

STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE

PATERSON INTERNAL AUDIT UNIT
TRANSPORTATION SERVICES
FISCAL YEAR 2015-2016 AND 2016-2017
FEBRUARY 2018

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON INTERNAL AUDIT UNIT
TRANSPORTATION SERVICES
FISCAL YEAR 2015-2016 AND 2016-2017**

Distribution List of Final Audit Report

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**NEW JERSEY DEPARTMENT OF EDUCATION
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EXECUTIVE SUMMARY

The Paterson Internal Audit Unit has conducted an audit of the Paterson Public School District's (District) pupil transportation expenditures for Fiscal Year 2015-2016 and the first nine months of FY 2016-2017.

The purpose of the audit was to determine whether the expenditures were properly authorized, documented and paid in accordance with current contracts, District policies and applicable regulations. In addition, the audit was designed to evaluate the District's current policies and procedures. The audit included a review of a sample of expenditures from both fiscal years. This audit is not intended to evaluate the performance of the vendors.

As a result of the audit, the following deficiencies were noted:

- 61 of 109 expenditures, or 56 percent of the audit sample were confirming orders.
- Contracts are not executed in a timely manner.
- Expenditures were charged to the incorrect general ledger account.
- Deficiencies with District payment packets.

AUDIT SCOPE

The Paterson Internal Audit Unit reviewed the financial records and supporting documentation for a sample of expenditures charged to the general ledger accounts for student transportation, account #270-5XX. The auditors reviewed 31 expenditures totaling \$11,318,098.60 (49 percent of total expenditures) for FY 2015-2016 and 78 totaling \$3,772,853.50 (33 percent of total expenditures) for the first nine months of FY 2016-2017. The expenditures were reviewed in order to ensure that payments were made in accordance with district policy and applicable statutes. The auditors verified that the rates charged were in accordance with the contract.

BACKGROUND

The Transportation Department (Department) for the District coordinates transportation for approximately 5,700 students on an annual basis. The District contracts with approximately 20-25 vendors to provide these services. Transportation expenses for FY 2015-2016 were \$23,248,921.50 and \$11,372,498.31 for the first nine months of FY 2016-2017. The Department currently consists of seven employees including a Director who reports to the Executive Director of Security, Transportation, and Investigations.

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FINDINGS AND RECOMMENDATIONS

Finding 1: On a total of 61 occasions (56 percent of items tested) the District bypassed the purchase order process by issuing purchase orders after goods have been ordered or services rendered (confirming order).

A "Purchase Order" is a document issued by the district Purchasing Agent authorizing a purchase transaction to a vendor to provide goods or perform services to the district. State statute and District policy require that the purchase order be executed prior to the purchase of goods or the rendering of services. In the case of confirming orders, this process is bypassed because goods or services are received without, or prior to, issuing a purchase order with the proper authorization of the School Business Administrator.

The auditors reviewed a sample of 109 payments, of which 61 were confirming orders. The dollar amount associated with these confirming orders is \$7,734,865.81 or 69 percent for FY 2015-2016 and \$1,938,777.58 or 63 percent for FY 2016-2017.

Recommendation:

The auditors recommend that the District implements procedures to ensure that no payments are made until purchase orders are issued. The District has indicated on prior corrective action plans (CAP) that it would implement procedures to curtail confirming orders. The current District purchasing manual outlines the penalties associated with unauthorized purchases (Attachment 1).

Finding 2: Contracts are not being executed in a timely manner

As part of the audit, auditors requested fully executed (signed by the District, vendor and county superintendent) contracts for each expenditure in the audit sample. The auditors noted that in some instances the contracts were not fully executed until after the end of the fiscal year. Due to the number of instances noted auditors expanded their review and requested every FY 2016-2017 contract (Services Agreement) specific to Northern Region Educational Services Commission. Auditors noted that all 34 contracts were not fully executed until after the end of the fiscal year. The auditors met with the Director in order to gain an understanding of the contract process. The auditors learned that the current process has inherent delays, including up to a month before the board approves the contract. During this process the vendor is providing services to the District, both without a purchase order and a contract.

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Recommendation:

The auditors recommend that the District implement procedures to expedite the review and signing of all contracts in a timely manner.

Finding 3: Expenditures that were charged to the incorrect general ledger account

The auditors noted eight expenditures that were charged to the incorrect general ledger account. The invoices had charges for both regular education and special education which were not properly allocated. Also, in some instances the administrative fee was charged inconsistently. During FY 2015-2016 when the District contracted with Essex Regional Educational Services Commission, there were several payments in the audit sample in which the allowable administrative fee was charged to general ledger account 270-5XX (Student Transportation Services) rather than an Administrative 350 account. In FY 2016-2017, the auditors noted only one minor instance in which an administrative fee was charged to the Transportation account. Any administrative fee that is part of the contract should be charged consistently and correctly.

Recommendation:

The auditors recommend that the District implement procedures to ensure that all expenditures are properly and consistently allocated. If a vendor invoice should be charged to several different general ledger accounts that should be clearly and accurately reflected on the purchase order. Also, the District should ensure that administrative fees are correctly charged.

Finding 4: The auditors noted deficiencies in the District payment packets.

A “payment packet” is the District’s supporting documentation for payments made to vendors. The packet should include a detailed original vendor invoice, a signed voucher copy of the purchase order (for expenses equal to or exceeding \$2,625), and evidence that the goods or services have been marked as received in the District’s accounting software. In the past the District used a “pre-payment documentation review form” signed by the preparer which indicated that all of the above items were included, but that form is no longer used. The auditors noted the following deficiencies with the payment packets:

- 51 out of 78 (66 percent) of FY 2016-2017 payments were made without a proper voucher attached to the payment packet. In many instance a blanket voucher (for the entire purchase order amount – not the specific payment in the sample) was used. Pursuant to 18A:19-3 all claims equal to or exceeding 15 percent of the bid threshold amount require a signed voucher copy of the purchase order. For transportation expenses the bid threshold is \$17,500.

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- Five FY 2016-2017 payments had a voucher that was signed and dated after the check date and three payments had a voucher attached but it was not dated.
- Some vendor invoices did not indicate the applicable number of aides. The bid specifications indicate a route cost and an additional cost for each applicable aide. If multiple aides are invoiced that should be properly indicated.


Recommendation:

The auditors recommend that the District implement procedures to ensure that no payments are made until all required documentation has been obtained and the payment packet has been properly prepared and reviewed. The auditors also recommend that the District consider reinstating the use of the pre-payment documentation review form.


Auditor:

Janeth Molina

Submitted by:


Daniel Sackner
Supervising Auditor

Approved by:


Steven Hoffmann
Director, State
Operated Audit Unit



PATERSON PUBLIC SCHOOLS

Preparing All Children for College and Career



Department of Purchasing

FOLLOWING THE LAW

Commitments made without an approved purchase order, via the telephone or in person lack the required approvals and certification of availability of funds. Therefore, a transaction without an approved purchase order excludes the District of any payment responsibility. Furthermore, changes to an issued purchase order without written approval shall void the purchase order and shall subject District employee to the same penalties for unauthorized purchases.

Any Paterson Public Schools employee who orders and receives goods and/or services without going through the proper purchase order process may be held responsible for payment of the order.

Authorized Purchases

All requests for purchases of materials, supplies, and services must be made through a signed and approved purchase order.

A purchase order pursuant to State Law N.J.S.A.18A:18A-2(v) is a document issued by the Purchasing Agent authorizing the work or service to be done, and/or the materials, and supplies to be delivered to our school district.

Penalties for Unauthorized Purchases

Any Paterson Public Schools employee who orders and/or receives any materials, supplies or services without first going through the approved purchase order process has made an unauthorized purchase.

Unauthorized purchases are a violation of State Law and District Policy.

Penalties listed below shall be assigned by the Superintendent of Schools for unauthorized purchases:

First Offense	Letter in Personnel File	Pay for Purchase
Second Offense	Suspension	Pay for Purchase
Third Offense	Loss of Increment	Pay for Purchase
Fourth Offense	Loss of Employment Tenure Charges	Pay for Purchase



NEW JERSEY DEPARTMENT OF EDUCATION
OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE
CORRECTIVE ACTION PLAN

SCHOOL DISTRICT NAME Paterson Public Schools COUNTY Passaic

TYPE OF EXAMINATION: Paterson Internal Audit Transportation Services 15-16 and 16-17

DATE OF BOARD MEETING: _____

CONTACT PERSON Lisa Vainieri-Marshall

TELEPHONE NUMBER 973-321-0795 FAX NUMBER 973-321-2408

RECOMMENDATION NUMBER	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>Finding 1: On a total of 61 occasions the District bypassed the purchase order process by issuing purchase orders after goods have been ordered or services rendered (confirming order).</p> <p>Recommendation: The auditors recommend that the District implements procedures to ensure that no payments are made until purchase orders are issued.</p>	<p>In order to expedite emergency quoted routes, we have placed an emergency button in Edumet to use when creating requisitions for quoted routes. This will expedite the approval process and send the requisition directly to the Business Administrator to approve the same day. All Purchase Orders will be created on or before the day the quoted route begins.</p> <p>Please note: These quotes are emergency routes and by law must be expedited. These routes are for DCP, Special Education, and displaced students. This finding should not be considered a confirming order because by law we are to transport the students and start the route within 10 days. Once a quoted route is awarded, it begins within a 1-2 day time frame.</p>	<p>When creating requisitions, the emergency button will be used to expedite the process and ensure Purchase Orders are created on or before the quoted route begins.</p>	<p>Lisa Vainieri-Marshall Chris Lewis Richard Matthews</p>	<p>February 2018 Process already in place</p>

Eileen Stoyer 3/14/18 Date
Chief School Administrator

Richard L. Matthews 3/14/18 Date
Board Secretary/Business Administrator

RECOMMENDATION NUMBER	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>Finding #2: Contracts are not being executed in a timely manner.</p> <p>Recommendation: The auditors recommend that the District implement procedures to expedite the review and signing of all contracts in a timely manner.</p>	<p>The transportation department has 30 days to get all contracts, along with board minutes, to the county and has been adhering to the timeline. The audit finding is that the county is not providing the district with the approved signed contract from the County Superintendent in a timely manner. There is no timeframe in NJ statute stating how long the county has to approve contracts. However, we will continue to work with the County to expedite the signing of the contracts and have them returned back to the district in a timely manner.</p>	<p>The transportation department will continue to meet the timelines.</p>	<p>Lisa Vainieri-Marshall Teresa Afonso James Smith</p>	<p>Complete</p>
<p>Finding #3: Expenditures that were charged to the incorrect ledger account.</p> <p>Recommendation: The auditors recommend that the District implement procedures to ensure that all expenditures are properly and consistently allocated. If a vendor invoice should be charged to several different general ledger accounts that should be clearly and accurately reflected on the purchase order. Also, the District should ensure that administrative fees are correctly charged.</p>	<p>The transportation department will create a process which includes all requisitions to be checked before submission to ensure invoices are charged to the correct account.</p> <p>However, please note that the 15-16 school year was outsourced to Essex Regional Educational Services Commission. These incorrect ledger accounts were created and overseen by the previous Business Administrator who approved all funds and payments for the 15-16 school year. For the 16-17 school year there was only 1 incorrect assignment to the ledger account, which was also overseen and approved by the previous Business Administrator.</p>	<p>Meet with staff to go over account lines in the budget and discuss process to ensure the requisitions are checked by more than one person.</p> <p>Team met and reviewed accounts and process.</p>	<p>Lisa Vainieri-Marshall Teresa Afonso</p>	<p>March 1, 2018</p>


Eileen J. Shaffer
 Chief School Administrator
 Date 3/14/18

Richard J. Matthews
 Board Secretary/Business Administrator
 Date 3/14/18

RECOMMENDATION NUMBER	CORRECTIVE ACTION	METHOD OF IMPLEMENTATION	INDIVIDUAL RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>Finding #4: The auditors noted deficiencies in the District payment packets.</p> <p>Recommendation: The auditors recommend that the District implement procedures to ensure that no payments are made until all required documentation has been obtained and the payment packet has been properly prepared and reviewed. The auditors also recommend that the District consider reinstating the use of the pre-payment documentation review form.</p>	<p>This finding is not a transportation department finding; however, we have met with Business Services to discuss this finding. The Business Services has met with the Internal Audit group and decided to reinstitute the Accounts Payable check list. As part of our check list, we will make sure all items have been checked off prior to payment. This procedure has been successful in the past and will ensure all required documents are completed prior to payments being rendered.</p>	<p>Business Services has a Word document with each respective area of payment verification being checked out before payment can go out.</p>	<p>June Gray, Comptroller/Assistant to the Business Administrator</p>	<p>March 2018 New procedure is already in place</p>


 Chief School Administrator

3/14/18
 Date


 Board Secretary/Business Administrator

3/14/18
 Date