

STANHOPE SCHOOL DISTRICT
24 VALLEY ROAD
STANHOPE, NEW JERSEY 07874

ADDENDUM TO CORRECTIVE ACTION PLAN

In Response To
New Jersey Department of Education
Office of Fiscal Accountability and Compliance
OFAC Case #1424
July 30, 2008

Part I:

Background and OFAC Findings

Based on self-reporting by the District's Interim Superintendent Fred Ferrone in April of 2008, the Office of Fiscal Accountability ("OFAC") investigated several aspects of the District's operation. On June 19, 2008, OFAC issued its Examination Report (the "Report").

The District has approximately 400 students in grades K-8. The District budget for the 2008-2009 school year is \$5,843,004. The budget failed, but it was so sparse that the municipality cut no money from it.

As set forth in the accompanying submission by legal counsel, the District generally accepts the conclusions of the Report, with the few exceptions which counsel notes. Hence, the Corrective Action Plan ("CAP") addresses each of the recommendations. The goal of the CAP is twofold: To remediate past mistakes and to avoid recurrences.

Part II

Expansion of Issues Addressed in the CAP

First Allegation and Finding

Allegation and Finding: The Stanhope School District has an over-expenditure in the school building program

OFAC Recommendation: None specifically noted

Proposed Corrective Action Plan:

The Report details certain overspending with respect to the capital improvement projects that the District undertook at the Valley Road and Linden Avenue schools from 2003 through 2007. These projects were approved by a bond referendum in December 2002. The Valley Road and Linden Avenue capital projects had total expenditures of \$7,263,671. The Report notes overspending of \$144,401.

The District's CAP for this potential capital project overspending addresses (a) the need for assurances and procedures to prevent a recurrence of capital program overspending and (b) an effort to restore any improperly overspent funds to the appropriate District fund.

In order to prevent future capital overspending, the District will implement policies and procedures to manage and monitor capital projects more effectively and to control monies in Fund 30. The Superintendent, in consultation with the Business Administrator ("BA"), is responsible for implementing these policies by September. The policies will promote improved construction management of capital projects and will require that all controls over the approval and disbursement of funds be followed.

Project management

1. When commencing a capital project, the District, or its construction professionals, will prepare a schedule of anticipated expenditures that parallels the construction schedule.
2. The Superintendent shall designate a representative to attend job meetings with contractors, project managers, the architect, and other construction professionals. Minutes of these meetings shall be maintained and summaries shall be provided to the Board either directly or through an appropriate Board committee.
3. In consultation with Board legal counsel, the SBOE will develop and implement a policy on change orders that conforms fully with all requirements of statute and code.

Approval of disbursements and funds management

1. The disbursement of Fund 30 amounts will be governed by a contractual process of submittals for payment and approvals. Approvals must be in order prior to consideration or approval of any such disbursement by the SBOE.
2. Checks issued against Fund 30 will be reviewed and approved by the District Administration and an appropriate Board committee, or a committee of the whole, before being considered by the SBOE.
3. The Board will be provided by the District Administration, in consultation with its construction professionals, a clear and concise monthly statement indicating the contract amount, change orders, payments, percentage of completion, and remaining balance for each contractor. The report shall also append the original anticipated schedule of payments, for the purpose of comparison.
4. Investment of Fund 30 balances should be overseen by an accredited financial agency and will be scheduled based upon disbursement and pay down schedules. Any

interest accrued on these funds should be designated either for the payoff of bonds or for another legal purpose, as determined in consultation with the Board counsel and bond counsel.

Second Allegation and Finding

Allegation and Finding: The Stanhope School District spent voter approved funds and state funds on the Linden Avenue Project for a use that was not approved by the voters or the Department of Education.

OFAC Recommendation: The District should determine whether repayment of the bond funds to the taxpayers and state funds is required. If the funds must be repaid, the district should notify the County Superintendent of the potential deficit.

Proposed Corrective Action Plan:

As part of the capital spending program approved by the 2002 referendum, and also making use of Schools Construction Corporation aid, the District undertook renovation of its Linden Avenue School in anticipation of placing unhoused special education, pre-K and K students. However, prior to construction, the District leased the Linden Avenue School to an independent, not-for-profit special education provider.

The District's CAP is to return the Linden Avenue School to its intended use, namely the housing of District students. The District is in the process of implementing a Special Education program for District special needs students who have been placed with other districts, as well as for out-of-district and transfer-in students, to be operated at the Linden Avenue School. This program is expected to start this program when school opens in September 2008.

Development of a Special Education program for September 2008

The District's Acting Superintendent, who also serves as its Special Education Coordinator, is responsible for developing a special education program for September implementation. This program is being developed for Stanhope students in a limited partnership with NORWESCAP, the regional Head Start program administration which will provide training and curriculum assistance. The program is being designed to serve both unhoused Stanhope students who are now placed out-of-district placements and at-risk preschoolers, one year before the implementation of the state mandate to do so. The District has also begin the process of filling the positions necessary to provide an educationally sound and therapeutic environment.

Identification and in-placement of students

The District has begun efforts to enroll students in the Linden Avenue special education program. We have contacted and met with families of students who currently are placed out-of-district, and it is encouraged by the results so far. Students younger than five

years are considered to be the best candidates for the new program. The District will continue its efforts to foster enrollments through individual family meetings and group sessions which will focus on the benefits of educating classified children in their home district. A formal announcement of the program's September opening should be made soon.

Third Allegation and Finding

Allegation and Finding: 1 - The Board hired the former Superintendent without proper certification and for an inappropriate period of time.

2 - The unused leave payout to the former Superintendent was not supported by adequate documentation and was paid improperly

OFAC Recommendation: The District should attempt to receive reimbursement for the sick and vacation leave payout given to the former Superintendent since the Commissioner of Education was not notified, the contract was not properly board approved and the days paid were not documented.

Response and Proposed Corrective Action Plan:

The OFAC Report notes observed irregularities surrounding the employment of the District's former Superintendent. These include the lack of a proper certificate, , the failure to take formal action to approve the contract, , the payout of unused sick and vacation pay upon resignation pursuant to an unapproved contract and without DOE review, and the questioned payments having been made other than through standard payroll practices.

Demonstration of Appropriate Certification

Assuring that newly-hired employees possess the proper certification is a specific part of the hiring process. Any deviations from this standard, such as emergency certification, must be approved by the County Office and/or the DOE.

Contract Documentation and Approval

The District will not enter into any employment contract without and appropriate authorizing resolution, duly passed by a lawful majority. All such actions will be reflected in the minutes, which we will be timely approved..

Sick and Vacation Day Recordkeeping

The District has a procedure which allows for tracking most employee attendance and the reason for any absence. The Acting Superintendent is responsible to assure that this procedure or a similar procedure is in place for all of our employees prior to the start of the 2008 school year. Any authorized payout of unused leave time must be consistent with these records.

Stanhope School District
Addendum to Corrective Action Plan
July 30, 2008

*Recovery of Improper Payment of
Vacation and Sick Pay to Former Superintendent*

The District paid \$65,125 to its former Superintendent for unused sick and vacation pay apparently due at the time of his resignation. Discussions have begun to recover this money, and the District is prepared to commence litigation against the former Superintendent if needed.

Improper Method of Payment to Employee

Payment to the former Superintendent was made through a vendor check without payroll tax withholding and with instructions that the required 1099-MISC not be generated. Effective immediately, the District requires that any payment to an employee that is not made through the payroll system and subject to appropriate withholding (other than reimbursement of out-of-pocket or similar expenses) be made only with the approval of the SBOE Finance Committee, or in the absence of such committee the SBOE President. In addition, the District Administration will re-train itself on rules for issuing 1099 certificates to assure there is no repeat of payment of employees under the vendor category.

Fourth Allegation and Finding

Allegation and Finding: The District will have a general fund deficit in 2008

OFAC Recommendation: None

Response and Proposed Corrective Action Plan:

The Interim Superintendent initiated a budget and spending freeze in February 2008 that has been instrumental in assuring that the District does not have a deficit for 2007-2008 school year.

Fifth Allegation and Finding

Allegation and Finding: The District has additional funds in NJARM.

OFAC Recommendation: The District should transfer the funds in its NJARM account back to the District in order not to incur further IRS penalties.

Response and Proposed Corrective Action Plan:

The District maintains funds in the amount of \$213,033.29 in the NJARM and incurs IRS penalties by continuing to do so. The District will confirm the balances with NJARM as expeditiously as possible and transfer all NJARM funds to general accounts as soon as practicable. These actions are the responsibility of the Business Administrator, and it is anticipated that they will be completed by September 2008.

Funds that held at NJARM have been considered in the preparation of the District's audit report for 2007-2008. Based on the information that the auditors have provided to the

District so far, these funds have been allocated to expenditures incurred but not yet disbursed for the 2007-2008 fiscal year.

Part III

Stanhope School District Response and Corrective Action Plan Concerning the Report's "Other Concerns"

The Other Concerns noted in the introductory sections of the Report fall into two general categories: (a) governance and supervision and (b) accounting and controls. Although the Report's *Allegations and Findings* and *Recommendations* do not specifically reference many of the Other Concerns (those that are referenced are included in Part II), the District treats these items seriously and is committed to addressing them through appropriate Corrective Action.

Governance and Supervision Items

The Other Concerns include a number of items that relate to the ongoing governance and monitoring of the financial operations and condition of the District. Recently, the SBOE formally stressed the importance of completing and approving Board Secretary and Treasurer's reports on a monthly ongoing basis.

Reports and Minutes

- **Board Secretary and Treasurer's Reports have not been completed or approved by the Board since October 2006.**

The District's new BA (February 2008) and new Treasurer of School Monies have implemented a program to complete and submit for SBOE approval the missing reports.

- **SBOE Meeting minutes had not been completed and/or approved since at least the beginning of the 2007-2008 school year.**

The District has approved all missing SBOE meeting minutes. Minutes are now prepared within 24 hours after a meeting and are presented for approval at the next regular SBOE meeting. SBOE meetings will be taped beginning approximately at the start of the school year.

CAFR Audits

- **The 2005-2006 CAFR was never presented to the Board and a corrective action plan was never prepared or approved.**

The District Administration and SBOE have been unable to determine the exact reasons that the 2005-2006 CAFR was not presented to the SBOE, but the Board did not receive notice from the Sussex County Office that a corrective action plan was never filed.

- **The 2006-2007 CAFR was not received until January 2008 and reflected numerous repeat audit findings and recommendations.**

The 2006-2007 audit/CAFR was not presented to the SBOE. Because the SBOE had not received the prior year's CAFR, and thus was unable to act on its

recommendations, the 2006-2007 CAFR included a number of repeat recommendations.

In June 2008, the SBOE interviewed independent accounting firms and retained a new audit firm. We understand the importance of obtaining a current and comprehensive audit report as soon as possible, and the auditors have begun this work. The Board will develop, file and implement a CAP to address any recommendations included in the audit.

Accounting and Control Items

The Other Concerns cite a number of accounting and financial control items. The District has begun corrective actions to improve its financial operation and recordkeeping. It has hired a new BA with greater experience in accounting and budgeting and retained new outside auditors. Members of the SBOE will undergo training conducted by the NJSBA focused on reports and budgets.

- **The 2006-2007 fiscal records were not closed nor were opening figures posted.**
The 2006-2007 fiscal records did not include a proper accounting close, creating a mistake in the carried-over opening amounts for fiscal 2007-2008. The 2006-2007 audit has been completed and correct opening figures have been posted to the financial ledger for 2007-2008.
- **GAAP procedures have not been followed.**
The District's new BA brings greater accounting experience and expertise than the former staff. The District will file a CAP with the DOE to address any issues noted in the pending 2007-2008 audit and expect that the implementation of this plan will be reflected in the 2008-2009 audit.
- **Bank statements have not been reconciled.**
Necessary records were not provided by the previous BA to the previous Treasurer of School Monies, preventing the reconciliation of bank statements. The Board is addressing this issue in the hope that reconciliations may be completed by September 2008.
- **Receipts have not been recorded since June 2007.**
All known receipts have now been recorded.
- **Salary and tuition line accounts were not budgeted correctly.**
Although an increase in out of district placements and uncertainty about federal IDEA tuition amounts affected the District's budgeting, prior process allowed for the misclassification of salary expenses. The District's previous Interim Superintendent implemented a detailed budget process that provides excellent tools to detail budgeted and actual expenditures in each category and to highlight any improper or inconsistent information.
- **Budgetary transfers were not recorded or approved by the Board of Education**
Correcting missing budget transfers is part of the process of updating the Treasurer's Reports to the SBOE. NJSBA-sponsored training on reports and budgets for the SBOE has been scheduled.

- **Purchase orders were not encumbered in the accounting system for the entire 2007-2008 school year.**

Although an employee without proper training was previously responsible for this task, the BA is now charged with entering purchase orders and encumbrances in the financial system until a qualified accounts payable staffer is hired and trained.

Part IV

Conclusion and District Commitment

The District is appreciative of the efforts of the previous Interim Superintendent who began the process of addressing and improving these matters. OFAC review and the insights of the OFAC auditor have been very constructive in helping to understand and correct the issues that the District faces.

The Board is hopeful that the proposed corrective actions will not only remedy the specific shortcomings noted in the Report but will also provide the foundation for improved compliance and accountability moving forward.

This process, and a sustained effort by the Administration and the SBOE, will ultimately prove very valuable. The Stanhope School District labors under significant budgetary pressure that is likely to increase in coming years. The Board must be conscientious custodians of the resources entrusted to it and be sure to control and manage those resources in a way that provides the greatest benefit to the District's students and taxpayers.

**NEW JERSEY DEPARTMENT OF EDUCATION
OFFICE OF ACCOUNTABILITY AND COMPLIANCE
CORRECTIVE ACTION PLAN**

SCHOOL DISTRICT NAME STANHOPE COUNTY SUSSEX

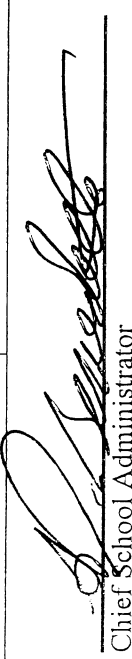
TYPE OF EXAMINATION: AUDIT CONCERNING POSSIBLE DEFICIT AND REPORTING DEFICIENCIES CASE #1424

DATE OF BOARD MEETING: JULY 30, 2008

CONTACT PERSON: ARTHUR DiBENEDETTO, INTERIM SUPERINTENDENT

TELEPHONE NUMBER 973-347-0008 FAX NUMBER 973

RECOMMENDATION NUMBER	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
1	None required	OFAC will provide copies of the OFAC Report to certain other governmental authorities	OFAC	Unknown
2	Attempt to obtain reimbursement of inappropriate sick and vacation pay disbursed to former Superintendent	Stanhope School District will make a demand for repayment and, as necessary, pursue litigation (including a claim for attorney's fees and other damages) against the former Superintendent	District administration and Board of Education	As soon as practicable (demand for repayment has been made)
3	Determine if repayment of the bond funds to the taxpayers and the State is required.	Repayment is impossible, since it will put the District in a deficit, as the Report acknowledges. Instead, the District will return the Linden Avenue facility to its approved use.	Superintendent and the Board of Education	September 2008


Chief School Administrator


Board Secretary/Business Administrator

7/30/08
Date

NEW JERSEY DEPARTMENT OF EDUCATION
 OFFICE OF ACCOUNTABILITY AND COMPLIANCE
 CORRECTIVE ACTION PLAN

RECOMMENDATION NUMBER	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
4	Transfer any remaining funds in NJARM account back to the District	a. Confirm amounts held by the District in the NJARM b. Implement transfer of funds in NJARM accounts back to the District's general accounts	Business Administrator, with approval of the Board of Education	September 2008


 Chief School Administrator

_____ Date
 Board Secretary/Business Administrator _____ Date