City of East Orange
Board of Education

July 1, 2000 to February 28, 2003

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the City of East Orange Board of Education for the period July 1, 2000 to February 28, 2003. If you would like a personal briefing, please call me at (609) 292-3700.

June 16, 2003
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Employee Benefit Charges</td>
<td>3</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>4</td>
</tr>
</tbody>
</table>
City of East Orange
Board of Education

Scope
We have completed an audit of the City of East Orange Board of Education for the period July 1, 2000 to February 28, 2003. Our audit included the financial activities accounted for in the district’s funds, except for those activities involving debt service and long-term debt. The prime responsibility of the City of East Orange Board of Education is to provide a quality education to approximately 11,600 pre-kindergarten to twelfth grade students. The district employs approximately 2,100 full and part-time employees. General Fund revenues for fiscal year 2002 were $135 million; expenditures were $157 million. Revenues are derived from the following sources: state sources 84 percent, local sources 9 percent, and federal and other sources 7 percent.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the school district’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology
Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative codes, and policies of the school district. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget, reviewed financial trends, and interviewed school district personnel to obtain an understanding of
the programs and the internal controls. In addition, we reviewed audit reports issued by the school district’s certified public accounting firm.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and judgmental samples of transactions were selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action taken by the district and walked through the system to determine if corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the school district’s programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain internal control weaknesses meriting management’s attention. We also found that the district has resolved the significant issues noted in our prior audit report, but additional improvement is needed in the area of employee benefits. This issue has been restated in our current report.
In our prior audit report we recommended that management implement procedures to properly monitor employee benefit programs to ensure the propriety of cost to the district. Although improvement was made in the monitoring of employee benefits, additional effort is needed in the monitoring of dental benefits.

We reviewed dental benefit premium charges from the subscribers’ bills to determine that the district was only charged for eligible employees. We found 36 ineligible enrollees on the billings which resulted in an overpayment of $41,000. In addition, we noted $5,000 in overpayments from errors in health benefit billings.

**Recommendation**

We recommend the district correct all improper billings and follow procedures for dental benefits to ensure the accuracy of charges before their payment.

**Auditee’s Response**

The amount of the overpayment for dental bills that was contained in the memorandum sent to my department by the auditor stated the amount of the overpayment as $36,085, not $41,000. In addition, the amount of the overpayment covered a 4-year period of time. This represents about $9,000 or about 1.5 percent of the annual dental premiums.

In addition, the amount of $2,236 must be subtracted from the overpayment because the auditor included that figure for the period of time when employees’ benefits terminated as opposed to when their employment actually ended.

Also, an additional $2,233 must be subtracted from the overpayment amount because 2 people listed as “non-employees” are in fact our employees. Their names were incorrectly spelled.

We also received over $11,000 in credits from Delta Dental ($1,264 for the period from July, August and
September of 2002 which was not included in the auditor’s exception sheet).

The adjusted amount of the overpayment is still too high and we have made changes in our procedures.

Every 2 months, we run a report that lists the names of people who are no longer employed by the East Orange Board of Education. We use that report to make sure that we have terminated benefits at the proper time. We are also more vigilant when reviewing our bills to watch for former employees whose names “mysteriously” reappear on bills.

I have also realigned certain duties and responsibilities of the staff member who was handling the dental bill, so we will be better able to manage matters related to enrolling and terminating employees.

---

Greater controls should be implemented over the district’s fixed assets.

Fixed Assets

The district contracted with a service provider in 1996 to inventory and tag its property and equipment. The records indicated the district had 26,800 items totaling $119 million. We tested 62 items listed in the asset records for accuracy and completeness. Our test showed that the district had not updated its records properly since the inventory. We could not locate 27 of the 62 assets. Management explained that 13 unaccounted for items were on moving trucks, but no documentation was provided. Twelve of the items located were not tagged.

It is important for the district to adequately maintain controlling records in order to properly account for assets and to budget for additions, repairs and replacements. We noted during our field work that the district was in the process of developing new policies regarding accounting for fixed assets.
**Recommendation**

We recommend the district finalize those policies and procedures regarding the accounting for fixed assets. The district should also monitor compliance with those policies and procedures so fixed assets are properly accounted for.