



Department of Legislative Services
Office of Legislative Audits

Financial Management Practices Performance Audit Report

Somerset County Public Schools

Report Dated March 25, 2010



School Audits

- Audits are performed in accordance with State law, which requires OLA to audit all 24 public school systems once over a six-year period.
- The purpose of the audits is to evaluate the effectiveness and efficiency of the school system's financial management practices in safeguarding assets and its use of financial resources.
- Audit approach consists of 11 functional areas previously approved by the Joint Audit Committee, as required by State law.
- When warranted, we used the work of other auditors to avoid duplication of effort.



Functional Areas

The functional areas consisted of:

1. Revenue and Billing Cycle
2. Federal Funds
3. Procurement and Disbursement Cycle
4. Human Resources and Payroll
5. Inventory Control and Accountability
6. Information Technology
7. Facilities Construction, Renovation and Maintenance
8. Transportation Services
9. Food Services Operations
10. School Board Operations and Oversight
11. Other Financial Controls



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Overview

- FY 08 operating expenditures of \$48 million, including payroll of \$30 million.
 - Enrollment of approximately 2,900 students in 10 schools.
 - Report contained 35 findings and 23 recommendations in all of the 11 areas reviewed.
 - Internal control problems were noted, such as accountability over certain cash receipts and access to the automated procurement and disbursement and payroll systems.
 - Policies need to be developed or improved in certain areas.
 - Certain operational improvements should be made to improve effectiveness and efficiency.
 - Certain best practices were found to be in place in several areas such as federal grant management, facilities, transportation and food services.
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Key Findings – Internal Controls

Cash Receipts – (p. 11)

- Certain collections were not recorded upon receipt and independent verifications that collections were deposited were not performed.

Procurements and Disbursements – (p. 19)

- Many employees were assigned incompatible functions such as posting payment transactions, adding vendors and printing checks.

Human Resources and Payroll – (p. 24)

- One employee had access to all critical payroll functions such as adding employees, changing pay rates and preparing checks.

Information Technology – (p. 32)

- Passwords features could be used more effectively, logging and reporting of security events were not enabled and a comprehensive disaster recovery plan had not been developed.



Key Findings – Other Issues

Procurement and Disbursements (p. 19)

- Procurement policies did not address contracting for services (\$1.7 million in FY 2008) and did not require Board approval of any non-construction contracts.
- Our test of 15 disbursements disclosed that 3 of these disbursements totaling \$208,600 were not competitively bid.

Facilities Construction and Maintenance– (p. 39)

- The capital improvement planning process did not formally determine the extent and impact of its deferred maintenance.
- Our test of 13 facility-related invoices disclosed that no bids were received for 4 of these purchases totaling \$52,000.



Key Findings – Other Issues

Transportation – (p. 44)

- Rates used to determine payments to bus contractors were not based on documented criteria.
- Our analysis of one component of contractor pay disclosed that payments were based on criteria that may result in unnecessary payments of \$1.4 million for buses purchased between 1995 and 2009.
- Fuel payment rates made to contractors were not reduced in accordance with contract terms to reflect a decline in fuel prices.

Other Financial Controls– (p.60)

- SCPS did not verify the authenticity of health care program participants and dependents.