New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Town of West New York
Board of Education

July 1, 1999 to January 26, 2001

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State Auditor
The Honorable Donald T. DiFrancesco  
Acting 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 Town of West New York, Board of Education for the period July 1, 1999 to January 26, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
May 23, 2001
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Town of West New York
Board of Education

Scope
We have completed an audit of the Town of West New York Board of Education for the period July 1, 1999 to January 26, 2001. Our audit was limited to expenditures made by the board during our audit period. The prime responsibility of the Town of West New York Board of Education is to provide a quality education to 6,656 pre-kindergarten to twelfth grade students. Expenditures approximated $73 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 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, observation, and through our samples of financial transactions. We also read the budget, reviewed financial trends and interviewed district personnel to obtain understanding of the district programs and internal control. We also reviewed audit reports issued by the board’s certified public accounting firm.

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 concerning internal control meriting management’s attention.
There is a general lack of segregation of duties within the procurement process.

Procurement Process

The district spends approximately $31.6 million during the school year procuring goods and services from vendors.

A proper system of internal control provides checks and balances to ensure financial transactions are properly authorized and recorded. Inadequate internal controls, including a lack of segregation of duties, increases the risk that errors or misapplications of funds could occur and not be detected.

Our review of the district’s computerized financial system, School Budget Accounting and Reporting System (SBARS), showed insufficient authority control within the system. There are no security codes other than passwords established for the SBARS. All three accounts payable staff have the ability to initiate purchase orders and payments to vendors. In addition, all have the authority to increase the amount of the established purchase order subsequent to the school business administrator’s approval. The same employees also have access to the vendor data base file. They establish and remove vendors from the data base and have the authority to make changes to vendor names, addresses and identification numbers without management approval. Finally, they are also responsible for the distribution of the check payments. The district does not have written procedures outlining employee duties which provide for segregating those duties among employees. Segregation of duties prevents one employee from controlling all key aspects of a transaction or event.

There are inherent weaknesses within the district’s computerized financial system.

In addition, SBARS’s does not have edits to prevent employees from reassigning a prior vendor identification number to a newly established vendor. It is a common practice of the district to reuse identification numbers of prior vendors who had been removed from the vendor file. The district reassigns numbers of the existing vendors for no
The controls over payments to vendors are inadequate.

Apparent reason. Because of this system weakness, vendor historical performance data could be inaccurate. Another system deficiency within SBARS concerns establishing a vendor with a blank vendor identification number. One such vendor exists in the district’s vendor data base file. Omitting the vendor identification number when processing a purchase order does not result in the SBARS rejecting a transaction; instead, the system defaults to the vendor with the blank identification number.

The district issues a substantial amount of manual checks. Over 28 percent of 6,500 checks issued during school years 1999 and 2000 were manually prepared. Checks are not used in sequential order. Check errors were corrected by placing a label over an erroneous check rather than voiding the check and reissuing a new one. We found purchase orders entered into the accounting system subsequent to the order date on the vendor’s invoice and checks dated before completion of services and vendor’s invoice dates.

A rubber stamp is used for all documents that require the business administrator’s approval. Although the signature stamp is in possession of the district’s internal auditor, we observed that the stamp is allowed to be used by accounts payable employees. Because of this procedure, one cannot verify the propriety of approval of purchase orders.

Recommendation

Management should develop procurement controls, both IT and manual, that would safeguard the district’s resources. Rubber stamps should be destroyed.

Auditee’s Response

Management is in the process of interviewing software vendors that provide stricter internal controls over purchase orders and issuance of warrants, in addition, the existing software vendor has been requested to provide safeguards during the selection process. An internal control policy manual
The district should strengthen their controls of computer purchases and vendor contracts.

has been rewritten and implemented immediately after the informal exit conference. All signature facsimile stamps have been destroyed.

Computer Purchasing

During school year 2000, the district spent $721,000 on computer purchases from one vendor. The Town of West New York Board of Education awarded a bid to supply the district with approximately 100 standard student computers for $954 per unit. Management uses the bid in lieu of a contract with the vendor. In the bid general specifications, the board reserves the right to increase the quantity by 20 percent. The district purchased 246 standard student computers, 106 other computers, and 206 printers. In addition, the district purchased from the same vendor $218,000 worth of parts, software and wiring services. There was no competitive bidding required for the purchases above and beyond the original bid specifications, although the purchase amount increased from the original award.

While the bid’s general specifications requires all items to be of “first grade” unless otherwise specified, a study of PC service performance and reliability by a leading computer publication revealed that the computer brand name supplied to the district ranked only fair and not outstanding or good. In a comparison of prices, we noted that for an extra $112 per unit the school district could have obtained the excellent ranked brand name. During our visit to the schools, we were told that out of 20 computers received, 18 of them broke within the first two weeks, and on the second order of 20 computers, all arrived with hard drives that did not function.

The same vendor was given another bid for $17,500 for computer software and overbilled the district $3,100 for services included in the detailed bid specifications.
The district also purchased five computers, nine printers, and three software packages and paid $16,200 for these items. The invoice project name was “Board’s Attorney”. The board’s attorney is an independent law firm.

**Recommendations**

We recommend the district use written contracts and ensure that the vendors perform in accordance to the bid specifications and the written contracts. The district should obtain a refund for the $3,100 overpayment and $16,200 from the board’s attorney.

**Auditee’s Response**

All vendors that have been awarded bids are in the process of executing contracts that will ensure their performance in accordance to the bid specifications. All refunds have been received.

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**Fixed Assets**

The district’s management is responsible for establishing a fixed asset inventory system which will safeguard assets from loss or unauthorized use. The system should identify fixed assets by location. Physical counts of all district-owned equipment should be conducted periodically. The district started maintaining an inventory record of fixed assets by location in fiscal year 1997, recording newly purchased items with a value of $100 or more. The district uses an outside service to update fixed asset records each year. This is accomplished by reviewing all purchase orders for the year and updating the fixed asset records. The consultants then attempt to locate and tag the new purchases.

As of June 1999, the district’s records show approximately 5900 listings consisting of 22,400 items with a cost basis of $5.2 million. Included in these records are 1016 computers with a cost basis of $900,000.
Our review of fixed assets showed that the district does not take an annual inventory count. In our test of fixed asset records we noted that the records were inaccurate as to completeness and location.

Of our sample of 103 listings with a cost of $90,800, we could not locate 43 listings consisting of 76 items with a cost of $27,300. Eighteen of the 43 exceptions were either computers or printers.

As a result of two random samples of computers, we judgmentally selected school #1 and #3 for a complete physical count of computers at these locations. The district’s fixed asset record listed 193 computers at school #1 with a cost basis of $190,000 and 71 computers at school #3 with a cost of $61,500. We were unable to locate 115 listed computers at school #1 and 18 at school #3. However, we located 132 computers at school #1 and 82 computers at school #3 that were either on or not on the fixed asset list. The result of this count shows that the current fixed asset inventory list is incomplete and cannot be relied upon to determine the current status and location of the district’s computers.

In addition to our sample of computers, we noted that the outside service the district uses to tag and locate equipment purchases was unable to locate 71 computers and other assets valued at $81,400 that were purchased in school year 2000.

**Recommendations**

Written policies over inventory processing and control should be developed and implemented. These policies should include assigning responsibility for specific assets, annual physical counts, procedures to update the inventories for location changes, disposition of assets and a procedure to record new computers on the inventory upon receipt.

**Auditee’s Response**

The firm of Rullo and Gleeson have been contracted to complete a fixed asset inventory of the entire school district and update on an annual basis, and
provide the district with an accurate bar-coding process for all fixed assets. Purchase order software now has the capability of accounting for fixed assets upon the inception of the purchase order.

Insurance Coverage

The district’s policy for insurance states “the school business administrator/board secretary shall maintain an accurate and complete inventory of all buildings, fixed equipment and contents, and their value, in order to offer proof of loss in the event of an insurance claim and to provide a continuous chain of accountability. The inventory shall be updated to reflect new equipment and shall be verified in a cycle to coincide with the reissuance of insurance policies”. The district’s general liability premiums in school year 2000 and 1999 were $362,000 and $382,000, respectively.

We noted the district’s insurance for 1999-2000 was not being reviewed and properly updated as required by the district’s policy. The following was noted in our review:

- The district insured 17 buildings and contents for $121 million. Our review showed that a bus garage insured at $472,500 plus contents was demolished and is currently a basketball court. Also, Memorial Athletic Field which has no building was being insured for a $2 million building plus contents, because the district planned to construct a building at the location in the future.

- The district also insured ten buses and two trucks totaling $316,000 which were 1989 models no longer in district’s possession. This policy was not updated to include the current fleet of 12 buses, two trucks, and a van costing $488,000.
• In January 2000, the district completed renovations on an education garage for $526,000. This building which is currently empty has contents insured for $150,000. In September 2000 the Board approved the use of this building (which has offices upstairs and garage space downstairs) for use by the West New York Police as a police department annex at no cost to the Town of West New York.

**Recommendation**

We reasoned the district comply with their policy by reviewing and updating their insurance coverage. We also recommend that the board receive adequate compensation from the Town of West New York for use of garage and office space.

**Auditee’s Response**

The district has had a complete audit of all insurance coverage and has upgraded, or downgraded, as necessary. The district is presently discussing in-kind contributions from the Town of West New York for the police department use of the garage.

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**School Maintenance Contracts**

West New York School District spent $486,000 and $496,000 in school years 2000 and 1999, respectively for night cleaning services of schools, administrative building, and the district’s Childhood Center.

We noted in our review of the above expenditures that the vendor was overpaid $44,000 and $41,000 in school years 2000 and 1999 respectively for separately billed services that were included as part of the original contract specifications. In addition, school year 1999 payments exceeded the original contract bid amount by $71,000. The propriety of school year 2000 payments could not be verified as a copy of the contract was not provided. All invoices submitted for the services within the contract were dated at the beginning of the month before the
services were rendered. Eleven checks in school year 1999 and nine in school year 2000 issued by the district were dated and cashed before the services were provided. The above prepayments were made in violation of the district’s purchasing policy which states that the payment to a vendor should be made upon receipt of services.

In addition to the above services, the district employs 43 custodians whose responsibilities include housekeeping and landscaping functions and who, according to the custodial union agreement, can be assigned to variable work shifts per the district’s discretion. Total square footage of the district operated buildings amounts to 818,595. Using for comparative purposes the standards set by the American School and University Magazine, the average for the New York and New Jersey region of 17,760 square feet per custodian, the district should only need three more custodians to provide all the district’s necessary cleaning services. Employing three additional custodians including salary and benefits and ceasing services of the maintenance vendors could save the district approximately $400,000 annually.

**Recommendation**

We recommend that the district cease services provided by the independent vendor and, if necessary, hire additional custodians. We also recommend that the district recover the overpayments made to the vendor.

**Auditee’s Response**

The district has completed a time and work study of all custodial duties throughout the district and are in the process of determining the most cost efficient procedures for custodial duties and responsibilities. The district has not renewed any contract, nor has it advertised for services of this nature until the cost efficient study is completed. All refunds have been recouped by the district.
Legal Fees

The district’s legal fees have doubled in the past year. The district’s legal expenses during school years 1999 and 2000 were $260,084 and $415,175, respectively. According to the Department of Education, in school year 1999 the district ranked 15th highest in terms of its legal expenses when compared to 76 comparable districts. School year 2000 district spending data is not available at this time; the district’s legal fees nearly doubled during school year 2000. Over $300,000 of school year 2000 legal fees were paid to the board appointed law firm for representation in litigation matters, preparation of contracts, attendance at board meetings and telephone consultations. Itemized progress bills for legal services from June 16, 1999 through May 16, 2000 disclosed that the law firm billed the district an average of 9 to 15 hours per day involving services provided by 9 to 13 different attorneys each month. We were informed that in the past the district’s management considered hiring a staff attorney but abandoned the idea believing it will not have enough work for a full-time employee. Based on the number of hours charged per diem and the related charges, we believe it would be more advantageous for the district to hire a full-time staff attorney.

Recommendation

The district should hire a staff attorney to provide the district’s day-to-day required legal services.

Auditee’s Response

The Board of Education is in the process of interviewing candidates for this position.
The district could save $90,000 annually by using the state’s prescription drug plan, rather than that of an outside provider.

Prescription Drug Benefit Program

The Town of West New York Board of Education provides health benefit coverage to eligible employees through the New Jersey State Health Benefits Program (NJSHBP). The district uses a private insurance carrier for their prescription drug coverage instead of participating in the NJSHBP for this coverage. The total annual cost of this prescription drug plan was approximately $1.4 million in school year 2000.

We compared the district’s current plan rates to that of the states’ and found there could be $90,000 annual savings if the district changed the prescription drug insurance coverage to the state’s program. The district’s business office did not consider the state plan as comparable to theirs, but we found no substantial difference. The only difference noted was that the state plan offers a co-payment of five dollars for brand name medicine and one dollar for generic. The district plan had three co-payment rates for central office administration, school administration, and non-administration of $3 and $3, $5 and $3, and $7 and $1 for brand and generic medicines respectively.

Recommendations

The district should enroll its eligible employees in the state’s prescription drugs plan and take advantage of the potential savings.

Auditee’s Response

The district is in the state’s health care program and is in the process of enrolling its eligible employees in the state’s prescription plan, as well as reviewing the district’s dental plan.