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Township of Lakewood School District

July 1, 2011 to December 31, 2013

**Stephen M. Eells
State Auditor**

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New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 847-3901

OFFICE OF THE STATE AUDITOR
(609) 847-3470
FAX (609) 633-0834

STEPHEN M. EELLS
State Auditor

GREGORY PICA
Assistant State Auditor

JOHN J. TERMYNA
Assistant State Auditor

The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Vincent Prieto
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Township of Lakewood School District for the period of July 1, 2011 to December 31, 2013. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells
State Auditor
August 26, 2014

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Scope

We have completed an audit of the Township of Lakewood School District for the period July 1, 2011 to December 31, 2013. We focused primarily on the purchasing and payroll functions of the district. We also reviewed the Chapter 192, Chapter 193, Title I, and Individuals with Disabilities Education Act (IDEA) programs administered by the district. Our audit included financial activities accounted for in the district's general fund and special revenue fund. The general fund is the district's primary operating fund and the special revenue fund accounts for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes.

Total expenditures were \$142.4 million and \$156.4 million in fiscal years 2012 and 2013, respectively. The state and federal government fund approximately 49 percent of district expenditures. The district provides regular, special education, and vocational services to approximately 5,200 pre-kindergarten through twelfth-grade students in its public schools. In addition, as of March 2013, the Township of Lakewood had 77 registered nonpublic schools with approximately 21,500 students. On April 25, 2014, the Commissioner of Education appointed a state monitor for oversight of district fiscal operations.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the school district's programs, were reasonable, and were recorded properly in the accounting systems. In addition, since during our fieldwork a general fund deficit was projected for the fiscal year ending June 30, 2014, an objective was to determine the primary factors that contributed to the deficit. We also tested for resolution of the significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

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, federal regulations, 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 also read school district budgets and board minutes, reviewed financial trends, and interviewed school district personnel to obtain an

understanding of the programs and the 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.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the school district and walked through the system to determine if the corrective action was effective.

Conclusions

We found that financial transactions included in our testing were related to the school district's programs; however, they were not always reasonable or properly recorded in the accounting systems. We found a lack of continuity in leadership in key administrative positions which interfered with the ability to establish and enforce internal controls. We found differences between board approval and expenditures recorded in the accounting system, state and federal grant programs lacking internal controls and proper oversight, numerous weaknesses related to the payroll and personnel functions, and other issues requiring corrective action. We also identified factors contributing to the projected general fund deficit as of June 30, 2014. The district has not fully resolved the significant issues noted in our prior report regarding segregation of duties, extra compensation monitoring, and employee contracts. These issues have been updated in our current report.

We observed that transportation costs of the district could be reduced with the implementation of certain initiatives. We also observed that other approved nonpublic school IDEA programs or services could potentially benefit a greater population of nonpublic school students with disabilities.

We have referred certain issues to the Division of Criminal Justice.

Projected Deficit

Long-term goals should be developed to address the costs associated with the rapid growth in the district.

The district's independent financial statement auditors have completed and issued a report dated January 15, 2014 that identifies a projected budgetary general fund deficit of \$5 million as of June 30, 2014. Increases in student transportation costs for public and nonpublic school students and special education tuition account for \$2.6 million of this projected deficit.

Control Environment

The district has not been able to maintain continuity in leadership. Since September 2008, the superintendent position has been held by three individuals. The business administrator changed eight times since February 2008 and the assistant business administrator changed four times during the period December 2012 through December 2013. The lack of stability in key administrative positions has inhibited the development of long-term goals and has interfered with the ability to establish and enforce internal controls to ensure district resources are expended in an efficient and effective manner.

Growing Population

The population growth in Lakewood is significant. Our review of the district's student enrollment data captured in the Title I application on the state's Electronic Web-Enabled Grant (EWEG) system noted nonpublic school growth averaged 1,600 students per year, while public school growth averaged just two students per year. General fund revenue generated from the local property tax levy increased an average of just 0.38 percent per year between fiscal years 2009 and 2013. However, the levy increased nine percent to \$77.1 million in fiscal year 2014.

Enrollment Date	10/15/2008	10/15/2009	10/15/2010	10/15/2011	10/15/2012
School Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Public School Enrollment*	4,901	4,906	4,701	4,810	4,907
Nonpublic School Enrollment*	14,558	16,061	17,636	19,028	20,902
Total	19,459	20,967	22,337	23,838	25,809

*These totals account for the schools that participate in the Title I program only.

Property Tax Levy	2009	2010	2011	2012	2013
General Fund (GF)	\$ 69,597,133	\$ 71,593,625	\$ 71,593,625	\$ 70,238,004	\$ 70,630,210
Debt Service Fund	\$ 1,250,715	\$ 1,242,075	\$ 1,952,532	\$ 867,074	\$ 1,615,847
Total	\$ 70,847,848	\$ 72,835,700	\$ 73,546,157	\$ 71,105,078	\$ 72,246,057

Expenditures (GF)	\$101,352,919	\$102,016,235	\$ 99,942,404	\$103,118,495	\$ 110,945,375
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Percentage (GF)	68.67%	70.18%	71.63%	68.11%	63.66%
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In addition to the factors noted above, other issues noted throughout this report also contribute to the projected general fund deficit, specifically legal costs, purchasing procedures, special education tuition, extra compensation, final leave balance payments, salary allocations, leaves of absence, and salary increases. Additional general fund savings may be achieved if transportation initiatives that were proposed to the board of education are implemented and general fund IDEA appropriations for nonpublic schools are reduced.

Recommendation

We recommend the district, in coordination with state and local officials, develop long-term goals that will address the costs associated with the rapid growth in the district. In addition, the district should make efforts to maintain continuity in leadership.



State and Federal Grant Programs

The district should improve monitoring of state and federal grant programs.

Title I Program

The purpose of Title I is to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on state academic achievement standards and state academic assessments. This is to be accomplished through instruction, professional development, and parental involvement. The district is responsible for the administration of this federal program and the internal controls governing the proper distribution of its funds. Funding is allocated between public and nonpublic schools based on total enrollment and the number of low-income students. The district was awarded \$8.7 million, \$15.4 million, and \$14.5 million in Title I, Part A funds for grant years 2011-2012, 2012-2013, and 2013-2014, respectively.

Reconciliation Procedures

The New Jersey Department of Education (NJDOE) requires the district to complete a final expenditure report annually in the state's Electronic Web-Enabled Grant (EWEG) system. This report designates both public and nonpublic grant expenditures for the award period. If expenditures are less than the award amount, carryover is generated and allocated to the subsequent year grant award amount. The district has designated specific account codes to track spending of the current year award, as well as carryover funds from the prior year spent in the current year. We were unable to reconcile the 2012-2013 EWEG final expenditure report to the district's financial system. The district only included expenditures from the accounts for the 2012-2013 award amount, and did not include expenditure activity in the carryover accounts during this period. This resulted in an under-reporting of expenditures and an inflated amount of carryover funds to the 2013-2014 grant year. We were also unable to reconcile the district's

financial system to carryover amounts reported in the final expenditure reports filed in the EWEG system for the 2011-2012 and 2012-2013 grant years. For example, the EWEG report indicated that no funds were carried over to the 2011-2012 grant year, but \$730,000 was spent out of the district's 2011-2012 carryover accounts according to the district's financial system. Failure to reconcile financial activity recorded in the district's financial system and accurately complete the final expenditure report results in improper allocations of Title I funds to subsequent grant years. It also increases the risk of funds reverting to the federal government because carryovers may not be liquidated within federally required timeframes.

Title I Waiver

At the conclusion of the 2011-2012 school year, the district was granted a waiver by the NJDOE to utilize unspent Title I, Part A funds totaling \$430,000 for other uses. These funds were originally designated for the public school Supplemental Educational Services (SES) program. The waiver specified that these funds would be reallocated between the public and nonpublic schools based on the proportionate number of students. This resulted in \$316,000 of additional funding to be used for nonpublic school services. The district used this funding and issued a Request for Proposal (RFP) to obtain speech, language arts literacy, math, counseling, and applied behavior analysis consultants to provide these additional services in the nonpublic schools. According to the RFP, "The consultant may work up to 12 hours per week as needed." Our review disclosed that one consultant worked full-time at an hourly rate of \$90 and was paid \$125,000 with Title I funds for the 2012-2013 school year. We visited the nonpublic school where this consultant was to be providing services and the individual was introduced to us as the school principal, a position that cannot be paid with Title I funds. This visit was made during the time of day the district was being billed for the consulting services.

Supporting Documentation

Title I, Part A expenditures are being paid with minimal supporting documentation. We judgmentally selected 43 of 1,896 transactions occurring during fiscal years 2012 and 2013 and found 33 did not have adequate supporting documentation, including the following.

- One individual was paid \$55,000 during the 2012-2013 school year as a professional development/parental involvement consultant for a nonpublic school. A district form was completed indicating that this individual would oversee Title I services and assess performance and the need for adjustments. According to the form, these services would be provided between 9:00 a.m. and 4:00 p.m. daily for the entire school year. We found no timesheets or activity logs to determine if services were provided. Furthermore, Title I guidance defines the term "professional development" as a comprehensive, sustained, and intensive approach to improve teachers' and principals' effectiveness in raising student achievement. Based on the documentation provided, this individual appeared to be serving in an administrative capacity, not providing professional development.

- In June 2011, the board approved a vendor to perform an evaluation of nonpublic Title I and Individuals with Disabilities Education Act (IDEA) services during the 2010-2011 school year. According to the board minutes, the cost of this analysis would be paid by the vendors contracted to provide Title I and IDEA services in the nonpublic schools. The district paid the vendor \$21,500 on October 28, 2011. According to management, credits were issued on subsequent vendor invoices to reimburse the district for the cost of the analysis; however, we were not provided with documentation to verify these credits were issued.
- The district utilized a law firm based out of Washington, DC during the 2011-2012 school year to provide legal research and opinions on various Title I issues. Services were billed at an hourly rate of \$305 and the firm was paid \$46,600 during the 2011-2012 school year. We tested one \$13,000 payment made in December 2011 and found inadequate supporting documentation. Included on the invoice was \$1,700 for airfare for an attorney to make an onsite visit to Lakewood, as well as billable hours for various research and analysis performed by the attorneys. We were not provided with documentation regarding the conclusions drawn from the research and analysis, and there was no documentation to support the cost of attorney travel expenses. In addition, we were unable to substantiate the need for the onsite visit.
- In June 2012, the district hired two consultants, one in the area of community needs and advocacy, and the other in the area of special student services and funded programs. These consultants were paid a total of \$22,900 for their services at hourly rates of \$100 and \$175, respectively. Supporting documentation for these services consisted of invoices referencing discussions between each other and the board attorney. The invoices also referenced a presentation at a district meeting and a report of recommendations. We were not provided with an outline of the presentation or the report of recommendations. In addition, it appears that some of the consulting involved IDEA services, yet all invoices were paid with general fund or Title I funds.
- The district paid a vendor \$104,000 for a professional development conference in February 2012 which teachers from various nonpublic schools were to attend. This conference is one of a series of seminars provided by this vendor annually. We sampled two conference fee payments to this vendor totaling \$20,450 for 45 individuals from two nonpublic schools. We were provided minimal documentation of what was covered at the conference and there were no sign-in sheets documenting which teachers actually attended. We were also unable to determine if all attendees were teachers of Title I students. This vendor was paid a total of \$507,000 during fiscal years 2012 and 2013.
- The district paid an individual \$2,500 for providing professional development at a nonpublic school. Supporting documentation for this payment was a memo indicating that five teachers would attend a three-day multisensory reading course in July and August 2011. We were not provided with course agendas and materials to document professional development content or a sign-in sheet to document teacher attendance. We were also unable to determine if the five individuals were teachers of Title I students.

Recommendation

The district should ensure that Title I, Part A expenditures recorded in the district's financial system reconcile to the Title I expenditures recorded in EWEG expenditure reports. Expenditures from the carryover accounts should be included in the EWEG final expenditure report. Carryover spending should be properly tracked and accounted for in the district's financial system. Title I expenditures should not be paid without adequate supporting documentation and all payments should be made in accordance with Title I regulations and any applicable RFPs. Although the Title I regulations do not require specific trainer qualifications, we feel the district should make an effort to ensure professional development is benefiting the intended audiences by obtaining course materials. Sign-in sheets should also be obtained to verify attendance.

IDEA Program

The Individuals with Disabilities Education Act (IDEA) is a federal law ensuring special education services to children with disabilities. IDEA governs how states and public agencies provide early intervention, special education, and related services to eligible infants, toddlers, children, and youth with disabilities. The district is allocated grant funds for both public and nonpublic school students. The nonpublic school allocation is a proportionate share based on the number of students with disabilities parentally placed in nonpublic schools. The total IDEA award amount for the 2012-2013 grant year was \$6 million, of which \$4.8 million was allocated for nonpublic school students. The majority of the public school IDEA allocation is utilized to offset out-of-district special education tuition expenses. Using the nonpublic school IDEA allocation, the district has developed two major programs to service eligible students. The first program, the Non-Public Supplemental Services Program (NPSSP), provides early childhood education to children with disabilities. This program was provided by a contract vendor at a cost of \$1.7 million and is comprised of nine pre-school and three kindergarten classes. The second program, the Supplemental Resource Center Program (SRCP), provides math, reading, and writing in a small classroom setting for students with disabilities. This program was provided by two contract vendors at a cost of \$3.1 million and is comprised of 42 classes. Our review of these programs revealed the following.

Budget and Board Approval

Although the nonpublic school IDEA allocation was \$4,809,682 for the 2012-2013 grant year, the district entered into contracts totaling \$4,834,700 with third-party vendors to provide services to the nonpublic schools, which was \$25,000 over the amount allocated for nonpublic use. We also noted other IDEA expenditures that were paid out of the general fund and would have further added to the program funding deficit. The following excerpts from the 2012 board minutes indicate that items will be paid with IDEA funds, yet they were paid from the general fund.

- August 30, 2012 Minutes - “Approval of Lease Agreement with Bais Rivka Rochel in the amount of \$167,000.00 for the property located at 685 River Avenue, Lakewood, NJ to be utilized for the Non-Public Supplemental Services Program for the 2012-2013 school year. Rent to be paid monthly beginning September 1, 2012 and ending June 30, 2013 in the amount of \$16,700.00 per month. (Paid through IDIEA [sic] funds).”
- December 6, 2012 Minutes - “Approve a maximum amount \$375,000.00 for Tender Touch, occupation therapy, for non-public schools (paid through IDEA funds).”

According to IDEA guidelines, state and local funds may supplement and in no case supplant the proportionate amount of federal funds required to be expended for private school children with disabilities. According to management, the board has designated certain local funds for this purpose; however, the board minutes do not specify that these are supplemental funds or list the general fund account number which may not be transparent to the public. The total additional general fund amount spent for nonpublic school IDEA expenditures during the 2012-2013 school year was at least \$1 million. In addition to the NPSSP rent and Tender Touch contract, the district paid salary and benefit costs for five district employees whose schedules were allocated between public and nonpublic school students, as well as the stipend for the IDEA coordinator. As of September 2013, the district no longer utilizes public school employees to service nonpublic school students.

Supplemental Resource Center Program (SRCP) Class Size

The district is not maximizing SRCP class sizes. During the 2012-2013 school year, the district contracted with two vendors to provide SRCP classes at the nonpublic schools. The vendors are paid \$60,000 per class plus the additional costs of instructional assistants. Pursuant to the contract, SRCP class locations will maintain an average enrollment of at least eight students. The contract specifies that locations that fail to maintain these minimum student averages could result in cancellation by the board. We reviewed student enrollment during January 2013 through March 2013 for 15 schools with 37 SRCP classes and found that, on average, seven schools did not maintain the minimum student enrollment. The contract also requires the vendor to provide written notification if enrollment in any class drops below eight or an average of eight students at any time after December 1st. We asked for such notices and none were provided. We estimate the district could have saved \$165,000 during our three-month review period if classes with enrollment of less than eight students were canceled. Based on our analysis, four classes could have been merged into another class, and four classes could have been canceled.

Supplemental Resource Center Program (SRCP) Class Scheduling

Our review of the class schedules for the SRCP program found one instance where the same teacher was assigned to two classrooms scheduled to meet at the same time. The contract requires that each class will receive instruction from at least one certified special education teacher. According to management, the vendor utilized paraprofessionals as teachers in the two

classrooms while the certified teacher was supervising. The same individual was also listed as the supervisor of classes at other nonpublic schools. The district discussed this issue with the vendor and a credit of \$60,000 was issued.

Services Plans

Chapter 193 evaluation procedures are provided for the purpose of determining eligibility for special education and related services, and for developing a services plan outlining the services that will be provided. According to IDEA guidelines, services plans are required only for those parentally placed private school students with disabilities whom the local education agency (LEA) has elected to serve and should reflect only the services that the LEA has determined it will provide to the student. Any additional accommodations being provided by the private school should not be part of the services plan. The services plan must be developed, reviewed, and revised consistent with the individualized education program (IEP) requirements. We judgmentally selected 48 students out of 274 students enrolled in the SRCP program that had services plans posted on the district's file management system to determine if Chapter 193 and IDEA services were being provided in accordance with the services plans. We compared the May 2013 vendor billing records for IDEA, Chapter 192, and Chapter 193 services to the services plans and noted the following.

- Forty-five of forty-eight student services plans required a different SRCP frequency or duration than the service provided. Forty-one of these students received other services during the SRCP class time.
- Seventeen of forty-eight student services plans required a different supplemental instruction frequency or duration than the service provided.
- Twenty of thirty-eight student services plans required a different speech frequency or duration than the service provided.

SRCP classes are designed to provide math, reading, and writing in a small classroom setting for students with disabilities and were paid at a flat rate of \$60,000 per class. The same vendor is also providing and billing for Chapter 192 math and reading services during these SRCP classes. This appears to be a duplication of services. In addition, we found instances where supplemental instruction and speech therapy was provided by this vendor during the SRCP scheduled class time.

Non-Public Supplemental Services Program (NPSSP) Lease

The district is paying expenses that are outside the scope of a lease agreement. Classroom space is leased by the district during the 10-month period from September through June for the nonpublic early childhood program. The agreement was initiated in June 2005 and the terms and conditions between the parties remain unchanged. According to the agreement, the district is required to pay utility expenses during the lease period. Our testing revealed that the district

has been paying half of the electric bills for July and August which fall outside the lease period. The district paid \$3,700 for usage during July and August of 2012.

Recommendation

We recommend the district implement the following.

- Accurately note on board agendas and minutes which funds are utilized for IDEA programs.
- Determine if the district can continue to fund IDEA nonpublic expenditures with the use of local funds. This is especially critical given the current fiscal state of the district.
- Maximize SRCP class sizes by merging or canceling underutilized classes and ensure all classes are staffed with an appropriately certified teacher.
- Provide services to the students in accordance with their services plans.
- Disallow Chapter 192 and Chapter 193 services during the SRCP class time. If a student qualifies for these additional services, they should be provided before, or after, the SRCP class.
- Do not make payments for costs outside the scope of the NPSSP lease agreement and consider updating the agreement.

Chapter 192 and Chapter 193 Programs

The district is responsible for the administration of the state-funded Chapter 192 and Chapter 193 programs. These programs provide services to eligible students enrolled full-time in nonpublic elementary and secondary schools in the state. Chapter 192 provides students with auxiliary services such as compensatory education, English as a second language, and home instruction. Chapter 193 provides students with remedial services such as evaluation and determination of eligibility for special education and related services, supplementary instruction, and speech-language services. The district contracts with vendors to provide Chapter 192 and Chapter 193 services at the nonpublic schools. Payments to these vendors are made based on state-approved annual per pupil rates. The district spent a total of \$13.9 million and \$14.8 million of Chapter 192 and Chapter 193 funding during fiscal years 2012 and 2013, respectively. Regulations permit the district to utilize up to six percent of these funds for the administration of the program. Pursuant to the uniform chart of accounts, the district maintains several accounts in recording the activity of Chapter 192 and Chapter 193 services. Our review of these programs noted the following.

Compensatory Education

Compensatory education services are available to eligible students in language arts literacy (reading and/or writing) and mathematics. The district contracted with vendors to provide these services to eligible nonpublic school students. In addition to these contract vendors, we found 13 consultants paid from the account dedicated for compensatory education that did not provide compensatory education. Payments to these consultants totaled \$325,000 and \$201,000 during fiscal years 2012 and 2013, respectively. We judgmentally selected 12 payments to 10 of these consultants who were paid at an hourly rate with no evidence of a competitive procurement process or cap on total compensation. Examples of their job titles included Educational Consultant and Behavioral/Social Skills Consultant, which appeared to be unrelated to compensatory education. Supporting documentation provided for these services was inadequate and vague. Payments were made to some of these consultants for meetings with students, parents, and principals at certain nonpublic schools; however, none of them appeared to be providing language arts literacy or mathematics instruction.

Speech-Language

Eligible students receive speech-language services by an appropriately certified specialist that include language, articulation, voice, and fluency. In addition to the Chapter 192 and Chapter 193 contract vendors, the district paid five vendors to provide speech services at an hourly rate that exceeded the state-approved rate. These vendors were paid a total of \$63,000 and \$91,000 during fiscal years 2012 and 2013, respectively. We judgmentally selected three payments to three of these hourly vendors, which were comprised of speech services totaling \$10,300, and found that they were overpaid by more than \$7,200 since these vendors were not paid based on the state-approved rate.

Home Instruction

Home instruction is provided to eligible students who are enrolled full-time in a nonpublic school and are unable to attend school for at least ten consecutive school days or 15 cumulative school days during the year due to certain health conditions. The district paid a total of \$190,000 for fiscal year 2012 and 2013 home instruction services, of which \$170,000 was paid to a contract vendor. Payments totaling \$20,000 were made to three other individuals at an hourly rate that exceeded the state-approved rate. In addition, subsequent to December 2012, one of these individuals provided home instruction at the same time that they were scheduled to provide other Chapter 192 services as an employee of one of the contract vendors. Home instruction forms were completed and signed by the student's guardian for a timeframe that overlapped the timeframe that this individual was signed in as a teacher at a Chapter 192 class. This individual was paid \$8,640 for home instruction between January 2013 and June 2013.

School Visits

In May 2013, we judgmentally selected five nonpublic schools to visit and obtain an understanding of Chapter 192 and Chapter 193, IDEA, and Title I services being provided. Subsequent to our visits, we revisited one of these nonpublic schools to observe Chapter 192 and Chapter 193 services being administered to determine if services were being provided as scheduled. We visited SRCP, Chapter 192 math, and Chapter 192 reading classrooms. Students appeared to be receiving services in each of these classrooms. However, we did not determine if the students were the same students that were noted on the vendor's schedules. In one instance, we asked to observe a specific speech class. When we arrived, there was a teacher but the scheduled students were not present. The administrator tried to locate the students while we visited another class. Upon returning to the speech class, two students were present but they were not the students scheduled for that time slot on the vendor's schedule. These students were scheduled for later in the day. After leaving to visit another class, the two students from the speech class passed us in the hall to return to their actual scheduled class at that time.

We attempted to schedule a visit to one of the other nonpublic schools we initially visited to observe Chapter 192 and Chapter 193 services being administered, but there was a misunderstanding regarding the confirmation of our visit. After speaking with the school principal, we were told that visiting the school an hour later than we were scheduled would not be beneficial, as all services were ending and no classes were being held. Upon review of the vendor's class schedules, there should have been 34 classes in session at the time we would have made the visit. Furthermore, the attendance records showed that several students were marked present in these classes at the time of the proposed visit.

Subsequent to our visits, using allowable Chapter 192 and Chapter 193 administrative funding, the district hired three individuals to aid in the administration of the program and to monitor services being provided in the nonpublic schools. According to management, these individuals make visits to the nonpublic schools and determine if services are being provided to the students as scheduled.

Recommendation

We recommend the district implement the following.

- Discontinue the practice of paying consultants that are not providing compensatory education services with Chapter 192 funds.
- Pay vendors providing Chapter 192 and Chapter 193 services at the state-approved rates.
- Periodically contact parents/guardians of students receiving home instruction to confirm that services are being provided.

- Continue to make visits to the nonpublic schools to ensure services are being provided in accordance with the vendor class schedules.



Legal Costs

The district should develop a plan to reduce legal costs.

In accordance with N.J.A.C. 6A:23A-5.2, districts with legal costs that exceed 130 percent of the statewide average cost per pupil are required to implement certain procedures to reduce these costs. The district meets this criteria and has not yet adopted these procedures.

In April 2012, the Lakewood Board of Education appointed a law firm as legal counsel by board resolution at a rate of \$200 per hour. The resolution was made without public bidding as allowed by law since it is for professional services. During fiscal year 2013, the district paid this firm a total of \$1.1 million for legal services. In June 2013, the district issued a Request for Proposal (RFP) for legal services for the 2013-2014 school year and received responses from ten law firms. The original firm responded with an average hourly rate of \$161. Our review of their May and June 2013 bills found that this firm had reduced its rate to \$155 per hour. The district could have potentially saved \$204,000 in legal expenses during fiscal year 2013 if an RFP for these services had been issued. We used the firm's average rate from the June 2013 RFP to estimate these savings.

In addition, only \$15,000 of the \$125,000 in legal expenses for nonpublic schools was charged to the special revenue fund. Title I, Chapter 192, and Chapter 193 programs provide for administrative costs which could be used for nonpublic school legal fees. It should also be noted that, according to the invoices we reviewed, \$128,000 or 11 percent of the legal expenses were related to legal issues between the district and a former board attorney.

Recommendation

In accordance with N.J.A.C. 6A:23A, the district must follow certain procedures to lower its legal costs. The board should continue to utilize competitive bidding procedures to procure all future legal services. In addition, legal bills should be reviewed and allowable nonpublic legal expenses should be charged to the applicable special revenue fund grant accounts to alleviate the burden on the general fund.



Purchasing Procedures

Purchase orders should be issued and board approval should be obtained prior to the receipt of goods or rendering of services.

State regulations and district policy require a purchase order be issued prior to the receipt of goods or the services being rendered. We noted numerous instances where the district failed to meet this requirement. Purchase orders for 52 of 105 judgmentally selected expenditure transactions were not entered prior to the receipt of goods or services being rendered. Often, purchase orders were generated after an invoice was received from the vendor. We also noted 20 instances where services were rendered prior to board approval. This procurement practice results in the business office not having full knowledge of the obligations of the district which could potentially result in overspending the budget. It also resulted in expenditures not being recorded in the correct fiscal year. For example, the district entered into a \$4.4 million contract with a vendor to provide IDEA services for nonpublic school students during the 2012-2013 school year. The district created 13 different purchase orders to pay this vendor for services specified in the contract. Each month, the district generated a new purchase order subsequent to receiving the vendor's invoices. In addition, a purchase order was issued to this vendor in the amount of \$186,905 in fiscal year 2014 to pay for services rendered during fiscal year 2013.

Recommendation

The district should issue purchase orders and obtain board approval prior to goods or services being provided.



Lease Agreements

The district should discontinue rental payments for classroom space in nonpublic schools where Chapter 192 and Chapter 193 services are provided.

The district has entered into a facilities contract with one of the vendors that provides Chapter 192 and Chapter 193 services to students in the nonpublic schools. This agreement between the district and the vendor is for the use of vendor-owned modular and mobile classroom units that are located at the nonpublic schools, as well as classroom space within the nonpublic schools. The contract specifies that the district will provide the vendor with the funds necessary to pay the nonpublic schools for classroom space. The vendor is then required to pay the nonpublic schools within ten business days of receipt of these funds. During fiscal year 2013, the district paid a total of \$292,500 to the vendor for the use of classroom space within the nonpublic schools. An additional \$147,500 was paid to another vendor utilized by the district for the rental of nonpublic school classroom space.

The contract includes language that specifies, “the Board has provided documentation from an attorney for the New Jersey Department of Education that seems to allow a payment from a District vendor to a nonpublic school, so long as the statutory cost limitations are not exceeded.” This documentation is a series of emails between a former board attorney and an employee of the Department of Education. However, a letter dated April 1, 2011 from the Department of Education to the former board attorney states that the cost of rent to provide Chapter 192 services in a nonpublic school during the school day is not an allowable cost. We found these nonpublic school rental payments have continued subsequent to the date of the letter.

Recommendation

The district should modify the facilities contracts and discontinue rental payments for nonpublic school classroom space where Chapter 192 and Chapter 193 services are provided.



Information Technology

The district should strengthen internal controls over information technology.

The district utilizes Systems 3000 Visual Fund Accounting, Visual Personnel, and Visual Payroll applications to maintain and process its financial information. A review of the controls in place over these applications noted weaknesses in the areas of system access and business continuity.

System Access

System access was not disabled upon employee separation. Prudent access control practices dictate that user accounts for separated individuals should be disabled or removed in a timely manner. Our review found eight payroll, seven personnel, and six fund accounting user accounts that were still enabled for separated employees. When we brought this issue to management’s attention, system access was immediately disabled.

There were also instances where employee system access levels are not properly segregated. For example, payroll employees also have access to human resource functions. Access to incompatible functions enhances the risk of inappropriate transactions; however, our testing revealed no fraudulent transactions. In addition, ten employees had administrative roles of which seven had the ability to modify user authorities. These roles should be limited to a designated system administrator.

The district also does not utilize user access request forms when granting or modifying employee access to the systems. These request forms would provide supervisory authorization and would identify system access privileges based on employee job responsibilities. We also

found that the current system password requirements increase the risk of inappropriate access. System password settings should be modified to ensure passwords are required to be changed periodically and user names and passwords are not the same. In addition, failed login attempts should be limited.

Business Continuity

The district does not have a written disaster recovery plan. A comprehensive business continuity plan should address all potential disruptions to district operations. Industry best practices require periodic testing of the business continuity plan to ensure adequate controls are in place and functioning to minimize the loss of data if a disruption were to occur. System back-ups are stored on designated users' local machines and thumb drives that are kept at the same location. Back-ups are not sent to an off-site location.

Recommendation

We recommend the district delete or disable inactive user accounts upon employee separation, segregate duties for incompatible functions, limit administrative roles and designate a system administrator, develop access request forms, and modify system password settings. In addition, the district should develop a business continuity plan and procedures to store back-up data at an off-site location. The business continuity plan and back-up data should be periodically tested.



Special Education Tuition

Proper approval, tuition documentation, and attendance records should be obtained for students placed in unapproved nonpublic schools.

During fiscal years 2012 and 2013, the district paid tuition costs totaling \$33 million for out-of-district placements. Tuition is typically paid to approved private schools to provide public school students with special education programs that the district could not otherwise provide. These schools and their tuition have been approved by the New Jersey Department of Education (NJDOE). Students with disabilities may also be placed in accredited nonpublic schools which are not specifically approved for the education of students with disabilities with the consent of the Commissioner of Education, by an order of a court of competent jurisdiction, or by order of an administrative law judge as a result of a due process hearing. We judgmentally selected 31 of the 324 students that were sent out-of-district during the 2012-2013 school year of which 16 were attending unapproved nonpublic schools. Issues noted during our review follow.

- We were not provided with any court orders or forms signed by the Commissioner of Education documenting the approval of the 16 unapproved nonpublic school placements. Nor were we provided with documentation substantiating the accreditation of the nonpublic schools where these students were placed.

- We were unable to determine how the tuition costs for these unapproved nonpublic schools were calculated. Tuition for these placements ranged from \$9,800 to \$55,000 per year and totaled \$363,700.
- Eighteen placements had insufficient attendance documentation for the school year. Attendance should be submitted with monthly billings to provide assurance the student is attending school. Instances were noted where there were missing monthly attendance sheets or the attendance sheet was not clear on the days present or absent.

Recommendation

We recommend the district obtain the proper approval for students placed in unapproved nonpublic schools. The district should obtain documentation to substantiate the tuition for unapproved nonpublic schools. Attendance records should be obtained, reviewed, and maintained by district officials to ensure student attendance.



Payroll and Personnel

Extra Compensation Monitoring

Extra compensation payments should be properly monitored.

Extra compensation is approved at board meetings for various reasons including substitute teacher wages, non-contractual stipends, extracurricular activities, overtime, home instruction, mentoring, and payments for unused sick time. Extra compensation totaled \$4.8 million for calendar year 2012. We excluded certain extra compensation payments from this test including post-retirement accrued leave time payments as they were tested separately. Once approved for extra compensation and the work assignment is completed, the employee will fill out a payroll voucher and submit it to the payroll unit for payment. We judgmentally selected 39 employees with 236 extra compensation vouchers totaling \$167,500 during calendar years 2011 and 2012 and identified the following issues.

- Ninety-one vouchers were improperly paid. These improper payments totaled \$62,500 and were made to 15 of the 39 employees tested. For example, three employees received overtime payments totaling \$53,000. According to their employee contracts, they were ineligible to receive overtime payments. They were classified as executive secretaries that are not eligible for overtime payments in accordance with federal and state wage and hour laws.
- Ninety-two vouchers lacked proper supporting documentation to substantiate the payment. We found one employee that was paid \$15,000 out of the extra pay code instead of a salary code. This employee retired from the district and returned to work part-time in the business

office. Payroll vouchers were not completed to document the hours worked and there was no contract to substantiate the work arrangement. We also found the salary for this employee to be excessive when prorated and compared to their salary prior to retirement.

- One hundred twenty-seven of the vouchers reviewed were approved using signature stamps. Vouchers often lacked detailed information including the actual hours worked, and supervisory signatures and dates. We noted one voucher totaling \$1,560 that was paid for overtime during calendar year 2011. This payment was approved using a superintendent's signature stamp and was not dated by the individual who stamped the document. There were no actual signatures documenting supervisory review. This voucher was submitted by the former payroll manager.
- Fifty-four vouchers were for services that lacked prior approval by the board of education.
- Thirty vouchers were paid more than 30 days after work was documented to be completed, increasing the risk of errors being undetected. Eight of these vouchers were paid more than 50 days after work was completed. There was no time limit set by management for the submission of vouchers.

During our audit, the extra compensation voucher was revised and requires more detailed information in order to be approved for payment. According to management, incomplete payroll vouchers will no longer be processed and voucher issues are immediately discussed with the employees and supervisors.

Recommendation

We recommend all payroll vouchers contain direct supervisory approval and prior approval from the board of education. The payroll unit should continue to verify that vouchers are submitted with proper supporting documentation including approvals and hours worked. The district should avoid the use of signature stamps.

Criminal History Background Checks

The district should ensure that each prospective employee completes the required criminal history background check process.

The district failed to ensure the proper background check process was completed for several employees. N.J.S.A. 18A:6-7.1 requires that all prospective employees of a school district, under the supervision of the New Jersey Department of Education (NJDOE), whose job duties include regular contact with pupils, must submit to a criminal history background check as a condition of employment. The district is responsible to ensure that each employee has completed the required process prior to employment.

We obtained from the NJDOE the list of individuals cleared to work for the Lakewood School District. This list was matched to individuals on the district's April 2013 position control roster and substitutes paid by the district during calendar year 2012. We found the district failed to ensure the proper background check process was completed for 97 employees, which included administrators, teachers, and substitutes. Many of these individuals may have been cleared by another employing district. However, if an arrest for a subsequent disqualifying offense occurred, the district would not have been notified. As a result of our review, the district has completed the process to qualify 77 of the individuals for employment. The district took no action on the 13 individuals who are no longer employed and seven individuals who were substitute teachers. The district has contracted with a vendor to supply substitutes when needed, and this vendor would be responsible for the completion of proper background checks. We verified with the NJDOE Criminal History Review Unit that these individuals did not commit a disqualifying offense.

Recommendation

We recommend the district ensure that each potential employee complete the required criminal history background check process prior to employment.

Final Leave Balance Payments

Final leave balances should be verified prior to payment.

Improper leave balance payments were made by the district. We judgmentally selected a sample of unused sick and unused personal leave balance payments made to 22 retiring individuals in calendar years 2011 and 2012 to determine if these payments are being made in accordance with the negotiated agreements and employee contracts. In addition, we selected five individuals that were included on the March 2013 and July 2013 board minutes to be approved for payment, to verify the accuracy of the payment calculations. Payments and anticipated payments for these employees totaled \$640,000. This sample included employees covered under the Lakewood Education Association (LEA) and Lakewood Administrators' Association (LAA) agreements, and non-union employees. Leave balance testing was comprised of a review of leave records maintained in employee personnel files. These documents consisted of old manual leave records and computer-generated reports. Our testing noted the following.

- Payments were improperly calculated and paid to 17 retirees. Leave records could not be located for three individuals. Underpayments totaled \$12,100 while overpayments totaled \$44,800. In addition, calculation errors totaling \$14,300 were noted for three of the five individuals included on the March 2013 and July 2013 board minutes. Payments to four individuals were not made in accordance with the LEA agreement, LAA agreement, or non-union employee contracts. For example, one individual was paid for 50 percent of their leave time balance when they were only eligible for 40 percent resulting in an overpayment of \$9,800. Another employee submitted a voucher for payment which was board-approved at the 50 percent rate when they were only entitled to 40 percent, resulting in a potential

overpayment of \$12,700. We brought this to management's attention and the amount had been corrected prior to payment.

- All 25 payment vouchers tested were missing signatures and dates required for approval and completion. Many of these vouchers were approved using a superintendent's signature stamp and were not dated by the individual who stamped the document. In these instances, there were no actual signatures documenting supervisory review.
- Nine employees utilized more personal days than allowed in one year. Employees receive four or five personal days each year depending on their job title and date of hire. Personal days accrue for retirement purposes only. These additional days were not deducted from the accrued personal leave balances.

Many of these leave balance errors were caused by human error on old manual leave records and balances that were not carried over correctly when the district migrated to different financial systems. Payments for unused sick and unused personal leave are now capped at \$15,000 for LAA employees hired after June 2009. Payments for LAA employees hired prior to July 1, 2009 are capped at their value as of June 30, 2013, or \$15,000, whichever is greater. No additional accumulated time will be paid; however, days will continue to accumulate for use. This stipulation may limit the risk of future overpayments.

Recommendation

We recommend the district review and verify the final leave balances when an employee is retiring to ensure accurate payment calculations. All calculations should be checked for mathematical accuracy. Payments should be made in accordance with the district's negotiated agreements or employee contracts.

Salary Allocations

Employee salaries should be charged to the proper grant accounts.

The district receives state and federal grant awards from which they are allowed to utilize a percentage of the funds for administration. Grant activity is accounted for in the district's special revenue fund. We judgmentally selected nine employees paid \$245,000 during calendar year 2013, whose primary job responsibility was the administration of state and/or federal grants, to determine salaries were properly charged to the applicable grant accounts. We found that salary expenses totaling \$66,000 for six of these employees were not charged to the proper accounts. In all but one case, the district's general fund salary account was charged for these expenses. The district should use all administrative funds available and properly allocate grant employees' salaries to the proper accounts.

Recommendation

The district should charge employee salaries to the proper grant accounts when allowable.

Employee Contracts and Salary Increases

The district should generate contracts for all employees and carefully consider significant salary increases.

Several non-teaching employees did not have current contracts on file. We found eight employees that did not have a contract for the 2011-2012 or 2012-2013 school years. These employees included the payroll manager and executive secretaries. Based on our discussions with management, many of the business office employees do not have current contracts. Employee contracts should be generated each year for all employees in order to document what compensation and benefits an employee may receive. The district is in the process of generating contracts for these employees.

In addition, several non-union employees received large salary increases between fiscal years 2008 and 2013. These employees were all executive secretaries with the exception of the payroll manager. The salary and title for one of these executive secretaries was changed to Grants Coordinator in December 2012. The chart below illustrates that annual increases for these employees were as much as 38 percent. In contrast, the largest step-to-step increase for 12-month administrative secretaries covered under the Lakewood Education Association (LEA) negotiated agreement was seven percent during the same time period. Two of the employees included in the chart below did not have current contracts on file.

Title	Annual Salary					
	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008
Grants Coordinator	\$95,000	\$69,000	\$60,000	\$60,000	\$45,887	\$44,100
Executive Secretary	\$60,000	\$60,000	\$49,682	\$49,682	\$44,069	\$42,297
Payroll Manager	\$75,000	\$61,000	\$61,000	\$61,000	\$59,000	\$46,455
Executive Secretary	\$60,000	\$60,000	\$60,000	\$60,000	\$44,037	\$42,338
Executive Secretary	\$72,000	\$60,000	\$60,000	\$60,000	\$44,413	\$42,696
Executive Secretary	\$61,500	\$60,000	\$60,000	\$60,000	\$47,505	\$45,642

Recommendation

The district should generate contracts for all employees to specifically outline benefits each employee is entitled to receive and justify extraordinary salary increases.

Leaves of Absence

Leaves of Absence should be properly tracked and monitored.

Employee health benefits coverage will typically continue for the first three months of leave; however, the employee is responsible for paying their required health benefit contributions. Coverage may continue for an additional nine months provided the employee pays the full cost of health benefits. We judgmentally selected a sample of 20 employees that took a leave of absence in calendar years 2011, 2012, or 2013 to determine if the leave was proper and that required health benefit contributions were received. Our review revealed 12 employees that were not paying required health benefit contributions or the full cost of the premium depending on the length of leave. We estimate that these unpaid contributions totaled \$95,400 for these employees. In addition, health benefits coverage continued for some individuals after it should have been discontinued. Testing was not performed on three individuals whose personnel files could not be located by the district. The district is also not tracking leave classifications taken by employees which could result in employees not being eligible for subsequent leave periods. The district is currently developing a methodology to track leave classifications and required contributions for future leaves of absence.

Recommendation

We recommend better communication and coordination between the health benefits and human resources units. The district should ensure that all leaves of absence are properly tracked and required health benefit contributions are received from the employees timely.



Observations

Transportation

Cost savings may be achieved if transportation initiatives that were proposed to the board of education are implemented.

In accordance with New Jersey Administrative Code, the district provides transportation to public and nonpublic school students who reside beyond two and one-half miles from their assigned high school (grades 9 through 12) and beyond two miles from their assigned elementary school (grades preschool through 8). The district, at their own expense, has also elected to provide non-mandated (courtesy) busing to public and nonpublic school students who would otherwise walk along the numerous hazardous routes identified in the township. During the 2012-2013 school year, 24,061 students were transported, of which 10,495 were provided courtesy busing. Because of significant student population growth within the municipality, transportation costs had increased to \$19.6 million for the 2012-2013 school year. In an effort to provide an efficient student transportation system, initiatives have been proposed to the board at

various monthly meetings that would result in significant savings to the district. A tiered busing system has been developed and implemented for students attending the public schools. The following nonpublic school initiatives have not been adopted.

- The majority of the nonpublic school bus routes in the district are segregated by gender. Since most of these schools have a 9:00 a.m. start time, the demand causes increased pricing by the vendors. Separately tiering the bell times for the girls and boys nonpublic schools could save the district up to \$6.7 million. For example, starting school at 8:30 a.m. for girls and 9:15 a.m. for boys would enable the busing contractors to bid on tiered routes which would reduce the overall number of buses needed and create more competitive route pricing.
- Currently, there are separate buses for each nonpublic school. Savings of approximately \$750,000 could be achieved if routes were developed by school locations, not specific schools. This would result in shorter bus routes and fewer buses.
- Currently, nonpublic schools could have two starting times and as many as five ending times which creates inefficiencies and the need for one-way routes. Providing transportation to nonpublic schools based on a single opening and closing bell schedule for each school building could save the district up to \$1.2 million. This initiative has been presented to the board's transportation committee.

It should be noted that tiering the bus routes could reduce the savings of other proposed initiatives.

IDEA Program

The district should determine if other approved IDEA programs or services could potentially benefit a greater population of nonpublic school students with disabilities.

The Individuals with Disabilities Education Act (IDEA) is a federal law ensuring special education services to children with disabilities. IDEA governs how states and public agencies provide early intervention, special education, and related services to eligible infants, toddlers, children, and youth with disabilities. The district is allocated grant funds for both public and nonpublic school students. The district receives the most nonpublic IDEA Basic funding in the state. During the 2011-2012 grant year, the district received \$4 million, approximately 18 percent of the total nonpublic IDEA Basic funding in the state. In comparison, the second highest district received \$700,000. The district has developed two main programs to service the student population. We noted certain inefficiencies in our IDEA finding included in this report for one of these programs that provides instruction for students with disabilities at a cost of \$60,000 per class. According to Lakewood's IDEA application for the 2011-2012 grant year, there were 3,547 eligible parentally placed private school students with disabilities, of which only 426 (12 percent) would receive services through IDEA Basic funds. Because of this, we compared the 2011-2012 IDEA applications for the top six districts that receive nonpublic

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

IDEA Basic funding and calculated per student amounts and percentages. These districts are summarized in the chart below.

	Lakewood	Passaic City	Jersey City	Elizabeth	Paramus	Hamilton
Eligible Students with Disabilities	3,547	461	249	298	406	341
Proportionate Share	\$3,984,679	\$ 793,446	\$ 780,493	\$ 669,559	\$ 505,822	\$ 454,314
Students Who Will Receive Services	426	461	249	298	406	286
Amount Per Eligible Student	\$ 1,123	\$ 1,721	\$ 3,135	\$ 2,247	\$ 1,246	\$ 1,332
Amount Per Student Served	\$ 9,354	\$ 1,721	\$ 3,135	\$ 2,247	\$ 1,246	\$ 1,589
Percentage of Students Served	12%	100%	100%	100%	100%	84%

The district should determine if the continuation of the programs are the most effective use of these funds. Providing other IDEA approved programs or services could potentially benefit a greater population of nonpublic school students with disabilities.

LAURA A. WINTERS
Superintendent of Schools

THOMAS A. D'AMBOLA
Business Administrator/
Board Secretary

LAKEWOOD BOARD OF EDUCATION



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JONATHAN SILVER

August 20, 2014

New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
Trenton, New Jersey 08625-0067

Dear Mr. Pica,

Please find attached in your Legislative Report, comments from the Lakewood School District.

If you have any questions, please feel free to contact me at 732-905-3633.

Thank you in advance.

Respectfully,


Laura A. Winters
Superintendent of Schools

New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Township of Lakewood School District

July 1, 2011 to December 31, 2013

Stephen M. Eells
State Auditor

Confidential Draft August 1, 2014

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Scope

We have completed an audit of the Township of Lakewood School District for the period July 1, 2011 to December 31, 2013. We focused primarily on the purchasing and payroll functions of the district. We also reviewed the Chapter 192, Chapter 193, Title I, and Individuals with Disabilities Education Act (IDEA) programs administered by the district. Our audit included financial activities accounted for in the district's general fund and special revenue fund. The general fund is the district's primary operating fund and the special revenue fund accounts for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes.

Total expenditures were \$142.4 million and \$156.4 million in fiscal years 2012 and 2013, respectively. The state and federal government fund approximately 49 percent of district expenditures. The district provides regular, special education, and vocational services to approximately 5,200 pre-kindergarten through twelfth-grade students in its public schools. In addition, as of March 2013, the Township of Lakewood had 77 registered nonpublic schools with approximately 21,500 students. On April 25, 2014, the Commissioner of Education appointed a state monitor for oversight of district fiscal operations.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the school district's programs, were reasonable, and were recorded properly in the accounting systems. In addition, since during our fieldwork a general fund deficit was projected for the fiscal year ending June 30, 2014, an objective was to determine the primary factors that contributed to the deficit. We also tested for resolution of the significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

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, federal regulations, 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 also read school district budgets and board minutes, reviewed financial trends, and interviewed school district personnel to obtain an

understanding of the programs and the 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.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the school district and walked through the system to determine if the corrective action was effective.

*Conclusions**

We found that financial transactions included in our testing were related to the school district's programs; however, they were not always reasonable or properly recorded in the accounting systems. We found a lack of continuity in leadership in key administrative positions which interfered with the ability to establish and enforce internal controls. We found differences between board approval and expenditures recorded in the accounting system, state and federal grant programs lacking internal controls and proper oversight, numerous weaknesses related to the payroll and personnel functions, and other issues requiring corrective action. We also identified factors contributing to the projected general fund deficit as of June 30, 2014. The district has not fully resolved the significant issuer noted in our prior report regarding segregation of duties, extra compensation monitoring, and employee contracts. These issues have been updated in our current report.

We observed that transportation costs of the district could be reduced with the implementation of certain initiatives. We also observed that other approved nonpublic school IDEA programs or services could potentially benefit a greater population of nonpublic school students with disabilities.

We have referred certain issues to the Division of Criminal Justice.

Projected Deficit

Long-term goals should be developed to address the costs associated with the rapid growth in the district.

The district's independent financial statement auditors have completed and issued a report dated January 15, 2014 that identifies a projected budgetary general fund deficit of \$5 million as of June 30, 2014. Increases in student transportation costs for public and nonpublic school students and special education tuition account for \$2.6 million of this projected deficit.

Control Environment

The district has not been able to maintain continuity in leadership. Since September 2008, the superintendent position has been held by three individuals. The business administrator changed eight times since February 2008 and the assistant business administrator changed four times during the period December 2012 through December 2013. The lack of stability in key administrative positions has inhibited the development of long-term goals and has interfered with the ability to establish and enforce internal controls to ensure district resources are expended in an efficient and effective manner.

Growing Population

The population growth in Lakewood is significant. Our review of the district's student enrollment data captured in the Title I application on the state's Electronic Web-Enabled Grant (EWEG) system noted nonpublic school growth averaged 1,600 students per year, while public school growth averaged just two students per year. General fund revenue generated from the local property tax levy increased an average of just 0.38 percent per year between fiscal years 2009 and 2013. However, the levy increased nine percent to \$77.1 million in fiscal year 2014.

Enrollment Date	10/15/2008	10/15/2009	10/15/2010	10/15/2011	10/15/2012
School Year	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Public School Enrollment*	4,901	4,906	4,701	4,810	4,907
Nonpublic School Enrollment*	14,558	16,061	17,636	19,028	20,902
Total	19,459	20,967	22,337	23,838	25,809

These totals account for the schools that participate in the Title I program only.

Property Tax Levy	2009	2010	2011	2012	2013
General Fund (GF)	\$ 69,597,133	\$71,593,625	\$71,593,625	\$ 70,238,004	\$ 70,630,210
Debt Service Fund	\$ 1,250,715	\$ 1,242,075	\$ 1,952,532	\$ 867,074	\$ 1,615,847
Total	\$ 70,847,848	\$ 72,835,700	\$73,546,157	\$71,105,078	\$ 72,246,057

Expenditures (GF)	\$101,352,919	\$102,016,235	\$99,942,404	\$103,118,495
\$110,945,375				

Percentage (GF)	68.67%	70.18%	71.63%	68.11%	63.66%
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In addition to the factors noted above, other issues noted throughout this report also contribute to the projected general fund deficit, specifically legal costs, purchasing procedures, special education tuition, extra compensation, final leave balance payments, salary allocations, leaves of absence, and salary increases. Additional general fund savings may be achieved if transportation initiatives that were proposed to the board of education are implemented and general fund IDEA appropriations for nonpublic schools are reduced.

Recommendation

We recommend the district, in coordination with state and local officials, develop long-term goals that will address the costs associated with the rapid growth in the district. In addition, the district should make efforts to maintain continuity in leadership.

Lakewood School District Response

The Lakewood School District Administration is currently working with a state appointed monitor on creating long term goals that will address the costs associated with the rapid growth in the district. In 2012, maintaining continuity in district leadership was a Board of Education priority, as the Superintendent received a 5 year contract.

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State and Federal Grant Programs

The district should improve monitoring of state and federal grant programs.

Title I Program

The purpose of Title I is to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on state academic achievement standards and state academic assessments. This is to be accomplished through instruction, professional development, and parental involvement. The district is responsible for the administration of this federal program and the internal controls governing the proper distribution of its funds. Funding is allocated between public and nonpublic schools based on total enrollment and the number of low-income students. The district was awarded \$8.7 million, \$15.4 million, and \$14.5 million in Title I, Part A funds for grant years 2011-2012, 2012-2013, and 2013-2014, respectively.

Reconciliation Procedures

The New Jersey Department of Education (NJDOE) requires the district to complete a final expenditure report annually in the state's Electronic Web-Enabled Grant (EWEG) system. This report designates both public and nonpublic grant expenditures for the award period. If expenditures are less than the award amount, carryover is generated and allocated to the subsequent year grant award amount. The district has designated specific account codes to track spending of the current year award, as well as carryover funds from the prior year spent in the current year. We were unable to reconcile the 2012-2013 EWEG final expenditure report to the district's financial system. The district only included expenditures from the accounts for the 2012-2013 award amount, and did not include expenditure activity in the carryover accounts

during this period. This resulted in an under-reporting of expenditures and an inflated amount of carryover funds to the 2013-2014 grant year. We were also unable to reconcile the district's

financial system to carryover amounts reported in the final expenditure reports filed in the EWEG system for the 2011-2012 and 2012-2013 grant years. For example, the EWEG report indicated that no funds were carried over to the 2011-2012 grant year, but \$730,000 was spent out of the district's 2011-2012 carryover accounts according to the district's financial system. Failure to reconcile financial activity recorded in the district's financial system and accurately complete the final expenditure report results in improper allocations of Title I funds to subsequent grant years. It also increases the risk of funds reverting to the federal government because carryovers may not be liquidated within federally required timeframes.

Title I Waiver

At the conclusion of the 2011-2012 school year, the district was granted a waiver by the NJDOE to utilize unspent Title I, Part A funds totaling \$430,000 for other uses. These funds were originally designated for the public school Supplemental Educational Services (SES) program. The waiver specified that these funds would be reallocated between the public and nonpublic schools based on the proportionate number of students. This resulted in \$316,000 of additional funding to be used for nonpublic school services. The district used this funding and issued a Request for Proposal (RFP) to obtain speech, language arts literacy, math, counseling, and applied behavior analysis consultants to provide these additional services in the nonpublic schools. According to the RFP, "The consultant may work up to 12 hours per week as needed." Our review disclosed that one consultant worked full-time at an hourly rate of \$90 and was paid \$125,000 with Title I funds for the 2012-2013 school year. We visited the nonpublic school where this consultant was to be providing services and the individual was introduced to us as the school principal, a position that cannot be paid with Title I funds. This visit was made during the time of day the district was being billed for the consulting services.

Supporting Documentation

Title I, Part A expenditures are being paid with minimal supporting documentation. We judgmentally selected 43 of 1,896 transactions occurring during fiscal years 2012 and 2013 and found 33 did not have adequate supporting documentation, including the following.

- One individual was paid \$55,000 during the 2012-2013 school year as a professional development/parental involvement consultant for a nonpublic school. A district form was completed indicating that this individual would oversee Title I services and assess performance and the need for adjustments. According to the form, these services would be provided between 9:00 a.m. and 4:00 p.m. daily for the entire school year. We found no timesheets or activity logs to determine if services were provided. Furthermore, Title I guidance defines the term "professional development" as a comprehensive, sustained, and intensive approach to improve teachers' and principals' effectiveness in raising student achievement. Based on the documentation provided, this individual appeared to be serving in an administrative capacity, not providing professional development.

- In June 2011, the board approved a vendor to perform an evaluation of nonpublic Title I and Individuals with Disabilities Education Act (IDEA) services during the 2010-2011 school year. According to the board minutes, the cost of this analysis would be paid by the vendors contracted to provide Title I and IDEA services in the nonpublic schools. The district paid the vendor \$21,500 on October 28, 2011. According to management, credits were issued on subsequent vendor invoices to reimburse the district for the cost of the analysis; however, we were not provided with documentation to verify these credits were issued.
- The district utilized a law firm based out of Washington, DC during the 2011-2012 school year to provide legal research and opinions on various Title I issues. Services were billed at an hourly rate of \$305 and the firm was paid \$46,600 during the 2011-2012 school year. We tested one \$13,000 payment made in December 2011 and found inadequate supporting documentation. Included on the invoice was \$1,700 for airfare for an attorney to make an onsite visit to Lakewood, as well as billable hours for various research and analysis performed by the attorneys. We were not provided with documentation regarding the conclusions drawn from the research and analysis, and there was no documentation to support the cost of attorney travel expenses. In addition, we were unable to substantiate the need for the onsite visit.
- In June 2012, the district hired two consultants, one in the area of community needs and advocacy, and the other in the area of special student services and funded programs. These consultants were paid a total of \$22,900 for their services at hourly rates of \$100 and \$175, respectively. Supporting documentation for these services consisted of invoices referencing discussions between each other and the board attorney. The invoices also referenced a presentation at a district meeting and a report of recommendations. We were not provided with an outline of the presentation or the report of recommendations. In addition, it appears that some of the consulting involved IDEA services, yet all invoices were paid with general fund or Title I funds.
- The district paid a vendor \$104,000 for a professional development conference in February 2012 which teachers from various nonpublic schools were to attend. This conference is one of a series of seminars provided by this vendor annually. We sampled two conference fee payments to this vendor totaling \$20,450 for 45 individuals from two nonpublic schools. We were provided minimal documentation of what was covered at the conference and there were no sign-in sheets documenting which teachers actually attended. We were also unable to determine if all attendees were teachers of Title I students. This vendor was paid a total of \$507,000 during fiscal years 2012 and 2013.
- The district paid an individual \$2,500 for providing professional development at a nonpublic school. Supporting documentation for this payment was a memo indicating that five teachers would attend a three-day multisensory reading course in July and August 2011. We were not provided with course agendas and materials to document professional development content or a sign-in sheet to document teacher attendance. We were also unable to determine if the five individuals were teachers of Title I students.

Recommendation

The district should ensure that Title I, Part A expenditures recorded in the district's financial system reconcile to the Title I expenditures recorded in EWEG expenditure reports. Expenditures from the carryover accounts should be included in the EWEG final expenditure report. Carryover spending should be properly tracked and accounted for in the district's financial system. Title I expenditures should not be paid without adequate supporting documentation and all payments should be made in accordance with Title I regulations and any applicable RFPs. Although the Title I regulations do not require specific trainer qualifications, we feel the district should make an effort to ensure professional development is benefiting the intended audiences by obtaining course materials. Sign-in sheets should also be obtained to verify attendance.

Lakewood School District Response

Title 1 expenditures are only paid after supporting documentation has been received by the district and verified by the Supervisor of Title 1, Grant Office Certified Public Account and Purchasing Agent.

Expenditures from carryover accounts are included in the final expenditure report.

IDEA Program

The Individuals with Disabilities Education Act (IDEA) is a federal law ensuring special education services to children with disabilities. IDEA governs how states and public agencies provide early intervention, special education, and related services to eligible infants, toddlers, children, and youth with disabilities. The district is allocated grant funds for both public and nonpublic school students. The nonpublic school allocation is a proportionate share based on the number of students with disabilities parentally placed in nonpublic schools. The total IDEA award amount for the 2012-2013 grant year was \$6 million, of which \$4.8 million was allocated for nonpublic school students. The majority of the public school IDEA allocation is utilized to offset out-of-district special education tuition expenses. Using the nonpublic school IDEA allocation, the district has developed two major programs to service eligible students. The first program, the Non-Public Supplemental Services Program (NPSSP), provides early childhood education to children with disabilities. This program was provided by a contract vendor at a cost of \$1.7 million and is comprised of nine pre-school and three kindergarten classes. The second program, the Supplemental Resource Center Program (SRCP), provides math, reading, and writing in a small classroom setting for students with disabilities. This program was provided by two contract vendors at a cost of \$3.1 million and is comprised of 42 classes. Our review of these programs revealed the following.

Budget and Board Approval

Although the nonpublic school IDEA allocation was \$4,809,682 for the 2012-2013 grant year, the district entered into contracts totaling \$4,834,700 with third-party vendors to provide services to the nonpublic schools, which was \$25,000 over the amount allocated for nonpublic use. We also noted other IDEA expenditures that were paid out of the general fund and would have further added to the program funding deficit. The following excerpts from the 2012 board minutes indicate that items will be paid with IDEA funds, yet they were paid from the general

fund.

August 30, 2012 Minutes - "Approval of Lease Agreement with Bais Rivka Rochel in the amount of \$167,000.00 for the property located at 685 River Avenue, Lakewood, NJ to be utilized for the Non-Public Supplemental Services Program for the 2012-2013 school year. Rent to be paid monthly beginning September 1, 2012 and ending June 30, 2013 in the amount of \$16,700.00 per month. (Paid through IDIEA [sic] funds)."

- December 6, 2012 Minutes - "Approve a maximum amount \$375,000.00 for Tender Touch, occupation therapy, for non-public schools (paid through IDEA funds)."

According to IDEA guidelines, state and local funds may supplement and in no case supplant the proportionate amount of federal funds required to be expended for private school children with disabilities. According to management, the board has designated certain local funds for this purpose; however, the board minutes do not specify that these are supplemental funds or list the general fund account number which may not be transparent to the public. The total additional general fund amount spent for nonpublic school IDEA expenditures during the 2012-2013 school year was at least \$1 million. In addition to the NPSSP rent and Tender Touch contract, the district paid salary and benefit costs for five district employees whose schedules were allocated between public and nonpublic school students, as well as the stipend for the IDEA coordinator. As of September 2013, the district no longer utilizes public school employees to service nonpublic school students.

Supplemental Resource Center Program (SRCP) Class Size

The district is not maximizing SRCP class sizes. During the 2012-2013 school year, the district contracted with two vendors to provide SRCP classes at the nonpublic schools. The vendors are paid \$60,000 per class plus the additional costs of instructional assistants. Pursuant to the contract, SRCP class locations will maintain an average enrollment of at least eight students. The contract specifies that locations that fail to maintain these minimum student averages could result in cancellation by the board. We reviewed student enrollment during January 2013 through March 2013 for 15 schools with 37 SRCP classes and found that, on average, seven schools did not maintain the minimum student enrollment. The contract also requires the vendor to provide written notification if enrollment in any class drops below eight or an average of eight students at any time after December 1st. We asked for such notices and none were provided. We estimate the district could have saved \$165,000 during our three-month review period if classes with enrollment of less than eight students were canceled. Based on our analysis, four classes could have been merged into another class, and four classes could have been canceled.

Supplemental Resource Center Program (SRCP) Class Scheduling

Our review of the class schedules for the SRCP program found one instance where the same teacher was assigned to two classrooms scheduled to meet at the same time. The contract requires that each class will receive instruction from at least one certified special education teacher. According to management, the vendor utilized paraprofessionals as teachers in the two

classrooms while the certified teacher was supervising. The same individual was also listed as the supervisor of classes at other nonpublic schools. The district discussed this issue with the vendor and a credit of \$60,000 was issued.

Services Plans

Chapter 193 evaluation procedures are provided for the purpose of determining eligibility for special education and related services, and for developing a services plan outlining the services that will be provided. According to IDEA guidelines, services plans are required only for those parentally placed private school students with disabilities whom the local education agency (LEA) has elected to serve and should reflect only the services that the LEA has determined it will provide to the student. Any additional accommodations being provided by the private school should not be part of the services plan. The services plan must be developed, reviewed, and revised consistent with the individualized education program (IEP) requirements. We judgmentally selected 48 students out of 274 students enrolled in the SRCP program that had services plans posted on the district's file management system to determine if Chapter 193 and IDEA services were being provided in accordance with the services plans. We compared the May 2013 vendor billing records for IDEA, Chapter 192, and Chapter 193 services to the services plans and noted the following.

- Forty-five of forty-eight student services plans required a different SRCP frequency or duration than the service provided. Forty-one of these students received other services during the SRCP class time.
- Seventeen of forty-eight student services plans required a different supplemental instruction frequency or duration than the service provided.
- Twenty of thirty-eight student services plans required a different speech frequency or duration than the service provided.

SRCP classes are designed to provide math, reading, and writing in a small classroom setting for students with disabilities and were paid at a flat rate of \$60,000 per class. The same vendor is also providing and billing for Chapter 192 math and reading services during these SRCP classes. This appears to be a duplication of services. In addition, we found instances where supplemental instruction and speech therapy was provided by this vendor during the SRCP scheduled class time.

Non-Public Supplemental Services Program (NPSSP) Lease

The district is paying expenses that are outside the scope of a lease agreement. Classroom space is leased by the district during the 10-month period from September through June for the nonpublic early childhood program. The agreement was initiated in June 2005 and the terms and conditions between the parties remain unchanged. According to the agreement, the district is required to pay utility expenses during the lease period. Our testing revealed that the district

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has been paying half of the electric bills for July and August which fall outside the lease period. The district paid \$3,700 for usage during July and August of 2012.

Recommendation

We recommend the district implement the following.

- Accurately note on board agendas and minutes which funds are utilized for IDEA programs.
- Determine if the district can continue to fund IDEA nonpublic expenditures with the use of local funds. This is especially critical given the current fiscal state of the district.
- Maximize SRCP class sizes by merging or canceling underutilized classes and ensure all classes are staffed with an appropriately certified teacher.
- Provide services to the students in accordance with their services plans.
- Disallow Chapter 192 and Chapter 193 services during the SRCP class time. If a student qualifies for these additional services, they should be provided before, or after, the SRCP class.
- Do not make payments for costs outside the scope of the NPSSP lease agreement and consider updating the agreement.

Lakewood School District Response

The Lakewood School District no longer utilizes IDEA funds for the use of SRCP classes.

All expenditures for the Lakewood School District are accurately noted on all board agendas and minutes.

The Business Administrator is making every attempt to update the lease agreement for the NPSSP program. The specifications for services for the 2015-2016 school year will include all expenses.

Chapter 192 and Chapter 193 Programs

The district is responsible for the administration of the state-funded Chapter 192 and Chapter 193 programs. These programs provide services to eligible students enrolled full-time in nonpublic elementary and secondary schools in the state. Chapter 192 provides students with auxiliary services such as compensatory education, English as a second language, and home instruction. Chapter 193 provides students with remedial services such as evaluation and determination of eligibility for special education and related services, supplementary instruction, and speech-language services. The district contracts with vendors to provide Chapter 192 and Chapter 193 services at the nonpublic schools. Payments to these vendors are made based on state-approved annual per pupil rates. The district spent a total of \$13.9 million and \$14.8 million of Chapter 192 and Chapter 193 funding during fiscal years 2012 and 2013, respectively. Regulations permit the district to utilize up to six percent of these funds for the

administration of the program. Pursuant to the uniform chart of accounts, the district maintains several accounts in recording the activity of Chapter 192 and Chapter 193 services. Our review of these programs noted the following.

Compensatory Education

Compensatory education services are available to eligible students in language arts literacy (reading and/or writing) and mathematics. The district contracted with vendors to provide these services to eligible nonpublic school students. In addition to these contract vendors, we found 13 consultants paid from the account dedicated for compensatory education that did not provide compensatory education. Payments to these consultants totaled \$325,000 and \$201,000 during fiscal years 2012 and 2013, respectively. We judgmentally selected 12 payments to 10 of these consultants who were paid at an hourly rate with no evidence of a competitive procurement process or cap on total compensation. Examples of their job titles included Educational Consultant and Behavioral/Social Skills Consultant, which appeared to be unrelated to compensatory education. Supporting documentation provided for these services was inadequate and vague. Payments were made to some of these consultants for meetings with students, parents, and principals at certain nonpublic schools; however, none of them appeared to be providing language arts literacy or mathematics instruction.

Speech-Language

Eligible students receive speech-language services by an appropriately certified specialist that include language, articulation, voice, and fluency. In addition to the Chapter 192 and Chapter 193 contract vendors, the district paid five vendors to provide speech services at an hourly rate that exceeded the state-approved rate. These vendors were paid a total of \$63,000 and \$91,000 during fiscal years 2012 and 2013, respectively. We judgmentally selected three payments to three of these hourly vendors, which were comprised of speech services totaling \$10,300, and found that they were overpaid by more than \$7,200 since these vendors were not paid based on the state-approved rate.

Home Instruction

Home instruction is provided to eligible students who are enrolled full-time in a nonpublic school and are unable to attend school for at least ten consecutive school days or 15 cumulative school days during the year due to certain health conditions. The district paid a total of \$190,000 for fiscal year 2012 and 2013 home instruction services, of which \$170,000 was paid to a contract vendor. Payments totaling \$20,000 were made to three other individuals at an hourly rate that exceeded the state-approved rate. In addition, subsequent to December 2012, one of these individuals provided home instruction at the same time that they were scheduled to provide other Chapter 192 services as an employee of one of the contract vendors. Home instruction forms were completed and signed by the student's guardian for a timeframe that overlapped the timeframe that this individual was signed in as a teacher at a Chapter 192 class. This individual was paid \$8,640 for home instruction between January 2013 and June 2013.

School Visits

In May 2013, we judgmentally selected five nonpublic schools to visit and obtain an understanding of Chapter 192 and Chapter 193, IDEA, and Title I services being provided. Subsequent to our visits, we revisited one of these nonpublic schools to observe Chapter 192 and Chapter 193 services being administered to determine if services were being provided as scheduled. We visited SRCP, Chapter 192 math, and Chapter 192 reading classrooms. Students appeared to be receiving services in each of these classrooms. However, we did not determine if the students were the same students that were noted on the vendor's schedules. In one instance, we asked to observe a specific speech class. When we arrived, there was a teacher but the scheduled students were not present. The administrator tried to locate the students while we visited another class. Upon returning to the speech class, two students were present but they were not the students scheduled for that time slot on the vendor's schedule. These students were scheduled for later in the day. After leaving to visit another class, the two students from the speech class passed us in the hall to return to their actual scheduled class at that time.

We attempted to schedule a visit to one of the other nonpublic schools we initially visited to observe Chapter 192 and Chapter 193 services being administered, but there was a misunderstanding regarding the confirmation of our visit. After speaking with the school principal, we were told that visiting the school an hour later than we were scheduled would not be beneficial, as all services were ending and no classes were being held. Upon review of the vendor's class schedules, there should have been 34 classes in session at the time we would have made the visit. Furthermore, the attendance records showed that several students were marked present in these classes at the time of the proposed visit.

Subsequent to our visits, using allowable Chapter 192 and Chapter 193 administrative funding, the district hired three individuals to aid in the administration of the program and to monitor services being provided in the nonpublic schools. According to management, these individuals make visits to the nonpublic schools and determine if services are being provided to the students as scheduled.

Recommendation

We recommend the district implement the following.

- Discontinue the practice of paying consultants that are not providing compensatory education services with Chapter 192 funds.
- Pay vendors providing Chapter 192 and Chapter 193 services at the state-approved rates.
- Periodically contact parents/guardians of students receiving home instruction to confirm that services are being provided.

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- Continue to make visits to the nonpublic schools to ensure services are being provided in accordance with the vendor class schedules.

Lakewood School District Response

All vendors that provide Chapter 192 and Chapter 193 services to nonpublic schools in the Lakewood School District are paid the state- approved rates.

Lakewood School District Grant Facilitators will periodically contact parents/guardians to confirm that home instruction services are being provided.

The Lakewood School District does not pay consultants with Chapter 192 funds.

Legal Costs

The district should develop a plan to reduce legal costs.

In accordance with N.J.A.C. 6A:23A-5.2, districts with legal costs that exceed 130 percent of the statewide average cost per pupil are required to implement certain procedures to reduce these costs. The district meets this criteria and has not yet adopted these procedures.

In April 2012, the Lakewood Board of Education appointed a law firm as legal counsel by board resolution at a rate of \$200 per hour. The resolution was made without public bidding as allowed by law since it is for professional services. During fiscal year 2013, the district paid this firm a total of \$1.1 million for legal services. In June 2013, the district issued a Request for Proposal (RFP) for legal services for the 2013-2014 school year and received responses from ten law firms. The original firm responded with an average hourly rate of \$161. Our review of their May and June 2013 bills found that this firm had reduced its rate to \$155 per hour. The district could have potentially saved \$204,000 in legal expenses during fiscal year 2013 if an RFP for these services had been issued. We used the firm's average rate from the June 2013 RFP to estimate these savings.

In addition, only \$15,000 of the \$125,000 in legal expenses for nonpublic schools was charged to the special revenue fund. Title I, Chapter 192, and Chapter 193 programs provide for administrative costs which could be used for nonpublic school legal fees. It should also be noted that, according to the invoices we reviewed, \$128,000 or 11 percent of the legal expenses were related to legal issues between the district and a former board attorney.

Recommendation

In accordance with N.J.A.C. 6A:23A, the district must follow certain procedures to lower its legal costs. The board should continue to utilize competitive bidding procedures to procure all future legal services. In addition, legal bills should be reviewed and allowable nonpublic legal expenses should be charged to the applicable special revenue fund grant accounts to alleviate the burden on the general fund.

Lakewood School District Response

The Lakewood School District will utilize competitive bidding procedures to obtain the lowest responsible bid for attorneys every November.

Legal bills are reviewed for accuracy and attorney logs are maintained by district employees and reviewed on a monthly basis.

Legal expenses are charged to the appropriate accounts.

Purchasing Procedures

Purchase orders should be issued and board approval should be obtained prior to the receipt of goods or rendering of services.

State regulations and district policy require a purchase order be issued prior to the receipt of goods or the services being rendered. We noted numerous instances where the district failed to meet this requirement. Purchase orders for 52 of 105 judgmentally selected expenditure transactions were not entered prior to the receipt of goods or services being rendered. Often, purchase orders were generated after an invoice was received from the vendor. We also noted 20 instances where services were rendered prior to board approval. This procurement practice results in the business office not having full knowledge of the obligations of the district which could potentially result in overspending the budget. It also resulted in expenditures not being recorded in the correct fiscal year. For example, the district entered into a \$4.4 million contract with a vendor to provide IDEA services for nonpublic school students during the 2012-2013 school year. The district created 13 different purchase orders to pay this vendor for services specified in the contract. Each month, the district generated a new purchase order subsequent to receiving the vendor's invoices. In addition, a purchase order was issued to this vendor in the amount of \$186,905 in fiscal year 2014 to pay for services rendered during fiscal year 2013.

Recommendation

The district should issue purchase orders and obtain board approval prior to goods or services being provided.

Lakewood School District Response

The Lakewood School District has implemented new internal controls, which includes level two approval by a Purchasing Agent and level three approval by the Business Administrator.

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Lease Agreements

The district should discontinue rental payments for classroom space in nonpublic schools where Chapter 192 and Chapter 193 services are provided.

The district has entered into a facilities contract with one of the vendors that provides Chapter 192 and Chapter 193 services to students in the nonpublic schools. This agreement between the district and the vendor is for the use of vendor-owned modular and mobile classroom units that are located at the nonpublic schools, as well as classroom space within the nonpublic schools. The contract specifies that the district will provide the vendor with the funds necessary to pay

the nonpublic schools for classroom space. The vendor is then required to pay the nonpublic schools within ten business days of receipt of these funds. During fiscal year 2013, the district paid a total of \$292,500 to the vendor for the use of classroom space within the nonpublic schools. An additional \$147,500 was paid to another vendor utilized by the district for the rental of nonpublic school classroom space.

The contract includes language that specifies, "the Board has provided documentation from an attorney for the New Jersey Department of Education that seems to allow a payment from a District vendor to a nonpublic school, so long as the statutory cost limitations are not exceeded." This documentation is a series of emails between a former board attorney and an employee of the Department of Education. However, a letter dated April 1, 2011 from the Department of Education to the former board attorney states that the cost of rent to provide Chapter 192 services in a nonpublic school during the school day is not an allowable cost. We found these nonpublic school rental payments have continued subsequent to the date of the letter.

Recommendation

The district should modify the facilities contracts and discontinue rental payments for nonpublic school classroom space where Chapter 192 and Chapter 193 services are provided.

Lakewood School District Response

The Lakewood School District will have its current attorney review the Chapter 192 and Chapter 193 guidelines regarding rental payments for nonpublic school classroom space prior to entering into a facilities contract for the upcoming school year.

Information Technology

The district should strengthen internal controls over information technology.

The district utilizes Systems 3000 Visual Fund Accounting, Visual Personnel, and Visual Payroll applications to maintain and process its financial information. A review of the controls in place over these applications noted weaknesses in the areas of system access and business continuity.

System Access

System access was not disabled upon employee separation. Prudent access control practices dictate that user accounts for separated individuals should be disabled or removed in a timely manner. Our review found eight payroll, seven personnel, and six fund accounting user accounts that were still enabled for separated employees. When we brought this issue to management's attention, system access was immediately disabled.

There were also instances where employee system access levels are not properly segregated. For example, payroll employees also have access to human resource functions. Access to incompatible functions enhances the risk of inappropriate transactions; however, our testing revealed no fraudulent transactions. In addition, ten employees had administrative roles of

which seven had the ability to modify user authorities. These roles should be limited to a designated system administrator.

The district also does not utilize user access request forms when granting or modifying employee access to the systems. These request forms would provide supervisory authorization and would identify system access privileges based on employee job responsibilities. We also found that the current system password requirements increase the risk of inappropriate access. System password settings should be modified to ensure passwords are required to be changed periodically and user names and passwords are not the same. In addition, failed login attempts should be limited.

Business Continuity

The district does not have a written disaster recovery plan. A comprehensive business continuity plan should address all potential disruptions to district operations. Industry best practices require periodic testing of the business continuity plan to ensure adequate controls are in place and functioning to minimize the loss of data if a disruption were to occur. System back-ups are stored on designated users' local machines and thumb drives that are kept at the same location. Back-ups are not sent to an off-site location.

Recommendation

We recommend the district delete or disable inactive user accounts upon employee separation, segregate duties for incompatible functions, limit administrative roles and designate a system administrator, develop access request forms, and modify system password settings. In addition, the district should develop a business continuity plan and procedures to store back-up data at an off-site location. The business continuity plan and back-up data should be periodically tested.

Lakewood School District Response

The Lakewood School District has created an Administrative system for all technology accounts. All user accounts are deleted or disabled upon employee separation.

Back-ups for financial files are performed nightly.

A written disaster recovery plan is currently in the process of being created.

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Special Education Tuition

Proper approval, tuition documentation, and attendance records should be obtained for students placed in unapproved nonpublic schools.

During fiscal years 2012 and 2013, the district paid tuition costs totaling \$33 million for out-of-district placements. Tuition is typically paid to approved private schools to provide public school students with special education programs that the district could not otherwise provide. These schools and their tuition have been approved by the New Jersey Department of Education (NJDOE). Students with disabilities may also be placed in accredited nonpublic schools which are not specifically approved for the education of students with disabilities with the consent of the Commissioner of Education, by an order of a court of competent jurisdiction, or by order of an administrative law judge as a result of a due process hearing. We judgmentally selected 31 of the 324 students that were sent out-of-district during the 2012-2013 school year of

which 16 were attending unapproved nonpublic schools. Issues noted during our review follow.

- We were not provided with any court orders or forms signed by the Commissioner of Education documenting the approval of the 16 unapproved nonpublic school placements. Nor were we provided with documentation substantiating the accreditation of the nonpublic schools where these students were placed. We were unable to determine how the tuition costs for these unapproved nonpublic schools were calculated. Tuition for these placements ranged from \$9,800 to \$55,000 per year and totaled \$363,700.
- Eighteen placements had insufficient attendance documentation for the school year. Attendance should be submitted with monthly billings to provide assurance the student is attending school. Instances were noted where there were missing monthly attendance sheets or the attendance sheet was not clear on the days present or absent.

Recommendation

We recommend the district obtain the proper approval for students placed in unapproved nonpublic schools. The district should obtain documentation to substantiate the tuition for unapproved nonpublic schools. Attendance records should be obtained, reviewed, and maintained by district officials to ensure student attendance.

Lakewood School District Response

The Lakewood School District will obtain proper approval for any student placed in an unapproved, unaccredited private school program. Many of the students found to be in unapproved, private school placements were initially placed by the district prior to the 2012 and 2013 school years. As a result, the district entered into parental agreements with parents regarding these placements. As of the 2013-2014 calendar school year, attendance documentation is being collected and recorded in the district's attendance data base program. In addition, tuition rates and contracts are also being stored electronically to correct missing documentation issues. In April 2014, the district developed a corrective action plan with the NJDOE to address issues regarding student placement in private programs. The district has requested tuition program rate calculations from private programs for any remaining students currently in attendance for the 2014-2015 school year. As a result of these findings no additional students will be placed in private programs without the approval of the Commissioner of Education

Payroll and Personnel

Extra Compensation Monitoring

Extra compensation payments should be properly monitored.

Extra compensation is approved at board meetings for various reasons including substitute teacher wages, non-contractual stipends, extracurricular activities, overtime, home instruction, mentoring, and payments for unused sick time. Extra compensation totaled \$4.8 million for calendar year 2012. We excluded certain extra compensation payments from this test including post-retirement accrued leave time payments as they were tested separately. Once approved for extra compensation and the work assignment is completed, the employee will fill out a payroll

voucher and submit it to the payroll unit for payment. We judgmentally selected 39 employees with 236 extra compensation vouchers totaling \$167,500 during calendar years 2011 and 2012 and identified the following issues.

- Ninety-one vouchers were improperly paid. These improper payments totaled \$62,500 and were made to 15 of the 39 employees tested. For example, three employees received overtime payments totaling \$53,000. According to their employee contracts, they were ineligible to receive overtime payments. They were classified as executive secretaries that are not eligible for overtime payments in accordance with federal and state wage and hour laws.
- Ninety-two vouchers lacked proper supporting documentation to substantiate the payment. We found one employee that was paid \$15,000 out of the extra pay code instead of a salary code. This employee retired from the district and returned to work part-time in the business office. Payroll vouchers were not completed to document the hours worked and there was no contract to substantiate the work arrangement. We also found the salary for this employee to be excessive when prorated and compared to their salary prior to retirement.
- One hundred twenty-seven of the vouchers reviewed were approved using signature stamps. Vouchers often lacked detailed information including the actual hours worked, and supervisory signatures and dates. We noted one voucher totaling \$1,560 that was paid for overtime during calendar year 2011. This payment was approved using a superintendent's signature stamp and was not dated by the individual who stamped the document. There were no actual signatures documenting supervisory review. This voucher was submitted by the former payroll manager.
- Fifty-four vouchers were for services that lacked prior approval by the board of education.
- Thirty vouchers were paid more than 30 days after work was documented to be completed, increasing the risk of errors being undetected. Eight of these vouchers were paid more than 50 days after work was completed. There was no time limit set by management for the submission of vouchers.

During our audit, the extra compensation voucher was revised and requires more detailed information in order to be approved for payment. According to management, incomplete payroll vouchers will no longer be processed and voucher issues are immediately discussed with the employees and supervisors.

Recommendation

We recommend all payroll vouchers contain direct supervisory approval and prior approval from the board of education. The payroll unit should continue to verify that vouchers are submitted with proper supporting documentation including approvals and hours worked. The district should avoid the use of signature stamps.

Lakewood School District Response

Lakewood School District employees must receive approval from the board of education prior to submitting vouchers to payroll.

Lakewood School District employees may not use signature stamps on payroll vouchers.

Criminal History Background Checks

The district should ensure that each prospective employee completes the required criminal history background check process.

The district failed to ensure the proper background check process was completed for several employees. NJ.S.A. 18A:6-7.1 requires that all prospective employees of a school district, under the supervision of the New Jersey Department of Education (NJDOE), whose job duties include regular contact with pupils, must submit to a criminal history background check as a condition of employment. The district is responsible to ensure that each employee has completed the required process prior to employment.

We obtained from the NJDOE the list of individuals cleared to work for the Lakewood School District. This list was matched to individuals on the district's April 2013 position control roster and substitutes paid by the district during calendar year 2012. We found the district failed to ensure the proper background check process was completed for 97 employees, which included administrators, teachers, and substitutes. Many of these individuals may have been cleared by another employing district. However, if an arrest for a subsequent disqualifying offense occurred, the district would not have been notified. As a result of our review, the district has completed the process to qualify 77 of the individuals for employment. The district took no action on the 13 individuals who are no longer employed and seven individuals who were substitute teachers. The district has contracted with a vendor to supply substitutes when needed, and this vendor would be responsible for the completion of proper background checks. We verified with the NJDOE Criminal History Review Unit that these individuals did not commit a disqualifying offense.

Recommendation

We recommend the district ensure that each potential employee complete the required criminal history background check process prior to employment.

Lakewood School District Response

The Lakewood School District requires that all employees have a criminal history background check prior to employment.

All files will be check to ensure that all background checks have been completed.

Final Leave Balance Payments

Final leave balances should be verified prior to payment.

Improper leave balance payments were made by the district. We judgmentally selected a sample of unused sick and unused personal leave balance payments made to 22 retiring individuals in calendar years 2011 and 2012 to determine if these payments are being made in accordance with the negotiated agreements and employee contracts. In addition, we selected five individuals that were included on the March 2013 and July 2013 board minutes to be approved for payment, to verify the accuracy of the payment calculations. Payments and anticipated payments for these

employees totaled \$640,000. This sample included employees covered under the Lakewood Education Association (LEA) and Lakewood Administrators' Association (LAA) agreements, and non-union employees. Leave balance testing was comprised of a review of leave records maintained in employee personnel files. These documents consisted of old manual leave records and computer-generated reports. Our testing noted the following.

- Payments were improperly calculated and paid to 17 retirees. Leave records could not be located for three individuals. Underpayments totaled \$12,100 while overpayments totaled \$44,800. In addition, calculation errors totaling \$14,300 were noted for three of the five individuals included on the March 2013 and July 2013 board minutes. Payments to four individuals were not made in accordance with the LEA agreement, LAA agreement, or non-union employee contracts. For example, one individual was paid for 50 percent of their leave time balance when they were only eligible for 40 percent resulting in an overpayment of \$9,800. Another employee submitted a voucher for payment which was board-approved at the 50 percent rate when they were only entitled to 40 percent, resulting in a potential overpayment of \$12,700. We brought this to management's attention and the amount had been corrected prior to payment.
- All 25 payment vouchers tested were missing signatures and dates required for approval and completion. Many of these vouchers were approved using a superintendent's signature stamp and were not dated by the individual who stamped the document. In these instances, there were no actual signatures documenting supervisory review.
- Nine employees utilized more personal days than allowed in one year. Employees receive four or five personal days each year depending on their job title and date of hire. Personal days accrue for retirement purposes only. These additional days were not deducted from the accrued personal leave balances.

Many of these leave balance errors were caused by human error on old manual leave records and balances that were not carried over correctly when the district migrated to different financial systems. Payments for unused sick and unused personal leave are now capped at \$15,000 for LAA employees hired after June 2009. Payments for LAA employees hired prior to July 1, 2009 are capped at their value as of June 30, 2013, or \$15,000, whichever is greater. No additional accumulated time will be paid; however, days will continue to accumulate for use. This stipulation may limit the risk of future overpayments.

Recommendation

We recommend the district review and verify the final leave balances when an employee is retiring to ensure accurate payment calculations. All calculations should be checked for mathematical accuracy. Payments should be made in accordance with the district's negotiated agreements or employee contracts.

Lakewood School District Response

The Lakewood School District personnel and payroll departments will work with the Business Administrator to ensure accuracy of all payment calculations. All calculations will be checked for accuracy prior to payment approval.

Salary Allocations

Employee salaries should be charged to the proper grant accounts.

The district receives state and federal grant awards from which they are allowed to utilize a percentage of the funds for administration. Grant activity is accounted for in the district's special revenue fund. We judgmentally selected nine employees paid \$245,000 during calendar year 2013, whose primary job responsibility was the administration of state and/or federal grants, to determine salaries were properly charged to the applicable grant accounts. We found that salary expenses totaling \$66,000 for six of these employees were not charged to the proper accounts. In all but one case, the district's general fund salary account was charged for these expenses. The district should use all administrative funds available and properly allocate grant employees' salaries to the proper accounts.

Recommendation

The district should charge employee salaries to the proper grant accounts when allowable.

Lakewood School District Response

The Lakewood School District charges all employees to the grant in which their job description and time and activity report allows by grant funding.

Employee Contracts and Salary Increases

The district should generate contracts for all employees and carefully consider significant salary increases.

Several non-teaching employees did not have current contracts on file. We found eight employees that did not have a contract for the 2011-2012 or 2012-2013 school years. These employees included the payroll manager and executive secretaries. Based on our discussions with management, many of the business office employees do not have current contracts. Employee contracts should be generated each year for all employees in order to document what compensation and benefits an employee may receive. The district is in the process of generating contracts for these employees.

In addition, several non-union employees received large salary increases between fiscal years 2008 and 2013. These employees were all executive secretaries with the exception of the payroll manager. The salary and title for one of these executive secretaries was changed to Grants Coordinator in December 2012. The chart below illustrates that annual increases for these employees were as much as 38 percent. In contrast, the largest step-to-step increase for 12-month administrative secretaries covered under the Lakewood Education Association (LEA) negotiated agreement was seven percent during the same time period. Two of the employees included in the chart below did not have current contracts on file.

	Annual Salary
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Title	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008
Grants Coordinator	\$95,000	\$69,000	\$60,000	\$60,000	\$45,887	\$44,100
Executive Secretary	\$60,000	\$60,000	\$49,682	\$49,682	\$44,069	\$42,297
Payroll Manager	\$75,000	\$61,000	\$61,000	\$61,000	\$59,000	\$46,455
Executive Secretary	\$60,000	\$60,000	\$60,000	\$60,000	\$44,037	\$42,338
Executive Secretary	\$72,000	\$60,000	\$60,000	\$60,000	\$44,413	\$42,696
Executive Secretary	\$61,500	\$60,000	\$60,000	\$60,000	\$47,505	\$45,642

Recommendation

The district should generate contracts for all employees to specifically outline benefits each employee is entitled to receive and justify extraordinary salary increases.

Lakewood School District Response

The Lakewood School District does not generate contracts that give employees extraordinary salary increases without justification in job descriptions that are aligned with proper qualifications/certifications.

Leaves of Absence

Leaves of Absence should be properly tracked and monitored.

Employee health benefits coverage will typically continue for the first three months of leave; however, the employee is responsible for paying their required health benefit contributions. Coverage may continue for an additional nine months provided the employee pays the full cost of health benefits. We judgmentally selected a sample of 20 employees that took a leave of absence in calendar years 2011, 2012, or 2013 to determine if the leave was proper and that required health benefit contributions were received. Our review revealed 12 employees that were not paying required health benefit contributions or the full cost of the premium depending on the length of leave. We estimate that these unpaid contributions totaled \$95,400 for these employees. In addition, health benefits coverage continued for some individuals after it should have been discontinued. Testing was not performed on three individuals whose personnel files could not be located by the district. The district is also not tracking leave classifications taken by employees which could result in employees not being eligible for subsequent leave periods. The district is currently developing a methodology to track leave classifications and required contributions for future leaves of absence.

Recommendation

We recommend better communication and coordination between the health benefits and human resources units. The district should ensure that all leaves of absence are properly tracked and required health benefit contributions are received from the employees timely.

Lakewood School District Response

All leaves of absences are properly tracked and recorded through the Payroll and Human Resource Departments.

Observations

Transportation

Cost savings may be achieved if transportation initiatives that were proposed to the board of education are implemented.

In accordance with New Jersey Administrative Code, the district provides transportation to public and nonpublic school students who reside beyond two and one-half miles from their assigned high school (grades 9 through 12) and beyond two miles from their assigned elementary school (grades preschool through 8). The district, at their own expense, has also elected to provide non-mandated (courtesy) busing to public and nonpublic school students who would otherwise walk along the numerous hazardous routes identified in the township. During the 2012-2013 school year, 24,061 students were transported, of which 10,495 were provided courtesy busing. Because of significant student population growth within the municipality, transportation costs had increased to \$19.6 million for the 2012-2013 school year. In an effort to provide an efficient student transportation system, initiatives have been proposed to the board at various monthly meetings that would result in significant savings to the district. A tiered busing system has been developed and implemented for students attending the public schools. The following nonpublic school initiatives have not been adopted.

- The majority of the nonpublic school bus routes in the district are segregated by gender. Since most of these schools have a 9:00 a.m. start time, the demand causes increased pricing by the vendors. Separately tiering the bell times for the girls and boys nonpublic schools could save the district up to \$6.7 million. For example, starting school at 8:30 a.m. for girls and 9:15 a.m. for boys would enable the busing contractors to bid on tiered routes which would reduce the overall number of buses needed and create more competitive route pricing.
- Currently, there are separate buses for each nonpublic school. Savings of approximately \$750,000 could be achieved if routes were developed by school locations, not specific schools. This would result in shorter bus routes and fewer buses.
- Currently, nonpublic schools could have two starting times and as many as five ending times which creates inefficiencies and the need for one-way routes. Providing transportation to nonpublic schools based on a single opening and closing bell schedule for each school building could save the district up to \$1.2 million. This initiative has been presented to the board's transportation committee.

It should be noted that tiering the bus routes could reduce the savings of other proposed initiatives.

Lakewood School District Response

The Lakewood School District is piloting a staggered nonpublic school schedule for 7 of the largest nonpublic schools during the 2014-2015 school year based on the premise that all nonpublic schools will go to a staggered school schedule in the 2015-2016 school year, which is expected to greatly reduce transportation costs.

IDEA Program

The district should determine if other approved IDEA programs or services could potentially benefit a greater population of nonpublic school students with disabilities.

The Individuals with Disabilities Education Act (IDEA) is a federal law ensuring special education services to children with disabilities. IDEA governs how states and public agencies provide early intervention, special education, and related services to eligible infants, toddlers, children, and youth with disabilities. The district is allocated grant funds for both public and nonpublic school students. The district receives the most nonpublic IDEA Basic funding in the state. During the 2011-2012 grant year, the district received \$4 million, approximately 18 percent of the total nonpublic IDEA Basic funding in the state. In comparison, the second highest district received \$700,000. The district has developed two main programs to service the student population. We noted certain inefficiencies in our IDEA finding included in this report for one of these programs that provides instruction for students with disabilities at a cost of \$60,000 per class. According to Lakewood's IDEA application for the 2011-2012 grant year, there were 3,547 eligible parentally placed private school students with disabilities, of which only 426 (12 percent) would receive services through IDEA Basic funds. Because of this, we compared the 2011-2012 IDEA applications for the top six districts that receive nonpublic IDEA Basic funding and calculated per student amounts and percentages. These districts are summarized in the chart below.

	Lakewood	Passaic City	Jersey City	Elizabeth	Paramus	Hamilton
Eligible Students with Disabilities	3,547	461	249	298	406	341
Proportionate Share	\$3,984,679	\$ 793,446	\$ 780,493	\$ 669,559	\$ 505,822	\$454,314
Students Who Will Receive Services	426	461	249	298	406	286
Amount Per Eligible Student	\$ 1,123	\$ 1,721	\$ 3,135	\$ 2,247	\$ 1,246	\$ 1,332
Amount Per Student Served	\$ 9,354	\$ 1,721	\$ 3,135	\$ 2,247	\$ 1,246	\$ 1,589
Percentage of Students Served	12%	100%	100%	100%	100%	84%

The district should determine if the continuation of the programs are the most effective use of these funds. Providing other IDEA approved programs or services could potentially benefit a greater population of nonpublic school students with disabilities.

Lakewood School District Response

The Lakewood School District has revised their IDEA programs to maximize the number of students being serviced with the available IDEA funds for FY 2015. This year the district is offering a new option of in class support teachers to nonpublic schools general education classrooms to provide special education support to more nonpublic students in the least restrictive environment. In addition to the Nonpublic Supplemental Service Program and Instructional Assistants to students who have a service plan stating same the district is providing support to more students in their general education program for the coming school year. The cost for in class support teachers is considerable less at \$48,000 per teacher vs. the \$60,000 for a supplemental resource room program which has been discontinued. To this end more teachers will be available to service more students a goal the Lakewood School District continually strives to achieve.