



**New Jersey State Legislature
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Elmwood Park School District

July 1, 2010 to June 30, 2012

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Elmwood Park School District for the period of July 1, 2010 to June 30, 2012. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in dark ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
June 26, 2014

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Scope

We have completed an audit of the Elmwood Park School District for the period July 1, 2010 to June 30, 2012. Our audit included financial activities accounted for in the district's general fund. Total expenditures for the fiscal years 2011 and 2012 were \$32.5 million and \$34.6 million, respectively. The district provided regular, vocational, and special education programs to an average of 2,482 kindergarten to twelfth grade students during the 2011-2012 school year. In addition, the district ranks as one of the lowest in annual average cost per pupil (\$14,121) within its operating type and group. In January 2013, the Commissioner of Education appointed a state monitor to address the deficits and oversee the fiscal operations of the district. A \$2.2 million advance of state aid was provided to the district by the Department of Education to alleviate the fiscal year 2012 deficit.

Objectives

One objective of our audit was to determine the primary factors that contributed to the district's year-end general fund deficits of \$684,000 and \$2.2 million for fiscal years 2011 and 2012, respectively. 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.

The audit was conducted pursuant to the State Auditor's responsibilities as set forth in the "School District Fiscal Accountability Act", Title 18A:7A-57 of the New Jersey Statutes and pursuant to Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, and policies of the school district. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We read the school district's budgets, reviewed financial trends, and interviewed school district personnel to obtain an understanding of the programs and internal controls. In addition, we reviewed annual audit reports issued by public school accountants.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found the primary factor that contributed to the district's fiscal years 2011 and 2012 year-end general fund deficits was a failure to address increasing costs by reducing expenses or increasing revenues. This was compounded by budgeting which did not reflect expected expenditures. In addition, the district failed to recognize errors in its 2012 application for Extraordinary Aid resulting in lost revenue of \$250,000 and made unnecessary health benefit premium payments of \$260,000 for separated employees. We also found the financial transactions were related to the district's programs, however, because of the conditions stated above, we found financial transactions that were not always reasonable or recorded properly in the accounting systems.

Improper Budgeting

The district's budgets understated expected costs.

The district's budget process failed to address increasing costs by cutting expenses or increasing revenues. Although the district's expenditures exceeded their revenues during fiscal years 2008 through 2010, the district was able to draw on prior balances to complete each year with a positive fund balance (Appendix 1). With a dwindling fund balance, rather than take action to reduce expenses or increase revenues, the district budgeted expenditures for fiscal years 2011 and 2012 that were purposely understated to not exceed anticipated revenues. This was not identified during the budget approval process by the Department of Education. As would be expected, during fiscal years 2011 and 2012, actual expenditures exceeded available resources. In fiscal year 2011, the district delayed paying vendors until the subsequent fiscal year. Approximately \$800,000 of the fiscal year 2012 \$2.2 million deficit was identified as fiscal year 2011 expenses.

Recommendation

The district, with the aid of the state appointed monitor, should identify areas for cost savings and revenue enhancements while providing the necessary services in an effective and efficient manner. Budgets should be prepared using expected expenses and resources.



Lost Revenue

The district failed to include all costs in, and adequately review, its Extraordinary Aid application resulting in lost revenue of \$250,000.

The district received increasing amounts of Extraordinary Aid for special education totaling \$552,632, \$602,907, and \$651,872 in fiscal years 2009 through 2011, respectively. However, although costs were their highest in fiscal year 2012, the district failed to recognize cost inclusion errors in their 2012 Extraordinary Aid application and received only \$437,994. We estimate they were entitled to an additional \$250,000.

Recommendation

We recommend the district's business office improve its internal control by including an adequate review of its financial information to ensure its accuracy and completeness.



Health Benefit Premium Payments

The district made unnecessary health benefit premium payments of \$260,000 for separated employees.

The district incurred unnecessary costs by not removing separated employees from health benefit billings in a timely manner. During fiscal years 2011 and 2012, there were 46 individuals for whom the district paid a total of \$260,000 for medical, dental, and prescription drug insurance premiums after their separation of employment with the district.

Recommendation

We recommend the district implement a policy and procedure that ensures the timely removal of separated employees from the health, prescription, and dental programs.



Excessive Separation Payments

The district made unnecessary separation payouts of \$40,000.

Fourteen separation payouts to school district employees during fiscal years 2011 and 2012 totaled \$378,000 and ranged from \$7,000 to nearly \$150,000. We found overpayments totaling \$23,000 because of errors in calculating carryover time, exceeding the sick policy maximum payment amount, and the lack of leave time adjustments when employees did not work a full year.

In addition, the district calculates unused leave time payments for non-teaching staff who are 12-month employees by dividing the employee's annual salary by 240 days rather than using the actual number of compensable work days, between 260 and 262, in a year. During the audit period, four individuals were paid an additional \$17,000 for unused sick and vacation leave due to this calculation policy.

Recommendation

We recommend that the school district implement additional oversight procedures when processing separation pay. The district should also use the number of compensable work days in a year when calculating unused leave payments.



Appendix 1						
General Fund	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Final Budgeted Revenues	\$27,248,865	\$29,221,290	\$30,395,229	\$29,973,353	\$30,207,610	\$31,542,652
Actual Revenues	\$29,804,869	\$30,846,784	\$31,941,320	\$31,761,327	\$32,282,012	* \$37,041,111
Local Tax Levy	\$24,403,769	\$25,780,937	\$26,423,176	\$27,480,103	\$27,480,103	\$28,789,793
Final Budgeted Expenditures	\$27,913,865	\$29,236,363	\$30,395,229	\$29,973,352	\$30,207,610	\$31,542,652
Actual Expenditures	\$30,751,824	\$30,957,119	\$32,372,496	\$32,453,606	\$34,634,581	\$33,645,073
Excess expenditures over revenues	(\$946,955)	(\$110,335)	(\$431,176)	(\$692,279)	(\$2,352,569)	\$3,396,038
Other Financing Sources	\$169,127	\$229,218	\$163,414	\$0	\$821,631	\$249,988
Beginning Fund Balance	\$935,434	\$157,606	\$276,489	\$8,727	(\$683,552)	(\$2,214,490)
Ending Fund Balance	\$157,606	\$276,489	\$8,727	(\$683,552)	(\$2,214,490)	\$1,431,536

*Includes \$2.2 million advance from the state.