City of Paterson
Board of Education

July 1, 1997 to June 30, 1999
The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
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 Paterson, 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.

Richard L. Fair  
State Auditor  
December 22, 1999
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City of Paterson
Board of Education

Scope

We have completed an audit of the City of Paterson, Board of Education (district) for the period July 1, 1997 to June 30, 1999. Our audit was limited to expenditures made by the board and did not include revenue. The prime responsibility of the City of Paterson, Board of Education is to provide a quality education to approximately 24,000 pre-kindergarten to twelfth grade students. The district became state-operated on August 7, 1991 in accordance with N.J.S.A. 18A:7A-34 and remains under state operation. Expenditures totaled $257 million per year.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the school district’s programs and were reasonable. 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 and the Department of Education’s Office of Compliance.

Both statistical and nonstatistical sampling approaches were 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 financial transactions included in our testing were related to the school district’s programs and were reasonable. In making this determination, we noted certain matters merit management’s attention.
Building Leases

Due to the difficulties and delays in securing long-term school bonding to fund capital projects, management used other options for financing to minimize their current annual payments for buildings. However, these options actually cost the district more over an extended period of time.

In an effort to meet the need for classroom, office and warehouse space, while remaining within its budgetary constraints, the district entered into five lease agreements with private building owners. Outright purchase or the exercising of favorable purchase options were not pursued because of the district’s inability or reluctance to obtain the funding needed to buy these buildings. As a result, net lease expenditures equivalent to implied interest rates in excess of 12 percent of the estimated purchase prices were paid on three of the properties. Since the need for the leased building space appears to be long-term, purchase of these buildings at more favorable interest rates would be a cost savings device. Comparing these interest rates to the five percent rate paid by the district on their recent lease purchase agreement certificates of participation, over $320,000 could have been saved during each of our audited fiscal years if the buildings were purchased with financing obtained at this lower interest rate.

Recommendation

The City of Paterson, Board of Education should consider purchasing buildings and attempt to fund its building space needs through the issuance of long-term tax-exempt school bonds or certificates of participation.

Auditee’s Response

The district continues to work as a partner with the municipal government in its attempt to secure appropriate facilities for the needs of the district. The full picture reflects that the Paterson Public School district has moved forward with a wide variety of leases and purchases to meet the demand for adequate facilities. We will continue to explore and negotiate alternative options for securing space as noted in your recommendation.
Internal controls over the district employees’ reporting of leave time needs to be strengthened.

Unposted Leave Time

Our test of 50 randomly selected employees who incurred 35 leave days during November 1998, found errors in the posting to leave records for six of these employees. This review of the sign-in sheets showed that six days marked as absent were not deducted from the individual leave balances of these employees. Statistically projecting this error rate to the entire 3500 employee population concludes, with 90 percent confidence, that at least 1000 days are not being posted annually.

The district offers an attendance incentive and cash bonus plan which allows eligible employees to sell back unused sick or vacation days for cash. In addition, a $250 bonus is awarded for 100 percent attendance by staff members. By allowing employees to use more leave time than they are entitled, the district may be buying back these unposted days from professional staff at $125 per day or administrative personnel at their actual per diem salary rate.

Past internal audit reports issued by the New Jersey Department of Education’s Office of Compliance have also noted weaknesses in controls over reporting leave time. Management had hoped that the installation of the new on-line time reporting system would alleviate the problems. As our test have shown, some errors can still occur.

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.

Auditee’s Response

During the current school year, the district is entering the final phase of a transition to a new computerized system for recording and monitoring staff attendance.
Verification and accuracy of the postings is part of this phase. The Director of Human Resources is providing the required oversight of this process.

**Prescription Drug Benefit Premiums**

Our comparison of the prescription drug insurance rates charged by the private insurer to those rates offered by the state’s plan found that the district would save $125,000 annually under the state plan. For fiscal years 1999 and 2000 the Division of Pensions and Benefits’ rates for comparable or better coverage proved to be lower than those of the district’s private insurer.

An ongoing no-bid professional services contract to provide employees prescription drug insurance was awarded to the insurer. Neither the district’s purchasing office nor their employee benefit office could show that rate comparisons with the state or any other private prescription drug plans were obtained.

The employee benefit office did not consider the state plan a comparable alternative because of certain contractual complexities in its employee benefit coverage eligibility. In particular, under the district’s benefit program, the 16 school district doctors are not eligible for health benefit coverage, but are eligible for prescription drug coverage. Under the state plan, employees eligible for prescription drug benefits must also be provided health benefits. In the case of certain cafeteria workers, although immediately eligible for health coverage, they are not eligible for prescription drug coverage until two years after being hired. This also conflicts with the state plan and affects five cafeteria employees.

Although these complexities do pose a problem in customizing a single plan to cover all 2900 school district employees eligible for prescription drug coverage, arrangements can be made to supplement the coverage offered by the state plan to adequately cover the other few employees. Cost savings of $60,000 would occur even if it were necessary to extend full
medical and prescription drug coverage to these few extra employees.

**Recommendation**

The district should enroll its eligible employees in the state’s prescription drug plan. Those employees who are only eligible for either health benefits or prescription drug coverage can remain in their current plan.

**Auditee’s Response**

The district will be investigating insurance options for the coming fiscal year in compliance with its many collective bargaining agreements. These options may include the state’s drug plan if it can meet our requirements, but will not be limited to the plan as suggested.

The report’s suggestion that some collective bargaining agreements be changed to consolidate the prescription plan will be reviewed and considered by the labor relations department and the negotiating teams. We recognize that it cannot be viewed simplistically as a single cost item, but as a part of the overall scope of the collective bargaining process.
The district should verify state contract purchases.

Procurement

N.J.S.A. 18A:18A-10 authorizes the district to purchase items from state contract vendors without the need to advertise and obtain bids. Although district procurement policies require written verification from the vendor that the item selected is part of the contract with the state, we found no enforcement of this policy. Additionally, in violation of N.J.S.A. 18A:18A-10c, the purchasing office does not verify that the order is placed with the vendor offering the lowest price. As a result, purchases were not always made from the lowest priced vendor or were made without the statutorily required competitive bidding.

Recommendation

The district’s purchasing unit should enforce its purchasing policies and comply with state procurement statutes, including competitive bidding requirements and use of authorized contract vendors.

Auditee’s Response

The district is currently undergoing a review of the role and structure of its Purchasing Department and purchasing policies and practices. Every effort is being made to ensure that all purchases are secured in accordance with the Public Contracts Law, including the appropriate utilization of state’s procurement system when available.

We respectfully suggest that competitive pricing between approved state contract vendors is an issue that would have to reviewed by the state’s procurement division if it is problematic.