

# **A Performance Audit of Selected Fiscal and Operating Practices of Pennsauken Public Schools**

***AUDIT DIVISION REPORT***

*Issued December 10, 2021*

*For the period July 1, 2013 through June 30, 2015*



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# Audit Authority

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We performed this audit pursuant to the State Comptroller's authority in *N.J.S.A. 52:15C-1 et seq.* We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

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In Fiscal Year (FY) 2015, Pennsauken Public Schools District (Pennsauken or District), located in Camden County, operated 11 schools with enrollment of approximately 5,000 students. The District employed 844 full-time equivalent staff and reported total revenue of approximately \$104 million. It received over \$60 million, or approximately 58 percent of its total revenue, in State aid.

The District is governed by the Pennsauken Board of Education (Board) which consists of nine elected officials. The Board appoints a superintendent responsible for the overall administration of the District.

## Executive Summary

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The audit<sup>1</sup> found that the District failed to comply with (1) state statutes and regulations in procuring its health insurance broker and health insurance coverage provider; (2) its own policies and procedures, terms in employment contracts and collective bargaining agreements addressing health benefit opt-out waiver payments; (3) federal regulations for income verification in the school lunch program; and (4) the Public School Contracts Law for its food supplies procurement. The District did not have adequate controls over its food supplies inventory, stipend and unused accrued leave payment processing, fueling operations, and fixed assets inventory. The District also failed to identify the opportunity to cut \$1.6 million in health insurance benefit expenses and made approximately \$95,000 in improper health benefit opt-out waiver, stipend, and unused accrued leave payments to employees.

Pennsauken must take appropriate action to strengthen its internal controls to improve its current practices and implement effective management oversight to achieve greater operational effectiveness and improve compliance with applicable laws and regulations.

We make 11 recommendations to improve the District's operations and its compliance with state and federal laws and regulations.

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<sup>1</sup> Acting State Comptroller Kevin D. Walsh is recused from this audit.

# Audit Objectives

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The objectives of our performance audit were to review the District's controls over selected fiscal and operating practices, compliance with state and federal laws and regulations, and to assess its compliance with internal policies and procedures.

# Audit Scope

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The period July 1, 2013 through June 30, 2015.

# Audit Methodology

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To accomplish our objectives, we reviewed relevant statutes, regulations, District policies and procedures, employment contracts, collective bargaining agreements, and vendor contracts. We examined Board meeting minutes and resolutions, audit reports, and other related financial records and supporting documentation. We also interviewed certain District personnel to obtain an understanding of their job responsibilities, overall operations, and the District's internal controls.

As part of our review, we selected judgmental samples of records including employee payroll and benefit payments, contracts, expenditures, and other financial transactions of the District. Our samples were designed to provide conclusions about the validity of the sampled transactions and the adequacy of internal controls and compliance with applicable laws, regulations, policies, and procedures with regard to the same. Because we used a non-statistical sampling approach, the results of our testing cannot be projected over the entire population of like transactions or contracts.

# Audit Findings and Recommendations

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## Health Benefit Cost Analysis

### Objective

- *To determine whether the District could have reduced expenses by participating in the School Employees' Health Benefits Program (SEHBP).*

### Finding

The District could have cut costs of at least \$1.6 million in FYs 2014 and 2015 by joining the SEHBP.

### Methodology

To meet this objective, we:

- Interviewed personnel responsible for benefits administration and procurement;
- Reviewed collective bargaining agreements;
- Reviewed the health insurance broker's analysis for health insurance; and
- Compared the District's health insurance premiums for FYs 2014 and 2015 with premiums for a comparable SEHBP plan to assess whether the District could have saved money by participating in the SEHBP.

### Audit Results

In 2013, Pennsauken requested that its health insurance broker solicit quotations from health insurance carriers for FYs 2014 and 2015 and recommend the most appropriate providers based on costs and services. Based on the health insurance broker's analysis, the broker concluded that Pennsauken's purchase of private health insurance would save the District \$750,000 for FYs 2014 and 2015 compared with the SEHBP.

Our review, however, noted two flaws in the health insurance broker's analysis. First, the broker compared its recommended plan with a plan from the SEHBP that was not comparable in terms of insurance coverage. Second, the broker's analysis underestimated the health insurance premiums, including commissions, for its recommended health insurance provider.

We compared Pennsauken's actual insurance premiums for FYs 2014 and 2015 to the rates of a SEHBP plan with comparable coverage, including copays, for the same number of covered employees and retirees. We concluded that the District expended \$1.6 million more than it would have if it had enrolled in the SEHBP.

### **Cause**

The District relied on the health insurance broker's analysis of health insurance costs without verifying whether the plans used by the broker offered comparable coverage.

### **Effect/Potential Effect**

The District failed to reduce spending by at least \$1.6 million in health insurance costs by not joining the SEHBP.

### **Recommendation**

1. Evaluate the costs and benefits of participating in the School Employees' Health Benefits Program annually. Implement a process to ensure that any health insurance coverage analysis provided to the District is based on relevant and comparable health insurance plans.

# Procurement of Health Insurance Broker Services and Health Insurance Coverage

## Objectives

- *To determine whether the District complied with state laws and regulations, including the Public School Contracts Law, for the procurement and award of its health insurance broker and health insurance carrier contracts in FYs 2014 and 2015.*
- *To determine whether the District's health insurance broker complied with the statutory requirements regarding the disclosure of its commission for services in FY 2015.*

## Finding

The District did not comply with the Public School Contracts Law requirements in the award of its contracts for health insurance broker services and health insurance coverage in FYs 2014 and 2015. In addition, the health insurance broker did not disclose its commission as required by *N.J.S.A. 17:22A-41.1(a)* for FY 2015.

## Criteria

- *N.J.S.A. 18A:18A-1 et seq.* - Public School Contracts Law
- *N.J.S.A. 17:22A-41.1(a)* - Notification by Insurance Producer to Purchaser of Compensation Received by Producer
- *N.J.A.C. 5:34-2.3* - Extraordinary Unspecifiable Services – Procedures for Implementation of the Exception

## Methodology

To meet these objectives, we:

- Interviewed personnel responsible for procurement; and
- Examined procurement documents for contracts awarded in FYs 2014 and 2015 for health insurance broker services and health insurance coverage.

## Audit Results

Pursuant to the Public School Contracts Law, school districts are permitted to procure insurance brokerage services and insurance coverage without following formal bidding procedures, *N.J.S.A. 18A:18A-5(a)* (10), provided that the districts comply with the statutory and regulatory requirements for awarding an “extraordinary unspecifiable services” contract as set forth in *N.J.S.A. 18A:18A-5(a)(2)* and *N.J.A.C. 5:34-2.3*. Specifically, a school district must obtain at least two competitive quotations and document that effort. In addition, a designated school official, such as a business administrator, must request that a district's Board award the contract for broker services as an extraordinary unspecifiable service by certifying to the Board that the contract meets the extraordinary unspecifiable services exception to formal bidding and describing the informal solicitation of quotes. In the resolution awarding the contract, the school district must identify the reasons for utilizing the extraordinary unspecifiable services contracting process. Finally, the school district must publish a notice of the contract award in its official newspaper, including details

such as “the nature, duration, service and amount of the contract.” *N.J.S.A. 18A:18A-5(a)(1)*.

We reviewed the Request for Quotations (RFQ) issued by the District for health insurance broker services for FYs 2014 and 2015. In both fiscal years, the District improperly awarded those contracts pursuant to the “professional services” exception to the Public School Contracts Law. *N.J.S.A. 18A:18A-5(a)(1)*. That exception is not applicable to contracts for health insurance broker services because those services do not meet the definition of “professional services” for purposes of the Public School Contracts Law. *N.J.S.A. 18A:18A-2(h)*. Instead, the District should have utilized the procedure described above for awarding the health insurance broker services contract as an extraordinary unspecifiable service.

We also found that Pennsauken accepted the health insurance broker’s FY 2015 response to its FY 2015 RFQ although the submission did not contain all of the required procurement forms and disclosures, including the disclosure of corporate ownership as required by *N.J.S.A. 52:25-24.2* and political contribution disclosure forms as required by *N.J.S.A. 19:44A-20.26*. In addition, some forms that the health insurance broker did submit with its response to the FY 2014 RFQ were incomplete. For example, the health insurance broker failed to include the full names of individuals who own 10 percent or more of the entity, as required by *N.J.S.A. 52:25-24.2*. The health insurance broker’s request for solicitations from the insurance providers also failed to require the submission of state procurement and disclosure forms, including the business registration certificate, disclosure of corporate ownership, political contribution disclosure forms, and mandatory affirmative action contract provisions.

We also found that the health insurance broker did not notify the District, “in writing, of the amount of any commission, service fee, brokerage, or other valuable consideration that the producer will receive as a result of the sale, solicitation or negotiation of the health insurance policy or contract,” as required by *N.J.S.A. 17:22A-41.1(a)*. The amounts of the broker’s commission were not identifiable in the two proposals or any of the health insurance invoices we reviewed. We eventually received this information in May 2015, but only after we requested the District to obtain the insurance commission amount from the health insurance broker.

In addition, our review of the health insurance broker’s FY 2015 contract found that the broker prepared the contract and included provisions that may have increased the broker’s compensation beyond the standard commission. The contract included a provision that if employee enrollment increased by 25 percent or more, the District would be required to pay a larger commission or an additional separate fee to the broker. The contract also entitled the broker to earn from the insurance providers “profit sharing, contingencies, incentives, bonuses, trips, prizes, awards and/or other forms of compensation that insurers pay based on such items as overall premium volume and profitability with that insurer, provided that [the health insurance broker’s] services and advice are independent of such insurers and are solely in the interest of [the Board.]” These provisions appear to benefit the broker exclusively and are unlikely to be in the best interest of the District.

We also reviewed the District’s process for procuring health insurance coverage for its employees in FYs 2014 and 2015. Like its contracts for insurance broker services, the District improperly utilized the “professional services” exception to the Public School Contracts Law to award those contracts. In so doing, the District allowed its health insurance broker to simply solicit quotes from insurance carriers and make recommendations to the District for contract awards. The District should have either utilized a public bidding process or the extraordinary unspecifiable services exception to procure its contracts for health insurance coverage. *N.J.S.A. 18A:18A-5(a)(10)*.

### **Cause**

The District failed to follow state laws and regulations applicable to the procurement of health insurance broker services and health insurance coverage.

### **Effect/Potential Effect**

The District's noncompliance with the Public School Contracts Law may result in improperly awarded contracts and a lack of transparency in spending. In addition, if the District does not properly review the contract terms, health insurance brokers can recommend more expensive health insurance coverage in order to generate higher commissions and receive possible incentives from the insurance carriers.

### **Recommendations**

2. Implement policies and procedures to ensure that contracts for health insurance broker services and health insurance coverage are procured and awarded in compliance with the Public School Contracts Law.
3. Develop policies and procedures to ensure that health insurance brokers disclose any commission, service fee, brokerage, carrier incentive offers, or other valuable consideration received as a result of the health insurance coverage contract pursuant to *N.J.S.A. 17:22A-41.1(a)*.

# Health Insurance Benefits

## Objective

- *To determine whether the District provided health benefit opt-out waiver payments in accordance with its employment contracts and collective bargaining agreements in FYs 2014 and 2015.*

## Finding

The District did not adequately monitor health benefit coverage and improperly provided \$21,300 in health benefit opt-out waiver payments in FYs 2014 and 2015.

## Criteria

- Employment Contracts
- Collective bargaining agreement terms for health benefit coverage and health benefit opt-out waivers
- Pennsauken Board Waiver of Medical Coverage Forms

## Methodology

To meet this objective, we:

- Interviewed personnel responsible for benefit administration;
- Reviewed employment contracts;
- Examined collective bargaining agreement terms for health benefit coverage and health benefit opt-out waivers; and
- Tested the health benefit opt-out waiver payments for 13 employees in FYs 2014 and 2015 to determine eligibility.

## Audit Results

A health benefit opt-out waiver payment is provided to employees who are otherwise entitled to health insurance coverage by the District, have alternate health insurance coverage, and voluntarily opt not to participate in the District's health insurance plan.

In FYs 2014 and 2015, Pennsauken provided 155 employees with health benefit opt-out waiver payments totaling \$567,000. The District's collective bargaining agreements provided health benefit opt-out waiver payments to employees who waived some or all health insurance, as well as to those who enrolled but reduced their level of coverage.

We judgmentally selected a sample of 13 employees to verify that they were not covered by the District-provided health insurance. Our audit found 2 of the 13 employees received health benefit opt-out waiver payments for the same time period they were covered under District-provided health insurance. We conclude that health benefit opt-out waiver payments of \$2,700 were improper and a duplication of benefits.

In addition, we found that the District incorrectly interpreted the collective bargaining agreements' provi-

sions related to spousal coverage. Pennsauken improperly paid opt-out waiver payments to employees who were covered as dependent spouses on another employee's health insurance coverage which resulted in improper payments totaling \$18,600 for 14 couples that were both employed by the District.

### **Cause**

The District did not have adequate procedures in place to process health benefit opt-out waiver payments as required by the statutory provision, District policies and procedures, or terms of its collective bargaining agreements.

### **Effect/Potential Effect**

The District's inadequate monitoring and oversight of benefit administration resulted in improper health benefit opt-out waiver payments totaling \$21,300 in FYs 2014 and 2015.

### **Recommendations**

4. Develop policies and procedures for the administration of health insurance coverage and the processing of health benefit opt-out waiver payments to ensure that eligible employees are paid pursuant to District policies and the terms of the collective bargaining agreements.
5. Seek to renegotiate the terms of any collective bargaining agreements to eliminate the health benefit opt-out waiver payments for employees covered by District-provided health insurance.

# Income Verification for Free and Reduced-Price Lunch

## Objective

- *To determine whether the District conducted income verification for the National School Lunch Program pursuant to the United States Department of Agriculture regulations in FY 2015.*

## Finding

The District failed to comply with federal regulations for the National School Lunch Program in conducting income verification in FY 2015.

## Criteria

The National School Lunch Program is a federally assisted meal program operating in public and non-profit private schools and residential child care institutions. It provides free or reduced-priced lunches to children of eligible households. The U.S. Department of Agriculture (USDA) program regulations at 7 C.F.R. § 245 state that a “local educational agency” such as a school district is responsible for ensuring compliance with the National School Lunch Program income verification requirements, including actions to examine:

- Error Prone Applications – through a sample of approved household applications that indicates monthly income within \$100 or annual income within \$1,200 of the applicable income eligibility limit for free or for reduced meals. 7 C.F.R. § 245.6a(a)(2).
- Verification for Cause – on a case-by-case basis, questionable applications, such as an application in which a household reports zero income or when the District is aware of additional income or persons in the household. 7 C.F.R. § 245.6a(c)(4)(ii)(C)(7). A district can also use verification for cause to review approved applications when known or available information indicates school district employees may have misrepresented their income on their applications to receive free or reduced-price meals for their children.

## Methodology

To meet this objective, we:

- Interviewed personnel responsible for the administration of the National School Lunch Program and income verification; and
- Assessed the District’s income verification review of 32 error prone applications and the District’s identification of applications warranting verification for cause in FY 2015.

## Audit Results

Pennsauken did not verify income as required by the USDA regulation set forth in 7 C.F.R. § 245.6a. The District selected the required sample size of 32 error prone applications in FY 2015. We reviewed the ap-

plications and identified five incorrectly approved applications. For four household applications, the District did not comply with USDA's income verification regulation 7 C.F.R. § 245.6(a)(5) and accepted only one paystub for a two-week period instead of two paystubs required to verify monthly income. Absent the supporting documentation for the household's monthly income, we cannot determine if the applicant met the income qualifications for free meals approved by the District. For the fifth household, Pennsauken incorrectly used net pay to verify income instead of the applicant's gross pay. If gross pay had been used, the applicant's income would have exceeded the income limit and the applicant would have been deemed ineligible for benefits.

The District was unaware that USDA regulations allowed for the use of available employee salary information to review applications from school district employees. In FY 2015, the District received 62 applications from its employees. We reviewed all 62 applications and found that 8 applicants understated their income. These applications were improperly approved by the District for free or reduced-priced meals instead of being deemed ineligible or approved for reduced benefits. In addition, we noted that the District did not verify any of the 48 applications that reported zero income out of 1,861 applications received for FY 2015. The District should have considered those applications questionable and therefore, subject to income verification as required by the USDA regulation. 7 C.F.R. § 245.6a(7).

### **Cause**

District personnel did not conduct a thorough review of the error prone applications and were unaware of the USDA regulations governing verification for cause reviews. In addition, personnel did not fully understand the income verification process or supporting documentation requirements. District personnel also indicated they accepted less than the required documentation when the applicant had difficulty providing supporting documentation contrary to the USDA regulations. 7 C.F.R. § 245.6a(a)(5).

### **Effect/Potential Effect**

Students from households that are ineligible for the program received free or reduced-price lunches because the District did not comply with 7 C.F.R. § 245.

### **Recommendation**

6. Develop policies and procedures to ensure compliance with the National School Lunch Program regulations on income verification.

# Procurement of Food Supplies and Inventory Controls

## Objectives

- *To determine whether the District complied with state laws and regulations, including the Public School Contracts Law, for the procurement of food supplies for the period July 1, 2013 through February 26, 2015.*
- *To determine whether the District adequately monitored its food supplies inventory.*

## Finding

The District failed to comply with the Public School Contracts Law for its food supplies procurement. In addition, the District did not adequately monitor its food supplies inventory.

## Criteria

- *N.J.S.A. 18A:18A-5 – Exceptions to Requirement for Advertising*
- *N.J.A.C. 6A:23A-16.5 – Double-Entry Bookkeeping and GAAP Accounting – Supplies and Equipment*

## Methodology

To meet these objectives, we:

- Interviewed personnel responsible for food service and procurement; and
- Reviewed food supplies inventory records.

## Audit Results

### **Procurement**

The Food Service Department's (Department) director reported to the business administrator but operated with little oversight from the business administrator or District administration. The Department utilized its own accounting system separate from the District's and procured its own goods and services instead of procuring through the District's Purchasing Department.

School districts may purchase food supplies without publicly advertising for bids pursuant to *N.J.S.A. 18A:18A-5*, as long as they adopt a food purchasing policy required by *N.J.A.C. 6A:23A-16.5(c)*. According to *N.J.A.C. 6A:23A-16.5(c)*, the policy must specify the food supplies that will be purchased without advertising for bids and designate a person(s) authorized to purchase the food supplies. The policy must also describe the procedure by which potential vendors may become eligible to submit price quotations and outline the method by which the District will solicit and accept quotations. The Board is required to "adopt this policy before the opening of school each year, and shall make the policy known to the public."

Our audit found that the Board did not adopt a food purchasing policy for FY 2014. The Board, however, adopted a policy for FY 2015 on February 26, 2015 - more than five months after the start of the school year. Accordingly, the District was not authorized to purchase food supplies in FY 2014 or during the first five months of FY 2015 without conducting a public bidding process. During that time period, the District

issued 544 disbursements for food supplies totaling \$4,259,352.

### ***Inventory***

Our audit found that the District did not have formal policies and procedures regarding the inventory of its food supplies. Although the Department conducted an inventory every two months, our audit found that the Department lacked appropriate monitoring and oversight of the food supplies inventory. We noted several inventory counts that differed from the inventory accounting in the official records.

Food supplies inventory records were updated for changes including: purchases, items used, food prepared and served, and spoilage. The inventory records reported all of these transactions and the ending inventory. District officials advised they did not review or reconcile the inventory counts. This weakness prevented the District from safeguarding the food supplies inventory from theft.

In addition, after being updated, the District's prior inventory records were not maintained in the system and were automatically deleted. Without adequate monitoring and oversight of the food supplies inventory, the District was not able to ensure appropriate safeguarding of its inventory.

### **Cause**

The District did not comply with the Public School Contracts Law in obtaining food purchase quotations when it failed to adopt a timely Board-approved food purchasing policy. In addition, the District did not have formal written policies and procedures for food supplies inventory monitoring.

### **Effect/Potential Effect**

The District's failure to comply with procurement and regulatory requirements may result in less competitive prices for goods and services. In addition, the lack of policies and procedures for food supplies inventory monitoring could lead to the risk of shortages or theft resulting in higher costs.

### **Recommendations**

7. Develop policies and procedures that ensure Food Service Department purchases are completed through the Purchasing Department in compliance with the Public School Contracts Law. As appropriate, these procedures should ensure that the District adopts its food purchasing policy annually after Board approval and before the start of the school year in accordance with *N.J.A.C. 6A:23A-16.5*.

8. Implement policies and procedures for the handling and tracking of food supplies inventory, addressing such issues as shrinkage and obsolete inventory. Implement a process that provides for the proper retention and monitoring of inventory variance reports.

# Other Controls

## Objective

- *To determine whether the District had adequate controls for other selected operations in FYs 2014 and 2015.*

## Finding

The District failed to establish adequate controls for processing stipend and unused accrued leave payments resulting in improper payments of \$74,328. The District also failed to establish adequate controls for its fueling operations and fixed asset inventory.

## Criteria

- Board meeting minutes
- Collective bargaining agreement terms regarding the performance of additional duties and accrued sick leave payments

## Methodology

To meet this objective, we:

- Interviewed personnel responsible for payroll processing, fueling operations, and fixed asset inventory;
- Reviewed collective bargaining agreement terms regarding the performance of additional duties and accrued sick leave payments;
- Tested 30 stipend payments totaling \$308,995 paid in FYs 2014 and 2015;
- Verified the 12 accrued leave payments totaling \$467,376 issued in FYs 2014 and 2015;
- Confirmed the proper coding of fuel usage for 35 employees in FY 2015; and
- Assessed the status and location of 15 fixed assets.

## Audit Results

### **Stipends**

In accordance with the provisions of the collective bargaining agreement, the District pays stipends to employees for performing additional duties such as coaching, directing the school band, or serving as a student club advisor. Upon Board approval of staff assignments, the payroll department is authorized to process stipend payments without requiring documentation that the additional duties were actually performed.

In FYs 2014 and 2015, Pennsauken issued stipend payments to 177 employees totaling more than \$1.2 million. We tested 30 employees who received stipend payments: 15 employees in FY 2014 and 15 employees in FY 2015. We found the District improperly issued stipend payments to six employees totaling \$24,920 in FY 2014. Although these payments were approved by the Board, they were issued without supporting documentation of the activity performed and without supervisory approval that the activity was completed. Of the 15 employees sampled in FY 2015, we identified stipend payments to 4 employees totaling \$23,330 that were not approved by the Board and did not have supporting documentation to confirm the work was performed.

As of October 1, 2015, in response to our review, the District established a new procedure that requires supporting documentation of the employee's completion of the work and evidence of a supervisory review and approval. The District also initiated the recoupment of the \$23,330 from the four employees noted above.

### **Accrued Leave**

The collective bargaining agreements included provisions that allowed employees who resign or retire to be paid for accrued unused sick leave. The District calculated the accrued leave payments by using the sick leave remaining balance per the employee's attendance records and based on specified rates and limitations set forth in the collective bargaining agreements. During FYs 2014 and 2015, Pennsauken paid \$1,118,795 in accrued leave payments to 115 employees. We selected a judgmental sample of 12 payments, issued in FYs 2014 and 2015 totaling \$467,376, to verify the accuracy of the payments. We found exceptions with 4 of the 12 payments. As a result of miscalculations, two employees were overpaid a total of \$847, and one employee was underpaid \$205. Another employee was paid \$25,026 without supporting documentation of the employee's attendance record.

### **Fueling Operations**

The District has its own fueling station to provide fuel for buses and vehicles used for landscaping and food service delivery operations. The fuel pump location is secured, and to access and operate the fuel pump, a District user must enter an identification code and password. Each user's code identifies their respective department (e.g., transportation, maintenance, grounds, or food service) to monitor and budget fuel usage. Once the user begins fueling, the automated fueling system records the user, department, transaction date, time, and the amount of fuel dispensed.

We requested fuel usage records for FYs 2014 and 2015. However, Pennsauken staff informed us that the records were unavailable because the data was purged from the fueling system. The District explained that the system will not dispense fuel when the memory capacity is reached. Because of the fueling system's memory limitations, the actual transaction data is periodically deleted. The District did not maintain hard-copy reports from the system prior to deleting the records.

The District did not begin printing or saving the fuel transaction records until our request during the audit. Therefore, we were only able to analyze a limited number of transactions between February and July of 2015, for 35 users, to determine whether use of the fuel pump was properly coded. Of the 35 users, we found 10 were improperly coded to the wrong department which could cause inaccurate fuel usage budgeting for those departments.

### **Fixed Asset Inventory**

Pennsauken uses a fixed asset inventory tracking system. The system includes fixed asset details such as: purchase date, purchase price, asset name/description, location, acquisition cost, and salvage value. We judgmentally sampled 15 fixed assets out of 847 identified on the October 2015 inventory list and attempted to physically locate them. We could not locate six of the assets. The District informed us that the assets had since been disposed of and the disposition was not properly accounted for in the fixed asset records. In addition, the District could not provide evidence of when it last performed a count of its physical inventory.

### **Cause**

The District did not have formal policies and procedures for the processing and payment of stipends and accrued leave.

There were no policies and procedures in place to analyze fuel usage. In addition, memory limitations in the fueling system did not allow consistent recording of transaction data.

The District did not have policies and procedures regarding fixed assets inventory.

### **Effect/Potential Effect**

The District's lack of formal written policies and procedures resulted in unapproved stipends and improper accrued leave payments in FYs 2014 and 2015.

Pennsauken's improper departmental coding for fuel pump users could lead to inaccurate budgeting of fuel usage.

Without adequate controls, the District cannot verify the completeness and accuracy of its fixed assets inventory.

### **Recommendations**

9. Implement formal policies and procedures for the processing of stipend and accrued leave payments.
10. Develop policies and procedures for the analysis of fuel usage including appropriate monitoring of actual usage with budgetary data as appropriate. The procedures should include appropriate record retention.
11. Implement policies and procedures that provide for verification and timely update of fixed asset records based on the asset status. The procedures should require periodic inventory and supporting documentation for all asset records.

# Reporting Requirements

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We provided a draft copy of this report to District officials for their review and comment. The District generally agreed with our audit findings and conclusions, and its response indicated they have taken steps and will continue to implement corrective actions to address our recommendations. District comments were considered in preparing our final report and are attached as Appendix A.

We are required by statute to monitor the implementation of our recommendations. In accordance with *N.J.A.C. 17:44-2.8(a)*, within 90 days following the distribution of the final audit report, the District is required to provide a plan detailing the corrective action taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefore. We will review the corrective action plan to evaluate whether the steps taken by the District effectively implement our recommendations.

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



# PENNSAUKEN PUBLIC SCHOOLS

## ADMINISTRATION OFFICES

1695 Hylton Road  
Pennsauken NJ 08110

(856) 662-8505  
FAX (856) 662-4080

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*Ronnie Tarchichi M.Ed.<sup>2</sup>, M.S., M.B.S., M.A.<sup>2</sup>, Ed.D., Ph.D.*  
*Superintendent*

*Nicholas Perry*  
*Board President*

DATE: November 22, 2021

RE: **Response to the New Jersey Comptroller July 1, 2013 – June 30, 2015 Audit report**

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To Whom It May Concern:

This is the district's response, following the State of New Jersey Office of the State Comptroller's Audit report titled "A Performance Audit of Selected Fiscal and Operating Practices for the period of July 1, 2013 through June 30, 2015."

The district appreciated the thorough explanation of observations and recommendations expressed in the audit report, including the methodology adopted in reviewing the district's fiscal and operating practices. Although many years has passed since the conclusion of this audit, including changes in leadership in the district (Superintendent and School Business Administrator) and lots of improvements that has taken place in various areas touched on by this report, yet we appreciate the fact that we have the opportunity to improve further in some areas of operation.

Please find below, response to highlighted points enumerated in the audit report, which includes our improvements in the years past and other areas to improve upon.

**Object 1:**

**Health Benefit Cost Analysis**

In recent times in conjunction with our health insurance broker, the district makes sure that an adequate comparison is established between SEHBP and other independent insurance carrier. We also ensure that we utilize comparative health plan cost analysis to establish objectivity and cost saving opportunity for the district.

We also make sure that our bid process is in compliance to N.J.A.C. 5:34-4 “administration of competitive contracting process”.

### **Objective 2:**

#### **Procurement of Health Insurance Broker Services and Health Insurance Coverage.**

Corrective action has taken place on this finding. Currently, the district ensure that the Public School contract law requirement is dully followed, such as N.J.A.C. 5:34-2.3 and N.J.S.A. 18A:18A-5(a)(2) “Extraordinary Unspecifiable Services” in awarding the contract of insurance broker and N.J.S.A. 17:22A-41.1 on the disclosure of commission. The district also ensure that all required procurement forms and disclosures are included in the process of proposal acceptance as required by N.J.S.A. 52:25-24.2; N.J.S.A. 19:44A-20.26 and N.J.S.A. 17:22A-41.1(a). In addition, we have been conforming to N.J.S.A. 52:15C-10 about notifying the office of the comptroller not later than 30 days before advertisement, of any negotiation or solicitation of a contract that may exceed \$12.5 million of which this falls under.

### **Objective 3:**

#### **Health Insurance Benefits**

The audit observation on duplication of benefit (*opt-out waiver*), and the interpretation of the provisions related to spousal coverage on collective bargaining agreement was reviewed and the district has decided to continue with this action due to its cost saving advantage, if compared to affected staff members choosing individual health insurance plan coverage option.

### **Objective 4:**

#### **Income Verification for Free and Reduced-Price Lunch**

In the last five years, effort has been made to ensure that the district conform to the income verification for National School Lunch Program pursuant to the United State department of Agriculture regulations. The district’s food department has put in place measures that result in application error reduction and income verifications to ensure correct application was filed for the program. However, the recent pandemic (Covid-19) has made verification of income difficult and most parents that qualify to apply for the program are no longer motivated due the state’s extension of the program to the general population of students. However, we promise to continue to uphold the integrity of the program through proper application verification when situation gets back to normal.

### **Objective 5 (A & B):**

#### **Procurement of Food Supplies and Inventory Controls**

As enumerated on the audit discussion report, the food services procurement activities in the last five years were integrated with the business office under the purchasing department in order to ensure oversight and conformity to the public school procurement regulations “N.J.S.A. 18A:18A-5 and N.J.A.C. 6A:23A-16.5(c). Food services accounting was brought over to the district accounting software to ensure monitoring, monthly bank

reconciliation and proper verification and approvals of requisitions for products and services. There were bids for all food products, Supplies and Equipment, including formal quotations and procurements through cooperatives, most especially, Garden State Cooperative for additional food and supplies. The N.J.A.C. 6A:23A-16.5 was adopted in 2015. We have also improved on food supplies inventory recordings and adequate monitoring is in progress.

**Object 6:**

**Other Controls**

Stipends

The control for payments of stipends was also strengthened in the area of board approval and duty performance. All stipend positions are board approved annually and direct administrator must verify and approve the job performance form for individual staff before payment.

Accrued Leave

The district ensures proper record keeping of employees' attendance record in electronic form through the district's personnel system and business office verifies accrued leave calculations before its inclusion in the board agenda for approval, to avoid the incidence of overpayments.

Fueling Operations

The audit's observation about the fuel usage recording system examined and necessary actions will be taken to always retain transaction reports for accounting purpose and future referencing.

Fixed Asset Inventory

Our fixed asset inventory was updated a couple of years back, the old system was discarded and all information migrated to our current budgetary software. The software was also update with current assets and entries of future assets are automated at the point of procurement. Annual physical counting of our assets is also being implemented.

We not only acknowledge the office of the state Comptroller's meticulous review of the district's fiscal and operating practices, we also value the opportunity to respond to this report and improve on other areas that requires improvement. We are in anticipation of your direction on the next step to conclude this audit process.

Sincerely,

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

**Ronnie Tarchichi M.Ed.<sup>2</sup>, M.S., M.B.S., M.A.<sup>2</sup>, Ed.D., Ph.D**

**SUPERINTENDENT**