City of East Orange Board of Education

July 1, 1997 to June 30, 1999
Enclosed is our report on the audit of the City of East Orange Board of Education for the period July 1, 1997 to June 30, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.
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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, 1997 to June 30, 1999. Our audit was limited to expenditures made by the board during our audit period. The prime responsibility of the City of East Orange Board of Education is to provide a quality education to approximately 11,000 pre-kindergarten to twelfth grade students. The board employs approximately 2,100 full and part-time employees. Expenditures totaled $125 million per year.

Objectives

The objectives of our audit were to determine whether expenditures were related to the school district’s programs, were reasonable, and were recorded properly in the district’s accounting system. This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in N.J.S.A. 18A:7F-6d.

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 code, policies of the board and the Department of Education Comparative Spending Guide. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget, reviewed financial trends, and interviewed district personnel to obtain an understanding of the district’s programs and the internal controls. In addition, we reviewed audit reports issued by the board’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. Transactions were both randomly and judgmentally selected.

Conclusions

We found that the expenditures included in our testing were related to the school district’s programs, were
reasonable, and were reported properly in the district’s accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with board policies which merit management’s attention.
Segregation of Duties

The district should strengthen financial system computer controls.

Our review of the district’s computerized financial system, Comprehensive Information Management System (CIMS), showed that improvements are necessary to ensure that transactions are properly reviewed and authorized. Purchase requisitions are entered by staff at their respective school or department, printed out, and submitted to the school business administrator for approval. Once the paper approval is made, the document is “approved” on the system by one of three accounts payable employees, which creates a purchase order. The order is then processed with the vendor. The CIMS also prints and signs the check. All accounts payable staff have the ability to initiate a purchase, record the receipt of goods and initiate payments to vendors on the CIMS. In addition, each has the authority to make changes to vendor names and addresses, the quantity or amount of purchase or payment, and the financial accounts charged for the transaction. These changes can be made subsequent to the school business administrator’s approval. These same employees also have access to the vendor data base file. The district does not have written procedures outlining employee duties which provide for segregating those duties among employees who record purchase requisitions, purchase orders, the receipts of goods and the initiation of payment to vendors.

A proper system of internal controls provides adequate checks and balances to ensure financial transactions are properly authorized and recorded, and a means to safeguard the assets of the entity. In order to accomplish these objectives, management should be confident that the system of control provides such assurance. Not segregating authorization levels within the system increases the risk that such errors or misapplications of funds could occur and not be detected.

Recommendation

Management should establish authorization levels within the CIMS to ensure the proper authorization, payment and accounting for expenditure transactions. These levels should also be monitored periodically to ensure compliance to established procedures. The CIMS should log and report all transactions that are
Auditee’s Response

requisitioned, authorized and approved by the same individual.

Vendor setup/modification will be reassigned to accountants. Accounts Payable access will be denied by the CIMS system for the Add/Delete/Change function of the vendor maintenance. Accounts Payable will have the ability to Lookup only.

Access to the Purchase Order Requisition Preparation component of CIMS will be removed from Accounts Payable.

Payment Process. Accounts Payable will maintain functions through the preparation of bill list.

Accountants will be assigned responsibility to print checks and will perform auditing functions for each voucher. These functions include:

1. Ensuring receiving copy is attached and properly signed by administrator.
2. Ensuring packing slip is attached.
3. Ensuring vendor declaration is attached.
4. Ensuring original invoice is attached.
5. Ensuring check amount is the same as approved by BOE bill list and is the same as amount of invoice.
Employee Benefit Cost

The district needs to monitor benefit charges.

We reviewed the district’s controls over placing employees on and removing them from the various pension, health and dental benefit plans. The district lacks the proper monitoring procedures to verify billings and ensure proper payment for employee benefits.

In our review of one month’s pension fund billing for 1,617 district employees we noted the billing included five employees who had left the district and one who could not be identified as a district employee. Furthermore, the billing did not include four employees on the district’s payroll.

The health and dental benefits invoices for the same period contained 30 employees (health) and 52 employees (dental) who had left the district’s employment up to ten months prior. Two names had been duplicated and one could not be identified with the district. After informing the district of these discrepancies for corrective action, the district indicated that the individual previously charged with this function had taken ill and since retired. We performed a follow-up test to determine if the above discrepancies had been corrected. Only 22 of the 30 names on the health benefits invoice and 25 of 52 names from the dental benefits invoice had been removed. The failure to remove all terminated employees unnecessarily cost the district $21,000 in health and $8,000 in dental benefits as of April 1999.

Recommendation

Management should implement procedures to properly monitor the pension, health and dental benefits programs to ensure the propriety of employee benefit charges.

Auditee’s Response

The Personnel Department will undertake a complete review of the employee coverage listing to make sure only those employees who are eligible for coverage are maintained on the rolls and also to make sure that all staff members who are eligible for coverage are included.
It must be noted that the Personnel Department has experienced some difficulty in its dealing with the State Health Benefits Plan concerning the process of adding and/or deleting employees. Information, which is transmitted concerning the coverage status of employees, is often noted as “not received” by the State Health Benefits Plan office staff and must be resubmitted.

A procedure is in place to verify the accuracy of employee benefits coverage levels. The procedure involves adjusting employee coverage levels within five days after each meeting of the Board of Education. The procedure will be adjusted to prevent slippage when or if the responsible staff member is unable to perform this task, as follows. Another member of the Personnel Department will be designated as the “back up” employee to perform this function.

Expenditures

The district’s purchasing manual states that all requests for purchases of materials, supplies and services must be made through a signed and approved purchase order. Any exceptions are to receive prior approval by the business administrator. Failure to adhere to this policy creates a risk that unauthorized transactions could occur and not be detected.

In a test of payments to vendors, we found purchase orders entered into the accounting system subsequent to the order date on the vendor’s invoice. A scan of the order, receipt and invoice dates recorded for the fiscal year 1998 disclosed 489 purchase orders dated after the vendor’s invoice date. We similarly noted 429 such instances in fiscal year 1999. In addition, eight purchase orders in fiscal year 1999 contained increases in amounts from $1,000 to $66,000 without formal approval.
**Recommendation**

The district should adhere to its policy that purchases be approved in advance.

**Auditee’s Response**

Once the Purchasing Agent has determined the requisition is a confirming order, a memo will be sent to the responsible administrator advising them of the following:

1. Only the superintendent can authorize a “confirming requisition” to be made into a purchase order. The Administrator must meet with the Superintendent to explain the condition of the confirming order.

2. Without the superintendent’s signature, the requisition **will not** be processed and the employee will become directly responsible for the cost as per Policy #3320.

3. The second time an administrator has a “confirming requisition”, prior to meeting with the Superintendent, the administrator shall be required to attend an inservice provided by the Purchasing Agent. This inservice will be at least a half hour in length. The administrator will need to provide proof of attendance in order to meet with the Superintendent.

4. Adverse Personnel actions may result from the continuing practice of purchasing goods and services without authorized purchase orders.