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CHRISTOPHER JENSEN
Director

September 10, 2024

Jeffrey Hallenbeck, Superintendent
Hopatcong Borough School District
2 Windsor Avenue
Hopatcong, NJ 07843

Re: Follow-Up Report – A Performance Audit of Selected Fiscal and Operating Practices of the Hopatcong Borough School District

Dear Superintendent Hallenbeck:

On September 30, 2021, we issued an audit report, *A Performance Audit of Selected Fiscal and Operating Practices of the Hopatcong Borough School District (2021 Audit)*,¹ in which we made recommendations to address identified weaknesses. Pursuant to N.J.S.A. 52:15C-11, we have conducted a follow-up review of the corrective action plan of the Hopatcong Borough School District (District) to assess the implementation of the recommendations contained in the 2021 Audit. Our findings and conclusions are set forth below.

Background, Scope, and Objective

Our audit of the District identified internal control weaknesses that resulted in noncompliance with statutory requirements and internal policies and procedures related to cash management and reporting, internal control over payroll processing, Extraordinary Aid applications, allocations of shared costs, ethics requirements, regulations on charge cards, and statutory requirements to submit contracts valued in excess of \$2 million to the Office of the State Comptroller (OSC).

The objective of our follow-up review was to determine if the District implemented the 11 recommendations contained in our 2021 Audit report.

¹ Available at: https://www.nj.gov/comptroller/news/docs/hopatcong_audit_final.pdf.

Summary Conclusion

We found that the District has made substantial progress in implementing the 11 recommendations set forth in our 2021 Audit. Of the 11 audit recommendations, 10 were implemented and 1 was not implemented. As a result of improved procedures implemented to calculate Extraordinary Aid, we found the District increased the amount of aid it received from \$238,000 in Fiscal Year (FY) 2020 to approximately \$696,300 in FY 2022. We urge the District to continue its efforts to comply with the recommendation not yet fully implemented.

Status of Initial Audit Recommendations

Recommendation 1

Update the Standard Operating Procedures to include changes to the District's internal controls and procedures such as changes to accounting software.

Status: Implemented

Our 2021 Audit found that the District's Standard Operating Procedures (Procedures) were outdated. The Procedures had not been updated since February 2014 and contained references to an accounting system no longer in use. The District advised in its corrective action plan that it would update the Procedures to address changes in internal controls, accounting software, and state regulations.

During our review, we confirmed that the District updated its Procedures effective August 2023. The updated Procedures provide guidance for the current accounting software and internal controls and references to current regulations.

We consider this recommendation implemented because the District updated its Procedures.

Recommendation 2

Implement month-end procedures to ensure that all bank accounts are reconciled, all variances identified through the bank account reconciliation process are corrected, and Board Secretary and Treasurer Report balances agree.

Status: Implemented

Our 2021 Audit found that the District's cash balances on monthly financial reports and cash reconciliations did not agree as required by N.J.S.A. 18A:17-9 and District Procedures. The District advised in its corrective action plan that it planned to hire a new Treasurer of School Monies to properly review all bank accounts, ensure that bank reconciliations were processed correctly, and confirm that the Board Secretary Report and Treasurer Report balances agreed.

To verify the adequacy of month-end procedures, we reviewed six months of bank reconciliations, Board Secretary Reports, and Treasurer Reports for the period of July through December 2023.

We found that the accounts were reconciled, variances were identified, and the Board Secretary Report and Treasurer Report balances agreed.

We consider this recommendation implemented based on improved procedures that resulted in compliance with N.J.S.A. 18A:17-9.

Recommendation 3

Develop and implement a process to ensure the accuracy of the payroll agency fund liability balances, including a periodic review by the Business Administrator.

Status: Implemented

Our 2021 Audit found that the District's accounting record of liabilities in the payroll agency fund as of June 30, 2020 was not accurate. Our review of FY 2020 documentation found that the cash balance on the monthly financial reports did not agree with bank account reconciliation cash balances in the payroll agency fund for any of the 12 months tested. As a result, we performed additional testing of the fund to substantiate the liabilities in the accounting record as of June 30, 2020. The District advised in its corrective action plan that it planned to hire a new Treasurer of School Monies to properly review the payroll agency fund on a monthly basis.

We reviewed the payroll agency fund reconciliations for the period of July through December 2023. We found that changes have been made to the reconciliation process, including what appears to be the consolidation of several outstanding liabilities. However, we identified large unresolved reconciling items that remain outstanding each month, including a \$157,000 miscellaneous adjustment.

Subsequent to sharing findings contained in this report and our initial follow-up review, the District reviewed the unresolved outstanding liabilities in the payroll agency account with their auditor. The District informed us that they identified and resolved the large unreconciled items resulting in a transfer of approximately \$264,000 to its general fund that can now be used for other District purposes. We reviewed payroll agency fund reconciliations for January through June of 2024 and related bank statements and verified that the large unreconciled items were addressed. The District should continue to review agency liabilities and unreconciled items on a periodic basis to ensure their accuracy.

We consider this recommendation implemented because of the actions taken subsequent to our initial follow-up review.

Recommendation 4

Design and implement policies and procedures to prevent the issuance of unauthorized payroll checks by physically securing the signature plate with the Business Administrator and requiring approval by the Business Administrator prior to the issuance of manual checks.

Status: Implemented

Our 2021 Audit found the District did not have effective internal controls for issuing manual payroll checks. Our assessment of controls found that the payroll/benefits coordinator (Coordinator) completed payroll processing and had direct, unrestricted access to the District's signature plate. As a result, the Coordinator had the ability to process and distribute manual checks without secondary approval. In addition, the District did not have a policy that required a supervisory level review when issuing manual payments. The District advised in its corrective action plan that all manual payroll checks and replacement payroll checks would require prior written approval from the Business Administrator. Access to the signature plate would be given only upon written approval.

During our review, we confirmed that the District has developed written procedures for the issuance of manual checks. We reviewed manual checks issued between July 2023 and March 2024 and documented the approval process. We verified that the District utilized a form for the issuance of manual checks that included the date, reason for check issuance, amount, and signatures of the Business Administrator and Superintendent. In addition, we were informed that the signature plate is kept in a locked safe in the District's Central Administration Office.

We consider this recommendation implemented based on the corrective actions taken by the District.

Recommendation 5

Implement appropriate user permissions in the District's information systems for employees performing human resources and payroll functions so that their duties are segregated as required by N.J.A.C. 6A:23A-6.5(b)(1) and N.J.A.C. 6A:23A-6.7(c) and in accordance with the Federal Information System Controls Audit Manual (FISCAM) section 3.2 on access controls.

Status: Not Implemented

Our 2021 Audit determined that the duties of payroll and human resources (HR) were not segregated as required by N.J.A.C. 6A:23A-6.5(b)(1). We found that the Coordinator had the ability to perform certain HR functions that were not segregated and increased the risk of fraud or improper transactions. This lack of segregation of duties allowed the Coordinator to alter employee salary information, including the Coordinator's own salary. The District advised in its corrective action plan that all HR salary functions (uploads, verifications, and changes) would be completed by Central Office staff who did not have access to the salary system. In turn, the Coordinator would not have access to salary functions that included making changes to an employee's salary. Any errors noted in the system would be addressed in writing to the staff member in charge of HR salary functions.

During our review, we found that the District had taken some steps to mitigate the risks we identified. However, the Coordinator continues to have full access to salary functions, including the ability to change salaries and add new employees. The District reported that it has not been able to segregate the payroll and HR functions due to staffing and software limitations. To help mitigate the risk, we were informed that the Coordinator's salary is a separate budget line, which is reviewed by management to ensure accuracy. Management also reviews and signs off on

payroll. However, the risk still exists for the Coordinator to create fictional employees in the system and potentially issue improper payments.

We consider this recommendation not implemented because the duties of payroll and HR functions are not segregated as required by N.J.A.C. 6A:23A-6.5.

Recommendation 6

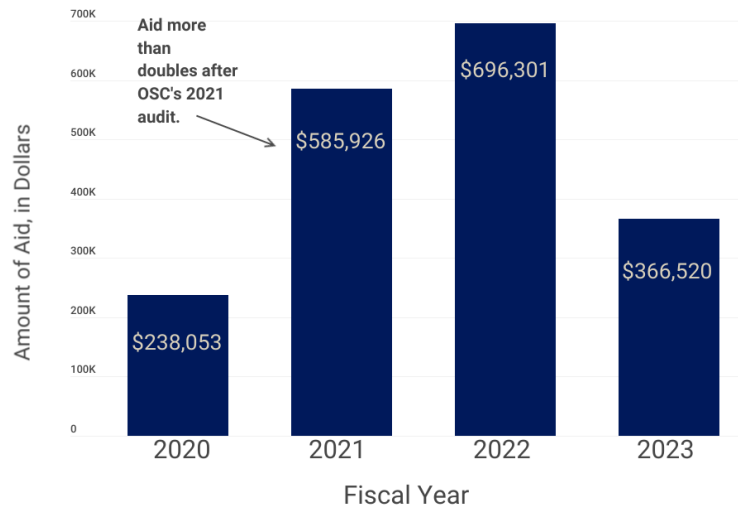
Design and implement procedures to identify all Extraordinary Aid-eligible students, determine their costs, and file the Extraordinary Aid application in accordance with Department of Education guidelines.

Status: Implemented

Our 2021 Audit found that the District improperly characterized costs on its FYs 2018 and 2019 Extraordinary Aid applications, failed to identify all students eligible for Extraordinary Aid in FY 2020, and did not include employee benefit costs in its calculation of eligible costs in FY 2020. The District advised in its corrective action plan that it developed a process to properly identify all Extraordinary Aid-eligible students. The process also tracks all eligible costs using several district/state technology databases to provide staff and service costs for each student. The data is reviewed by both the Special Services Department and the Business Administrator to ensure compliance and eligibility guidelines are followed when the application is submitted. This process has already resulted in significant increases to the District's Extraordinary Aid award for FY 2021.

During our review, we confirmed that the District has developed a process to identify all Extraordinary Aid-eligible students, determine their costs, and file the Extraordinary Aid applications in accordance with Department of Education (DOE) guidelines. The District maintains a database used to identify Extraordinary Aid-eligible students and the associated costs. This information is then used to file the Extraordinary Aid applications. We reviewed this process for FY 2023 and determined that the District was properly identifying and reporting these costs. Ultimately, this process led to an increase in the District's Extraordinary Aid award amounts following our 2021 Audit as detailed below.

Hopatcong Increased Aid For Special Education



We consider this recommendation implemented based on the corrective actions taken by the District.

Recommendation 7

Develop and implement policies and procedures for ensuring that all eligible shared costs are identified and allocated based on an appropriate cost allocation methodology. The procedures should include, at a minimum, a formal process of determining the annual rental fee.

Status: Implemented

Our 2021 Audit found that the District was unable to provide documentation to support the allocation of the base pay for shared employees between the District and the Sussex County Regional Transportation Cooperative (Co-op). We also found that the District did not have policies and procedures in place to ensure that the calculation of the annual rental payment accurately allocated the shared expenses between the District and the Co-op. The District advised in its corrective action plan that it would utilize the data collected as part of its review and develop an itemized breakdown of the costs associated with supporting the Co-op. This breakdown would become the basis for the annual assessment charged to the Co-op to ensure that local funds were not subsidizing the member-run organization.

During our review, we confirmed that the District developed and utilized a formal assessment breakdown for costs related to the Co-op. Specifically, a spreadsheet was created detailing an itemized annual cost breakdown of the \$200,000 annual rental fee, including costs for rent, office services, technology, business services, and pension reimbursement. The District currently shares one employee with the Co-op for payroll services. We determined that the District has a valid methodology for the cost allocation of the shared services.

We consider this recommendation implemented based on the corrective actions taken by the District.

Recommendation 8

Revise and implement policies and procedures to prevent the use of employee-owned businesses as vendors in accordance with the District's purchasing manual. Discontinue using any employee-owned companies as vendors.

Status: Implemented

Our 2021 Audit found that the District made payments to companies owned by District employees in violation of the District's purchasing manual, code of ethics, and conflict of interest policies. The District advised in its corrective action plan that it has discontinued using employee-owned vendors in accordance with the policies outlined in its purchasing manual.

During our review, we confirmed that the District's purchasing manual prohibits the use of employee-owned vendors. We also reviewed all District vendor payments from FY 2021 through 2023 and matched them with employee records. We did not identify any payments made to employee-owned vendors.

We consider this recommendation implemented based on our review of the District's employee list, vendor list, and check register.

Recommendation 9

Obtain guidance from the Department of Education or legal counsel for appropriate alternatives to charge card usage and terminate existing charge cards and accounts, as applicable, based on that guidance.

Status: Implemented

Our 2021 Audit found that District had issued and utilized charge cards and charge accounts in violation of N.J.A.C. 5:30-9A.3. The District advised in its corrective action plan that it had contacted DOE for alternative payment methods for Co-op vehicles operated from distances outside the immediate area requiring regular refueling. All existing cards and accounts would be closed.

During our review, we confirmed that the District obtained guidance from DOE, informing the District that the use of charge cards is prohibited. Based on this guidance, the District terminated all existing charge cards.

We consider this recommendation implemented based on the corrective actions taken by the District.

Recommendation 10

Develop and implement policies and procedures to prohibit the use of charge cards or accounts, as necessary, based on guidance obtained from the Department of Education or legal counsel.

Status: Implemented

Our 2021 Audit found that the District's purchasing manual and policies did not specifically prohibit the use of charge cards. The District advised in its corrective action plan that it would update policies to prohibit the use of charge cards moving forward.

During our review, we confirmed that the District updated its Purchasing Manual to prohibit the use of charge cards. We further confirmed that the District has established agreements with local governments to fuel its Co-op vehicles utilizing local fuel filling stations. We also reviewed vendor payments for 2023 and found no payments made to any charge card vendors.

We consider this recommendation implemented based on the corrective actions taken by the District.

Recommendation 11

Update policies and procedures and the purchasing manual to include the contract award notification requirements of N.J.S.A. 52:15C-10.

Status: Implemented

Our 2021 Audit found that the District did not notify OSC regarding contracts exceeding \$2 million, which was OSC's contract reporting threshold at the time.² The District advised in its corrective action plan that it would update policies and procedures to include the contract award notification requirements of N.J.S.A. 52:15C-10.

During our review, we confirmed that the District updated both its Procedures and Purchasing Manual to include the contract award notification requirements of N.J.S.A. 52:15C-10. Our review of Calendar Year 2022 and 2023 contracts did not reveal any contracts exceeding the applicable reporting threshold of \$2.5 million.

We consider this recommendation implemented based on the corrective actions taken by the District. We remind the District to comply with the policy if it intends to conduct any procurements that exceed the notification requirements.

² N.J.S.A. 52:15C-10(d). Effective July 1, 2020, the post-award review threshold increased from \$2 million to \$2.5 million. 52 N.J.R. 1443(b) (2020).

Reporting Requirements


We provided a draft copy of this report to the District for its review and comment. The District generally agreed with our report but declined the opportunity to provide an official written response.

We recognize the efforts made by the District and encourage it to continue making improvements to its operations and sharing them with our office. Accordingly, we urge the District to segregate the duties of payroll and HR functions as required by N.J.A.C. 6A:23A-6.5.

We thank the management and staff of the District for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

KEVIN D. WALSH
ACTING STATE COMPTROLLER

By: 
Christopher Jensen, CPA
Director, Audit Division

- c: Nicole Falconi-Shubert, Board President, Hopatcong Borough School District
- Kevin Dehmer, Acting Commissioner, Department of Education
- Dr. Jamar E. Purnsley, Director, Department of Education, Office of Fiscal Accountability and Compliance
- Dr. Gayle Carrick, Ed.D., Executive County Superintendent, Department of Education