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Perth Amboy Public Schools

July 1, 2021 to June 30, 2025

David J. Kaschak
State Auditor



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Enclosed is our report on the audit of the Perth Amboy Public Schools for the period of July 1, 2021 to June 30, 2025. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in cursive script that reads "David J. Kaschak".

David J. Kaschak
State Auditor
December 3, 2025

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Scope

We have completed an audit of the Perth Amboy Public Schools (district) for the period of July 1, 2021 through June 30, 2025. Our audit included financial activities accounted for in the district's General and Special Revenue Funds. We also analyzed the district's health benefits costs for the period of July 1, 2019 through June 30, 2025.

Annual General Fund revenues and expenditures averaged \$271.4 million and \$281.9 million, respectively, in fiscal years 2022 through 2024, and Special Revenue Fund revenues and expenditures averaged \$43.8 million and \$47.9 million, respectively. The state funded approximately 83 percent of revenues during this period, with state support exceeding 80 percent in fiscal years 2022 and 2024. The district provides regular and special education services for grade levels pre-kindergarten through 12. From fiscal year 2022 through 2024, the average daily enrollment was 9,982 students, and there were approximately 1,690 employees.

Objectives

The primary objective of our audit was to determine the factors that contributed to the fiscal year 2022 General Fund budgetary deficit of \$13,040,742, as reported in the district's audited financial report. Additional objectives were to determine whether the 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 the 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 2022 year-end General Fund budgetary deficit, we applied analytical procedures to datasets; performed analyses of financial and demographic information from the district's information systems and Annual Comprehensive Financial Reports audited by the district's public school auditor; and interviewed key personnel from the district and the district's public school auditor.

In preparation for our performance audit testing, we studied legislation, the administrative code, and policies of the New Jersey Department of Education (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 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 (Infinite Campus) 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 the bank statements. We determined that the data was sufficiently reliable for the purposes of this report.

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

Conclusions

We found the primary factor contributing to the fiscal year 2022 General Fund budgetary deficit of \$13,040,742 was a transfer to the Special Revenue Fund in the amount of \$11,230,835 to balance its year-end unassigned fund balance. Fiscal years 2020 and 2021 ended with deficits in the Special Revenue Fund because of improper budgeting and accounting errors. The cumulative effect necessitated the transfer from the General Fund to the Special Revenue Fund.

We found financial transactions included in our testing were not always related to the district's programs, reasonable, or properly recorded in the accounting systems. In making these determinations, we noted multiple areas meriting management's attention regarding health benefits, preschool eligibility, criminal history background checks, the Application for School State Aid, expenditures, payroll, offline funds, and information technology contingency planning

and security. We also made observations regarding the local tax levy and cuts in staff and services.

Perth Amboy is a Schools Development Authority (SDA) district that received an average of 89 percent of its General Fund funding and an average of 47 percent of its Special Revenue Fund funding from the state from fiscal years 2022 to 2024 and is statutorily required to ensure an effective and efficient use of those funds.

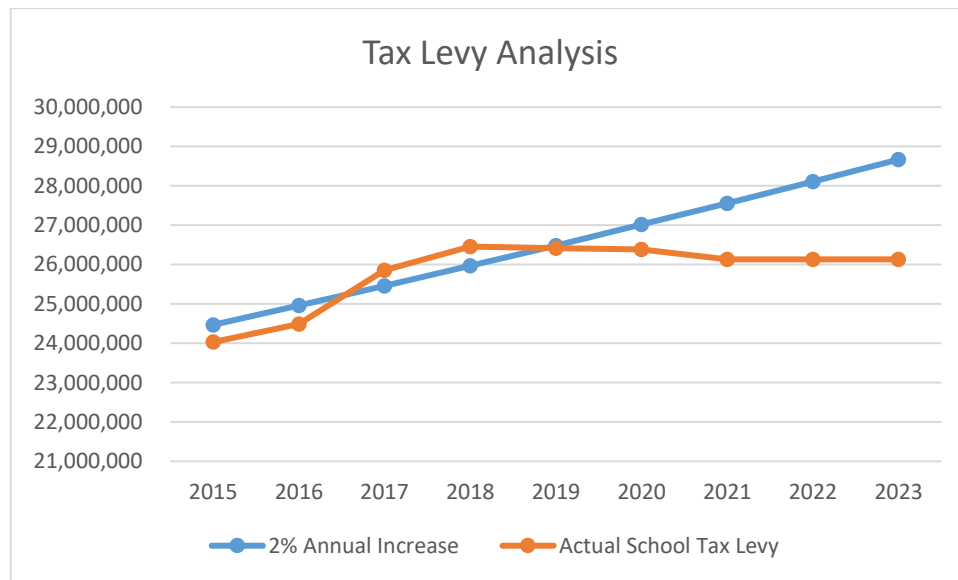
Observations

Local Tax Levy

The district did not increase its local tax levy for 11 years and missed the opportunity to generate revenue that could have been used to address ongoing financial challenges.

In accordance with N.J.S.A. 18A:7F-38, school districts in New Jersey are permitted to increase their local property tax levy by up to 2 percent annually to support school budgetary needs. The statute also provides exceptions that may allow a district to exceed the 2 percent cap, contingent upon voter approval through a public referendum.

Based on discussions with district administration, proposals to implement the allowable tax levy increases were suggested to the Board of Education on multiple occasions but were consistently rejected. The district prepared a tax levy analysis calculating the impact of increasing the tax levy by the allowable 2 percent from 2015 through 2023. Using this analysis as a basis, we conducted a similar review and determined the district could have generated approximately \$6.658 million in additional revenue. This would have resulted in a total school tax increase of only \$204.24 for the average homeowner over the eight year period (or \$2.12 per month).



Staff and Service Cuts

The district cut staff and services because of budget constraints.

Pursuant to N.J.A.C. 6A:23A-9.3, efficiency standards shall be considered in determining whether a district has implemented all potential administrative efficiencies and/or eliminated all excessive non-instructional costs. An unraised tax levy and improperly budgeted expenditures

resulted in limited available revenue, which led to the district reducing services. Based on discussions with administration and a review of district expenditures, administrative salaries increased 13 percent from fiscal years 2022 to 2024, and there was a reduction in secretarial, home liaisons, and technology positions.

In 2024, the district further reduced services by eliminating courtesy bus transportation for kindergarten and the Rose M. Lopez Dual Language School (kindergarten through third grade) students, representing a cut in services valued at \$4.5 million. Although courtesy busing is not statutorily mandated, it remains a critical service for working parents of students who must walk to and from school. Because the DOE does not fund this courtesy busing, the cost is borne entirely by the school district. The district has the discretion to offer, modify, charge fees for, or eliminate courtesy busing based on budgetary priorities and available resources.



Findings

General Fund Budgetary Deficit

The previous district administrators failed to ensure spending within budgetary limits as required, resulting in a deficit of \$13,040,742.

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 existing encumbrances and expenditures, does not exceed the amount appropriated. In fiscal year 2022, district spending was in excess of budgetary constraints, resulting in a General Fund budgetary deficit of \$13,040,742.

The current district administration inherited a number of accounting errors and budgeting issues in December 2021 that gave the false impression there was a surplus in the Special Revenue Fund. As a result, the district continued to spend from the Special Revenue Fund under the belief that funds were available, when in fact such funds were not present. Our review of the district's finances for fiscal year 2022 identified three primary factors that contributed to the deficit.

- The district budgeted a transfer of \$977,324 from the General Fund to the Special Revenue Fund. However, this amount was increased by \$10,253,511 for a total of \$11,230,835 to eliminate the Special Revenue Fund year-end unassigned fund balance deficit. This transfer caused the budgetary deficit in the General Fund.
- The Special Revenue Fund's Preschool Education Program ended with deficit balances of \$3.8 million in fiscal year 2020 and \$5.9 million in fiscal year 2021. However, the district continued to underbudget the program and expend funds that were not available in these years and was on track to end fiscal year 2022 with a deficit. The district's current public school auditor brought these issues to the district's attention at the close of fiscal

year 2022. As a result, the district transferred funds from the General Fund to the Special Revenue Fund.

- The transfer to the Special Revenue Fund accounted for reconciling items between the General Fund budgetary statements and the General Fund Generally Accepted Accounting Principles (GAAP) statements for revenue not recognized by the GAAP statements.

Recommendation

We recommend the district ensures its annual budget is developed using thoroughly reviewed and accurate financial data and spend within budgetary limits.



Health Benefits

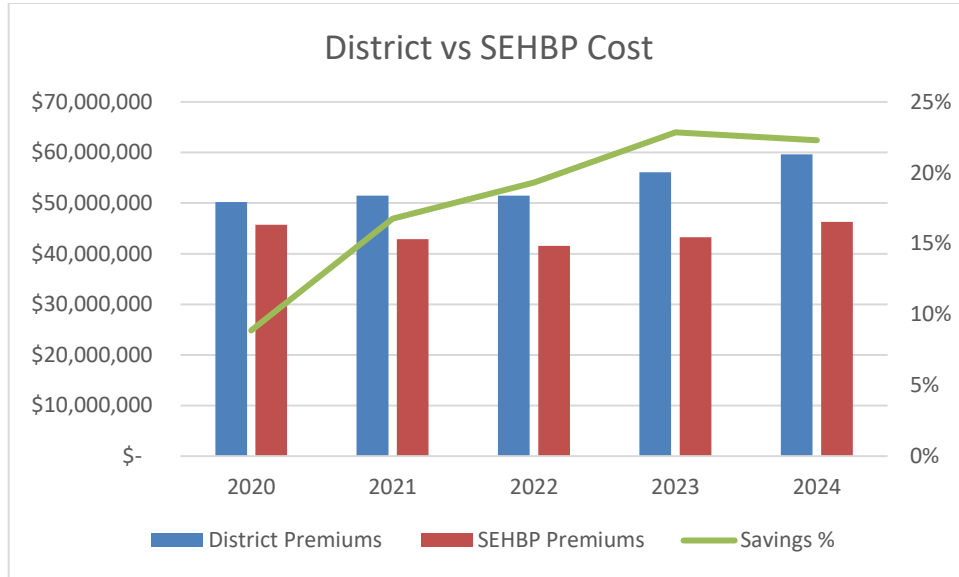
Potential District Savings

The district could have saved \$49.1 million from fiscal years 2020 through 2024 if it had participated in the New Jersey School Employees' Health Benefits Program.

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 receiving State Aid. Prior to fiscal year 2024, the district was unaware of the statutory requirement and had not examined available group options for every insurance policy it held.

The district procured its employee health and prescription through the same insurance broker from fiscal year 2020 through 2024. That broker did not conduct and provide a health benefits analysis to the district until January 2024, which stated the district would save significant costs if it were to switch to the New Jersey School Employees Health Benefits Program (SEHBP). However, because of the timing of the report, the district was unable to switch insurance plans for fiscal year 2025. The broker had indicated that offering four coverage levels instead of two could have reduced costs for employees without impacting the district's cost. In addition, the broker delivered three separate presentations outlining the reasons the district should become self-insured. However, the district declined to do so.

The district provides health insurance coverage exclusively in two levels: single and family, whereas the SEHBP also offers an employee plus spouse plan and an employee plus child. We performed an analysis that recalculated the district's costs had it participated in the SEHBP and found the district would have saved approximately \$49.1 million, or an average of 18 percent, from fiscal years 2020 through 2024 had it participated in the SEHBP.



The broker was paid by the district at a flat rate for the services provided; however, the district later discovered the broker was also receiving commissions from the health and prescription providers as a percentage of the premiums billed, which was not disclosed in the contract as required by N.J.A.C. 11:17B-3.1. While not uncommon in the insurance industry, the commission-based arrangement gives the broker no incentive to recommend less costly alternatives because it earns more when the district pays more for benefits.

Potential Employee Savings

Employees could have saved \$2.2 million from fiscal years 2021 through 2024 if the district had participated in the SEHBP.

N.J.S.A. 18A:16-17.1 requires employees to contribute to the cost of their health benefits (medical and prescription drug). For employees with dependents who did not fit into the district’s plans, such as two adults or a parent and child coverage level, the coverage premium applied was the family plan.

We compared the district employees’ health plan contribution (two-level coverage) to those under the SEHBP (four-level coverage) and found that employees could have saved an average of 33 percent of their contribution per paycheck. The average annual savings for the approximately 1,459 impacted employees for fiscal years 2021 to 2024 would have been \$2.2 million if the district had enrolled in the SEHBP.

Eligibility

Separated employees remained enrolled in the district’s health benefits plan and cost the district \$66,500.

Employee benefits are normally terminated on the last day of employment. However, if an employee terminates employment mid-month, benefits will continue until the end of the month. The health benefits bill is reconciled monthly by the district accountant to ensure the district is billed for only active employees. The accountant provides the health benefits coordinator with a list of employees who require termination after reviewing the bill, and it is the responsibility of the coordinator to contact the provider to terminate benefits. If an inactive employee is found, the district will contact the provider to terminate benefits and receive retroactive credit for the amount billed.

We tested all 1,415 employees on the November 2024 health benefits bill to confirm only active employees were included and found six who had been inactive as far back as January 2024.

As a result of our test, the district deactivated those employees and contacted the provider to receive retroactive credit. However, the vendor only credited the amount from the date of notification. As a result, the district recovered \$24,897 but still incurred a loss of \$41,569.

Recommendation

We recommend the district regularly examine all available group options for insurance policies, including plans that offer four levels of employee coverage, and participate in the most cost-effective plans for the district. If the district elects to use a broker, it should ensure commissions, fees, or other costs are clearly defined. Additionally, we recommend the district enhance its review and reconciliation process of the health benefits bill to ensure separated employees are promptly identified and removed when they separate from the district.



Preschool Program

The district failed to collect and maintain documentation to verify students enrolled in the Universal Preschool Program were district residents.

As an SDA district, the district must provide a universal preschool program – a free, full-day preschool program to all three-year-old and four-year-old residents in the Perth Amboy Public School district. The cost of the preschool program averaged \$18.9 million during fiscal years 2022 through 2024. Services are provided by three in-district preschools and five community provider preschool centers.

At annual registration, the district requires the submission of the child’s original birth certificate, current immunization records including the most recent physical exam, parent or guardian photo identification, and proof of residency in Perth Amboy. If proof of residency is not a lease agreement or property deed, the district will accept a notarized affidavit of residency accompanied by the host’s lease or deed plus a utility bill.

From fiscal year 2022 to 2024, enrollment in the district’s universal preschool program for four-year-old students averaged 769. We tracked the progression of preschool students enrolled in the four-year-old preschool program and identified 171 who did not continue their education within the school district. We then judgmentally selected 20 students from each school year to test whether the district properly verified preschool eligibility. We found the students’ proof of residency generally did not meet the district requirements, as summarized below:

School Year	Tested	Insufficient Residency Documentation	Potential Cost* of Students with Insufficient Documentation
2022	20	20	\$332,543
2023	20	14	\$227,738
2024	20	19	\$289,353
Total Cost			\$849,634

*Cost is based on tuition reimbursement rate

Some of the evidence obtained for proof of residency included outdated affidavits, unsigned lease agreements, and packing slips. The absence of adequate documentation increases the risk of enrolling ineligible students who reside outside the district.

Recommendation

We recommend the district ensure that student enrollment documentation complies with program rules and district residency verification requirements, annually.



Criminal History Background Checks

The district did not ensure all employees completed the 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. An updated background check is required when an individual transfers to a different school district.

We obtained from the DOE a list of individuals cleared to work for the district as of July 2024. We compared this list to the district's payroll records for fiscal years 2018 through 2023 and found the district failed to ensure a proper background check was updated for 76 of 3,075 individuals (2.5 percent) subject to the requirement. These individuals were approved to work in other New Jersey school districts; however, Perth Amboy Public Schools would not be notified by the DOE if any of these individuals were to commit a disqualifying offense. Forty of these individuals were active employees within the district as of July 2024.

As a result of our testing, the district required employees to resubmit fingerprints; as of April 2025, 39 of the 40 employees received a clear background check and updated their employment to reflect the transfer to Perth Amboy Public Schools.

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 existing and future employees, as required.



Application for State School Aid

We were unable to verify the pupil counts reported on the Application for State School Aid (ASSA), and the district may have received overpayments of \$4.1 million.

The ASSA application contains annual data collection used to gather resident and nonresident pupil counts required to calculate a school district's State Aid entitlement. The ASSA includes a district's resident pupil enrollment count as of the last day of school prior to October 16th of the current school year. It is critical that a district submit accurate information because the DOE uses this information to calculate State Aid for the following school year.

We compared resident pupil counts according to the district's student information system to the district's 2023, 2024, and 2025 ASSA submissions and noted overstated variances of 127, 136, and 33 pupils, respectively. Detailed support documentation was not available for any of the years we reviewed. Additionally, the business administrator informed us of a system access control in the student information system that permits a pupil's entry date to be backdated by staff, preventing us from extracting reliably accurate reports from the system. Therefore, we were unable to reconcile resident pupil enrollment to the ASSA and could not determine if the State Aid calculations were accurate.

We reached out to the DOE's fiscal unit responsible for calculating State Aid to request an estimate of the potential excess State Aid the district received as a result of being unable to reconcile the resident enrollment errors we identified. According to the DOE, the district potentially received excess State Aid for fiscal years 2023, 2024, and 2025 totaling \$4,148,281. The 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 retain all support documentation used in the preparation of the ASSA report. We also recommend that the district establish a policy to provide clear guidance on how to properly enter student information into the student information system and only backdate a pupil’s entry date when appropriate.



Expenditures

The district did not always comply with applicable purchasing policies and regulations.

N.J.A.C. 6A:23A requires a school district to establish policies and procedures on internal controls. 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. District purchases of goods or services should be through state contracts, cooperative purchasing programs, or directly from vendors by obtaining bids or quotes when required. 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.

General Fund

The district expended \$168.1 million on 9,453 General Fund non-payroll expenditures during fiscal years 2022 through 2024. We judgmentally selected 25 transactions totaling \$3.5 million for testing based on expenditure category and highest-dollar transaction. Our testing identified the following internal control weaknesses over procurement:

- Twelve of 24 applicable transactions (50 percent) totaling \$961,159 did not have four approvals, as required by district policy.
- Six of 24 applicable transactions (25 percent) totaling \$911,991 were made without first going through the approved purchasing process and were therefore unauthorized (confirming orders).
- Twelve of 24 applicable transactions (50 percent) totaling \$2,540,388 lacked either a receiving form, voucher or an invoice, or appropriate signature on the forms.
- Four transactions (18 percent) totaling \$273,746 were incorrectly recorded in the accounting system. One resulted in a \$9,063 overpayment. Additionally, we were unable

to test three transactions (12 percent) because two contracts were missing, and one did not contain sufficient information.

- Eight transactions (32 percent) totaling \$1,740,944 were not adequately supported. Three contracts were missing, four contracts were not fully executed, and one where two quotes were not obtained.
- Five of 16 applicable transactions (31 percent) totaling \$482,050 lacked board approval.
- Two of 17 applicable transactions (12 percent) totaling \$45,673 did not have a business registration certificate on file for the vendor.

Special Revenue Fund

Preschool program expenditures are accounted for in the Special Revenue Fund, as they are financed by restricted revenues designated for specific purposes. The district expended \$12.7 million on 417 non-payroll Special Revenue Fund preschool expenditures during fiscal years 2022 through 2024. We judgmentally selected 25 transactions totaling \$460,228 for testing based on expenditure category and highest-dollar transaction. Our testing identified the following internal control weaknesses over procurement:

- Twenty-one transactions (84 percent) totaling \$438,605 did not have four approvals, as required by district policy.
- Two transactions (8 percent) totaling \$14,456 were made without first going through the approved purchasing process and were therefore unauthorized (confirming orders).
- Five transactions (20 percent) totaling \$46,315 lacked either a receiving form, voucher or an invoice, or appropriate signature on the forms.
- Five transactions (20 percent) totaling \$118,849 were not adequately supported. Of these, four transactions (16 percent) totaling \$112,549 could not be verified for accuracy in the accounting system because of missing contracts and unsigned contracts.
- Five of 13 applicable transactions (38 percent) totaling \$103,162 lacked board approval.
- Two transactions (8 percent) totaling \$3,526 were not related to preschool operations. One of which should have been charged to the General Fund.
- Five transactions (20 percent) totaling \$35,937 did not have a business registration certificate on file for the vendor.

Food Service Fund

The district expended \$7.8 million on 180 food service purchase orders in fiscal years 2022 and 2023. We judgmentally selected 10 purchase orders totaling \$1 million for testing based on the highest-paid vendor and highest-dollar transaction. We tested the sampled purchase orders against the district's established policy and procedures, as well as state procurement laws as it relates to bids, quotes, and contracts. We identified the following internal control weaknesses over procurement:

- Nine purchase orders (90 percent) totaling \$641,819 did not have four approvals, as required by district policy.
- Eight purchase orders (80 percent) totaling \$978,687 were not adequately supported. The purchase orders reviewed lacked contracts, renewal letters, competitive quotes, and/or contained illegible bids. We observed the district utilized and referred to respective bids in lieu of a contract where required contracts were absent.
- Two purchase orders (20 percent) totaling \$145,971 were made without first going through the approved purchasing process and were therefore unauthorized (confirming orders).

Recommendation

The district should enforce existing controls, maintain documentation for subsequent inspection, and adhere to purchasing regulations and district policies and procedures.



Payroll

Lack of controls and inconsistent application of procedures caused inaccurate, ineligible, and unreasonable payroll payments. Additionally, unclear payroll schedule guidelines contributed to delays in timesheet submission.

Overtime Payments

Employees with eligible job titles are entitled to receive overtime for hours worked beyond their standard daily schedule. The process for recording and paying overtime is a highly manual process, requiring employees to submit physical time sheets for review, approval, and processing. At the beginning of each fiscal year, the district's payroll department manually calculates the per diem rates for salaried employees and verifies each department's standard daily working hours.

Total overtime payments to district employees were \$1.6 million, \$2.1 million, and \$1.3 million during fiscal years 2022, 2023, and 2024, respectively. We judgmentally selected 40 overtime

payments (inclusive of standard, time-and-a-half, and double rate) totaling \$105,255 from various job titles and then selected the highest-paid employees from each fiscal year. We then selected the highest payment the employees received to determine if they were properly supported, accurate, and reasonable. The district was unable to provide any support for seven transactions sampled (17.5 percent); therefore, we tested only 33 payments. Our testing identified the following internal control weaknesses regarding overtime payments:

- Thirty-two payments (97 percent) were not properly calculated based on the contract rate and hours. Our recalculations identified inaccurate payments totaling \$8,300 to 27 employees.
- Three payments (9 percent) did not have adequate supporting documentation. Two employees submitted incomplete timesheets, and one employee did not submit for overtime worked.
- Twenty-two payments (67 percent) did not have proper approval of timesheets.
- Five payments (15 percent) totaling \$15,200 were deemed unreasonable because of insufficient justification of overtime worked, a lack of timesheet documentation, and inadequate supervisor approval for 33.5 hours totaling \$1,533.
- Ten payments (30 percent) were not charged to the correct account. We noted instances where overtime was paid out of standard salary accounts.

Extra Compensation

Extra compensation includes class coverage, missed prep, summer program, before/after school programs, and home instruction. Payments for class coverage are made at either a daily rate or a per period rate, as dictated by the union contract. Missed prep is paid when teachers miss their contracted preparation period to perform another duty. Extra duties such as summer program, before/after school programs, and home instruction are performed outside the employee's regular workday and are paid in accordance with the union contract. The district does not have policies specifying dates or times employees may perform these duties. The board sets extra compensation hourly rates of pay and approves individual employee participation.

The district payroll manual was last updated in January 2014. Payroll staff did not use the outdated manual. Additionally, the payroll manual does not have instructions for extra compensation, except for food services.

We judgmentally selected 22 extra compensation payments totaling \$52,019 from fiscal year 2024 based on extra compensation category. We then randomly selected the highest-paid employees from the top fifteen employees within each category and found the following:

- Ten payments (45 percent) were miscalculated for a net total of \$7,500.

- Six payments (27 percent) totaling \$13,456 were deemed ineligible.
- Seventeen payments (77 percent) did not have proper supporting documentation. Timesheet details were not included, and home instruction sign-in sheets were not accompanied by timesheets.
- Six of 16 applicable payments (38 percent) totaling \$13,200 did not have board approval, as required.
- Twenty payments (91 percent) did not have timesheets properly approved.
- Four payments (18 percent) were issued to four employees for hours worked on days the schools were closed.
- Nine of 21 applicable payments (43 percent) were issued to employees who did not possess the required certifications.
- Seven payments (32 percent) totaling \$21,334 were deemed unreasonable – four employees received non-contractual compensation for providing full-day class coverage during their regular teaching schedule at the Dual Language School (DLS), one employee was paid for the summer program where we could not identify the work performed, one employee was paid for class coverage when school was not in session, and one included unreasonable travel time.

In addition, DLS teachers received additional students while an employee was on leave. These teachers were paid the full-day class coverage rate. DLS teachers with additional students should not be paid the class coverage rate because they are not performing duties outside of their contracted agreement. The district felt compelled to pay the teachers because of previous grievances filed by the union on behalf of the teachers from a different school. The grievances addressed instances where teachers were not paid the correct class coverage rate when doing the work of two people in the classroom or when they were teaching two classes simultaneously. No grievances were filed addressing the DLS situation, and we noted class sizes did not exceed capacity.

The district was inconsistent in applying their review and approval process, and the timesheet formats varied based on location, which led to miscalculations and unauthorized payments.

Timely Payroll Timesheet Submission

District policy requires employees to submit payroll forms within the specified time frame, as determined by the business office and union contract. However, submission dates were not defined. Consequently, employees submitted timesheets well after the close of a pay period. Timely submission is necessary for supervisors and the payroll unit to review and verify additional assignments and to approve and process payments.

We defined timely as being submitted within two weeks following the end of a pay period. We selected 22 extra duty payments of 10,352 to test for timeliness of submission. This amounted to 389 individual line items for work performed on the timesheets. Fifty-eight exceptions were noted where the employees submitted their timesheet from four to sixteen weeks late. We also judgmentally selected 40 overtime payments of 9,046 to test. This amounted to 543 individual line items for work performed on the timesheets. Seventy-four exceptions were noted for eight employees where timesheets were submitted between four to eight weeks late.

Recommendation

The district should enforce existing controls and maintain documentation for subsequent inspection. We also recommend the district improve the language in future contracts by specifying when and how extra compensation may be paid. We further recommend the district update internal policies to address timesheet submission requirements and the review of payment calculations.



Offline Funds

The district did not always comply with the policies of the offline funds and did not deposit funds promptly.

Food Service Fund

The district maintains a checking account for its Food Service Fund to administer its food service and cafeteria program that is operated by the food service director.

We obtained daily cafeteria sales from the food services department totaling \$106,221; \$161,300; and \$150,290 for fiscal years 2022, 2023, and 2024, respectively. From this data, we judgmentally selected the month with the highest earnings from each year, as well as the subsequent month for reconciliation purposes. This sample represented 109 deposits totaling \$96,211. We tested the sampled transactions against the district's established policy and procedures and found forty-five deposits (41 percent) totaling \$39,166 were not sufficiently supported. We also found 24 deposits (22 percent) totaling \$21,710 were deposited untimely.

Athletic Fund

The district maintains a checking account for its Athletic Fund to administer its athletic program that is operated by the principal and the athletic director. The fund is supported by gate receipts, tournament fees, and general fund deposits.

In fiscal years 2023 and 2024, the district processed 1,033 expenditure transactions totaling \$100,551. We judgmentally selected the ten highest-dollar transactions totaling \$4,030 and

randomly selected an additional 15 transactions totaling \$1,294 to test for compliance with the district's policy and procedures. We found three disbursements (12 percent) totaling \$217 were inadequately supported.

In fiscal years 2023 and 2024, the district processed 36 deposits totaling \$81,786. We judgmentally selected the five highest-dollar deposits totaling \$66,711 and randomly selected an additional 10 deposits totaling \$4,637 to test for compliance with the district's policy and procedures. We found four deposits (27 percent) totaling \$1,350 were inadequately supported. The district did not retain scanned copies of checks received from tournament earnings, and eight deposits (53 percent) totaling \$9,152 were deposited on average between three to seven business days after the event. We were unable to determine when the gate receipts were turned over to the athletic director because of a lack of support documentation indicating when the transfer of ticket sales occurred for nine deposits (100 percent) totaling \$11,458.

Student Activities Fund

The district maintains a checking account for its Student Activity Fund to administer its student activity program that is managed by advisors. The checking account is maintained by the business office for the high school and by the principal or designee for other schools. The fund is self-sustaining and supported by funds gained from student events.

We obtained data from the district's bookkeeping system for fiscal years 2023 and 2024 and determined the district processed 564 deposits totaling \$288,357 during this period. We judgmentally selected the 10 highest-dollar deposits totaling \$128,680 and randomly selected an additional 15 deposits totaling \$2,157 to test for compliance with the district's policy and procedures. We found 12 transactions (48 percent) totaling \$47,245 were deposited on average between three to six days after the event.

N.J.A.C. 6A:23A-16.12(c)1 requires deposits to be made promptly for Student Activity Funds. Failure to comply increases the risk of misappropriation, loss, or theft of funds.

Recommendation

We recommend the district improve internal controls over the offline funds to ensure compliance with the district's policy and procedures. We also recommend the district improve recordkeeping, reconciliation procedures, and require prompt deposits.



Information Technology

The district's information technology (IT) controls need to be strengthened.

N.J.A.C. 6A:23A-6.7(c) requires a review of user access to be conducted at least annually and access to the network and key applications within the school district be restricted to authorized users. Furthermore, the National Institute of Standards and Technology (NIST) and New Jersey's *Statewide Information Security Manual (SISM)* recommend user organizations identify and document functions, tasks, and responsibilities and to ensure system access for terminated employees is disabled within an organization-defined period.

The district uses Systems 3000 for its financial accounting, procurement, payroll processing, and personnel management functions and Infinite Campus for student information, such as enrollment, demographics, grades, and class scheduling. We noted the following conditions:

- 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.
- There is no formal policy in place for governing the use of Systems 3000 or Infinite Campus. While procedures are in place, a lack of formal documentation increases the risk of inconsistent application and interpretation of the procedures while hindering the training of future employees' use of the system.
- User access to Systems 3000 was not always terminated after separation from employment with the district. As of January 16, 2025, two of 245 active user accounts belonged to former district employees who had been separated for up to six months. The district policy requires employees to be locked out of the system upon separation from the district. The NIST and *SISM* recommend user access be disabled to prevent unauthorized access of applications.
- Two employees were found to have accessed the financial accounting function of the system, and one employee was found to have accessed the human resources function of the system after their employment was terminated with the district. The district indicated that password sharing likely enabled unauthorized access by these individuals. The NIST and *SISM* recommend that users do not share passwords.
- The district has a standard operating procedure requiring the use of complex passwords and the periodic changing of passwords. However, we learned through discussions with the district that this is not enforced for Systems 3000.

Recommendation

We recommend the district develop and enforce system policies and procedures to ensure complex password creation, periodic changing of passwords, and timely termination and adequate monitoring of system access. We further recommend the district develop and test a disaster recovery contingency plan for its IT systems.



Appendix

Methodologies to Achieve Audit Objectives

To determine whether all board members and administrators filed required financial disclosure statements, we reviewed copies of all disclosure statements from the DOE School Ethics Commission for 2022 through 2024.

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

To determine if purchases made from the Student Activity Fund were proper and made in accordance with district policies and procedures, we judgmentally selected the ten highest payments and randomly selected 15 additional payments to review a total sample of 25 payments totaling \$197,280 from fiscal years 2023 and 2024 from a population of 367 payments totaling \$338,802.

To determine if expenditure payments made from the Scholarship Fund were proper and made in accordance with district policies and procedures, we randomly selected 25 payments totaling \$40,584 from fiscal years 2023 and 2024 for review from a population of 145 payments totaling \$233,537.

To determine if health benefits waiver payments were calculated properly and had proper documentation, we randomly selected 15 employee waivers totaling \$24,821. Because of the unavailability of certain waiver payment documentation, we expanded our sample by five waivers and then eight waivers totaling \$16,000 and \$11,000, respectively. Total sample size amounted to 28 waiver payments totaling \$51,821 during fiscal years 2022 through 2024 from a population of 793 waivers totaling \$1,333,657.

To determine if health benefits waiver payments were properly prorated for those employees that waived benefits mid-year, we randomly sampled 6 prorated payments totaling \$5,333 during fiscal years 2022 through 2024 from a population of 142 prorated payments totaling \$132,657.

To determine if only active employees had access to the Infinite Campus, the student information system, we tested 100 percent of the 1,830 active users in Infinite Campus.

To determine if food service expenditure transactions were proper, reasonable, and had supporting documentation, we judgmentally selected 15 of the highest-paid vendors and randomly selected two payments, when applicable. This resulted in 11 vendors with two payments and four vendors with one payment, amounting to 26 payments totaling \$417,923 from a population of 326 payments totaling \$8,467,727.

To determine the sufficiency of the server room's physical security, we performed a survey detailing access to the room.

To determine if the devices listed on the IT inventory report were at the listed locations and assigned to employees and students on the inventory report, we performed an analysis of the inventory assignment and allocation, as well as the inventory disposal list.





Perth Amboy Public Schools

Administrative Headquarters Building

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Michael LoBrace
School Business Administrator

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November 29, 2025

Brian M. Klingele
Assistant State Auditor
New Jersey Legislature
Office of Legislative Services
125 South Warrant Street
P.O. Box 067
Trenton, NJ 08625-0067

Re: District Response to State Auditor's Confidential Report for
July 1, 2021–June 30, 2025.

Dear Mr. Klingele:

This formal response addresses the principal observations, findings, and recommendations in the State Auditor's confidential draft report for Perth Amboy Public Schools, summarizes the District's position, and outlines corrective actions.

Executive Summary of the District's Position

In December of 2021, the current business office administration inherited material accounting errors and budgeting issues, but has since implemented ongoing controls, reconciliations, and process improvements to prevent recurrences of prior deficiencies. The District has begun restoring structural balance through enhanced budget controls, targeted operational efficiencies, revenue measures, and programmatic oversight, while safeguarding core educational services.

Response to Observations and Findings

Local Tax Levy Observation: The District did not increase the local tax levy for 11 years, foregoing potential revenue.

District Response: The administration repeatedly recommended allowable levy increases; these were not adopted by prior Boards.

The Board increased the FY25–26 levy by 15% (approximately \$3,919,461) to move toward the Local Fair Share and stabilize finances prospectively. The District will continue phased levy alignment within statutory parameters and community engagement to support long-term fiscal health.

Staff and Service Cuts Observation: The district cut staff and services because of budget constraints.

District Response: Staffing adjustments were driven primarily by escalating health benefit costs and were implemented following need-based analysis to limit educational impact; the District continues to identify efficiencies to protect instructional resources. Further, the claim that administrative salaries increased 13 percent from FY22 to FY24 and secretarial, home liaison, and technology positions were reduced is a misleading comparison. It combines unrelated budget categories and implies a causal relationship that does not exist.

“Administrative salaries” in the district budget are not a single line item; they encompass four distinct functional areas—General Administration, School Administration (principals/assistant principals), Central Services, and Administrative Information Technology. These areas follow different staffing structures, contractual requirements, and state-mandated obligations. Aggregating them into one figure and comparing that number to reductions in unrelated support positions misrepresents how the budget is actually organized.

Likewise, reductions in force among secretarial, liaison, or technology staff occur due to operational restructuring, enrollment shifts, or efficiency improvements, not because of administrator salary adjustments. Administrator salary changes are driven primarily by negotiated contracts, certification requirements, and competitive labor markets—not by reductions in other staff.

The District will continue to maintain data-driven staffing reviews and evaluate restoration of critical services as fiscal capacity improves.

General Fund Budgetary Deficit (FY2022) Finding: A \$13,040,742 deficit was driven chiefly by a \$11,230,835 transfer to the Special Revenue Fund to resolve accumulated deficits tied to prior improper budgeting and accounting errors.

District Response: The current administration implemented monthly budget projections and reconciliations beginning in FY2022–FY2023 to ensure compliance with N.J.A.C. 6A:23A-16.10(a)1 and to prevent repeat conditions.

The District will continue monthly variance analyses and year-end close protocols; strengthen Board reporting cadence.

Health Benefits Finding: The District could have saved approximately \$49.1 million (FY2020–FY2024) by participating in SEHBP; employees could have saved approximately \$2.2 million (FY2021–FY2024).

District Response: The prior broker emphasized self-insurance and creation of a health center, not participation in the SEHBP. The District declined consideration of self-insurance given risk exposure. Upon receipt of a timely and comprehensive comparative analysis from current broker, the District enrolled in SEHBP, converting over 4,500 covered lives and realizing significant projected savings (District estimate: \$27 million).

Preschool Program Eligibility Finding: Insufficient residency documentation in tested samples increased risk of enrolling non-resident students.

District Response: The State previously intervened due to provider-driven registration practices. The District restructured registration staffing, retrained personnel, and reaffirmed documentation protocols to ensure compliance with residency requirements.

The District will continue to conduct compliance reviews and periodic spot checks.

Criminal History Background Checks Finding: The District did not ensure all employees completed the required criminal history background checks. Forty (40) employee files needed updating.

District Response: Most of employees were hired prior to the current administration. The District promptly requested resubmission of fingerprints and updated transfer records; ongoing procedures now ensure compliance for all new hires and transfers.

The District will continue to maintain pre-employment and transfer checklists with system controls.

Application for State School Aid (ASSA) Finding: Inability to reconcile resident pupil counts for 2023–2025 resulting in DOE potential excess aid.

District Response: The District coordinates closely with its current auditor at and after the ASSA snapshot to confirm supporting documentation before submission and is formalizing policies to control backdating and retain underlying records.

Expenditures and Procurement Controls Finding: The District did not always comply with applicable purchasing policies and regulations.

District Response: Expenditures and purchasing have seen significant improvements in both processing and implementation since the new administration took control in 2021, and the District continues to make improvements to the systems and processes that were created for many years under the prior administration which previously resulted in 38 audit findings in 2018.

Significant improvements have been made by the current administration, and the District is continuing the process of reviewing procedures and implementing changes to further strengthen business office operations as well as providing extensive professional development for all District staff on proper purchasing procedures.

Payroll Controls (Overtime and Extra Compensation) Finding: Lack of controls and inconsistent application of procedures caused inaccurate, ineligible, and unreasonable payroll payments. Additionally, unclear payroll schedule guidelines contributed to delays in timesheet submission.

District Response: In FY26 the District implemented electronic submission forms and updated extra-compensation processing instructions, trained administrators, and scheduled a pilot of Frontline Time & Attendance in mid-December 2025; biweekly submission schedules have been issued for the past two years.

The District will continue with the complete rollout of electronic timekeeping; standardize forms; real-time supervisory approvals; automated rate validations; clear submission deadlines in policy.

Offline Funds (Food Service, Athletic, Student Activity) Finding: The District did not always comply with the policies of the offline funds and did not deposit funds promptly.

District Response: The District implemented additional procedures and quarterly reviews for Food Services and Athletics; Student Activities procedures were updated and are operating efficiently; the business office is reinforcing timely deposits and increasing review frequency.

The District will continue to strengthen deposit timeliness controls, reconciliation logs, and documentation retention; periodic internal audits.

Information Technology Controls Finding: The District's information technology (IT) controls need to be strengthened.

Brian M. Klingele
Assistant State Auditor
November 21, 2025

District Response: The District retained a technology consultant to assess and improve IT governance, access management, password policies, and disaster recovery protocols. Policy development and enforcement are underway.

The District will continue to develop formal contingency plan and implement periodic access reviews.

Conclusion

Perth Amboy Public Schools acknowledges the audit's observations and findings and affirms that appropriate corrective measures have been implemented, with additional actions in progress. This current administration remains committed to the continuance of transparent governance, fiscal stewardship, and uninterrupted delivery of high-quality educational services to correct the areas of concerns established by the previous business administrator.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "LoBrace", is written over a circular stamp or seal.

Michael LoBrace
School Business Administrator
Board Secretary