



## State of New Jersey

DEPARTMENT OF EDUCATION  
PO Box 500  
TRENTON, NJ 08625-0500

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

DAVID C. HESPE  
*Commissioner*

October 29, 2015

Honorable James Davis, Mayor  
City of Bayonne  
620 Avenue C  
Bayonne, NJ 07002

Patricia L. McGeehan, Superintendent  
Bayonne School District  
669 Avenue A  
Bayonne, New Jersey 07002

Dear Mayor Davis and Superintendent McGeehan:

**SUBJECT: Bayonne Bond Reimbursement Issues – OFAC Case #INV-015-15**

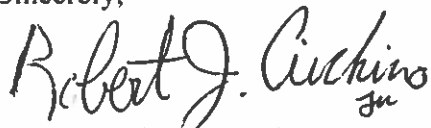
The Department of Education, Office of Fiscal Accountability and Compliance, (OFAC), has completed an examination of issues pertinent to claims by the City of Bayonne (City) alleging a failure by the Bayonne School District (District) to submit to the City, School Development Grant payments totaling approximately \$11 million. The City also suggested the District may have jeopardized the receipt of grant funds through a failure to adhere to the Public School Contracts Law, and grant reporting requirements. The attached Report of Examination details the review conducted and identifies failures by both government entities to adhere to best practices as they relate to memorializing and recording governmental actions. In accordance with established procedures you are to provide a copy of the attached report to each Board of Education Member.

Utilizing the process outlined in the attached "Procedures for LEA/Agency Response, Corrective Action Plan and Appeal Process," the Bayonne Board of Education is required, pursuant to N.J.A.C. 6A:23A-5.6, to publicly review and discuss the findings in this report at a public Board meeting no later than 30 days after receipt of the report. Within 30 days of the public meeting, the Board must adopt a resolution certifying the findings were discussed in a public meeting, and approving a corrective action plan which addresses the issues raised in the undisputed findings and/or an appeal of any findings in dispute. A copy of the resolution and/or the appeal must be sent to this office within 10 days of adoption by the Board. Direct your response to my attention.

Honorable James Davis, Mayor  
Patricia L. McGeehan, Superintendent  
October 29, 2015  
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Also, pursuant to N.J.A.C. 6A:23A-5.6(c), you must post the findings of the report and the Board's corrective action plan on your District's website. Should you have any questions, please contact Thomas C. Martin, Manager, Investigations Unit, at (609) 633-9615.

Sincerely,

Handwritten signature of Robert J. Cicchino in black ink. The signature is written in a cursive style with a small 'JR' monogram at the bottom right of the name.

Robert J. Cicchino, Director  
Office of Fiscal Accountability and Compliance

RJC/I:\kfeltes\Bayonne\Bayonne ROE 2015.Final.doc

Attachment

c: Robert Bumpus  
Thomas C. Martin  
Monica Tone  
Stephen Eells  
Gordon Ball  
Karl T. Feltes  
Francesco Frangella

**STATE OF NEW JERSEY**  
**DEPARTMENT OF EDUCATION**  
**OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE**  
**INVESTIGATIONS UNIT**

**BAYONNE SCHOOL DISTRICT**  
**BOND DEBT REIMBURSEMENT REVIEW**  
**OFAC CASE #INV-015-15**

**REPORT OF EXAMINATION**

**OCTOBER 2015**

**STATE OF NEW JERSEY  
DEPARTMENT OF EDUCATION  
OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE  
INVESTIGATIONS UNIT**

**REPORT OF EXAMINATION – OCTOBER 2015  
BAYONNE SCHOOL DISTRICT – BOND DEBT REIMBURSEMENT REVIEW**

The Department of Education, Office of Fiscal Accountability and Compliance, (OFAC), has conducted an examination of issues pertinent to claims by the City of Bayonne (City) alleging, (1) a failure by the Bayonne School District (District) to submit to the City, School Development Grant payments totaling approximately \$11 million; and, (2) a City claim the District may have jeopardized the receipt of grant funds resulting from a failure to adhere to the Public School Contracts Law (PSCL) and grant reporting requirements. The review was initiated as the result of joint requests from the City and the Bayonne Board of Education (Board).

Primarily, the review was conducted in an effort to determine the amount of funding the District received from the New Jersey School Development Authority (SDA) for selected projects. After confirming SDA funding allocations, the OFAC sought to determine if the District issued appropriate reimbursements to the City. The review also addressed, to the best possible extent, concerns regarding PSCL compliance and the District's expenditures of grant funding from the SDA.

The review included a reconciliation of SDA payment information by comparing the amounts the City and District respectively represented as received. The OFAC examination focused on projects (the projects) specifically listed in a December 19, 2014, letter issued by the City. The OFAC examination also included a detailed examination of pertinent supporting documentation provided by the City and the District.

The documents examined included bond ordinances, annual financial reports, budgets, bank statements, Board of School Estimate Board minutes, Board meeting minutes, purchase orders, invoices and cancelled checks. Interviews were conducted with District staff, Leo Smith, Assistant Superintendent of Business, and Gary Maita, Board Secretary. Interviews were also conducted with City staff, Terrence Malloy, Chief Financial Officer; Andrew Casais, Chief of Staff; and, John F. Coffey II, Law Director.

The OFAC investigators also conferred with SDA staff; Grant Specialist Kathleen Alexander, and Grant Analyst Jose Diaz. The SDA provided detailed financial spreadsheets. The SDA staff also provided general information addressing variances in the project costs and reimbursements as well as issues that may result in adjustments to the balance of grant payments.

Although the OFAC was provided with the best available documentation for this review, documents in support of all claims made regarding the receipt and transfer of funds necessary to

support an unqualified opinion were unavailable.<sup>1</sup> The OFAC also experienced verification difficulties because the City and the District conducted numerous transactions based upon verbal agreements. Although the District provided documentation to support its claims of reimbursement; the documentation, with one exception, did not address with specificity that the items qualified as bona fide reimbursements or off-sets to SDA grant payments due to the City.

The City served as bonding agent for the District projects in question. Concerns arose when the City claimed in the December 19, 2014 letter, entitlements of approximately \$11.8 million based on SDA payments it asserts were issued to the District. The City claims the District received \$7.4 million from the SDA and should receive an additional \$4.4 million in approved grant funding but not yet received by the District. The City initially denied receiving any of the SDA reimbursement funding for the referenced projects.

In response, the District asserts the City is in error when it indicates the District had not provided the City with any reimbursement of SDA funds. The District claims reimbursements were made in the form of a \$6 million check issued in May 2011. The District also claims additional reimbursements were made in the form of various projects the District funded for or in conjunction with the City. With the exception of the \$6 million check, due to a lack of documentation verifying the claimed expenditures were off-sets to SDA reimbursements, the OFAC is unable to confirm the District claims. In reference to the off-sets claimed by the District, the City provided various documents disputing those claims.

The City claims that state share payments totaling \$4,412,904.00 remain outstanding. The District claims the amount outstanding is approximately \$2.7 million. Based upon a review by the OFAC of the SDA accounting for the projects in question; upon submission of proof of expenditures and the verification of eligible costs, as of May 31, 2015, the District should receive an additional \$3,149,923.00 in state share payments.<sup>2</sup>

The BOE and SDA are in the process of finalizing reporting for the remaining open projects. Should any issues of potential grant noncompliance be identified, those will be reviewed on a case by case basis by the appropriate entity.

### **Conclusion:**

Because City and the Bayonne Board of Education (BBOE) are unable to provide complete, verifiable, factual documentation of their respective representations, beyond the \$6 million check, the OFAC is unable to verify the total amount of SDA reimbursements that were paid to the City by the BBOE. Additionally, the OFAC offers no opinion as to the validity of the payments claimed by the BBOE as offsets to the SDA reimbursements.

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<sup>1</sup> The review period was extensive since the projects in question spanned approximately 14 years. Additionally, the BOE informed the OFAC that approximately 40 boxes of construction records were unavailable because they are currently in the possession of other government entities.

<sup>2</sup> As of the date of this report, the SDA indicated approval was granted for additional payments of \$804,000.00 against the remaining projects reducing the outstanding balance by that amount.

Despite the verification difficulties encountered, the completed review did not identify any verifiable material issues of non-compliance with the PSCL; nor did the review of the specific projects reveal any indication of the misappropriation or misallocation of SDA grant funds.


As to claims of noncompliance with grant provisions, excluding project items currently outstanding, the OFAC did not identify any material violations. The OFAC also did not identify a failure by the BOE to appropriately document and comply with grant provisions that resulted in a loss of SDA grant funding.

**Recommendation:**


The District is directed to ensure that future SDA funds received, if based upon projects bonded for by the City, shall be forwarded to the City to reduce the outstanding bond debt. The amounts of any SDA grant funds transferred to the City after May 15, 2015, shall be memorialized by a board resolution in addition to appropriate recording in the District financial records.

Additionally, in the event the District seeks to enter into any future agreements with the City, similar to those items claimed by the District as offsets to funds due to the City, the agreements are to be executed in accordance with applicable statute, regulation, and accounting best practices. The actions shall be memorialized by an appropriate written agreement. The agreement may be in the form of an intra-local agreement, shared services agreement, memorandum of agreement or memorandum of understanding. Regardless of the form of agreement selected, the action shall be memorialized by an approved board resolution.

Submitted by:

  
Thomas C. Martin, Manager  
Investigations Unit

Approved by:

  
Robert J. Cicchino, Director  
Office of Fiscal Accountability and Compliance

Investigators:

Karl T. Feltes  
Francesco Frangella

