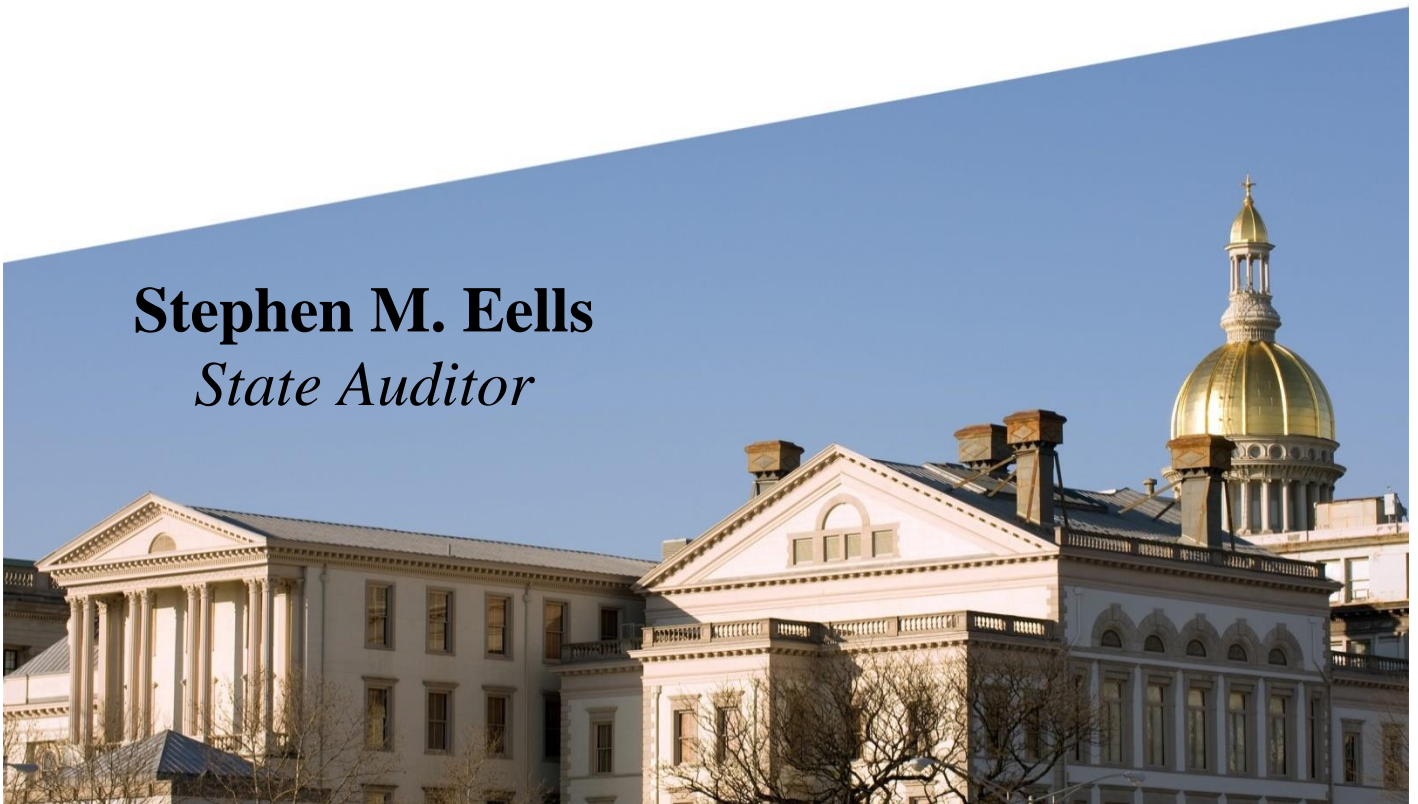


*New Jersey Legislature*  
★ *Office of* LEGISLATIVE SERVICES ★  
**OFFICE OF THE STATE AUDITOR**

Pemberton Township School District

July 1, 2016 to July 30, 2019

**Stephen M. Eells**  
*State Auditor*



2018-2019  
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The Honorable Philip D. Murphy  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Craig J. Coughlin  
Speaker of the General Assembly

Ms. Peri A. Horowitz  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Pemberton Township School District for the period of July 1, 2016 to July 30, 2019. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in blue ink that reads "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
January 21, 2020

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### *Scope*

We have completed an audit of the Pemberton Township School District (district) for the period July 1, 2016 to July 30, 2019. Our audit included financial activities accounted for in the district's general fund, special revenue fund, and enterprise funds. Total expenditures per annual audited financial reports were \$122.4 million and \$129.9 million in fiscal years 2017 and 2018, respectively. Approximately 84 percent of the district's funding for fiscal years 2017 and 2018 came from state sources. The district provides regular, vocational, and special educational services to grade levels pre-kindergarten through 12. Total annual district enrollment was 4,890 and 4,781 for the 2017 and 2018 school years, respectively.

### *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 systems. 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 and Title 18A:7F-6(d), originally known as the "Comprehensive Educational Improvement and Financing Act of 1996" amended to the "School Funding Reform Act of 2008".

### *Methodology*

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 that 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, and policies of the New Jersey Department of Education and the 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 also read the district's budget and the Pemberton Township Board of Education (board) minutes, reviewed financial trends, and interviewed district personnel to obtain an understanding of the programs and the internal controls. In addition, we reviewed the annual audited financial reports of the district. Those reports did not contain any findings or recommendations for the fiscal years ended June 30, 2017 and 2018.

A non-statistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

### ***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 systems. In making these determinations, we noted several areas meriting management's attention. There were weaknesses in the internal controls over procurement and revenue collection, non-compliance with district sign in and out procedures, and inadequate oversight in payroll and human resources. Additionally, we observed a lack of effective use and security of the area known as the Co-Op. Our audit also identified reportable conditions deemed confidential in nature. These were communicated in a confidential management letter provided to district management only.

### ***Background***

Pemberton Township School District is comprised of an early childhood education center, seven elementary schools, two middle schools, and a high school situated over 62 square miles. The district employs approximately 1,150 individuals and serves approximately 4,800 students from Pemberton Township, Pemberton Borough, and Joint Base McGuire-Dix-Lakehurst. Aid to the district from state sources represents a significant portion of its total operating budget. Actual state revenues provided in fiscal year 2018 were approximately \$82.5 million and included approximately \$30.9 million in adjustment aid. Recent legislation effective for fiscal year 2019 modified the current school funding law and, among other modifications, reduces or eliminates adjustment aid through fiscal year 2025. The district's revised state revenues budgeted for fiscal year 2019 included a reduction of adjustment aid of approximately \$2.1 million, and the fiscal year 2020 budget proposes an additional reduction of \$2.7 million. It is anticipated that this aid will continue to decline through fiscal year 2025.

## Procurement Internal Controls

**The district made unnecessary purchases, did not comply with procurement policies, and did not properly limit access to the procurement system.**

New Jersey Administrative Code (N.J.A.C.) 6A:23A requires a school district to establish policies and procedures on internal controls and properly segregate duties. 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. The district is required to evaluate business processes annually, establish a strong control environment, and segregate duties based on available resources.

We judgmentally sampled 50 non-payroll expenditure transactions to a variety of vendors. This sample totaled approximately \$5.6 million in fiscal years 2017, 2018, and 2019 through October 10, 2018. We noted the following.

### *Unnecessary Purchases*

- During school year 2016-2017, the former director of security ordered a security system at a cost of \$62,327 without obtaining written bids, which are required for purchases over \$40,000. The new director reviewed the contract and the security system and determined it was not compatible or user friendly. The contract was terminated, and the system was never implemented. The district ultimately paid the vendor \$20,776.
- The district employs a full-time shop foreman, two full-time mechanics, and one part-time mechanic's helper. However, the district outsourced many of its repairs to a local repair shop. In school year 2017-2018, the district spent approximately \$84,000 for vehicle repairs that potentially could have been performed in-house such as the replacement of a radiator, oil pan, sensor, oil cooler, and front crank seal. The district did not comply with the Public School Contract Law in selecting the repair shops and did not provide justification as to why the repairs could not be done in-house. There were two garage bays available for vehicle repairs and a third bay that is currently being used for storing janitorial supplies.
- Our sample included an invoice for approximately \$2,750 for maintenance supplies. Testing of this invoice revealed that it was part of a \$36,000 blanket purchase order created by the maintenance department with a description "yearly PO for supplies." This purchase order was issued without obtaining quotes. The quote threshold applies to purchases of \$6,000 or more in the aggregate during the fiscal year. We expanded our testing for this vendor to include school year 2017-2018 and noted the district purchased three intercom systems totaling approximately \$3,800 for which we found elsewhere for a total of approximately \$2,100. In addition, the district was not able to locate one of the intercom systems that was signed as received, and the remaining two were stored unopened in a closet for over a year.

- In reviewing information technology inventory, we found the district ordered two laptops and accessories but received and was billed for four laptops with accessories totaling approximately \$8,200. Instead of returning the extra items, the district decided to keep them, and an additional purchase order was created for approximately \$4,100. The extra accessories in this order cost the district \$1,713. We reviewed another purchase of laptops and noted each time a laptop is purchased, additional accessories including an extra power adapter, an extra monitor, a wireless keyboard, and a mouse are ordered as a standard package. The Information Technology Director confirmed this was standard and is done without further justification of need.
- In concluding our information technology inventory review, we found the district purchased 2,877 Chromebooks, including 1,300 leased Chromebooks, from school years 2017 through 2020. The total inventory of Chromebooks exceeds the student and teacher population at the high school and middle school by 703 (24 percent). These extra Chromebooks cost approximately \$313,000.
- We expanded our original sample and judgmentally sampled 22 expenditure transactions totaling approximately \$104,000. In this sample we found payments for rental of medical equipment. During our audit period, the equipment was rented at an annual cost of approximately \$3,550, for a total cost to the district of approximately \$10,700. We researched and found the equipment could have been purchased for \$3,308. The equipment rental preceded the audit period by a number of years. In this instance, purchasing the equipment may have been more cost effective.

*Proper Approvals*

- Per the Public School Contracts Law, N.J.S.A. 18A:18A-4, the board should award a contract for goods or service by resolution when the contract, in the aggregate, exceeds the dictated bid thresholds. We found six contracts totaling approximately \$1.9 million, that each exceeded the thresholds, which were not presented to the board for approval.
- The board holds meetings regularly and is provided a list of pending payments for approval. N.J.S.A. 18A:19-1 permits payments to be released after approval by the board. The business office manual states that purchase orders will not be accepted after the due date for the upcoming board meeting. In our sample, we found eight transactions totaling approximately \$1,757,000 that were not on the bill approval list provided to the board and were disbursed without board approval. One of these payments for \$1.6 million was a partial payment for a window, heating, ventilation, and air conditioning replacement project with a total cost of \$3.4 million. Exceptions to the approval process are permitted in emergency situations but are required to be reviewed by the business administrator who shall either approve or disapprove the payment. This payment was not of an emergent nature and was not approved or disapproved by the business administrator. The payment was subsequently presented to the board for approval after we brought it to management's attention. The remaining payments were presented at board meetings subsequent to the disbursement.

- Purchase orders created and approved after goods or services are received are commonly referred to as confirming orders. Since these orders do not follow the proper process, the business office cannot confirm availability of funds, which can create budgeting issues. In our sample, we found nine payment transactions in which purchase orders totaling approximately \$1,167,000 were created after the goods or service were received.
- During our review of information technology inventory, we found the district acquired 1,300 Chromebook packages for \$738,000 through a three-year lease-purchase agreement, for school year 2019-2020. The lease-purchase agreement stated the district should make the first payment on July 1, 2019. A purchase order was not created in school year 2018-2019 since the purchase was to be applied to the following school year's budget. The employee who organized the agreement received notification the Chromebooks were ready for shipment by April 1, 2019 and arranged for delivery without preparing a purchase order or notifying the business office. This resulted in an unrecorded liability at June 30, 2019.
- Per the district's business manual, purchase orders that have completed the approval process may be increased by up to 10 percent and only require the business administrator's initials. If an approved purchase order needs to be increased beyond 10 percent, a new purchase order must be created. In our sample, we found seven purchase orders that were increased between 23 to 190 percent over the original approved amount. As a result, the district disbursed approximately \$292,000 in violation of policy thereby resulting in budgeting issues and the need to make transfers totaling approximately \$117,000.

#### *Quote and Bid Thresholds*

The Public School Contract Law requires a district to obtain quotes for purchases from a single vendor that exceed \$6,000 in total for a year. The law also requires a district obtain bids for purchases from a single vendor that exceed \$40,000 in total for a year. In our sample, we found three expenditure transactions that each exceeded the quote threshold, but quotes were not obtained. One of the purchases exceeded the threshold by 500 percent. We also found three expenditure transactions that exceeded the bid threshold without obtaining any bids. One of these was for the purchase of the security system mentioned earlier in our report. The remaining two purchase orders were for \$60,000 and \$77,000.

#### *Accounting System Access*

The district uses one computerized system that handles its procurement process, payroll processing, and human resources functions. The district's purchasing agent had access to all aspects of the system including capability to create vendor accounts, create requisitions, approve purchase orders, and generate payment. The purchasing agent was also responsible for setting up each user's access level in the system's procurement module. Once a user's name and password were established, the purchasing agent stored the user name and password documents in a locked cabinet. The system does not prompt users to change their passwords at their initial login. This created a situation where the purchasing agent had the ability to use his own or another user's

name and password to log into the system, create requisitions or purchase orders, and make payments. We reviewed the audit trail report for unauthorized activity and found 9 of 18 users, who do not have remote access, logged into the system while marked absent from work. We also reviewed all purchase transactions entered in the system for school year 2018-2019 to determine the timespan between creation and approval of a purchase order and found 30 were completed by two different users in under two minutes, which may indicate password sharing. The segregation of duties issue was brought to the attention of the business administrator who subsequently corrected the purchasing agent's access. The district is establishing new procedures for this function.

### **Recommendation**

The district should strengthen its purchasing policies and procedures to require justification for purchases, including those involving outsourcing of vehicle repairs, and prohibit non-emergency confirming orders. The district should comply with existing regulations for contract bidding and authorization requirements. Additionally the district should strengthen its system access policies and ensure that duties are properly segregated.



## **Transportation**

### **The district had a surplus of vehicles and did not comply with contracting regulations for outsourced transportation.**

In school year 2018-2019, the district had 66 buses and 35 vans but regularly operated only 46 buses and 24 vans, leaving 20 buses and 11 vans sitting idle on a daily basis. According to transportation personnel, there are typically two vehicles in the garage for repairs or maintenance daily. While it may be necessary to maintain spare vehicles, the district did not regularly use over 30 percent of its fleet.

The district has been experiencing a shortage of bus drivers despite advertising openings with competitive salaries and health benefits. Because of this shortage, the district contracted with private transportation vendors. The district spent approximately \$620,000 in school year 2017-2018 and \$652,000 in school year 2018-2019 in contracted transportation. The majority of these expenditures were with four contracted vendors. The district has renewed these contracts for five years without seeking bids from other transportation vendors as required by the Public School Contract Law.

### **Recommendation**

The district should continue its efforts to hire additional bus drivers to maximize the use of its existing fleet and should obtain bids for private transportation services in accordance with the

Public School Contract Law. It should evaluate the need for the size of the existing fleet if hiring efforts continue to be unsuccessful.



## **Payroll and Human Resources**

**Procedures for calculating payroll, and policies pertaining to attendance and terminations have led to a variety of errors.**

### *Prepaid Salary*

Based on past practice, the district prepays employees' biweekly salary. For example, the first pay date for the 2018-19 school year was on July 2, 2018 and covered the period from July 2, 2018 through July 13, 2018. Prepayment of salary increases the risk of payment errors when an employee goes into non-pay status or employment is terminated. This causes additional payroll calculations and time-consuming payroll adjustments.

We selected payments to 24 of 37 employees who were in non-pay status sometime between October 1, 2018 and December 31, 2018 to determine if their paychecks were accurate. The payroll office found and corrected payments totaling approximately \$4,500 to nine of the employees. However, we found an additional seven employees were overpaid approximately \$9,600, but subsequent payrolls were never adjusted. All of these overpayments resulted because employees who later went into non-pay status were prepaid.

We also selected 25 individuals whose employment was terminated during school years 2016-2017 or 2017-2018 to determine if their final paychecks were accurate. We found 10 employees were overpaid approximately \$16,000. These overpayments were caused by prepaying salary to employees whose employment was later terminated. The district did not detect these errors and therefore did not recover the overpayments.

### *Overpayments*

According to district administration, every teacher should have three blocks of classes, one lunch, one preparation period, and potentially one duty. If teachers have more than three blocks of classes, they are entitled to a stipend payment. In our review of teachers' schedules, we found two were each paid for an extra block that was not worked. Total overpayment was approximately \$12,000.

### *Leave Reporting Process*

An adequate system of internal controls requires oversight of leave-time reporting to prevent errors and irregularities from occurring and remaining undetected. The district does not have a policy for sick leave reporting requiring supervisory approval or verification in the district's

absence management system. When employees call out due to illness, they enter the leave time in the absence management system. If an employee requires a substitute, that option is selected. There are 187 employees in the district with no substitute requirement. This situation creates the ability for these employees to notify their supervisors of their absence and not record the sick leave time in the system. These omissions would not be detected, and the employee's sick leave balance would not be reduced.

### *Sign In and Out of School Buildings*

The district's payroll policy states, "Certain categories of staff members designated by the Superintendent of Schools shall be required to use a time clock or sign in and out of work daily in order to verify days and hours worked." Everyone is to sign in and out except for principals and assistant principals; however, we noted the district does not utilize the sign in and out process to verify time as intended. The majority of the employees at the high school sign-in electronically with their ID badge but do not sign-out electronically or manually; this violates the district policy. We selected sign in and out sheets for two days at seven schools to test for compliance with this policy.

We reviewed electronic logs and the paper sign in and out sheets at the high school for those employees who do not utilize the electronic option. The remaining schools provide pre-printed sign in and out sheets listing employees' names. The sheets were compared to the leave records in the absence management system to confirm those who did not sign-in were not working. Through this comparison, we found 330 of 1,138 instances where the employee did not sign in or out and leave time was not recorded in the absence management system. We also noted the employee lists at the six schools were incomplete and did not include names for 62 people on the pre-printed sheets, therefore these employees did not sign in or out.

### *Health Benefits*

District employees are eligible to receive health benefits. If employees join the district's health benefit plan, they are required to contribute to the cost through payroll deductions and the difference is paid by the district. Upon termination of employment, the human resources office should remove the employee from the health benefits plan timely. The New Jersey Division of Pensions and Benefits administers the health benefit programs and has a timetable with deadlines to submit documentation to terminate health benefits. We selected 15 individuals whose employment was terminated during school years 2016-2017 or 2017-2018 to determine if their health benefits were terminated timely and found one individual whose benefits were not terminated for 11 months after termination. Since the individual was no longer employed, the district paid the full cost of benefits during the period totaling approximately \$12,500. We also found an additional four individuals whose benefits were each maintained for an extra month.

### **Recommendation**

The district should consider discontinuing prepayment of employee salaries, thereby reducing the need for additional time-consuming calculations. It should implement consistent attendance procedures and create new procedures to verify leave time. The human resources office should remove terminated employees from health benefits timely, and the district should recoup all payments made in error.



## **Criminal History Review**

### **Criminal history reviews have not been properly completed.**

Pursuant to N.J.S.A. 18A:6-7.1, all prospective employees of a school district, under the supervision of the Department of Education, whose job duties include regular contact with pupils, must undergo a criminal history background check as a condition of employment. Results of the criminal history background check are returned to and maintained by the district human resources office.

From 1,724 criminal history background documents, we judgmentally sampled 80 individuals who were either employees, board of education members, or employees of contracted vendors. We found two did not have the background check performed. We also found five employees or employees of contractors whose documentation did not accurately reflect the district as the employer. Ensuring the district is listed as the employer increases the likelihood that the employer will be properly notified if a disqualifying offense occurs.

### **Recommendation**

The district should ensure that required personnel comply with criminal history review requirements. Employees or vendors who are currently not in compliance should have a background check performed before continuing with the district. The employer listed on the background check should be accurately reflected to ensure the employer is notified if an offense occurs with an employee or vendor.



## Revenue

**Revenue collection duties are not segregated, accounts are not properly reconciled, and an enterprise fund is not operated as such.**

### *Before and After Care Program Revenue*

The district operates before and after school childcare programs at five locations. Parents are responsible for childcare payments, and some payments are subsidized by the Burlington County Community Action Program (BCCAP). We reconciled the district's childcare revenue for one month and found there were subsidy revenues not collected at one school due to a system malfunction. The program employees were aware of the malfunction but did not follow up to have it corrected and did not report the issue to upper management. In addition, the district did not perform a proper reconciliation of the program revenue, and therefore management never detected the uncollected subsidy payments. Our reconciliation and analysis of the records show the district did not collect approximately \$20,000 of subsidy payments from September to February for school year 2018-2019.

### *Revenue Collection Process*

The district does not have written revenue collection policies or procedures for before and after care payments. The payment collection office in the before and after care program consists of three employees. However, one employee is responsible for collecting payments, recording them in a ledger, delivering deposits to the bank, and reconciling the bank accounts. The current unsegregated duties creates the possibility that revenue is collected, never deposited to the bank, and not detected by the district.

### *Out of District Revenue*

The district educates students from other districts in certain circumstances. Per N.J.S.A. 18A:38-19, whenever the pupils of any school district are attending public school in another district, within or outside the state, the board of education of the receiving district shall determine a tuition rate to be paid by the board of education of the sending district for an amount not in excess of the actual cost per pupil. The tuition contract agreement between districts further states that occupational therapy and physical therapy services may be billed. The district bills student tuition and therapy services to the other districts monthly. We tested all tuition billed to other districts for school year 2017-2018 and found three sending districts were not billed, resulting in lost revenue of approximately \$45,000. The sending districts were not billed due to miscommunication within the district. We also found errors that resulted in the district overbilling other districts by approximately \$1,700. These errors were not reviewed and proper oversight was not performed, therefore the errors were not previously identified.

### *Enterprise Funds*

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. At the time of our audit, the district maintained three enterprise funds.

We noted the bank account for the before and after care program had an average balance of \$307,000 from January 2018 to March 2019. The enterprise fund paid for direct expenses such as payroll and supplies, but costs associated with facility usage, utilities, or administrative expenses were not paid from the fund.

### **Recommendation**

Supervisors should review all bills created by the district and proper reconciliations should be performed monthly for all revenue accounts. Revenue collection duties should be properly segregated and the district should correct all billing errors. All costs associated with the before and after care program should be paid through user charges.

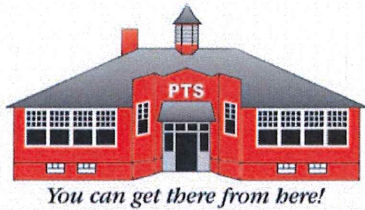


### **Observation**

During our field work, we observed several buildings known as the “Co-Op” that have been used to store a variety of items for several years. At our initial visit to the Co-Op, we noticed many items were stored there such as desks, chairs, other furniture, office equipment, and TVs. The buildings were not secured; one is a loading-dock type structure. The items we originally saw were removed, but the Co-Op was filled again with storage items such as computer carts and cafeteria equipment.

The Co-Op buildings appear in poor condition and would require renovations if the district intends to use the space for secure storage of assets. The district is facing budgetary cuts and has not set aside funds for this property.





# PEMBERTON TOWNSHIP SCHOOLS

**DAN SMITH**  
School Business Administrator

**TONY TRONGONE**  
Superintendent

January 9, 2020

Mr. David J. Kaschak, Assistant State Auditor  
New Jersey Legislature  
Office of Legislative Services  
Office of the State Auditor  
125 South Warren Street  
Trenton, New Jersey 08625-0067

Dear Assistant State Auditor Kaschak:

I have received your audit report of the Pemberton Township School District covering the period July 1, 2016 to July 30, 2019. On behalf of the school district, thank you for reviewing district processes and procedures, and making corresponding recommendations. Below are findings identified in the audit as well as our responses.

**The district made unnecessary purchases, did not comply with procurement policies, and did not properly limit access to the procurement system.**

- Through the audit process, the district took the following actions:
  - Provided guidance to requisitioners concerning unnecessary purchases;
  - Restricted the use of certain vendors;
  - Provided training to purchasing staff to ensure adherence to pre-existing board policies;
  - Adjusted the housing of user credentials for the procurement system; and
  - Limited user access to necessary functions.

**The district had a surplus of vehicles and did not comply with contracting regulations for outsourced transportation.**

- Through the audit process, the district took the following actions:
  - Received authorization to advertise sealed bids for outsourced transportation.
- Moving forward, the district will:
  - Re-evaluate the number of school buses owned during the 2020-2021 budget cycle; and
  - Advertise a formal bid for outsourced transportation routes in January 2020.

**Procedures for calculating payroll and policies pertaining to attendance and terminations have led to a variety of errors.**

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PEMBERTON LEARNING COMMUNITY: PURSUING EXCELLENCE ONE CHILD AT A TIME

- Through the audit process, the district took the following actions:
  - Implementation of several improvements and enhancements to the Human Resources and Payroll Departments; including: updated calculations for adjusted pay, leave reporting processes, and health benefit administration.
- The district is exploring options concerning the signing in and out of staff.

**Criminal history reviews have not been properly completed.**

Through the audit process, the district has implemented a system of checks and balances for the onboarding of new staff.

**Revenue collection duties are not segregated, accounts are not properly reconciled, and an enterprise fund is not operated as such.**

Moving forward, the district will review internal controls and practices concerning the enterprise fund in an effort to eliminate segregation of duties and account reconciliation issues.

I would like to thank you for your time and attention to Pemberton Township School District. The hard work and attention provided by your audit team has not gone unnoticed.

Thank you,



Mr. Tony Trongone  
Superintendent of Schools