

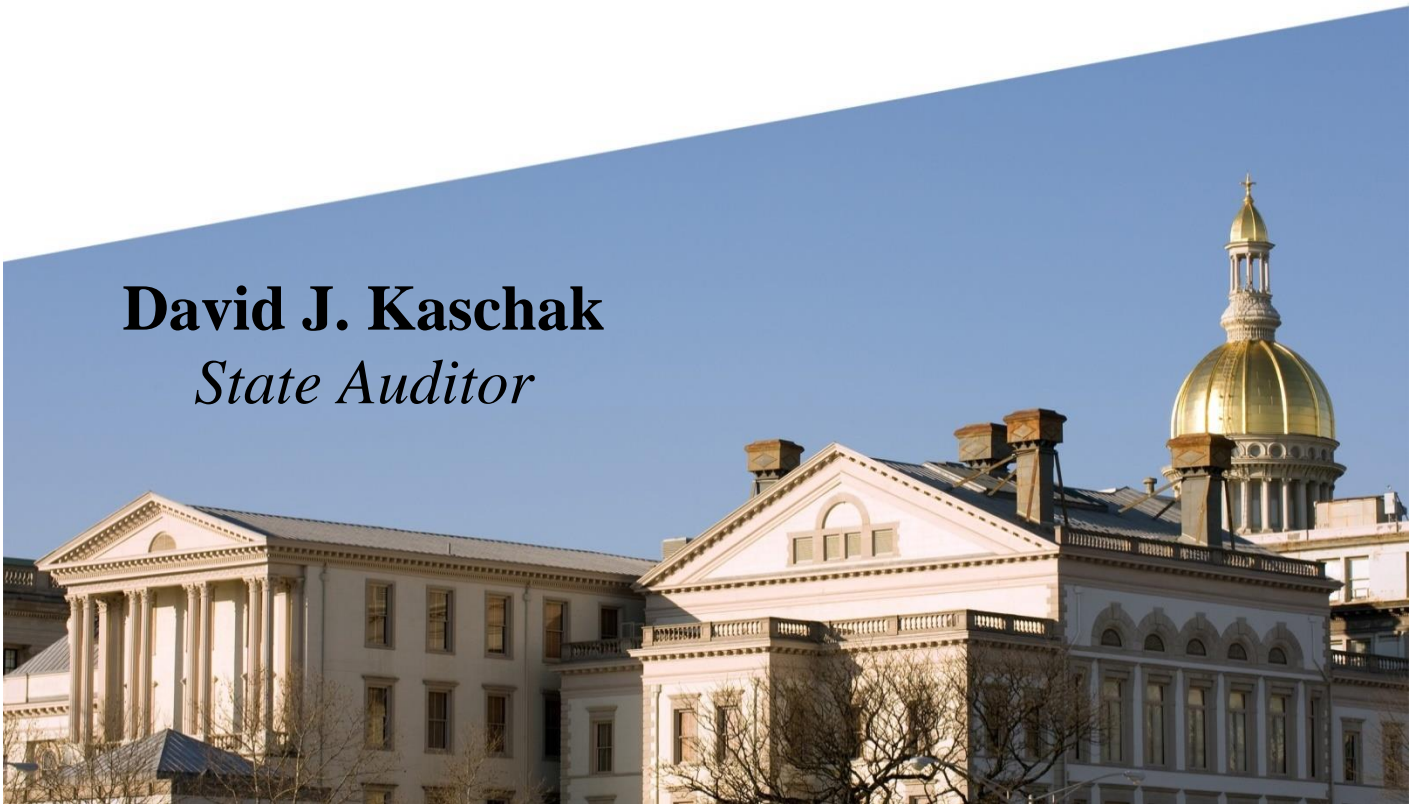


New Jersey Legislature
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OFFICE OF THE STATE AUDITOR

Lakewood Public School District

July 1, 2018 to September 30, 2023

David J. Kaschak
State Auditor



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Enclosed is our report on the audit of the Lakewood Public School District for the period of July 1, 2018 to September 30, 2023. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "David J. Kaschak".

David J. Kaschak
State Auditor
August 6, 2024

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Scope

We have completed an audit of the Lakewood Public School District (district) for the period July 1, 2018 through September 30, 2023. Our audit included financial activities accounted for in the district’s General Fund (GF) and Special Revenue Fund (SRF), as summarized below:

Fiscal Year	General Fund		Special Revenue Fund	
	Expenditures	Revenues	Expenditures	Revenue
2019	\$ 168.2	\$ 182.5	\$ 70.8	\$ 73.4
2020	175.1	188.6	56.3	58.6
2021	208.9	223.7	83.5	85.7
2022	159.3	175.8	166.8	168.5
2023	211.3	209.0	145.3	147.7
Total	\$ 922.8	\$ 979.6	\$ 522.7	\$ 533.9

Note: Amounts in millions

Objectives

The objectives of our audit were to determine whether financial transactions were related to the district’s programs, were reasonable, and were recorded properly in the accounting system. Additional objectives were to determine compliance with applicable state laws and regulations over certain district programs.

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

We conducted this 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.

In preparation for our testing, we studied legislation, the administrative code, contracts, and policies of the New Jersey Department of Education (DOE) and the district. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our review of financial transactions and trends. We also read the district’s board minutes, analyzed enrollment trends and the district’s Annual Comprehensive Financial Reports (ACFR) issued by public school accountants, and interviewed district personnel to obtain an understanding of the district’s programs and the 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 the district's financial data by reviewing existing information about the data and the system that produced them, interviewing district officials knowledgeable about the data, and performing certain statistical analyses on the data. We determined that the data were sufficiently reliable for purposes of this report. Certain other data in our report were used to provide background information. Data 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 found the financial transactions included in our testing were related to the district's programs, were reasonable, and were recorded properly in the accounting system. However, in making these determinations, we noted certain issues meriting management's attention regarding loan repayments and State Aid withholdings, a potential conflict of interest, special education and related services, noncompliance with various statutes and the administrative code, and a lack of internal controls. In addition, we made observations related to the number of students classified with IDEA funds, the costs of professional development trainings for nonpublic schools, and legal services.

Background

Forensic Audit

On May 12, 2022, we issued a forensic audit report of the district for the period July 1, 2017 through June 30, 2018. For additional information, please refer to the following link: <https://pub.njleg.state.nj.us/publications/auditor/2022/34007020.pdf>.

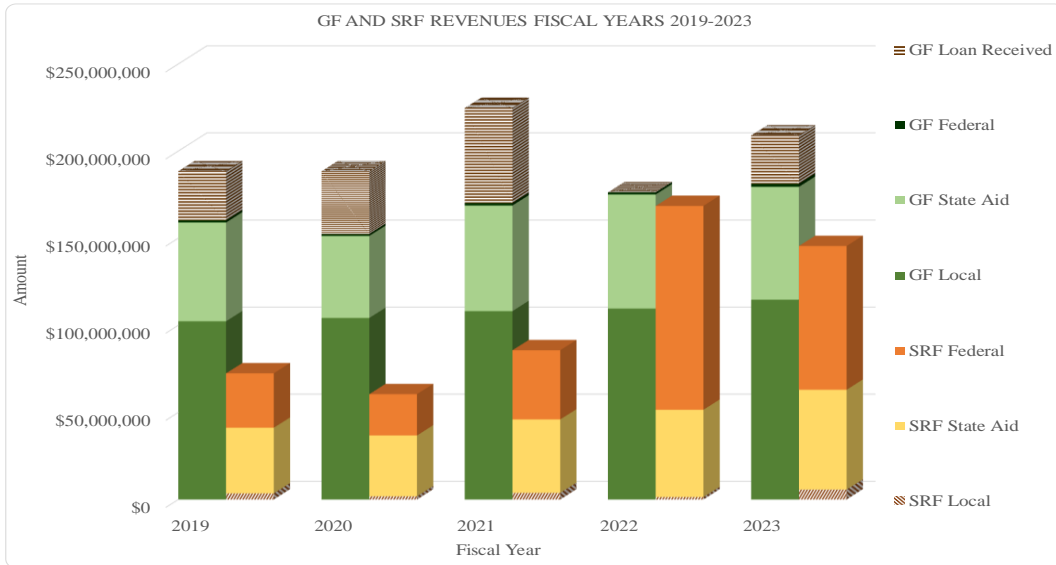
Recommendation of State Aid Advance Loan

Pursuant to N.J.S.A. 18A:7A-56, the Commissioner of Education shall recommend to the state treasurer whether a State Aid advance loan (loan) should be made to a district for which a state monitor has been appointed. A state monitor has been appointed to the district since April 2014. From fiscal years 2015 through 2023, the district received seven loans totaling \$165.1 million.

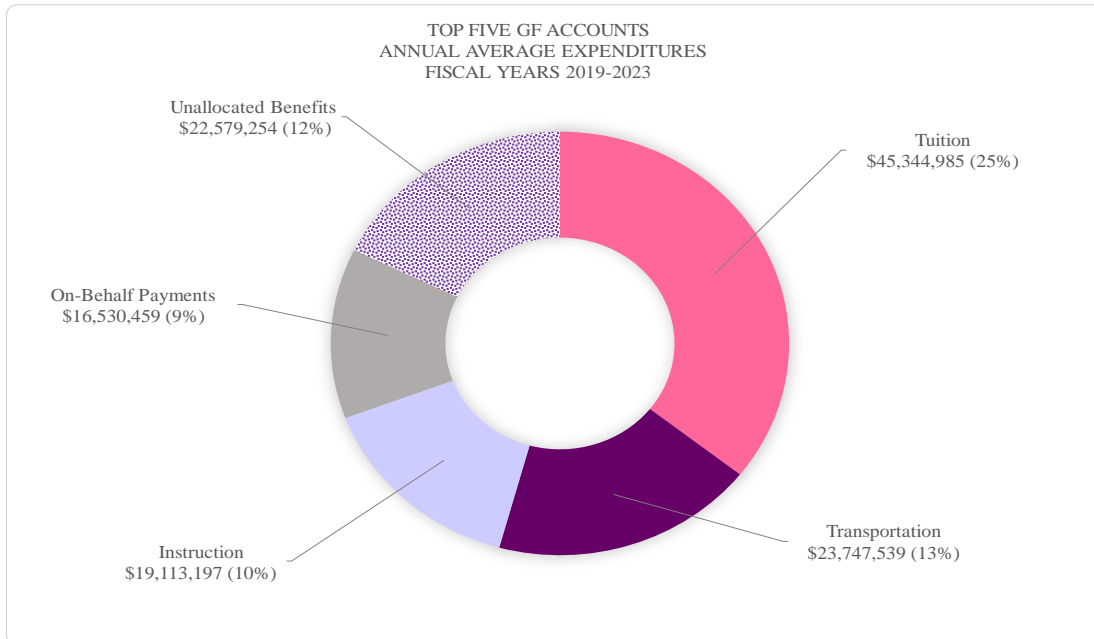
Supplemental Information

Please refer to the following supplemental information about the district.

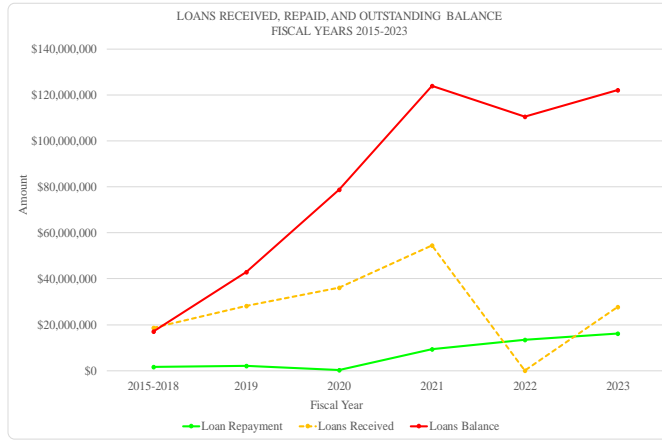
GF and SRF revenues by source for fiscal years (FY) 2019 through 2023 are shown below.



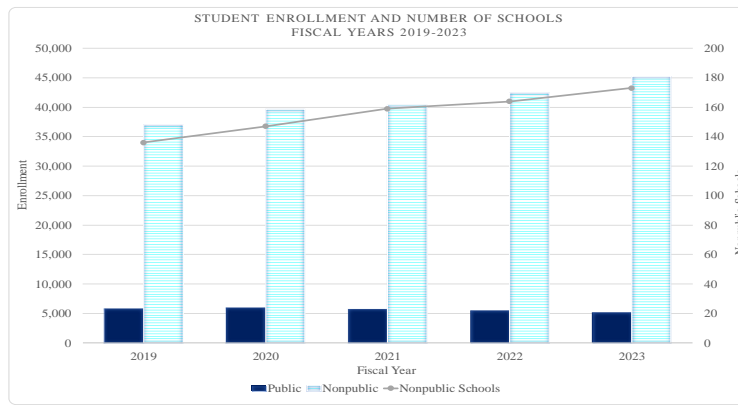
The top five GF expenditure categories for FY 2019 through 2023 are shown below.



District loans received, repaid, and outstanding balance due for FY 2015 through 2023 are shown below.

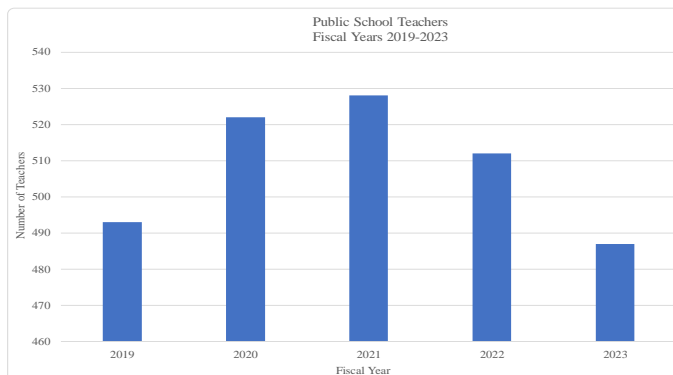


Public and nonpublic student enrollment and total schools for FY 2019 through 2023 are shown below.



* The district includes 12 public schools

The number of public school teachers for FY 2019 through 2023 is shown below.



Additional Loan Repayment and Withholding of State Aid

The district owes \$32.6 million towards loan repayments, and its State Aid should be reduced by the same amount.

Pursuant to N.J.S.A. 18A:7F-7, public school accountants (PSA) are required to perform the annual calculation of excess surplus at June 30 for all regular and county vocational school districts. Additionally, pursuant to N.J.S.A. 18A:7A-56c, any year in which a school district's undesignated General Fund balance is greater than 1.5 percent of General Fund expenditures, the amount that exceeds 1.5 percent shall be an additional amount applied to the following year's loan repayments, and the district's State Aid shall be reduced by this additional amount in that following year. From fiscal years 2019 through 2023, the district received four loans totaling \$146.5 million. During this period, the district never applied the amounts that exceeded 1.5 percent to the following year's loan repayments, nor was its State Aid reduced by these amounts. Based on our conversations with the DOE and the district, we determined that they came to agreements whereby the district would retain the excess to reduce subsequent years' loan needs. As of fiscal year 2023, the total excess surplus was \$32,620,211.

Recommendation

The district should consult with the DOE and the state treasurer to determine how to apply the \$32.6 million towards loan repayments and reduce its State Aid by \$32.6 million.



Conflict of Interest

A part-time employee of the district is also the full-time director of a contracted vendor and received total compensation of \$1.1 million.

Pursuant to N.J.S.A. 18A:12-24, no school official shall engage in any business, transaction, or professional activity that is in substantial conflict with the proper discharge of their duties in the public interest, and no school official shall act in his official capacity in any matter where he has a direct or indirect financial involvement.

Furthermore, the district's Staff Policy Handbook prohibits an employee of the district from engaging or having a financial interest, directly or indirectly, in any activity that conflicts with their duties and responsibilities in the school district. For contracts with the board, an employee shall not obtain a direct benefit from a contract they are involved in making or administering on behalf of the board. An employee derives a direct benefit from a contract if they receive any income from the contract.

The district has a contract with a vendor to provide transportation services to nonpublic students. From fiscal years 2019 to 2023, this vendor was paid approximately \$105.9 million. The vendor's full-time director is also a part-time district employee whose performance responsibilities include

preparing all bid specifications for transportation services and receiving all nonpublic school transportation applications (B6Ts) from which payment to the vendor is derived.

The DOE School Ethics Commission (SEC), which is a nine-member body with the power to issue advisory opinions, was created under N.J.S.A. 18A:12-27, commonly referred to as the School Ethics Act. Although the district requested and paid for the opinions of two law firms to determine if a conflict of interest exists, the district has never requested an independent opinion from the SEC.

The table below shows total compensation earned by this employee from the district and vendor. The vendor information is from Internal Revenue Service Form 990, which is available to the public.

Employer	2020	2021	2022	Total
District	\$ 130,600	\$ 142,250	\$ 123,450	\$ 396,300
Vendor	218,367	224,028	257,028	699,423
Total	\$ 348,967	\$ 366,278	\$ 380,478	\$ 1,095,723

This is a potential conflict of interest because the employee is receiving a direct financial benefit from the contract, as well as receiving and submitting applications to the district from which payment to the vendor is derived.

Recommendation

The district should request an independent opinion from the DOE SEC to determine if this is a conflict of interest.



Special Education and Related Services

Special education students missed 1,148 sessions because of school closures and staff absences.

Pursuant to N.J.A.C. 6A:14-3.7, the district board of education shall have an Individualized Education Plan (IEP) in effect for every in-district student receiving special education and related services. These services include but are not limited to occupational therapy, physical therapy, and speech therapy. The IEP shall identify the projected dates for the beginning and end of those services, as well as the anticipated frequency, location, and duration of those services.

We randomly selected 55 of 1,050 students scheduled to receive services from September 13, 2021 through November 22, 2022 and reviewed make-up sessions through June 15, 2023. We analyzed all 76 of their attendance reports and noted the following:

Student Attendance Reports	Count	Percentage
Total Sessions Scheduled	5,593	100%
Sessions Attended	3,820	68%
Missed Sessions due to School Closings	650	12%
Missed Sessions due to Student Absences	625	11%
Missed Sessions due to Staff Absences	498	9%
Make-up Sessions Scheduled	70 (4%)	

While the administrative code does not require missed sessions to be made up, 1,773 (32 percent) sessions were missed. A high percentage of missed sessions could hinder a student’s ability to meet levels of academic achievement, functional performance, measurable annual goals, and objectives stated in the IEP. Furthermore, as the IEP is a legally binding document, the district could be exposed to potential litigation from parents of children not receiving these services.

While the district developed a corrective action plan subsequent to our testing, it had not been implemented and was not part of our review.

Recommendation

The district should ensure any corrective action plan addresses missed sessions caused by school closures and staff absences, including a provision for make-up sessions.

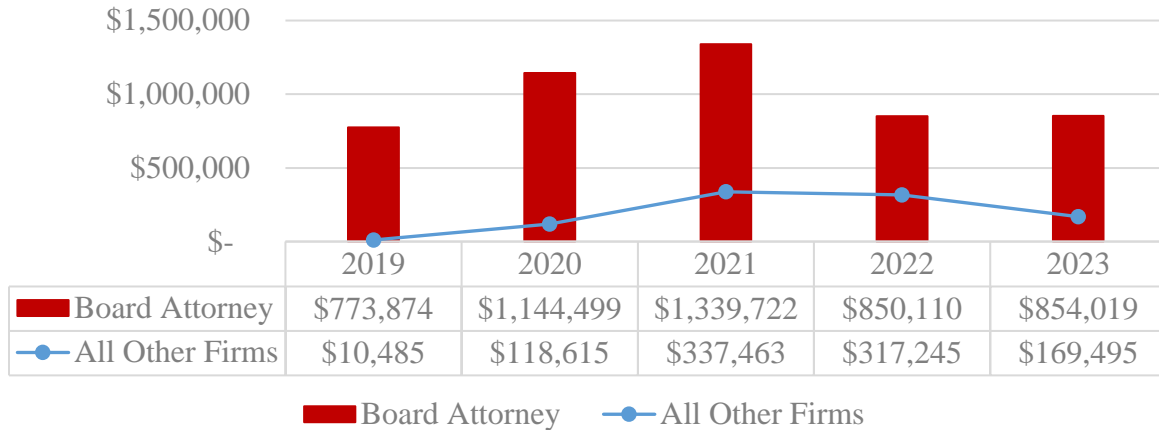


Compensation for General Counsel

General Counsel received compensation of \$2.4 million that was not based on hours worked. Additionally, hours for litigation services were not limited.

Pursuant to the terms and conditions of legal services stated in General Counsel’s contracts for fiscal years 2019 through 2022, the board attorney shall be compensated via a retainer of \$600,000 annually, payable in equal monthly installments of \$50,000. Actual payment for each month will be based on hours worked, and there will be no charge in excess of the monthly installments. During this period, the board attorney was compensated \$2.4 million via retainer. Additionally, the board attorney shall be compensated at an hourly rate of \$475 for litigation services, payable monthly, upon presentation of detailed logs for such services. For fiscal years 2019 through 2023, the chart on the next page shows total amounts paid for legal services to the board attorney and all other law firms.

**Legal Services Paid per Check Registry
Fiscal Years 2019-2023**



For fiscal years 2019 through 2022, we reviewed all General Counsel’s monthly invoices submitted for the retainer and litigation services and found the following:

- Regarding the annualized retainer, no invoices included hours worked. As a result, the district could have paid for more hours than actually worked.
- Regarding litigation services, there were 22 instances billed for more than 12 hours per day totaling \$150,417, with one instance billed for 21 hours in one day totaling \$10,054. The contract does not limit the number of hours charged for litigation services.

Recommendation

Payments for General Counsel’s annualized retainer should be based on supporting documentation that details hours worked, and the board should modify future contracts to include a limit on hours worked for litigation services.

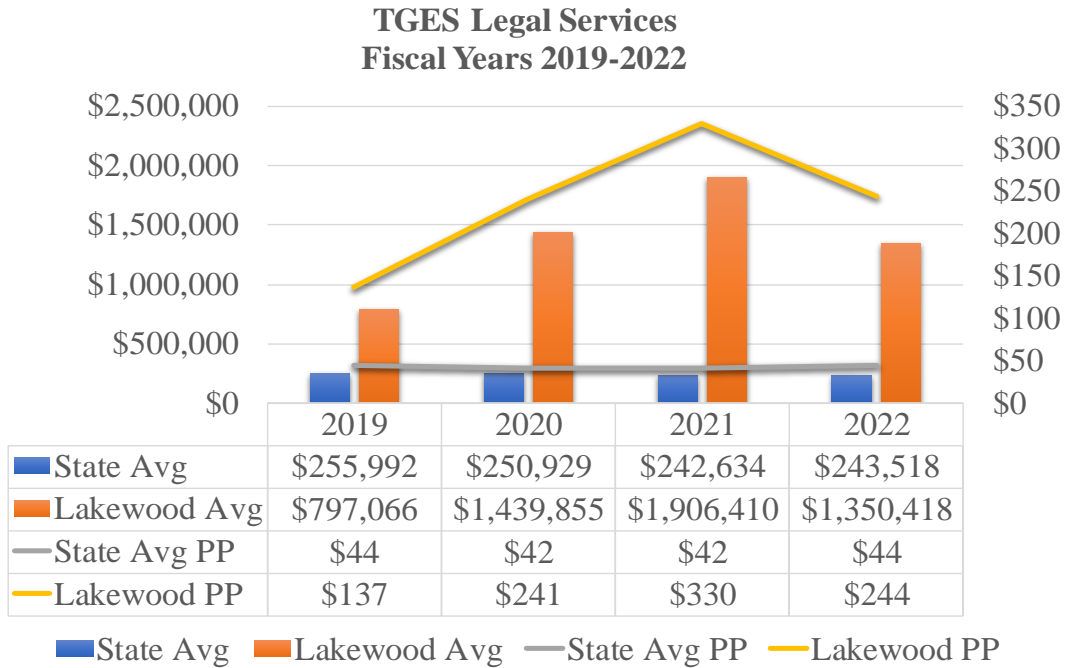


Taxpayer’s Guide to Education Spending for Legal Services

Total spending for legal services exceeded the statewide averages by an average of \$1.1 million per year, or 456 percent.

Pursuant to N.J.A.C. 6A:23A-5.2, school districts with legal costs that exceed 130 percent of the statewide average per pupil amount should establish procedures to minimize those costs and, if not established, provide evidence the procedures would not result in a reduction of costs. The district has not complied with these requirements.

For fiscal years 2019 through 2022, we analyzed the Taxpayer’s Guide to Education Spending (TGES) and compared the statewide average per pupil (PP) amounts to the district’s PP amounts for legal services. We identified a total variance of \$4.5 million, or an annual average of \$1.1 million (456 percent). The chart below depicts these variances:



The TGES provides a per pupil measurement of total legal services expenditures by comparing legal costs to student enrollment. That measurement includes the legal costs for both public and nonpublic students but includes only the number of public students in its calculation of enrollment.

Recommendation

The district should attempt to align its total spending per pupil for legal services with the statewide average by establishing policies or strategies to minimize the costs, and, if not established, provide evidence the procedures would not result in a reduction of costs.



Expenditures

Expenditures were not always properly authorized, and there were confirming orders totaling \$1.3 million.

N.J.A.C. 6A:23A promotes financial accountability of district boards of education through enhanced state monitoring, oversight, and authority and establishes mechanisms to ensure the

efficient expenditure of budgeted funds. Although the district has a guide for standard operating procedures and internal controls that includes a purchasing section, it did not always follow these procedures.

We tested 87 non-payroll transactions totaling \$14.2 million and their associated purchase orders totaling \$146.1 million from fiscal years 2019 through 2022. We identified the following exceptions:

- 4 orders totaling \$1.3 million were made prior to the purchase orders being approved (confirming orders). Two of these were for professional development training for nonpublic schools which is discussed in the observation section of this report.
- 43 lacked evidence of approval by the state monitor as required by N.J.S.A. 18A:7A-55.

Lack of approvals by the state monitor and confirming orders could result in a lack of financial accountability and an improper expenditure of budgeted funds.

Recommendation

The district should eliminate confirming orders and adhere to purchasing regulations and district procedures. This includes maintaining adequate documentation and properly approving each purchase order before the payment is made.



Multiyear & Tuition Contracts

The district allowed increases in certain multiyear contracts outside of a renewal period that resulted in improper payments of \$1.1 million.

Multiyear Contracts

Pursuant to N.J.S.A. 18A:18A-42, contracts for the provision of goods or services shall be awarded for a period not to exceed 24 consecutive months. Any price change included as part of an extension shall be based upon the price of the original contract as adjusted pursuant to any previous adjustment or extension and shall not exceed the change in the index rate for the 12 months preceding the most recent quarterly calculation available at the time the contract is renewed. The index rate is the rate of annual percentage increase, rounded to the nearest half-percent, computed, and published quarterly by the United States Department of Commerce, Bureau of Economic Analysis.

We identified four multiyear contracts with contractual periods from September 1, 2020 through June 30, 2023 where two vendors requested and were paid annual price increases prior to the renewal period because management overrode internal controls, as summarized on the next page.

Vendor	Initial Cost of Contracts	Contracts With Index Rate Increase	Unallowable Increase
A	\$ 7,367,850	\$ 8,268,124	\$ 900,274
B	2,456,200	2,664,977	208,777
Total	\$ 9,824,050	\$ 10,933,101	\$ 1,109,051

Tuition Contracts

Pursuant to N.J.A.C. 6A:23A-18.5, an approved private school for students with disabilities (APSSD) shall use the commissioner-prescribed mandated tuition contract for each student received from a sending district board of education.

During fiscal years 2019 through 2022, the district paid a total of \$158.7 million in tuition for approximately 370 students sent to APSSDs, or an average of \$39.7 million per year. For school year 2022, we tested contracts for all 230 students from a May 2022 invoice sent to an APSSD. For three contracts, there were discrepancies between the dates on the signature page and the rest of the contract that indicated the contracts were not appropriately signed.

Recommendation

The district should adhere to the terms and conditions of multiyear contracts and only award price increases during the renewal process, as well as seek to recoup the \$1.1 million in improper payments. In addition, the district should ensure all tuition contracts are appropriately signed.



Overtime Pay

The district paid \$1.3 million in overtime, of which nearly \$600,000 was in excess of the efficiency threshold.

Pursuant to N.J.A.C. 6A:23A-9.3, efficient administrative and non-instructional costs shall include overtime pay for any given function not exceeding 10 percent of regular wages for that function. From fiscal years 2019 through 2023, the district had 13 job functions for which overtime exceeded 10 percent of regular wages, totaling \$592,575. The table on the next page summarizes the overtime pay in excess of the 10 percent threshold.

Job Function	Regular Wages	10% Threshold	Overtime Wages	In Excess of 10%
Transportation	\$ 707,748	\$ 70,775	\$ 208,797	\$ 138,022
Transportation Manager	580,332	58,033	166,249	108,216
Admin Secretary	1,811,453	181,145	286,267	105,122
Clerical Assistant	1,098,809	109,881	187,226	77,345
Warehouse	247,661	24,766	69,959	45,193
Other Functions	3,075,460	307,546	426,223	118,677
Total	\$ 7,521,463	\$ 752,146	\$ 1,344,721	\$ 592,575

Pursuant to N.J.A.C. 12:56-7.1, any individual employed in a bona fide executive, administrative, or professional role shall be exempt from overtime requirements.

- During fiscal years 2019 through 2023, the district paid \$410,816 in overtime to eight executive secretaries exempt from receiving overtime.
- In fiscal year 2020, the top earner was an executive secretary who received \$102,075. This individual worked 2,042 hours of overtime in that year, or an average of 5.6 extra hours per day.

Recommendation

The district should seek to attain efficient administrative and non-instructional costs by limiting overtime payments to 10 percent of regular wages for job functions and discontinue paying overtime to exempt individuals.



Segregation of Duties

Purchasing and accounts payable duties were not always segregated, leading to \$384,042 in purchase orders created and paid by the same individual.

Pursuant to N.J.S.A. 18A:17-14.1, a board of education may appoint a school business administrator (SBA) to act as the chief financial officer for the district. Furthermore, N.J.A.C. 6A:23A-6.5 requires all school districts to evaluate business processes annually and allocate available resources to establish a strong control environment, and the SBA shall identify processes in violation of sound segregation of duties when performed by the same individual. Purchasing and accounts payable shall be segregated and completed by different employees in all school districts. While the district has made efforts to hire one, it has not employed a full-time SBA since September 26, 2017.

During fiscal years 2019 through 2023, the district created 30,596 unique purchase orders totaling \$1.7 billion, with annual averages of 6,896 and \$330.5 million, respectively. We analyzed purchase order reports during the same period and identified the following instances where a single individual in the accounts payable department created and paid purchase orders. Approximately 59 percent of these were to replace checks lost in the mail.

Fiscal Year	Purchase Orders	Sum of Amount Paid
2019	8	\$ 82,852
2020	12	87,496
2021	11	173,061
2022	9	19,727
2023	13	20,906
Total	53	\$ 384,042

According to a district report on system permissions and users who have been granted them, there were 217 permissions in total. The accounts payable clerks have been granted multiple incompatible permissions, including billing, purchase order process, and payment process. Failure to ensure complete segregation of duties over the purchasing and accounts payable functions increases the risk of fraud, waste, or abuse.

Recommendation

With consideration to the lack of an SBA, district administrators should adhere to the administrative code by evaluating business processes annually to identify processes in violation of sound segregation of duties. This includes examining the report on permissions and users who have been granted them and ensuring employees have the least restrictive access commensurate with job responsibilities. All transactions processed by a single individual should be reviewed by administration for propriety.



Monthly Reconciliation of Bank Account Statements

There were 13 instances where cash recorded balances were not reconciled to bank recorded balances prior to the completion of the board secretary’s monthly reports.

Pursuant to N.J.S.A. 18A:17-9, the chief school administrator or board designee other than the secretary shall prepare the monthly reconciliation of bank account statements and, in conjunction with the board secretary, take any steps necessary to bring the cash record balance and reconciled bank balance into agreement prior to the completion of the board secretary’s monthly report.

We reviewed 144 bank reconciliations with dates ranging from July 1, 2018 through June 23, 2023 that included the following accounts: student athletics, food service, referendum, student activities, payroll agency, and net payroll. We noted the following:

- 13 instances where bank balances, treasury reports, and the accounting system were not in agreement when presented to the board.
- One of those instances involved a missing bank reconciliation.

Failure by the district to take any steps necessary to bring cash and bank balances into agreement prior to the completion of the secretary’s monthly reports could result in unresolved errors and other financial discrepancies that may indicate fraud, waste, or abuse.

Recommendation

The district should adhere to the statute by preparing bank reconciliations prior to completing the secretary’s monthly reports.



Criminal Background Checks

The district employed four individuals who did not have a criminal record check and were not on the Office of Student Protection’s list of approved applicants.

Pursuant to N.J.S.A. 18A:6-7.1, a school under the supervision of the Department of Education (DOE) that cares for or is involved in the education of children under the age of 18 shall not employ for pay or contract for the paid services of any staff member serving in a position involving regular contact with children without having their criminal history record on file. In addition, the Office of Student Protection (OSP) in the DOE maintains a list of approved applicants who have completed criminal background checks for positions in public schools.

For school years 2019 through 2023, we matched district payroll reports, which included an average of 1,178 employees, to the OSP’s list of approved applicants. We found the following four individuals had been employed by the district and were neither on the OSP’s list of approved applicants nor had a criminal background check on file with the district. One individual had been convicted of a third-degree crime prior to employment.

Employee	Job Title	Hire Date	Separation Date	Days Employed Without Criminal Background Check
A	Bus Driver	09/01/16	06/30/19	1,032
B	Paraprofessional	09/02/22	01/21/23	141
C	Paraprofessional	03/02/20	06/30/20	120
D	Paraprofessional	10/29/18	12/12/18	44

Failure to ensure that each employee serving in a position involving regular contact with children has received a criminal background check and is on OSP’s list of approved applicants’ prior to employment could pose a significant threat to children.

Recommendation

The district should adhere to the requirements of the N.J.S.A. 18A:6-7.1 by requiring all prospective employees to obtain a criminal background check prior to employment. This should be documented and maintained on file with the OSP and district.



Annual Confirmation of District Residency

The district did not consistently verify residency annually for 76 students enrolled in APSSDs or receiving settlements.

Pursuant to N.J.A.C. 6A:22-3, a student is eligible to attend a school district if he or she is domiciled within the school district, and a district board of education shall accept certain documentation from persons attempting to demonstrate a student’s eligibility for enrollment in the school district. To ensure only Lakewood residents attend Lakewood schools, a district policy and memorandum require all students receiving settlements or registered in an APSSD to provide annual proof of eligibility and confirmation of district residency. Settlements are legally binding contracts between the district and parents or guardians of students with disabilities.

To determine whether each student’s residency was verified annually, we tested all 230 students from a May 2022 tuition invoice for one APSSD totaling \$2.8 million. We also tested all 68 students with active settlements as of July 2022 with a potential cost of \$4.1 million. We found 76 students who had not had their residency verified annually because of a lack of internal controls, as summarized by the chart below:

Year Residency Last Confirmed	Exceptions
2014	1
2015	2
2016	17
2017	20
2018	8
2019	14
2020	7
2021	5
* Never	2
Total Exceptions	76

** These students have been enrolled in this APSSD since 2014*

Failure to verify student residency annually could result in improper payments as the district could be paying for ineligible students who are not Lakewood residents.

Recommendation

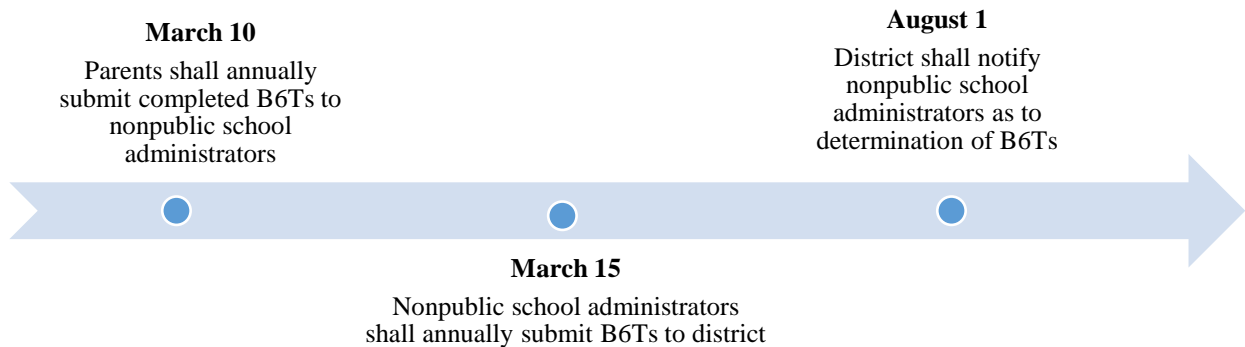
The district should improve internal controls in order to adhere to the requirements regarding annual confirmation of residency for all students enrolled in APSSDs or receiving settlements.



Nonpublic School Transportation

Nonpublic school transportation applications were received late, which could result in payments for ineligible students.

Pursuant to N.J.A.C. 6A:27-2 and nonpublic transportation procedures issued by the DOE, eligible students shall receive transportation based upon the date the district receives a Nonpublic School Transportation Application (B6T) for each student. It is the obligation of the district to date stamp all B6Ts upon receipt, and any B6T received late should be accompanied by a statement explaining the reason for lateness. Furthermore, parents, nonpublic school administrators, and the district shall adhere to the timeline of dates shown below.



From fiscal years 2019 through 2023, the vendor for nonpublic transportation was paid approximately \$105.9 million. Payment is based on B6Ts received and shall be limited to the annual maximum statutorily established amount, which was \$1,022 per pupil for fiscal year 2023.

In fiscal year 2023, there were 24,886 B6Ts received by the district. We reviewed 100 B6Ts from 20 nonpublic schools and found 46 that were received by the district after the March 15 deadline, ranging from 40 to 202 days late. These B6Ts were not date-stamped by the district. However, we were able to determine lateness based on application completion dates finalized by parents. Failure to receive B6Ts timely could result in the district paying for ineligible students to be transported.

Furthermore, based on administrative code, it is the responsibility of nonpublic school administrators to annually submit B6Ts directly to the district. However, the director of the vendor for nonpublic school transportation, who is also a part-time district employee, received and submitted these to the district instead. The director claims it is not feasible to send all B6Ts to the district by the deadline because of the large volume of mandated nonpublic students transported.

Recommendation

The district should collaborate with nonpublic school administrators to ensure all B6Ts are sent directly to the district by March 15. In addition, the district should date-stamp each B6T and require a statement of reason for those that are late.



New Jersey First Act

One full-time employee worked in multiple other states for 1.8 years without an exemption.

Pursuant to N.J.S.A. 52:14-7, every person holding an office, employment, or position in a school district shall have their principal residence in the State of New Jersey. A person may request an exemption from these provisions on the basis of critical need or hardship from the Employee Residency Committee within the Department of Labor and Workforce Development (DOLWD).

One full-time employee of the district maintained their principal residence out-of-state for 1.8 years without an exemption from the DOLWD, which is a violation of the act. A timeline of events is depicted below.



Recommendation

The district should ensure all employees who are permitted to work outside the State of New Jersey have received an exemption from the DOWLD prior to working in other states.



Observations

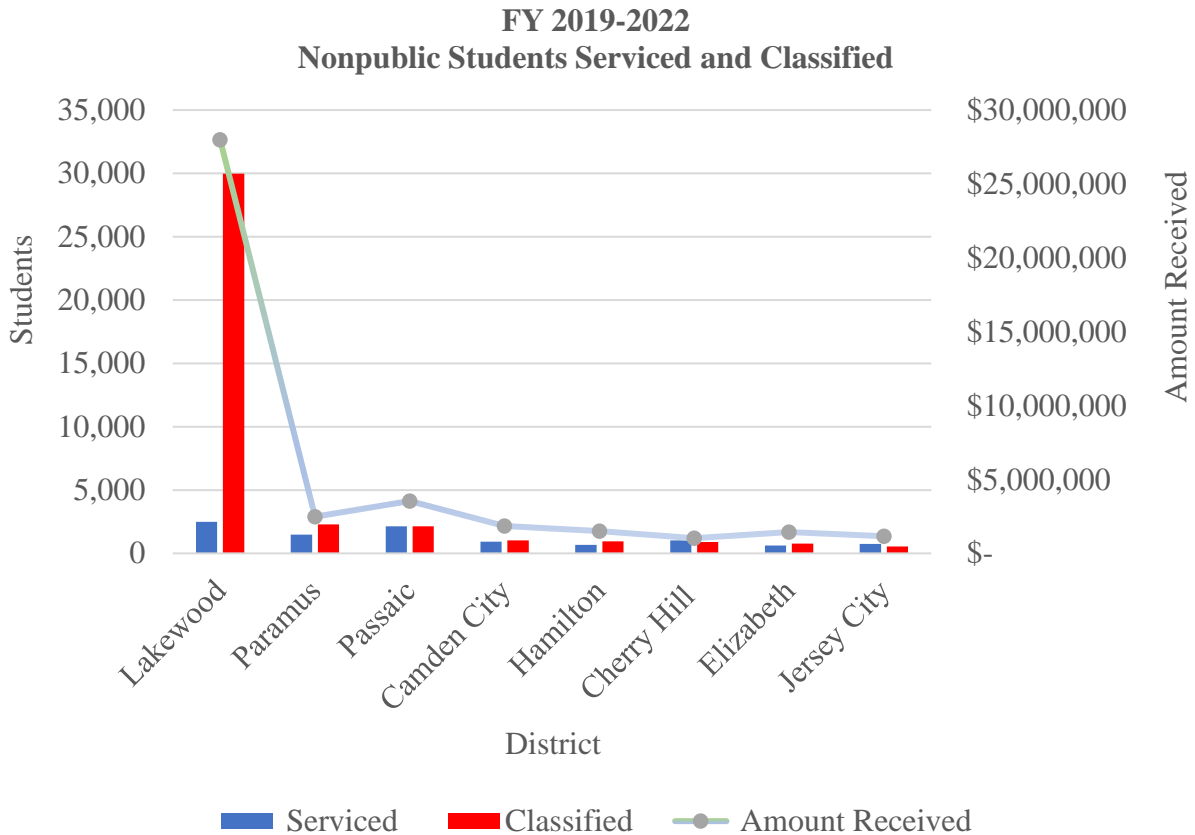
Nonpublic Students Classified and Serviced with IDEA Funds

The district serviced only eight percent of classified students.

As part of the Individuals with Disabilities Education Act (IDEA), school districts receive federal funds to administer special education and related services to nonpublic students based on the number of students classified as opposed to the number of students serviced.

According to IDEA reports from the DOE, during fiscal years 2019 through 2022, the district received \$28.0 million in these funds based on the classification of 29,974 students, or \$934 per pupil. However, the district only serviced 2,488 students (8 percent), equating to \$11,254 per pupil.

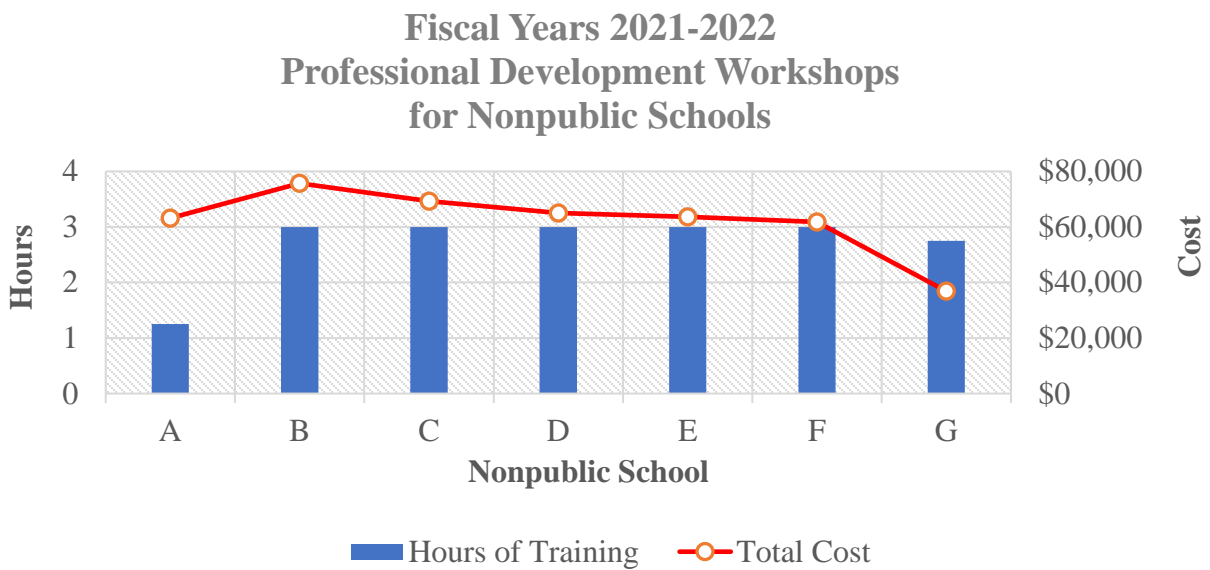
We compared IDEA reports from eight other districts that received this funding and found those districts serviced between 65 and 100 percent of their classified students, with costs per pupil ranging from \$1,004 to \$2,367. See the table below for more detail:



Professional Development Workshops for Nonpublic Schools

Some costs of professional development workshops for nonpublic schools seemed excessive.

The district contracts with the vendors that provide professional development workshops to teachers in nonpublic schools that include a variety of topics. For fiscal years 2021 and 2022, we reviewed a sample of 21 workshops given to nonpublic schools with a total cost of \$605,856. The average cost of these workshops was \$28,850 and ranged from \$5,100 for a one-hour session to \$75,698 for a three-hour session. The chart below shows hours and total costs for seven of these workshops given to nonpublic schools.



Legal Services

The district developed unrealistic budgets for legal services.

The district annually contracts with general counsel via retainer for \$600,000 as well as with other legal firms. From fiscal years 2020 through 2023, the district increased the original budgets by more than \$4.2 million, as summarized below.

Legal Services	2020	2021	2022	2023	Total
Original Budget	\$ 100,000	\$ 500,000	\$ 600,000	\$ 200,000	\$ 1,400,000
Final Budget	1,377,185	1,783,135	1,271,295	1,168,886	5,600,501
Difference	\$ 1,277,185	\$ 1,283,135	\$ 671,295	\$ 968,886	\$ 4,200,501

Pursuant to N.J.A.C 6A:23A-5.2, each district board of education shall establish policies to minimize the cost of professional services, including the establishment of annual maximum dollar limits with appropriate notification to the board if it becomes necessary to exceed those limits. We reviewed district board agendas to identify maximum budget amounts for legal services established by the board and compared these to actual amounts paid for legal services per the district’s Annual Comprehensive Financial Report (ACFR). From fiscal years 2020 through 2023, the district increased the amounts established by more than \$2.3 million, as summarized below.

Legal Services	2020	2021	2022	2023	Total
Maximum Budget Amount	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 3,000,000
ACFR Actual	1,341,172	1,709,478	1,184,741	1,032,441	5,267,832
Difference	\$ 591,172	\$ 959,478	\$ 434,741	\$ 282,441	\$ 2,267,832

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Appendix

Methodologies to Achieve Audit Objectives

In addition to the procedures outlined in the findings, we performed the following audit procedures to reach our conclusions:

Payroll & Personnel

To determine if retired employees were paid in excess of the \$15,000 cap for unused sick leave, we analyzed custom payroll reports for fiscal years 2019 through 2023. During this period, the district paid 124 employees totaling \$1.4 million.

To determine if employee payments for waivers of healthcare coverage were supported by adequate documentation for fiscal year 2020, we randomly selected 20 of 119 employees who received these payments and reviewed for pertinent documentation.

To determine if employees were paid in excess of the \$5,000 cap for waiving health benefits coverage under the State Health Benefits Plan, we analyzed health benefits reports for fiscal years 2019 through 2023. During this period, the district paid 538 employees totaling \$1.8 million.

To determine if employee leave time regarding vacation was allocated and carried forward properly, we analyzed contract days balance summary reports for fiscal years 2019 through 2023 that included 6,671 active and inactive employees. From this, we selected a sample of 174 employees to review.

Expenditures

To determine if employee reimbursement for travel expenditures exceeded the maximum annual amount of \$1,500, we analyzed the travel reimbursement account for 2019 through 2023. During this time, 27 employees received \$19,021.

To determine if outliers or deviations existed from expected values of frequencies in data, we performed Benford's Analyses for fiscal years 2019 through 2022 on purchase orders with a population of 27,540 totaling \$1.1 billion, invoices with a population of 4,414 totaling \$69.7 million, and check registry reports with a population of 91,182 totaling \$1.3 billion. These populations did not include negative amounts or amounts less than \$10.

To determine if duplicate payments existed, we performed "Same Same Same" analyses for fiscal years 2019 through 2022 on purchase orders with a population of 4,535 totaling \$1.1 billion, invoices with a population of 991 totaling \$69.7 million, and check registry reports with a population of 4,189 totaling \$1.3 billion.

To determine if budgetary line-item accounts had over-expenditures of funds, we analyzed ACFRs for fiscal year 2019 through 2022 and compared the final budget to actual expenditures.

Information Technology

To determine if adequate controls exist over fixed assets, we reviewed an inventory sheet that included 10,871 assets and selected a sample of 18 assets to test for physical existence.

To determine if a contingency plan was in place in the event of a disaster, we obtained the most recent copy of the business continuity and disaster recovery plan for fiscal years 2023 and 2024.

To determine if user access is disabled timely upon separation, we compared the list of 741 separated users to the list of user permissions as of August 10, 2023.

To determine if physical access controls were in place for the server room, we conducted a tour of the server room during our fieldwork.

Transportation

To determine if mandated non-public students receiving transportation were paid for by the district, we reconciled 46,975 Non-Public Transportation Applications (B6T) to invoices and the District Report of Transported Resident Students (DRTRS) for fiscal years 2020 and 2023.

Public School Contracts

To determine adherence to the public school contracts law for advertising, bidding, and comptroller notification, we judgmentally selected 12 purchase orders for the period 2019 through 2023.

Tuition

To determine if contractual agreements were obtained and did not have discrepancies, we tested 100 out-of-district special education tuition students for school years 2020 and 2021.



Auditor's Note Regarding District's Response

The district's response begins on the subsequent page. We have included additional comments on some of the district's responses. While the district did not respond to all recommendations, our office will follow up on all recommendations during our Compliance Review during calendar year 2026. As is customary, the results of that review will be issued to the legislature.



Lakewood Board of Education

200 Ramsey Avenue, Lakewood, NJ 08701

Main Office: (732) 364-2400 Fax: (732) 905-3535

Laura A. Winters, Ed.D., Superintendent of Schools

July 17, 2024

David J. Kaschak, State Auditor
New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor
125 South Warren St.
P.O. Box 067
Trenton, N.J. 08625-0067

Dear Mr. Kaschak:

We are in receipt of the June 26, 2024 audit report ("Audit") from the Office of the State Auditor concerning the Lakewood School District ("Lakewood"). We thank you for the opportunity to comment upon the Audit because we believe that there are statements and findings that require clarification or suitable context to properly understand the underlying contentions. Each of the following points have previously been provided to your Office, together with supporting documentation.

Before identifying our substantive comments, we wish to formally acknowledge the many Auditors from your office who collectively spent hundreds of hours in Lakewood between August 2020 and September 2023 reviewing information, asking questions and analyzing the facts and details provided by the District. We believe that we answered all of those questions, and provided the requested documentation, promptly and thoroughly. We thus thank the Auditors for their professionalism and hard work in connection with the Audit.

1. Loans and State Aid

The Audit correctly identified the state loans received by Lakewood to provide full funding for the District. The Audit further acknowledged that Lakewood and the Department of Education reached an agreement whereby the District would retain the excess of \$32.6 million to reduce the subsequent years' loan needs. The Audit identifies this issue as warranting further action and it also highlighted this as "warranting management's attention concerning loan repayments." However, our understanding from the State Monitor, who interacts with the Department of Education and the Treasury Department, is that this matter has been satisfied.

2. Conflict of Interest

The Audit identified an alleged potential conflict of interest involving one part-time employee of the District. The Audit recommended that the District obtain an independent opinion

The recommendation is to determine how to apply the \$32.6 million towards loan repayments *and* reduce State Aid by \$32.6 million, as required by statute. These requirements have not been satisfied.

from the Department of Education School Ethics Commission (“SEC”) to help assess whether a conflict, in fact, exists. Following the Auditor’s site visits, the District requested an opinion from the SEC. The SEC provided the District with an opinion, dated April 30, 2024, and the District provided same to the State Auditor. Similarly, as noted in the report, Lakewood had obtained the opinions from two law firms that analyzed the details of the alleged conflict and concluded that no conflict existed. Moreover, the District also advised the State Auditor that the employment contract for the part-time employee at issue has expired as of June 30, 2024 and has not been renewed by the District.

The SEC opinion was sought after the end of our field work. We reviewed the opinion. However, a potential conflict still existed.

3. Special Education and Related Services

The Audit stated that special education students “missed” 1,773 sessions for their respective Individualized Education Plans (“IEP”) broken down into sessions missed due to school closings (650), student absences (625) and staff absences (498). The Audit then noted that 70 of these sessions were made up. The Audit recommended the District to adopt a corrective action plan to attempt to make up sessions from school closing and staff absences, but not from student absences.

The District disagrees with the usage of the term “missed” in this context, since many of the cited missed sessions are not the fault or responsibility of the District. A “missed” IEP session should be a session that the District is obligated to provide and did not provide because of its action or omission, and thus has been “missed” by the District. The District believes that the focus here should be IEP sessions that did not occur due to acts or omissions of the District and which sessions ought to be made up. If no therapy session required by the IEP is to be provided to the student, or if the student fails to attend for any reason, then the session should not be considered “missed”. As set forth below, the District has implemented corrective action plans to make up sessions that are actually “missed.”

We considered a missed session to be any session scheduled that was not received, regardless of the reason.

First, an IEP is a contract between the school district and parents which sets forth that the student will not receive services due to school closures, field trips, school programs, state testing, or inclement weather. Therefore, IEP sessions that did not take place because of these events are not the fault of the District and should not be included in this category. All IEP sessions are subject to the school calendar (as provided in the IEPs) and, in this context, are no different from regular classes that do not occur because of these events, which similarly are neither “missed” nor “made up.” In other words, IEP sessions that do not occur because of the school calendar do not need to be made up because they are not “missed.” To characterize these sessions as “missed” implies wrongdoing or a deficiency, which is not warranted. Therefore, the District maintains that this largest group of allegedly “missed” sessions should not be included in this category.

We did not cite any specific “wrongdoing” by the district. We state in the finding that the administrative code does not require missed sessions to be made up. The finding shows that students were not receiving all required sessions.

Second, sessions that a student does not attend should also not be counted as “missed.” Again, the IEP form provides that “Treatment sessions missed due to the excessive absences of students will not be made up.” In addition, the IEP session still may have taken place, but the student simply was not present for it (ie., a group session). Therefore, in this circumstance, the District did not miss the session and it would be unfair to imply a deficiency on the District’s part

by including this group. In fact, the Audit seemingly acknowledges that these sessions need not be made up, since the category was not included in the Audit's recommendations for a corrective action plan.

Third, the report claimed that there were 498 sessions missed due to staff absences. This figure is incorrect. There were, in fact, only 486 sessions missed due to staff absences, and 56 of those were made up. So the accurate number of sessions missed is 430. The District thus maintains that the correct number of missed sessions is 430 out of 6,720 total IEP sessions, which is the total number of therapy sessions scheduled. As a result, only 6% of the scheduled sessions were missed due to staff absences. Lakewood shared the documentation supporting these figures with the State Auditor.

Fourth, although the Administrative Code does not require missed sessions to be made up (as the Report acknowledges), the District, beginning in the 2022-2023 school year, enacted a plan that provided for scheduling of make-up sessions due to staff absences. Further, beginning in the 2023-2024 school year, the District scheduled IEP therapist sessions four days a week instead of five, so that one day per week would be available for make-up sessions. The District additionally hired seven more therapists so that make up sessions can occur weekly. The scheduling policy was made clear in the IEP forms with the addition of the following language:

Related services to be provided according to the school calendar and may be affected by field trips, school programs, state testing, inclement weather and the therapy schedule which allows for scheduling and paperwork time in the beginning and end of the school year. Therapy sessions missed due to student absences may not be made up and therefore may not meet the yearly mandate. The IEP yearly mandate will be prorated and provided during the IEP year and not per segment dates and ESY.

Lakewood provided documentation demonstrating these changes to the State Auditor.

4. Education Spending for Legal Services

The Audit stated that Lakewood's total spending for legal services exceeded the statewide average, with a focus on the state average per pupil spending, and claiming that Lakewood greatly exceeded the statewide average per pupil. According to the calculations cited, Lakewood's average legal spending per pupil exceeded by three to eight times the statewide average per pupil during the four cited school years.

The District maintains that this conclusion is misleading because the Audit's calculations are based on a DOE methodology that applies the formula in a vacuum and does not consider -- as it should -- the District's unique demographics. It is well known that over 85% of Lakewood's students attend non-public schools, so their exclusion from the calculations causes inflated results. Even if the DOE methodology is employed, the Audit report should also provide additional calculations based on the actual circumstances in the District.

Evidence provided by the district shows 498 occasions when a student missed a session because of staff absences; we have repeatedly reviewed these instances with the district. Furthermore, we note in the report that 70 sessions were made up. This amount includes the 56 sessions referenced by the district here.

We did not claim the district greatly exceeded the statewide average - it did. Using data from the Department of Education's Taxpayer Guide to Education Spending, we compared the district's per pupil spending to the statewide average per pupil spending and reported those amounts.

Some of the comments made by the district may give the impression we determined what to include in the calculations. This is not the case.

Furthermore, as our report notes, the administrative code requires the district to establish procedures to minimize legal costs and, if not established, provide evidence the procedures would not result in a reduction of costs.

The Audit acknowledged that to perform its calculations, the State Auditor calculated the total legal costs incurred with respect to both public and nonpublic students. However, when calculating the per pupil cost, the State Auditor only considered the number of public school students and excluded all nonpublic students, which resulted in inflated figures in its calculations. As applied to the District, this methodology is statistically unsound and unreliable.

To be fair, and to perform a meaningful calculation, if the total cost for legal services provided to both public and nonpublic students are included in the numerator, then the per pupil calculation must likewise include both public and nonpublic students in the denominator. The exclusion of nonpublic students from the calculations causes distorted and misleading results. Critically, the Audit results are statistically meaningless because of the large number of nonpublic students in Lakewood and because nonpublic students constitute over 85% of all the students in the District (and at least that same percentage of the total cost of legal services). No other school district in the State comes anywhere close to having such a significant number or significant proportion of its students attending nonpublic schools. New Jersey school districts average approximately 11% of its students in nonpublic schools.

In Lakewood, the exclusion of the nonpublic population from these calculations is a critical omission and makes a material difference in the calculations. For instance, for the 2021-2022 school year, the most recent year cited, the statewide average for legal spending per pupil is listed at \$44 per student. For Lakewood, the Audit stated that total legal spending for all public and nonpublic students was \$1,350,418, and that Lakewood's average cost per student (based only on the number of public school students) was \$244. Lakewood had 5,534 public school students for that school year. But had the calculation included all Lakewood students, including the 44,078 nonpublic students, then Lakewood's per pupil spending for legal services would be only \$27.22 per pupil, well below the \$44 state average for the 2022-2023 school year.

The calculations for the other years cited in the Audit are similarly inflated, and had the calculations been performed based on the entire student population, including all nonpublic students, the average per pupil spending for legal services in Lakewood would have been below the state average for each of the cited years. Performing the calculations based on Lakewood's entire school population would have resulted in average legal spending per pupil as being \$19.68, \$33.12 and \$41.53 for the 2018-2019, 2019-2020, and 2020-2021 school years, respectively.

The following is a chart setting demonstrating Lakewood's per pupil cost for legal services is less than the state average, when considering all Lakewood students, including nonpublic students.

Fiscal Year	Student Enrollment Public	Nonpublic Students attending Lakewood Schools	Total Number of Lakewood Students	Legal Fees (Multiple Attorneys)	Cost Per Pupil (rounded)
2021-22	5,534.5	44,078	49,612	\$1,350,418	\$27.22

2020-21	5,777.0	40,129	45,906	\$1,906,410	\$41.53
2019-20	5,974.5	37,502	43,476	\$1,439,855	\$33.12
2018-19	5,818.0	34,688	40,506	\$797,066	\$19.68

Source: Realtime, Versa Trans (LSTA) &

Audit Report

In sum, had the State Auditor performed these calculations based on the total school district population – as it should have -- as opposed to only a small fraction of that population, the District would have been well under the State average for each of the cited school years.

5. Expenditures

The Audit report asserted that not all expenditures were properly authorized and identified 43 purchase orders as lacking approval from the State Monitor. However, all purchases orders were approved by the State Monitor. The 43 purchase orders cited by the Auditors were all approved, but the District only lacked a writing that confirmed that approval. The State Monitor has confirmed his prior approval of the cited orders. Further, the District has implemented a Level 4 and 5 approval system to ensure that written approvals are obtained for all purchase orders.

We do not consider verbal approval provided to us by the district to be acceptable audit evidence.

6. Overtime Pay

The Audit stated that the District paid \$1.3 million in overtime pay and that \$600,000 was in excess of the “efficiency threshold.” However, as the District explained to the State Auditor, the District required the extra services and the District determined (and the Board of Education and State Monitor agreed) that it would be significantly cheaper, and save the District monies, to pay overtime as opposed to hiring additional personnel to perform the needed duties. The District thus saved monies by strategically utilizing overtime instead of attempting to hire additional staff.

In addition, On September 20, 2023, the Board of Education resolved this issue with a resolution stating:

Individual employees who work in a bona fide executive, administrative or professional or outside sales capacity shall be exempt from the overtime requirements of N.J.A.C 12:56-6.1 Therefore, as per N.J.A.C. 6A:23A-9.3, overtime pay for any given function may not exceed 10% of the employee’s regular wages for that function.

7. Segregation of Duties

The Audit Report stated that there were \$384,042 in purchases where orders were created and paid by the same individual. While ideally there should be zero of such purchases, the District notes that the number of purchases at issue, and the dollar value of such purchases, is miniscule in

the context of the overall number of purchase orders and value of those orders made by Lakewood. More specifically, the State Auditor identified 53 purchase orders out of 30,596 total purchase orders, or a nominal error rate of .001732. Additionally, if the same calculation was applied based on the amount paid as applied to the dollar value of the purchases issued it would be even smaller. Further, Lakewood addressed this issue by removing permissions of accounts payable staff, which will ensure complete segregation of duties.

8. Monthly Reconciliation of Bank Account Statements

The State Auditor identified 13 instances over a four-year period when bank account statements were not reconciled and recommended that Lakewood prepare the monthly reconciliation each month. Lakewood advised the State Auditor that this issue has been addressed and resolved because monthly reports are now reconciled and provided to the Board the same month.

9. Criminal Background Checks

The State Auditor stated that Lakewood had hired four employees who did not have a criminal background check. While this figure ideally should be zero, it should be noted that these four employees were out of approximately 1,178 employees, over a four-year period, who did not have a criminal background check on file. Lakewood advised the State Auditor that this issue has been addressed because new employees may not begin employment until all paperwork is approved and cleared by the District's Human Resources department. The Board of Education approved the following Corrective Action Plan at its September 20, 2023 meeting and shared it with the Legislative Auditors.

Action	Who is Responsible
All new employees must receive a criminal background check prior to starting their first day of employment with the Lakewood School District.	Human Resource Manager
Human Resources must clear all new employees prior to the start of their first day worked.	Human Resource Manager
Human Resources will notify the Principal of each school when they have received clearance and of the employees first day of work.	Human Resource Manager
Human Resources will notify Payroll and Health Benefits of the new employees' start date.	Human Resource Manager

10. Annual Confirmation of District Residency

The State Auditor advised that Lakewood did not consistently verify residency for 76 students receiving APSSDs or receiving settlements. Lakewood advised the State Auditor that pursuant to Board Policy #5111, all students attending Lakewood Public Schools, Charter Schools, Out-of-District Schools, etc. must confirm residency each year through Central Registration. A Corrective Action Plan was Board approved on September 20, 2023

11. Nonpublic students classified and services with IDEA funds

In an observation, as opposed to a finding, the Audit noted that the District received \$28 million of federal IDEA monies to be used for special education and related services for nonpublic students. The Audit then pointed out that the District “only services 2,488 students (8 percent), equating to \$11,254 per pupil” in comparison to seven other cited school districts, who each apparently serviced in excess of 65% of their student population, but spent far less (between \$1,004 and \$2,367) on average per pupil. While the Audit does not make any findings on this topic, the language used, including that the District “serviced only eight percent of classified students” may inadvertently give the impression of impropriety, though none occurred.

Several points warrant clarification. First, none of the other school districts are fair comparisons with respect to the numbers of nonpublic students being entitled to special education services. Lakewood averaged nearly 30,000 of such students, whereas none of the other school districts exceeded 2,500 students. Indeed, Lakewood has more nonpublic students receiving special education services than the seven cited school districts, combined.

Second, in its judgment, Lakewood decided to use the funds to assist fewer students who had greater needs as opposed to spreading the funds out to a greater number of students, but having a much lesser benefit for each student.

Third, all of the monies were appropriately utilized for the benefit of the nonpublic students and there are no statutes or regulations that dictate the amount of spending per pupil or the percentage of students that a district is to spend monies to benefit.

Respectfully submitted,

Dr. Laura A. Winters

Dr. Laura A. Winters
Superintendent of Schools

Moshe Bender

Moshe Bender
Board President

cc:

Kevin Campbell, Assistant Business Administrator
Robert Finger, State Monitor
Members of the Board of Education
General Counsel Michael I. Inzelbuch, Esquire