

We have come to believe...that tolerance of even minor irregularities in local government can be a fertile breeding ground for more significant problems, even to the point of criminality. Therefore, as part of its efforts against "the conditions which encourage and sustain" corruption, the Commission intends to bring more examples of local government "irregularities" to the public's attention. In doing so, we hope not only to alert officials and executives to similar problems which may be taking place in their own jurisdictions, but also, by increasing the risk of public exposure, to deter those who might be tempted to engage in similar activities.

SCI Chairman James R. Zazzali
August 1993

Executive Summary

Alerted by complaints from citizens within the community, the Commission late in 1992 launched an investigation into irregularities involving the Point Pleasant School District.

The Commission focused on three areas: questionable financial practices related to the operations of the Point Pleasant Community School; the terms of a separation-of-employment agreement between the School District and a former superintendent of schools; and allegations that former employees and non-employees of the District were carried at taxpayer expense on the School District's health insurance plan, in violation of state law.

After an extensive investigation involving the examination of hundreds of pages of School District records and other documents, and interviews with numerous present and former District employees, the Commission reached the following conclusions:

THE COMMUNITY SCHOOL

- Misappropriation of Funds: Thousands of dollars in taxpayer funds were diverted for the personal use of a key School District employee -- Community School Director Vito Dellegrippo -- between 1988-92. The scheme involved falsified expense reports and improper disbursements and was facilitated by sloppy record-keeping and by the

inability or unwillingness of other top district officials to rectify the situation. The financial losses suffered by the Community School as a result of this activity forced the district to shift resources from other programs such as child care.

- Lack of Adequate Oversight: Check-writing and spending authority for the Community School operations became largely concentrated in the hands of a single individual, Dellegrippo, who was required to justify his actions to no one. Moreover, the Board of Education and top administrators failed to apply basic oversight tools to monitor Dellegrippo's activities.

- Ignored Warnings: Despite repeated warnings and admonitions from the School District's outside auditors that the Community School's financial records were replete with irregularities and questionable expenditures, the Board of Education took no remedial action over a period of at least five years. Had the Board heeded the auditors' recommendations, which should have served as "red flags," much of the improper activity which the Commission detected at the Community School could have been avoided.

The Commission's findings in the matter of the Community School will be referred to the Attorney General of New Jersey for whatever action is deemed appropriate.

SEPARATION AGREEMENT/SUPERINTENDENT OF SCHOOLS

Upon his retirement in 1987, Point Pleasant School District Superintendent Dr. Lawrence DeBellis was presented by the Board of Education with a compensation package worth more than \$260,000 that can only be described as the public school version of a corporate "golden parachute" -- all at taxpayer expense. This was not a contract buy-out; it was a gift. Viewed in the context of an era when taxpayers and elected officials alike are scraping to account for every last dollar available to cover the cost of educating children, the terms of the DeBellis separation agreement are truly compelling.

The terms included "consulting fees" amounting to more than \$220,000, even though no consulting was performed; a \$15,000 annuity; a \$30,000 single premium whole life insurance policy; a health benefits package and accumulated sick and vacation time purchased in a fashion more generous than that afforded other employees of the School District; and an account, funded by the separation agreement, for DeBellis' granddaughter's college education.

The separation-of-employment pact also provided DeBellis with a special farewell perk: a Mississippi River steamboat trip valued at more than \$5,000.

HEALTH INSURANCE ALLEGATIONS DISPROVEN

Allegations were received by the Commission that former employees or non-employees of the District were carried at the District's expense on the District's Blue Cross and Blue Shield medical benefits plan. It was reported that the medical claims experience of the family of one of these recipients was inordinately high. Although the Board of Education had previously hired a private investigator to examine these issues, they remained unresolved.

While the Commission does not ordinarily report its findings where allegations are disproven, it does so here because of the significance of the allegations, the extensive publicity they have received and the expense incurred by the Board of Education concerning the matter.

* * *

When the Commission undertook a broad-based and ongoing examination of local government corruption in 1992, a disturbing and recurrent theme quickly became apparent: that, despite vigilant law enforcement labors and the advent of many investigative and prosecutorial tools during the past two decades, the problem persists at a significant level.

In that vein, while the specific circumstances as they have unfolded in Point Pleasant may be unique to one community, the Commission nonetheless believes the situation there is symptomatic of a wider problem. Municipal governments and school districts across New Jersey are vulnerable to some of the same types of abuses -- abuses that spring from lax governance and lack of vigilance. And on that point, the Commission takes this opportunity to reiterate a central admonition contained in earlier reports: The citizenry and the news media, to say nothing of responsible elected officials, have an obligation to the taxpayers of this state to watch local governments in action and to raise questions about matters that appear out of the ordinary.

THE COMMUNITY SCHOOL

A Community School offers a wide variety of classes, courses and activities to the general public. The New Jersey State Department of Education advised the Commission that 130 school districts in the State report costs relating to a Community School, and many others are capable of instituting such programs. The Commission examined records related to the Point Pleasant Community School, focusing primarily on the period 1988-92. The school's director, Vito Dellegrippo, also serves as principal of the Adult High School. His other duties include running a "latch-key" child care program and a Saturday Community School program for children in grades K-8. In addition, he administers Ocean County College programs held at Point Pleasant High School. Dellegrippo's current annual salary is approximately \$66,500.00.

Although the Community School is a component of the Point Pleasant School District, Dellegrippo maintained a separate checking account for the payment of operating expenses as well as for the receipt of tuition, rents, funding from the District's main accounts and monies collected from participants of trips and tours. All expenses, including payroll, were either paid directly by Dellegrippo through this account or reimbursed to the District's operating account.

Then-Business Administrator/Board Secretary Laurence E. Mack was interviewed about the procedures employed by the Community School. He explained that prior to his employment with the District, there were many complaints from vendors who said they encountered difficulty getting paid. Residents were irate because they had to wait months for tuition refunds when classes were canceled. In an effort to eliminate the unreasonable delays, Mack suggested, and the Board approved, the establishment of an account to deal specifically with Adult/Community School refunds and operating expenses. Checks drawn on this account required two authorizing signatures, that of School Director Dellegrippo as well as the Board Secretary/Business Administrator.

The Commission called Dellegrippo to testify concerning the Community School. He explained that he alone became responsible for the school's operations. He said that prior to his tenure in the late 1980s, the Board handled Community School operations but bills were not being paid because, "[t]hey just didn't have enough staff members in the Board office to do all the work." He went on to explain,

We were complaining because the bills weren't paid and we were getting letters back from companies saying they wouldn't send us books until ... they had their payments for the prior semester, so we went over and we started complaining to them, "You got to get the bills paid faster so we can get our books in."

As a result, according to Dellegrippo, Mack, with Board approval, set up accounts and turned the complete operation over to him.

Mack said he designated Dellegrippo to be responsible for maintaining the records necessary for the annual audit and, in addition, requested that Dellegrippo provide him with an informal monthly report accounting for all expenditures. Back-up documents such as invoices and purchases orders were to be kept by Dellegrippo. In addition, all refunds were to be documented in writing.

Dellegrippo said he performs virtually all administrative and financial functions of the Community School and child care program. He writes purchase orders and approves them. He maintains the check book. He writes and signs checks and check stubs. He balances the check book and reconciles bank statements, turning in an informal monthly summary to the Board. Dellegrippo handles reimbursements and all expenses and maintains petty cash.

Mack estimated that during his tenure, he personally signed 80% of the checks drawn on this account, and the remaining 20% was authorized via his signature stamp. His secretary maintained the stamp in her desk. If he was unavailable to sign a check, Mack permitted his secretary to use his stamp. His payroll clerk was also permitted to use the stamp in the absence of both Mack and his secretary.

Checks Payable to Vito Dellegrippo

The Commission reviewed the Community School account for the period January 1988 to June 1992. Checks payable to Vito Dellegrippo from September 1987 through December 1991, totaled \$6,037.05. Purchase orders justifying these expenses were examined and break down as follows:

Starting Charges	\$2,125.00
Reimbursed Travel Expenditures and Conferences	1,734.42
Trip and Tour Funds	1,323.50
Unidentified	<u>854.13</u>
Total	<u>\$6,037.05</u>

Only \$600.00 of the amount identified as "starting charges" was noted as having been redeposited in the Community School account.

When asked by the Commission about the lack of documentation for starting charges, Dellegrippo had little to offer. In one instance he tried to explain how a \$900.00 "starting" check was spent with the balance put in petty cash, another "account" which he controlled and for which he also failed to keep records.

Q. Well, let's assume you got this check for \$900.00. You go to the bank. You cash it. What do you do with the \$900.00 physically?

- A. *I give it to the secretary and she puts it in the cash box or puts part of it in the safe.*
- Q. *Was there a box or --*
- A. *[A] box is available outside all the time.*
- Q. *Was there any record kept of that \$900.00 being given to the secretary that day?*
- A. *No.*
- Q. *None at all?*
- A. *We never do, no.*
- Q. *Is there any record kept of what the balance was in petty cash from day-to-day?*
- A. *No.*
- Q. *Is this still the procedure today?*
- A. *Yes.*

NJALL Conference

Dellegrippo submitted an expense voucher for \$157.37 in conference expenses related to a New Jersey Association for Lifelong Learning (NJALL) conference held in Atlantic City between April 28 and May 1, 1991. Attached to the voucher are receipts for:

Claridge Casino Hotel	\$ 90.40
NJALL Registration	<u>170.00</u>
Total	<u>\$ 260.40</u>

The Commission found that the NJALL registration fee had also been paid directly by the Community School through purchase order #CEP 173 on March 12, 1991. Similarly, a room deposit of \$90.40 had been paid directly by the Community School on March 27, 1991, through purchase order #CEP 182. When asked about this, Dellegrippo agreed

that it appeared that these expenses were paid twice, once directly to the vendor and once to himself.

Checks Payable to Cash

From February 1989 through February 1991, checks totaling \$4,820.00 were written to cash, and all but one, in the amount of \$150.00, were endorsed by Dellegrippo. The checks were categorized as follows:

Starting Charges	\$ 300.00
Faculty Meetings	500.00
Petty Cash for Office	900.00
Trip Funds	2,020.00
Refunds	<u>1,100.00</u>
Total	<u>\$4,820.00</u>

Of the checks expended as "trip funds," none had back-up documentation or receipts to support the disbursements.

Check #2954 - A Suspicious Signature

On February 28, 1991, check #2954 in the amount of \$1,100.00 was written to "Cash" and endorsed "Vito Dellegrippo For Deposit Only." The notation on the check reflects that the disbursement was for a refund. Refunds, while common because classes are canceled or students drop courses, are, however, typically accompanied by purchase orders. Refund checks are always made payable directly to the student. The stub for check #2954 indicates this check was made payable to a person whose name is not completely legible and references

purchase order #CEP 168. Checks written both immediately before and immediately after #2954 were reviewed. Refunds were paid by checks #2949 to #2953, and were authorized by unsigned purchase order #CEP 168. Checks #2955 - #2968 were also for refunds and authorized by purchase order #CEP 169, which was also unsigned. It appeared to the Commission staff that an attempt was made to disguise a disbursement to Dellegrippo through false, incomplete and misleading notations in the records and that it was hidden among a group of refunds. Commission staff expended considerable investigative effort to try to decipher the name on the stub, including reviewing all deposits for the semester prior to the refund and checking motor vehicle and other records. All efforts proved futile. In fact, the Community School showed no initial tuition deposit in the amount of \$1,100.00 whatsoever.

Check #2954, in accordance with the procedures set up by Mack, required two signatures, his own and that of Dellegrippo. The check bears two handwritten signatures, purporting to be those of the required signators. The Mack signature did not appear to match other examples of his handwriting available to Commission staff. Laurence E. Mack, when shown the check in question by Commission staff, provided a sworn statement to the effect that he neither signed his name on the check nor gave anyone permission to do so.

When confronted with questions about this \$1,100.00 "refund," Dellegrippo had few answers and those he offered were evasive. He said that it "looked like" he had signed the check but he was not positive. Initially, he said Mack had signed the check but later said it did not look like Mack's signature, and he had "no idea" who had signed Mack's name. When asked to read the name on the stub and indicate whether he had written it, he began to dissemble.

Ultimately, Dellegrippo denied knowing anything about the check or the disposition of its proceeds.

The Commission compelled the production of handwriting exemplars from Vito Dellegrippo. Handwriting analysis was performed by a handwriting expert at the New Jersey State Police - Special and Technical Services Section. Dellegrippo was identified as the author of the front of the \$1,100.00 check. He was also identified as having signed his name on the face of the check and being the probable writer of the second signature (that of Mack). It was also determined to be highly probable that Dellegrippo wrote the illegible name on the check stub and that he prepared the remainder of the information on the stub.

Extra Tickets

The Community School sponsors trips to Broadway shows and dinner theaters, as well as tours and other excursions. Fees collected are deposited into Community School accounts. Expenses such as ticket costs, bus charters, dinner charges and travel agent costs are paid through the same account. An examination was made of participant lists or manifests for 49 trips between September 1987 and December 1992. On all but two of the trips, Dellegrippo is listed as having received between two and ten tickets. An examination of receipts failed to document one instance where Dellegrippo paid for any extra tickets. Allowing one free ticket per trip as the district's representative, the retail value of the additional tickets attributed to Dellegrippo during that time period was \$7,357.50.

In no instance did the roster of attendees match deposit information. The records were incomplete and fragmented; many trips had no rosters, others had two. Dellegrippo never deposited checks or cash in his name to pay for tickets to any shows. The records fail to account for a significant number of the tickets that went both to Dellegrippo and to others.

When asked if the Board gave him any direction as to what he should do with extra tickets, Dellegrippo answered "they left it up to me on what to do with the tickets." Of the Community School trips

examined by the Commission in detail, losses stemming from seven trips alone -- attributed to extra tickets for Dellegrippo and others -- were found to exceed \$7,000.

The examples outlined below demonstrate the lack of accountability for monies expended, as well as the taxpayer loss, involved with the program.

Grand Ole Opry

The Community School sponsored a trip to the *Grand Ole Opry* in Nashville, Tennessee, from June 23 through 29, 1990. The trip included an overnight stay in Salem, Virginia, three nights in Nashville and an overnight stay in Marietta, Ohio. The cost of the trip, determined by the Commission through records of disbursements to the bus company which arranged the trip, was \$21,460.00. Miscellaneous costs incurred by Dellegrippo were \$2,183.50 for a total of \$23,643.50. Based upon all available records, the Community School suffered a net loss of \$2,863.50 for the trip. Dellegrippo was also listed for two tickets for which there was no record of payment. Dellegrippo told the Commission that a free ticket, which the Commission estimates to be worth \$680.00, was also given as a retirement gift to a secretary.

Total Cost	\$23,643.50
Less Receipts	<u><20,780.00></u>
Net Loss	<u>\$ 2,863.50</u>

Of particular interest was back-up documentation attached to an uncertified invoice Dellegrippo submitted for a \$1,200.00 reimbursement to himself. The documents show a \$1,280.80 charge for *The Stephen Foster Story* on June 27. The notations appeared to have been altered. The Commission contacted a representative of *The Stephen Foster Story* in Bardstown, Ky. who advised that at the time of the trip, tickets were priced at \$8.00 each, with a per ticket reduction of 10% for groups of more than 25. The charge for 39 adult tickets for *The Stephen Foster Story*, at that time, would have been \$7.20 each for a total of \$280.00 (not \$1,280.00).

This document was also submitted to the New Jersey State Police for analysis. The conclusion of the examiner was that the document had been altered and the original ticket price was \$7.20.

According to Dellegrippo, the only add-on to the trip was a backstage tour of the *Grand Ole Opry* which Dellegrippo charged to a credit card and for which he was reimbursed by a separate check in the amount of \$123.50. He testified that everything listed in the itinerary was provided by the bus company. That itinerary included *The Stephen Foster Story*. *The Stephen Foster Story* was listed in the pre-printed trip brochure provided by the bus company which booked the tour. When asked about the \$1,200.00 purchase order he submitted, supported by the altered invoice for *The Stephen Foster Story*, the

cost of which was actually covered by the bus company as part of the tour, Dellegrippo continued to suffer memory loss.

Q. How did you pay for this?

A. I didn't say I paid for this. This was just a receipt that was put in there.

Q. Well, it's attached to your purchase order for \$1,200.00. The other receipts attached to that only total about \$25.00.

A. I don't know.

Q. Did you pay for The Stephen Foster Story?

A. I don't remember.

This is another example where the dollar amount of the back-up did not match the amount requested on the invoice reflecting Dellegrippo's flagrant disregard for even the appearance of accuracy.

When questioned about why he signed the bus driver's name to a \$350.00 check, which was supported by an unsigned purchase order connected to the Nashville trip, Dellegrippo explained it was for a \$350.00 gratuity that he gave to the bus driver in advance of the trip.

Q. Why would you have handled it this way? The trip wasn't scheduled until the 23rd and why would you have written a check and given the driver his tip in advance of the trip?

A. So if he needed the cash to go on the trip for his family.

Q. Did he ask you for it?

A. No. I just did it as a courtesy.

The driver confirmed receiving a tip in advance.

Nearly two months after the Nashville trip, Dellegrippo was still getting reimbursed for tips and other expenses that he claimed were connected to it. He submitted a purchase order for \$350.00 for restaurants and tour guides and an unsigned purchase order for a "gratuity" for "the bus driver on the Nashville trip" in the amount of \$160.00. Dellegrippo claimed to have no recollection concerning either purchase order.

Grand Hotel

A trip to the Broadway show *Grand Hotel* was sponsored by the Community School on November 9, 1990. The cost to the school was \$3,050.00; receipts collected on 38 tickets purchased by participants was \$2,622.00, resulting in a net loss of \$428.00. Of the 48 tickets purchased by the Community School, eight went to Dellegrippo. There is no evidence that he paid for any of the seven extra tickets he received. There were also two additional tickets unaccounted for through any participant list or receipt record. The cost of the nine tickets (seven to Dellegrippo plus two unaccounted) was \$495.00; the retail value of those same tickets was calculated at \$621.00.

Total Cost	\$3,050.00
Less Receipts	<u><2,622.00></u>
Net Loss	<u>\$ 428.00</u>

Gypsy

On May 11, 1990, the Community School sponsored a trip to see the Broadway show *Gypsy*. There were 96 tickets purchased at both the \$50.00 and \$55.00 level. The cost of the tickets plus the charter of two buses was \$5,840.00. Receipts collected from participants totaled \$4,788.00, resulting in a net loss to the school on this trip of \$1,052.00. Contributing to the loss were three additional tickets Dellegrippo received over the one entitled him as school representative at the event, and thirteen no-fee tickets given to other participants including two tickets to the Boro Bus Company driver, and five tickets to one individual who purchased another five tickets. The cost of these sixteen tickets was calculated at \$800.00. The participant list indicates that 90 people in all attended the play, yet 96 tickets were purchased.

Total Cost	\$5,840.00
Less Receipts	<u><4,788.00></u>
Net Loss	<u>\$1,052.00</u>

Aspects of Love

On October 26, 1990, the Broadway show *Aspects of Love* was attended through a Community School-sponsored trip. The school purchased 48 tickets but subsequently returned thirteen. The net cost of the tickets plus the cost of the bus charter totaled \$2,335.00. Proceeds collected, as documented through receipt records, was \$1,656.00, representing the sale of 24 tickets. The net loss to the school for this trip was \$679.00. There were ten tickets for which no fee was collected: three tickets went to Dellegrippo in addition to one he was entitled to as representative of the school, two to another participant, and five more tickets were noted over and above the total number reported on the participant list. The cost of those ten tickets to the school was \$550.00; the retail value of those tickets was \$690.00.

Total Cost	\$2,335.00
Less Receipts	<u><1,656.00></u>
Net Loss	<u>\$ 679.00</u>

* * *

Dellegrippo was asked what the policy or philosophy of the Board of Education was with respect to the losses incurred at the Community School. His response was "[A]ll they care about right now is that the Community [School] stays in the black."

Dellegrippo explained the proceeds of some programs, such as child care, cover the deficit created by Community School losses.

Questions About Miscellaneous Expenses

The Commission's investigation revealed various expenditures which raised questions either about their nature or lack of documentation. Some examples are listed here.

Between November 1989 and May 1991, a total of \$528.14 was disbursed to a florist for potted plants, wreaths and corsages for various individuals, including Dellegrippo's wife and district employees. \$384.00 was disbursed to former District Superintendent Dr. Lawrence DeBellis to teach two SAT math courses in November 1988 and April 1989 while he was under a separate contract to the District as a highly paid consultant.

Undocumented purchases were made at such places as Home Depot, Channel Home Center and Foodtown. The back of one check in the amount of \$479.40 and payable to Shop Rite of Bricktown reflects a bill total of \$389.40. The \$90.00 difference appeared to have been refunded in cash. Dellegrippo, who handled this transaction, initially said he did not receive cash but later said he got money back which he put into the "cash box," a transaction for which there was no record.

Disbursements were made to members of Dellegrippo's immediate family. His wife received \$1,215.50 between September 1987 and October 1990 for administrative functions, including selling books, typing and testing. Two Dellegrippo children were paid \$1,232.00 and \$100.00, respectively, between January 1988 and January 1991. None of the moneys paid to Dellegrippo's wife or children were reported on W-2 earning statements prepared by the School District.

Improper Purchasing Practices

The School District's 1993 audit noted deficiencies in the District's system of purchasing. The auditor noted that the system of records did not provide for accumulation of payments for categories of performance of any work, or for the furnishing or supplying of any materials or supplies. The audit reviewed disbursements and noted violations of N.J.S.A. 18A:18A-3 and 4, and N.J.S.A. 18A:39-3, which dictate when publicly advertised bids are required. The auditor's review of the records noted violations and found it was impossible to tell from the records if the purchases had been made after advertisement for competitive bid or purchased under state contract. The failure to obtain bids was noted for a number of vendors, including Holiday Travel of Shrewsbury, which provided the transportation for the Community School trips. Dellegrippo admitted that he did not bid out the transportation but told the Commission that he had personally

obtained three or four price quotes two years ago. Commission staff found no evidence of this during its review of the Community School records.

A review by the Commission staff was made of all purchase orders processed through the Point Pleasant Community School for years 1988-89, 1989-90 and 1990-91. In all but a very few instances there was no "Officer's Certification" affixed to the purchase order. Back-up documentation, such as vendor invoices and delivery slips or acknowledgements, were not attached to the transaction documents in a number of instances.

Another area where internal controls were ignored involved the requirement of a vendor acknowledgement. The claimant's declaration and certification requires the vendor, under penalty of law, to certify that: the bill submitted is correct, all articles have been furnished or services rendered, no bonus has been given or received by any person in connection with the claim, and the stated amount is due and reasonable. Although not as prevalent as other procedural requirement deficiencies, there were noted instances where the vendor did not sign the purchase order. In several instances, the vendor signature was that of Vito Dellegrippo even though he was not the provider of the service or goods and was not the recipient of the payment. Dellegrippo's control over all aspects of the procurement process circumvented any checks and balances that should have existed within the system.

When confronted with numerous irregular transactions, Dellegrippo acknowledged that he wrote out checks even when the purchase orders were unsigned and not certified. The record of his testimony is replete with his inability to explain expenditures and his failure to follow acceptable procedures.

Failure By the Board of Education to Heed Auditors' Warnings

The Commission reviewed the annual audit reports for the Point Pleasant BOE for the years 1990, 1991 and 1992, and found that in each report, key administrative findings involving the Community School were noted:

- The Community School was not included in the budget.

- The Community School Activity is to be incorporated into the School Audit.

- The Community School lacks a segregation of duties in that the principal prepares and approves all purchase orders. The principal also takes receipts of most ordered goods.

One noteworthy recommendation appeared repeatedly and was just as repeatedly ignored:

- The budget should include the Community School revenue and expenditures. The financial records should be maintained by the Board Secretary's office.

The Commission conducted a review of the Point Pleasant Board of Education minutes November 1986 through December 1992 to identify references to the Community School. The results:

November 19, 1987

Arthur Hulsart, CPA, officially presented the 1986-87 audit of the School District's accounts. He recommended "[t]hat the Community School account be reported and reconciled monthly." Former Board Secretary Laurence Mack stated that action had already been taken on this recommendation and indicated that it would be corrected at the earliest possible time.

February 9, 1989

At this meeting the 1987-88 Annual Audit was accepted with Board Secretary Mack noting the recommendations that the Community School operation maintain a cash book. The minutes reflect the "solution" taken -- the Director of the Community School had instituted such a system.

December 13, 1989

Robert Hutchins, CPA, presented the audit for the 1988-89 school year with the following recommendation:

The Community School operations be maintained by the Board Secretary's Office and the cash account either eliminated or left for miscellaneous receipts and disbursements. The Community School separate accounts were previously approved

by the Board to allow immediate reimbursements to members of the community who dropped selected subjects and requested immediate reimbursement. The Board Office's computerized system did not allow for such immediate reimbursement, unless "manual" checks were issued. The former auditor recommended the formation of a separate account for the Community School to reduce the number of manual checks issued with the resultant loss of an audit trail.

March 14, 1991

Under the section Corrective Action Plan; Audit FY 1990, the minutes report that the Board noted the additional audit recommendation regarding, among other things, the Community School accounts.

November 21, 1991

Comments from the auditing firm of Hutchins, Laezza, Farrell & Allison refer to the Community School operation, noting that the Community School was not included in the budget, and "the Community School lacks a segregation of duties in that the principal prepares and approves all purchase orders. The principal takes receipt of goods."

December 20, 1991

Responses to the audit comments made on November 21, 1991, were discussed at this meeting. The Board indicated that the Community School would be included in the 1992-93 budget and, in addressing the auditors' concerns about the lack of segregation of duties, the minutes noted the following: "The Community School is an evening program. The Purchase Orders are now approved by the Board Secretary."

May 14, 1992

Under the heading Community School the following entry appeared: "Mr. Hanlon [a board member] requested Board permission to look at the records of the Community School. The Superintendent disputed the need for personnel records and W2s being made available. Mr. Cioffi volunteered to certify that any employee named was in fact in receipt of a W2."

May 21, 1992

Under the heading Community School the following appeared: "Mr. Hanlon reported on his review of the checks, payroll roster, payroll reports and vouchers of the Community School. Three years of documents were made available. He selected 1988-89 for review. 536 checks were reviewed. Mr. Hanlon found seventeen checks made out to [Dellegrippo] family members totalling \$2,000.00. He concluded there may be some accounting control problems, but no question should be raised as to the honesty, or integrity of the principal. There does not appear to be any impropriety."

Had the Board heeded the auditors' recommendations, which should have served as "red flags," much of the improper activities which the Commission found at the Community School could have been avoided.

SEPARATION AGREEMENT/SUPERINTENDENT OF SCHOOLS

Until his retirement as Superintendent of Schools, effective December 31, 1987, Dr. Lawrence DeBellis had been employed by the Point Pleasant School District for some 37 years. His final annual salary was \$70,000.

DeBellis told the Commission that he reluctantly retired after a number of queries and not-so-subtle suggestions by Board members that he do so. Concerning the terms of his retirement, DeBellis told the Commission that the Board led him to believe it would be generous. He had no reason to doubt that because other superintendents left their districts in grand style.

A: Well, they [the Board] said, 'You have a lot of time over there.' And at the time, superintendents were leaving their districts and getting rather hefty packages. So although no amount was finalized, no amount was offered, they said, 'Make up a package and we'll look at it, just don't go overboard.' And they said, 'We'll treat you in style.'

Under the terms of his separation agreement, DeBellis received a package worth more than \$260,000. It came in addition to his regular pension and was more generous than any package offered other employees of the Point Pleasant School District. The separation agreement was broken down as follows:

1) DeBellis was retained as a consultant to the District for two years (January 1, 1989 through December 31, 1989) for \$223,209; and should DeBellis die prior to the expiration of the terms of the agreement, the District was obligated to continue payments of salary and consultant fees to DeBellis' estate;

2) For the period July 1, 1987 through December 31, 1987, DeBellis received an increase of \$5,000 in his salary;

3) The Board agreed to pay DeBellis \$25,000 for 390 sick days and 30 months unused vacation time;

4) DeBellis and his spouse received medical insurance for both of their lives [DeBellis' health benefits package was more generous than those of other District employees.];

5) The Board purchased a \$30,000 single premium whole life insurance policy and a \$15,000 annuity;

6) The Board set up an account for DeBellis' granddaughter's college education and went so far as to invest DeBellis' money for him in certificates of deposit and money market accounts held in the name of the Point Pleasant Board of Education with the interest accruing to DeBellis. [On August 29, 1990, based on a recommendation of the County Superintendent of Schools, all accounts were closed out and the proceeds remitted to DeBellis because the County Superintendent determined that it was improper for the Board to act as custodian of DeBellis' funds.];

7) Upon his retirement, Dr. DeBellis received a steamboat trip on the Mississippi River from the Point Pleasant BOE. The expenditure of \$5,042.00 on October 1, 1987, was paid to the Delta Queen Steamboat Company of Cincinnati, Ohio, and was charged to a Point Pleasant School District account entitled "Administrative-Other (Miscellaneous Expenses)."

The Commission questioned the lucrative two-year consultancy contract given to DeBellis. Former Point Pleasant School Board Secretary and Business Administrator Lawrence Mack told the Commission that the rationale for the consultant fees paid to DeBellis was to utilize his background and expertise for a smooth transition. DeBellis also tried to justify the validity of his consulting position when questioned by the Commission.

- Q. ...[I]n your mind, the two years consulting was offered to you separate and apart from the unused vacation?
- A. That's correct, yeah.
- Q. And they wanted you available during two years for any issues?
- A. They wanted me available around the area in case the alarm went off and who would take care of the alarm, or the superintendent needed some -
- Q. Advice?
- A. - pat on the back, or a teacher needed something, then I would be around.

DeBellis told the Commission that he did not request the consultancy but rather it was offered to him by the Board at a closed-door executive session. Board minutes, correspondence and other evidence available to the Commission demonstrated that the Board felt an obligation to DeBellis for the unused days.

The Commission analyzed the amount of money paid to DeBellis, who may have had a claim for the value of his thirty months (600 days) of unused vacation time plus 390 unused and undocumented sick days. The Commission calculated, however, that the maximum exposure to the Board for those days was only \$64,350.00, based on the terms of a separate agreement the District maintained with administrators which called for payment for unused days at a rate of \$65.00 per day. The payments actually made to DeBellis far exceeded this potential exposure. Moreover, the Commission found, and both Mack and DeBellis agreed, that no consulting was performed by DeBellis.

Based upon a review of all the evidence, it became clear to the Commission that this separation agreement was not a consultant or performance contract but merely a device to compensate DeBellis for undocumented, accumulated leave amassed over nearly 40 years. Two key factors which led the Commission to this conclusion were: 1) the agreement did not obligate DeBellis to perform any services whatsoever in order to be paid, nor did he do so; and 2) in the event of his death, the balance of money was to be paid to DeBellis' estate.

HEALTH INSURANCE ALLEGATIONS DISPROVEN

Allegations were received by the Commission that former employees and even non-employees of the Point Pleasant School District were carried at the District's expense on its Blue Cross and Blue Shield

medical benefits plan (BCBS). It was reported that the medical claims experience of the family of one of these recipients was inordinately high. Although the Board had previously hired a private investigator concerning these issues, they remained unresolved.

It was alleged that former Board member Gary Mitchell's participation in the plan caused the District's premiums to be higher than normal because of extraordinary medical bills incurred by members of his family. BCBS records were subpoenaed to determine if Mitchell's participation in the plan was a contributing factor in the cost of health insurance for the District. A record of amounts paid against Mitchell's subscriber identification number for the period January 1984 to June 1993 showed that a majority of the claims, nearly 93%, were for Mitchell personally. BCBS told the Commission that the total of Mitchell's family claims were well below the group average. Mitchell provided the Commission with numerous personal checks he used to reimburse the School District for his medical insurance premiums. Mitchell explained that while certain members of his family had experienced extraordinary medical treatment, they were not covered under his insurance through the District at the time of the treatment.

The investigation revealed that Mitchell reimbursed the District for the cost of premiums associated with health-benefit coverage. Further, the Mitchell family claims submitted against the District's policy were minimal, and claims for Mitchell's family were only a minor part of his claim experience, the total of which was below the group average.

CONCLUSIONS AND RECOMMENDATIONS

In his 1993 statement, then-Chairman Zazzali noted "[l]ong-time department heads ... when given unreviewed discretion over their budgets soon discover that funds so easily moved from category to category can almost as easily be diverted to unlawful uses -- even into their own pockets." These words aptly describe the operation of the Point Pleasant Community School.

Annual audits of the District repeatedly criticized the Community School's operations. The most notable comments were: no cash book was maintained, a system of accountability should be established for adult education registration fees, the account should be reported upon and reconciled monthly, the cash account should be eliminated or left for miscellaneous receipts and disbursements, and Community School operations should be maintained in the Board Secretary's office.

Such flagrant irregularities evidenced by the examples cited in this report can occur only when those responsible for guarding public funds fail to exercise responsible oversight.

The Commission makes the following recommendations concerning the Community School:

1. **Referral to the Attorney General:** Sufficient evidence having been developed by the Commission that there may have been a misappropriation of funds of the Community School, the Commission will forward to the Attorney General the results of its investigation into this matter for whatever action is deemed appropriate.

2. **Transfer of Community School Financial Operations:** Although the operations of the Community School are now required to be presented and reported as an enterprise fund, controls and oversight of monies and activities are still the responsibility of the Board of Education. The Board is required to establish procedures to monitor expenses and safeguard assets. Findings that have been made repeatedly in past audit reports have criticized the Board's lack of control over the activities of the Community School and recommended that a segregation of duties and responsibilities be assigned clearly and implemented between the Director of the Community School and the Business Administrator/Board Secretary. Reporting the activities of the Community School as a Proprietary Fund Type does not lessen the relevance of that recommendation. The financial operations of the Community School should be immediately transferred to the Office of the Business Administrator/Board Secretary.

3. **Restructuring of Accounts for Public Oversight:** While the Commission takes no position on the relative merits of the different programs offered by the Point Pleasant School District, it recommends

that, in addition to taking control of the financial operations of the Community School, the Board also set up its accounts and recordkeeping to enable the Board and the taxpayers of Point Pleasant to know the total costs of the programs. Doing so will enable interested parties to implement fiscal efficiencies and cost-saving measures in the programs. It will also enable the Board to evaluate what programs are to be continued and at what costs. The information needed will be available to answer questions such as whether child care program charges ought to remain higher than necessary in order to subsidize the Community School's losses and lack of fiscal accountability. Reviewing the actual costs of programs should become part of the Board of Education's agenda.

4. ***Follow-up on Audit Recommendations:*** State law should require that any school district which fails to implement a recommendation contained in its annual audit, or in a corrective action plan filed after the audit, must publish a resolution in local newspapers acknowledging its failure and stating the reasons. In addition, each school board should be required to give an audit or finance committee the responsibility to answer questions and address problems raised by the independent auditor. These recommendations are consistent with those made by the Commission in its September 1992 report, Local Government Corruption, at page 85. To the Commission's knowledge, bills implementing such recommendations have not yet been introduced in the Legislature.

5. **Standards for Appropriateness of Expenditures:** The Commission recognizes that broad discretion in the administration of its responsibilities must necessarily be given to a local board of education.

Nevertheless, standards should be established by the State to provide local boards of education with guidelines as to the appropriateness of expenditures when public funds are involved. Consideration should be given to enactment of legislation to provide such guidelines and to enable the New Jersey Department of Education to disapprove expenditures not directly related to providing a thorough and efficient education.

6. **Tracking use of Sick and Vacation Time:** Boards of education and municipalities should have in place a mechanism to track all accumulation and use of sick and vacation time. There should be no question as to the time entitlements of employees.

7. **Payment Policy for Accumulated Time:** Boards of education and municipalities should have a policy in place which caps payment for unused sick leave and limits accumulation of vacation and personal leave for all employees.

As part of its justification for the Separation of Employment agreement with DeBellis, the Point Pleasant Board of Education cited "its long-standing policy of compensating retiring employees for accumulated unused vacation and sick leave.... ." However, it is clear to the Commission that this agreement was not a consultant or performance contract but merely a device to compensate DeBellis for undocumented, accumulated leave amassed over nearly 40 years. Two key factors led the Commission to this conclusion: the agreement did not obligate DeBellis to perform any services whatsoever in order to be paid nor did he do so; and in the event of his death, the balance of money was to be paid to DeBellis' estate.

The State of New Jersey's policy of limiting payment for accumulated sick leave to a lump-sum representing one-half of the employee's unused sick leave, calculated at the employee's current salary up to \$15,000.00, and the annual carry-forward of up to one year's vacation leave, should serve as a guide. Such a policy is important because Governmental Accounting Standards Board (GASB), Statement No. 16, dated November 1992 - "Accounting for Compensated Absences" calls for the measurement of accrued compensation time to be included in the liabilities of state and local governmental entities. Since funds should be reserved annually based on anticipated (future) compensated absences for which employees will be paid, e.g., sick and vacation lump-sum buy-outs, the fiscal burden on a school board or municipality could prove staggering.

During the course of this investigation the Commission learned that the Department of Community Affairs is drafting proposed legislation on this issue. The Commission urges that this legislation be pursued vigorously and made applicable to employees of school districts as well as municipalities.

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This report is the product of an investigation conducted by Counsel Charlotte K. Gaal, Investigative Accountant Michael R. Czyzyk and Special Agents Dennis McGuigan and William P. Rooney.