Newark Public Schools

July 1, 2000 to May 2, 2002

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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 Newark Public Schools for the period July 1, 2000 to May 2, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

February 11, 2003
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Newark Public Schools

Scope  
We have completed an audit of the Newark Public Schools, a state-operated school district, for the period July 1, 2000 to May 2, 2002. Our audit was limited to non-payroll expenditures made by the district during our audit period. The prime responsibility of the Newark Public Schools is to provide a quality education to approximately 45,000 pre-kindergarten to twelfth grade students. Non-payroll expenditures totaled approximately $200 million per year.

Objectives  
The objectives of our audit were to determine whether non-payroll expenditures were related to the school district’s programs, were reasonable, and were recorded properly in their accounting systems.

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 financial 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 non-payroll expenditures 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 selected for testing.

Conclusions

We found that the non-payroll expenditures included in our testing were related to the school district’s programs, were reasonable, and were properly recorded in their accounting systems. In making this determination, we noted certain internal controls weaknesses involving employee benefits which merit management’s attention.
Minor enhancements to controls could reduce costs by $22,000 per month.

Health Benefits

The district’s 7,300 employees are eligible for medical, prescription drug, dental, and vision care insurance coverage. Medical benefit coverage is supplied through the New Jersey Division of Pensions and Health Benefits’ State Health Benefits Program. The other benefit programs are administered through the Supplemental Fringe Benefit Fund, by some union locals, and by the school district’s human resources office through insurance policies with carriers. The monthly costs for these insurance programs are paid totally by the district and amounted to $45 million in fiscal year 2001.

The December 2001 billing from the State Health Benefits Program included premiums for 51 individuals who were not current employees. The monthly premium for these individuals was $16,000. Medical benefit premiums for some of these former workers have been erroneously paid for nearly three years after their termination. Total overpayment for these 51 individuals was $166,000.

In most instances these exceptions were caused by deletion filings that were incorrect, lost or otherwise not acted upon by the district’s human resources office or the State Health Benefits Program. The occurrence of these errors should be expected, but adequate followup of the deletions by the district should detect these omissions.

Workers enrolled in the Newark Teachers Union (NTU) have their prescription drug, dental, and vision care insurance coverage administered by the Supplemental Fringe Benefit Fund (SFBF), a trust established between the NTU and the district. The coverage costs and contracted administration fee of the SFBF are billed to the district monthly. These monthly billings do not include a listing of the 5,000 NTU members enrolled. As a result, the district is completely reliant on the SFBF to properly enroll
and delete employees and has no documentation to monitor their accuracy.

Our review of the SFBF enrollments found that 113 individuals were being erroneously covered for dental benefits, and 95 for prescription drug/vision care benefits. These errors generated a monthly overpayment of $4,000 in dental and $655 in vision care costs. During our audit period, the district overpaid SFBF $80,000 for the dental and vision care premiums of these non-employees. Prescription drug costs are based on actual claims instead of premiums, so there would not be any additional cost to the district unless a fraudulent claim was submitted by one of these ineligible individuals.

In addition, exceptions were found in the insurance plan enrollments the district has with Horizon Blue Cross for dental and vision care for some employee groups. The district was paying 35 dental and 22 vision care premiums for non-employees. This monthly overpayment for these premiums totaled $1,400. Total overpayments were $43,000.

**Recommendation**

We recommend that the district enforce and enhance control procedures to ensure that terminated employees are timely deleted from fringe benefit rolls. These enhanced procedures could include manually verifying deletions to subsequent billings. In addition, the district should request monthly membership listings for the district’s NTU member employees covered by the Supplemental Fringe Benefit Fund, to ensure that payments to the Supplemental Fringe Benefit Fund do not include the benefit costs of terminated employees.