City of Paterson
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 Paterson 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.

August 27, 2003
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City of Paterson
Board of Education

**Scope**
We have completed an audit of the City of Paterson Board of Education for the period July 1, 2000 to February 28, 2003. Our audit was limited to expenditures made by the board during our audit period. The prime responsibility of the City of Paterson Board of Education is to provide a quality education to approximately 25,000 pre-kindergarten to twelfth grade students. Expenditures totaled about $360 million per year.

**Objectives**
The objectives of our audit were to determine whether expenditure transactions were related to the school district’s programs, were reasonable, and were recorded properly in their accounting system. 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 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 statistical and nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally and randomly 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 that the expenditure transactions included in our testing were related to the school district’s programs, were reasonable, and were recorded properly in the accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention. We also found that the school district has resolved the significant issues noted in our prior report except for internal controls over posting employee leave time. This issue have been restated in our current report.
Internal controls over the district employee’s reporting of leave time needs to be strengthened.

Unposted Leave Time

Our sample test of leave record postings for 84 randomly selected full-time employees found errors in the postings for 37 of these employees. The review of sign-in sheets for the 2002 school year showed that 103 days of absence were not deducted from employee leave balances. Statistically projecting this error rate to the 3,900 employee population indicates, with 95 percent confidence, that at least 3,200 days are not being deducted annually.

The correct posting of leave time days would have resulted in four of our sampled employees exceeding their available leave by 17 days. As a result they were overpaid $1,970. Statistically projecting this error to the entire employee population indicates that 2002 school year salaries were overpaid $86,000. Errors in leave time postings have been a recurring problem at the district, so accumulated undetected errors in previous years could add to the overpayment amount in current and future years.

A basic control feature of any process should include subjecting the work of each employee to the review of another. We found that there was no such review of the leave postings entered by the timekeepers.

Recommendation

Management should instruct the district’s Office of Attendance to periodically send employee leave records to the supervisors of each location and have them verify the accuracy of the postings to the recorded absences on the sign-in sheets.

Expenditure Account Classification

The district spends approximately $500,000 in annual premiums for property, liability and fidelity insurance coverages. The Comprehensive Annual Financial Report (CAFR) for fiscal years 2001 and 2002 reported insurance expenditures as only...
$93,750 and $110,000, respectively. It has been the district’s accounting practice to budget and report a portion of the annual premium as insurance expense in their financial statements, and the remainder as general administration - other purchased services. Our analysis of insurance premiums showed that, although insurance payments are properly recorded in the accounting system, $369,000 and $407,000 were improperly reported as other purchased services in the respective 2001 and 2002 CAFRs.

The Department of Education’s Uniform Minimum Chart of Accounts requires all expenses for property, liability and fidelity insurance to be recorded as insurance expense.

**Recommendation**

We recommend that the district report its insurance expenditures in accordance with the Department of Education’s Uniform Minimum Chart of Accounts.