periods, and one teacher taught only two periods.
- In fiscal year 2024, 14 of 39 high school teachers (36 percent) taught fewer than six periods. Thirteen teachers taught five periods, and one taught four periods.

Teachers without a full teaching load had their schedules rounded out with non-teaching duties, such as hall duty, lunch duty, etc. We noted the number of teachers without a full teaching load remained consistent over the three-year period we reviewed.

Recommendation

We recommend the district ensure all high school teachers have a full teaching load of six periods in accordance with the terms of the SCEA agreement.



Athletic Fund

Controls over the athletic fund need improvement.

The district maintains an Athletic Fund for the financial administration of its interscholastic athletic program. The athletic funds are maintained in a checking account that is managed by the Athletic Director. Bookkeeping software is used to account for transactions. The fund is supported by gate receipts from athletic contests and subsidized by the district's General Fund when there is a shortfall in the account. Average annual subsidies from the district's General Fund were \$34,211 from fiscal year 2019 through 2023.

Disbursements

In fiscal years 2021 and 2022, the athletic fund made 622 disbursements totaling \$100,999. We judgmentally selected the 15 highest-dollar transactions totaling \$24,622 and randomly selected

an additional ten transactions totaling \$1,456 to test for compliance with the district's policy and procedures and found the following:

- Ten of 25 disbursements (40 percent) were for goods or services that should have been purchased through the district's purchase order process. The athletic fund should only be used for ticket taker fees, police fees, and officials' fees; however, our testing found various other items such as: bowling lane rentals, apparel, entry fees, awards, and graduation supplies. Because of this, we expanded our review to include an analysis of all disbursements from fiscal years 2021 and 2022 and identified 141 purchases (19 percent) that were not allowable according to district procedures. These purchases totaled 47 percent of all dollars expended through the athletic fund during this period (\$47,453).
- Nine of 24 disbursement checks (38 percent) were not signed by the SBA. Athletic Fund procedures require both the Athletic Director and SBA to sign all checks.
- Five of 25 disbursements (20 percent) were not adequately supported. This included three transactions with missing support and two with handwritten receipts from the school store.
- Three of 25 disbursements (12 percent) were unrelated to the district's athletic programs. This included two payments to the school store for clothing that was provided to students who violated the school dress code and a purchase of graduation supplies for National Honor Society students.

Receipts

We obtained transaction data from the bookkeeping system for fiscal years 2021 and 2022. There were 45 receipts during this period totaling \$97,268, of which \$74,889 (77 percent) were subsidies from the district. We selected a random sample of 10 receipts totaling \$21,194 to test for compliance with district procedures and noted the following:

- Eight of ten receipts (80 percent) lacked adequate support. In general, the only support was a copy of the deposit slip. Seven of the transactions were gate receipts for athletic events. No record was kept for the number of tickets sold or the amount of ticket revenue. The district's cash receipts procedure states there should be gate receipt reports with the beginning and ending ticket numbers to allow the business office to review for reasonableness; however, this procedure was not followed.

During our testing of Athletic Fund disbursements, we noted one transaction was a payment of gate receipts to the New Jersey State Interscholastic Athletic Association (NJSIAA) for a league-sponsored playoff event. We reviewed support documentation for all gate receipts over the two-year period and this was the only event we found that included an accounting of ticket sales. The amount on the sales report exceeded the amount deposited for this event by \$269. The Athletic Director could not provide an explanation for the missing cash. Additionally, a memo from the NJSIAA allowed the

district to deduct amounts from gross ticket sales to pay event staff and police fees. The district used the proceeds to make payments to event staff totaling \$435 despite these individuals also being compensated through the district's payroll process, making these duplicate payments. The district spent \$1,200 on police fees for the event; however, it did not use the ticket proceeds to reimburse the athletic fund as the memo allowed.

- Five of the seven gate receipts (71 percent) were not deposited timely. Procedures require cash to be submitted to the Athletic Director or his designee on the date of collection and deposited within 48 hours. On average, the gate receipts we tested were deposited 3.9 days after the event. We were unable to determine whether gate receipts were submitted to the Athletic Director timely because of the lack of support documentation.

Recommendation

We recommend the district improve internal controls over the athletic fund to ensure compliance with district policy and procedures. We also recommend the district keep records of ticket sales, and ensure cash is turned in promptly for safeguarding.



Pupil Fund

Student activities balances were inaccurate, and controls over disbursements and receipts were insufficient.

The district's high school maintains the Pupil Fund where monies are collected and dedicated for various student clubs, teams, and other activities. Funds are deposited to a dedicated bank account for the Pupil Fund, and transactions are entered and tracked using a bookkeeping system (system). A high school vice principal is responsible for oversight of the pupil fund.

Activity Balances

According to the district's procedures for the Pupil Fund, a bank reconciliation must be prepared each month, and the balance must be reconciled with the individual activity balances. The vice principal prepares monthly reconciliations between the bank statements and system; however, no reconciliations are done for individual student activity balances. Individual student activity balances are tracked on a spreadsheet by the vice principal, outside of the system.

We obtained copies of bank reconciliations for fiscal years 2021 and 2022 and found the system balance, used to reconcile to the bank balance, did not agree with the vice principal's spreadsheet. The spreadsheet was not updated to reflect all transactions. On average, the month-end balance according to the spreadsheet exceeded the system balance by \$6,638.

Disbursements

In fiscal years 2021 and 2022, the district made 142 disbursements totaling \$159,697. We judgmentally selected the 15 highest-dollar disbursements totaling \$81,023 and randomly selected an additional 10 transactions totaling \$4,230 to test for compliance with the district's Pupil Fund policy and procedures. Our test noted the following:

- Three of 25 disbursements (12 percent) totaling \$29,685 were checks cashed and distributed to students as graduation awards or refunds. There was no support to prove cash was received by the students. Strong controls over cash disbursement are essential because it is liquid and susceptible to loss.
- Three of 25 disbursements (12 percent) totaling \$9,470 were not adequately supported. Two totaling \$6,416 were reimbursements to an employee for the purchase of sweatshirts and t-shirts. Support included invoices but did not include evidence that the employee actually paid for the items, such as a receipt, credit card statement, or bank statement. One \$3,054 payment for yearbook expenses included the incorrect invoice as support.
- Two of 25 disbursements (eight percent) totaling \$237 were paid from the wrong fund. Both payments were for athletic officials that should have been paid from the Athletic Fund. We expanded this review and scanned through all Pupil Fund disbursements for fiscal years 2021 and 2022 and identified an additional 11 payments to athletic officials totaling \$1,339.

Receipts

In fiscal years 2021 and 2022, the district made 183 deposits to the pupil fund totaling \$156,965. We randomly selected 15 deposits totaling \$25,963 to test for compliance with the district's policy and procedures and noted the following:

- Eight of 15 deposits (53 percent) were not deposited within 48 hours of collection as required by the district's school activities policy. Delayed deposit increases the likelihood that funds could go missing.
- Nine of 15 deposits were from fundraising activities; however, none of the fundraisers were approved by the board as required.

Recommendation

We recommend the district track student activity balances within the system and ensure accounts are reconciled monthly. We also recommend the district issue checks to students and pay vendors directly rather than reimbursing employees, whenever possible. We further recommend the

district improve controls to ensure receipts are deposited within 48 hours and fundraising activities are included on board meeting agendas for approval.



Use of School Facilities

Controls over facility usage requests were ineffective, and the district failed to recover reasonable usage costs.

The district's Use of School Facilities policy allows non-profit groups to use the facilities and equipment of the district for worthy causes. Requests for the use of facilities must be received in writing and approved by the board of education. The policy allows the district to charge reasonable fees for the use of district facilities and personnel required by the requesting organization.

We reviewed board meeting agendas from July 2019 through August 2022 and identified 19 facility usage requests. In addition, we observed a group during our fieldwork that was not listed on an agenda for approval. To test facility usage requests for compliance with the district's policy and procedures, we judgmentally selected two groups that we observed during our fieldwork and randomly selected an additional five requests from the board meeting agendas. Our review of these requests disclosed the following issues:

- Facility usage fees were waived in lieu of scholarship donations for four of the seven requests. The district waived \$73,250 in fees for \$11,300 in scholarship donations. The board was not made aware of the fees waived because they were not detailed in the board agenda. By waiving fees in lieu of scholarship donations, the district effectively subsidized scholarships with public resources.

Two of these requests were from competitive band groups that lived at the high school during the summer of 2022: one for 34 days and another for 3 days. The groups had 24-hour access to any section of the high school that was not locked. While these groups were onsite, we observed doors at the high school propped open, which is a security risk in addition to increasing costs to cool the building. Additionally, we observed group members' personal belongings strewn about several areas in the high school.

- One basketball organization submitted two requests to provide training in the gymnasium during 2022. The district's facility usage procedures require all groups that charge admission to be legally incorporated non-profit organizations and provide proof, if requested. The organization charged \$20 to \$25 per person for single sessions and \$100 to \$150 per person for camps according to its advertisements. Support documentation did not contain proof that the organization was a legally incorporated non-profit organization. We were unable to locate this organization in a search of charitable and non-profit organizations on the IRS website.

- A certificate of insurance coverage is required at the time of application; however, a copy of the insurance certificate was not included with support documentation for four requests. If a group is uninsured, the district would be liable if an accident occurred.
- Request forms must include the names, addresses, and telephone numbers of all leadership and chaperones who plan to be in attendance; however, only one request we reviewed included this information.
- Only one group we tested was charged facility usage fees; however, the fees were \$50 less than we calculated using the district's fee schedule.
- Three requests were not properly approved by the board: two were approved after facility usage began, and one was never included on the board agenda.

Recommendation

We recommend the district ensure it recovers costs when allowing outside groups to use its facilities. We also recommend the district strengthen controls over use of facility requests to ensure all required information is provided and the board of education's approval is obtained.



Nonresident Student Admissions

Admission of unfunded, nonresident students put a strain on district resources.

The district participates in the Interdistrict Public School Choice Program (choice program). As a choice district, it is permitted to enroll nonresident choice students in grades K to 12 and receive State Aid, including School Choice Aid. School Choice Aid covers the local portion of a district's adequacy budget. The choice program limits the number of choice students that a choice district can enroll. Choice districts are not eligible to receive School Choice Aid for nonresident students enrolled in excess of the state-dictated student limit nor can they receive State Aid for these students unless the parent or guardian is a certificated staff member. N.J.S.A. 18A:36B-21(b) does not allow a choice district to enroll nonresident students on a tuition basis.

During our audit period, the number of choice students that the district could admit was four until fiscal year 2023 when it was reduced to three students. Despite this limit, the district allowed any nonresident student seeking enrollment to register. N.J.S.A. 18A:38-3 previously allowed districts to enroll nonresident students, with or without tuition, with the board's consent. On average, the district had 14 nonresident students enrolled in fiscal years 2021 through 2023 who were ineligible for funding. We noted that nonresident students were listed on the board meeting agendas for approval; however, the agendas made no distinction between choice students and nonresident, nontuition students, leaving the board uninformed of whether it would receive

funding for these students. The admission of nonresident students without funding puts a strain on the district's resources.

N.J.S.A. 18A:38-3 was amended in May 2023, and districts are no longer permitted to enroll nonresident students without tuition unless their parents are certificated staff members or members of the armed services on active duty. Because a choice district is not permitted to charge tuition to parents and guardians, tuition must be paid by the district of residence. Despite this change, the district continues to enroll nonresident, nonchoice students without tuition.

Recommendation

We recommend the district comply with N.J.S.A. 18A:38-3 and discontinue its practice of admitting unfunded, nonresident students.



Information Technology

The district's information technology (IT) controls do not comply with government standards and administrative code.

It is the responsibility of management to establish policies and procedures for the district's IT systems that safeguard information and resources. The National Institute of Standards and Technology (NIST) publishes guidance establishing system controls that can be implemented within any organization that processes, stores, and transmits information. Additionally, the New Jersey Office of Homeland Security and Preparedness has published the *Statewide Information Security Manual (SISM)*, which provides detailed guidance the executive branch is required to follow. While school districts are not required to comply with the *SISM*, it provides a framework that can be used to develop and implement IT controls.

The district uses Systems 3000 for its financial accounting, procurement, payroll processing, and personnel management functions and OnCourse for student information, such as enrollment, demographics, grades, and class scheduling. We relied on these two systems to perform aspects of our audit. In reviewing these systems, we noted the following conditions:

- Access controls within Systems 3000 were not adequately segregated. The district's purchase order approval process requires that all purchase orders have approvals from two different users. Four employees in the district's business office had a privileged access level that allowed purchase orders entered by them to be automatically approved, bypassing the segregation of duties control. We found that 30 percent of all purchase requisitions from July 1, 2020 through March 30, 2023, totaling 73 percent of non-payroll dollars expended during this period, were entered by these employees, thus bypassing the district's purchase order approval process. N.J.A.C. 6A:23A-6.7(c) requires access controls to be established for key elements of financial systems to ensure a single person

does not have the ability to make system edits that would violate segregation of duties controls. Additionally, the NIST and *SISM* recommend agencies identify functions and define system access authorizations to support segregation of duties. Segregation of duties is necessary to mitigate the risk of improper or erroneous transactions.

- User access to OnCourse was not always terminated after separation from employment with the district. As of July 2023, 14 of 245 active user accounts (6 percent) belonged to former district employees who had been separated for up to six months. The district does not have a formal policy or procedure for the termination of systems access upon separation from employment. The NIST and *SISM* recommend user access be disabled to prevent unauthorized access of applications.
- The district does not have a comprehensive risk assessment for its IT systems. The NIST and *SISM* recommend organizations prepare a comprehensive risk assessment to identify, quantify, and prioritize risks against operational and control objectives. The lack of a risk assessment could result in potential risks that are not managed and mitigated.
- The district does not have a formal contingency plan. The NIST and *SISM* recommend the development and periodic testing of a contingency plan to ensure organizations maintain essential missions and business functions in the event of a disruption.

Recommendation

We recommend the district assign user roles within Systems 3000 that ensure adequate segregation of duties and promptly terminate OnCourse access upon employee separation. We also recommend the district develop a risk assessment and contingency plan for its IT systems.



Observation

Solicitation of Vendor Donations

Contributions toward scholarships and awards were solicited from vendors that did business with the district.

The awarding of scholarships and monetary awards are a priority of the district. A significant portion of the district's annual commencement ceremony is dedicated to the recognition of students for receipt of these awards. To fund awards, the district solicits donations from various sponsors, including vendors with which it conducts business. While providing financial support to students can be positive and impactful, soliciting donations from vendors can potentially create a conflict of interest. Vendors could feel pressured to donate in order to continue doing business or increase charges for goods and services to cover the cost of donations. District officials could give favoritism to vendors that have donated.

We reviewed commencement programs for 2021, 2022, and 2023 and noted 16 vendors that have done business with the district and sponsored awards totaling \$27,300. Additionally, we noted that 14 of these vendors, with contributions totaling \$25,600, provided goods or services to the district through a non-competitive procurement process.



Appendix

Methodologies to Achieve Audit Objectives

To determine whether all board members and administrators filed required financial disclosure statements, we reviewed copies of all statements from the DOE School Ethics Commission for 2019 through 2022.

To identify potential related party transactions, we performed a match between vendor and employee addresses.

To determine the legitimacy of purchases entered and approved by the district's accounts payable clerk, we judgmentally selected all 27 vendors with purchases exceeding \$30,000 between July 1, 2018 and September 14, 2022 and reviewed for propriety.

To verify the legitimacy of purchases entered and approved by super users of the district's accounting system (excluding the accounts payable clerk), we judgmentally selected a risk-based sample of 15 purchase orders totaling \$203,003 from a population of 57 purchase orders totaling \$4,934,460 from July 1, 2020 through March 30, 2023 and reviewed for propriety.

To determine the propriety of health benefits waiver payments, we determined whether all 46 employees with waiver payments totaling \$206,373 during fiscal year 2022 had been enrolled in the district's health benefits plan.

To determine if health benefits waiver payments were calculated properly, we randomly selected 10 employee waivers totaling \$47,016 for review.

To determine if the district properly paid employee salaries and longevity payments, we reviewed a random sample of 30 employees with salaries totaling \$1,915,914 and longevity payments totaling \$5,250 from a population of 207 employees with salaries totaling \$12,532,380 and longevity payments totaling \$17,000 in fiscal year 2022.

To determine if athletic stipends were paid properly, we reviewed a random sample of 5 employees with stipends totaling \$31,271 from a population of 31 employees with stipends totaling \$179,888 in fiscal year 2021.





IB learner profile

The aim of all IB programmes is to develop internationally minded people who, recognizing their common humanity and shared guardianship of the planet, help to create a better and more peaceful world.

As IB learners we strive to be:

INQUIRERS

We nurture our curiosity, developing skills for inquiry and research. We know how to learn independently and with others. We learn with enthusiasm and sustain our love of learning throughout life.

KNOWLEDGEABLE

We develop and use conceptual understanding, exploring knowledge across a range of disciplines. We engage with issues and ideas that have local and global significance.

THINKERS

We use critical and creative thinking skills to analyse and take responsible action on complex problems. We exercise initiative in making reasoned, ethical decisions.

COMMUNICATORS

We express ourselves confidently and creatively in more than one language and in many ways. We collaborate effectively, listening carefully to the perspectives of other individuals and groups.

PRINCIPLED

We act with integrity and honesty, with a strong sense of fairness and justice, and with respect for the dignity and rights of people everywhere. We take responsibility for our actions and their consequences.

OPEN-MINDED

We critically appreciate our own cultures and personal histories, as well as the values and traditions of others. We seek and evaluate a range of points of view, and we are willing to grow from the experience.

CARING

We show empathy, compassion and respect. We have a commitment to service, and we act to make a positive difference in the lives of others and in the world around us.

RISK-TAKERS

We approach uncertainty with forethought and determination; we work independently and cooperatively to explore new ideas and innovative strategies. We are resourceful and resilient in the face of challenges and change.

BALANCED

We understand the importance of balancing different aspects of our lives—intellectual, physical, and emotional—to achieve well-being for ourselves and others. We recognize our interdependence with other people and with the world in which we live.

REFLECTIVE

We thoughtfully consider the world and our own ideas and experience. We work to understand our strengths and weaknesses in order to support our learning and personal development.

The IB learner profile represents 10 attributes valued by IB World Schools. We believe these attributes, and others like them, can help individuals and groups become responsible members of local, national and global communities.



Salem High School
International Baccalaureate Diploma Program of Study
Admissions Policy

Open Enrollment Philosophy:

At Salem High School, we believe that students who wish to challenge themselves both academically and personally should be afforded the opportunity. We encourage our students to be academic risk-takers and to follow a challenging program of studies that addresses their interests while at the same time requires them to be well-rounded.

The role of the school is not to present hurdles over which students must jump, but challenges with which the school, parents, and community can support. Therefore, all students at Salem High School will be invited to enroll for admissions into the IB Diploma Programme (IB DP). The IB DP is not a competitive placement program. There is no set limit to the number of students who may participate in the Diploma Programme.

Academic Eligibility:

To be eligible and to remain eligible for placement in the IB Diploma Programme, a student must have earned an unweighted marking period Grade Point Average (GPA) of 2.00 or greater (GPA is cumulative at the end of their sophomore year). GPAs are calculated by multiplying the course grade (90-100/A - 4 points, 80-89/B - 3 points, 70-79/C - 2 points, 60-69/D – 1 point, and below 60/F - 0 point) by the number of credits and dividing the total by the number of credits attempted. A student who does not meet this criterion will be considered ineligible for IB placement.

IB Diploma Programme Outreach:

Because Salem High School promotes its open-enrollment policy, all sophomores will participate in an information session that educates students about the open-enrollment policy along with the benefits and challenges of IB. In an effort to bolster the participation from our Salem City students, our IB DP Coordinator and Counselor will provide information sessions to students at Salem Middle School for grades 6-8. The information session will include our open-enrollment policy, general information on the IB Diploma Programme, and strategies to be successful in school.

This policy is available on the International Baccalaureate section of the Salem High School website.

Invitation:

Salem High School invites all students to enroll for the IB Programme of study in January/February of their sophomore year. This invitation will be discussed during the information session. Additionally, a hard copy invitation with information about our open-enrollment policy will be sent home to all parents of our sophomore class.

Students choosing to participate in the IB Diploma Programme are not required to take an entrance exam. There is no minimum standardized test score, grade point average, or subject grade that must be achieved.