City of Passaic Board of Education

July 1, 2000 to July 31, 2002

Richard L. Fair
State Auditor
The Honorable James E. McGreevey  
Governor of New Jersey  

The Honorable John O. Bennett  
President of the Senate  

The Honorable Richard J. Codey  
President of the Senate  

The Honorable Albio Sires  
Speaker of the General Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

Enclosed is our report on the audit of the City of Passaic Board of Education for the period July 1, 2000 to July 31, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

May 27, 2003
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City of Passaic Board of Education

**Scope**

We have completed an audit of the City of Passaic Board of Education for the period July 1, 2000 to July 31, 2002. Our audit was limited to expenditures made by the district during our audit period. The prime responsibility of the City of Passaic Board of Education is to provide a quality education to approximately 11,000 pre-kindergarten to twelfth grade students. Expenditures totaled approximately $160 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 their 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 code, 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 expenditure 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 expenditures 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 the corrective action was effective.

**Conclusions**

We found the expenditures included in our testing were related to the school district’s programs, were reasonable, and were properly recorded in their accounting systems. We also found that the district has resolved the significant issues noted in our prior audit report except for internal controls over payroll and cash disbursements. This issue has been restated in our current report.
Segregation of Duties

Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use. A lack of segregation of duties exists in the payroll and cash disbursement functions, with inadequate independent monitoring to detect errors. Our review of the payroll and accounts payable/cash disbursement functions showed incompatible functions being performed by an individual. The authorization, custody and accounting/cash disbursement functions should be segregated to strengthen internal controls. The following conditions were noted during the review.

The payroll supervisor, who has the ability to add an employee on the payroll system and process their pay time (regular, overtime and other non-base wage time), also receives the paychecks for distribution. These functions are incompatible and there is no independent monitoring to detect errors.

The signing of checks issued to pay vendors is processed with a signature plate or rubber stamp. The same individual who possesses these devices and operates the check signing machine also processes purchase orders and vendor payments on the financial system. These functions are incompatible.

Because of these control weaknesses and the significance of cash disbursements and payroll ($160 million annually of which $85 million is for wages), we performed additional tests. We noted no errors or irregularities during these tests.

Recommendation

Management should assign the conflicting duties noted above to other employees and establish independent monitoring of key functions. Specifically, we recommend that the Office of Human Resources review the payroll edit report and verify that only authorized hires, terminations and changes in direct deposit information are made by the
payroll office supervisor. Also, payroll checks should be received and distributed by someone other than the payroll office. Additionally, the check signing machine should be moved and the duty of signing and mailing vendor checks should be given to someone outside of the accounts payable unit.

**Auditee’s Response**

Your first recommendation specifically calls for the Office of Human Resources to review and verify payroll edits. We noted that this recommendation has the following constraints: (1) budgetary constraints concerning additional compensations, (2) three staff members are involved in payroll data entry, (3) three staff members are involved in payroll distribution, (4) the current system has not produced any improprieties and (5) office space limitations.

Your other recommendation concerned the check signing machine, wherein you recommended the check signing machine be moved and the duties of signing and mailing vendor checks be given to someone outside the account payable unit. Again we note the aforementioned constraints.

The Board of Education has in its initial 2003-2004 budget an appropriation for a study of business office functions with the objective of restructuring the business office organization where the primary objectives are improving organizational (1) efficiencies, (2) effectiveness and (3) internal controls. It is anticipated this study will address the recommendations contained in your report. As the Board of Education is committed to the proper functioning of its fiscal operations, the recommendations will be given serious consideration within resource limitations.