

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

PATERSON INTERNAL AUDIT UNIT

CONSULTANTS REVIEW REPORT

JULY 2013 - JUNE 2015

JUNE 2016

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON CONSULTANTS REVIEW REPORT
JUNE 2016**

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Paterson Public Schools

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON CONSULTANTS REVIEW REPORT
JUNE 2016**

EXECUTIVE SUMMARY

The Paterson Internal Audit Unit has reviewed documentation provided by the Accounts Payable Department, Purchasing Department and other district departments responsible for initiating contracts to support a sample of disbursements pertaining to purchased professional and technical services made from July 2013 through June 2015. The review consisted of a sample of 170 payments totaling \$9,111,475.31 made to various vendors that were charged to the general ledger account for purchased professional and technical services. The purpose of the review was to determine if these expenditures were made in accordance with district policies and procedures, as well as state and federal regulations and to ensure vendor payments were made accurately, timely, and supported by adequate documentation including board approved contracts.

The scope of the review included detailed testing to determine whether or not:

- The payment packet contained all of the required information.
- The expenses were appropriate in nature.
- The expenses were charged to the correct account.
- Contracts were executed between the District and the vendors.
- The District adopted and followed applicable policies and procedures.

The Internal Audit Unit has completed its review and the following deficiencies were noted:

- Thirty-eight payments were confirming orders. Confirming Orders result when goods or services are provided to the district without a purchase order. State statute and District policy requires the issuance of a purchase order prior to receipt of goods or services.
- On numerous occasions, the District payment packets were missing required information. In addition, there were three instances where the district could not locate the payment packet.
- In one instance payment was made to a vendor on a FY 2014-2015 purchase order for work completed in FY 2013-2014.
- In two instances, contracts were awarded without request for quotations.
- The District was not in compliance with 18A:18A-40 for failure to execute a contract for a purchase in excess of the bid threshold amount.
- The District failed to maintain a current and updated listing of payments made for legal, consulting, and maintenance fees as required by 18A:19-15.

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FINDINGS AND RECOMMENDATIONS

Finding 1:

On 38 occasions the district bypassed the purchase order process by issuing purchase orders after goods had 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 170 payments, of which 38 (22 percent) were confirming orders. The dollar amount associated with these confirming orders is \$1,297,397.51. Included in the 38 confirming order payments were a contract with School Health Corporation to perform a once a year manufacturers recommended service inspection on District medical equipment, a contract with the New Jersey Superintendent's Study Council to provide administrative mentoring services, a contract with Leadership Innovations Inc. to provide coaching services and a contract with Resource Action Concepts, Inc. to provide professional coaching and training to the former School Business Administrator.

Recommendation:

The District must issue purchase orders to all vendors prior to goods or services being provided. The District has indicated on prior corrective action plans (CAP) that it would implement procedures to curtail confirming orders. The District is in the process of updating its purchasing manual and policies to outline the penalties for unauthorized purchases.

Finding 2:

On numerous occasions the District payment packets were missing required information

A "payment packet" is the District's supporting documentation for payments made to vendors. In prior years, the District included a "pre-payment documentation review form" signed by the preparer which indicated that the following items were included in the payment packet: a detailed original vendor invoice, a signed voucher copy of the purchase order (for purchase orders in excess of \$3,500), and that the goods or services

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have been marked as received in Alio (the district accounting software). This form is no longer being used. Currently, the procedures are as follows: when goods or services have been received, the person initiating the requisition or approving the purchase order records the goods or services as received in Alio. When accounts payable receives a vendor invoice it is entered for payment. The accounts payable staff then verifies that a proper voucher has been obtained, and runs various reports in Alio to ensure the invoice has been properly entered. Once the batch reports are reviewed and approved by the accounts payable supervisor the invoices are released for payment. The auditors noted the following deficiencies with the payment packets:

- The District could not provide invoices to support five payments totaling \$732,500 to the University of Pittsburgh.
- Five payments totaling \$273,909.15 were made where there was no voucher attached to the payment packet. A vendor invoice was only attached to the packet and payment was made without a physical copy of the voucher.
- Three instances where the District was unable to provide the payment packets. All three were from FY 2014-2015 and the payments totaled \$169,080.17.

Recommendation:

The auditors recommend that the District implement procedures to ensure that no payments are made until all required documentation has been obtained, properly prepared and reviewed. Management should review payment packets on a periodic basis to ensure that they include all of the required information and disciplinary action should be taken for non-compliance. When applicable, a properly executed voucher must be obtained from the vendor prior to a payment being made by the district. The checklist that had been used by the District required that evidence of a proper voucher be checked off and approved via a signature. The District should investigate incorporating that approval step within Alio. The District should obtain copies of the missing invoices from the University of Pittsburgh and provide a copy to the auditors for review.

Finding 3:

Payment was made to a vendor under a FY 2014-2015 purchase order for work performed in FY 2013-2014

The auditors noted that payment was made to a vendor (American Appraisal Associates Incorporated) in FY 2014-2015 for work performed in FY 2013-2014. The district failed to issue a purchase order before work was performed in FY 2013-2014. Accordingly, when the invoice was received in the following year, a purchase order was executed at that time. The total amount paid to the vendor was \$35,000.

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Recommendation:

Expenditures should be charged to the period in which they were incurred. Also, the department responsible for initiating payments should ensure that all the necessary documentation is properly secured in order to facilitate payment.

Finding 4:

A contract awarded to a vendor without request for quotations

N.J.S.A. 18A:18A-37 states that for all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, the purchasing agent shall award the contract after soliciting at least two competitive quotations, if practicable. The auditors noted that the District awarded a contract to a vendor (Resource Action Concepts Inc.) in both FY 2013-2014 and 2014-2015 without request for quotations from other vendors. The contract sum for the FY 2013-2014 was \$15,500 and \$21,500 for FY 2014-2015. During the review period the auditors noted that this expenditure was part of expenditures totaling approximately \$2.8 million for mentoring/coaching contracts. It should be noted that this \$2.8 million is just part of the audit sample and not the all-inclusive total spent on mentoring contracts. This expenditure pertains to the mentoring and/or coaching of current district employees, not students.

Recommendation:

The District must comply with N.J.S.A. 18A:18A-37 to ensure compliance with all applicable procurement rules and regulations. The auditors also recommend that the District scrutinize the use of mentoring contracts.

Finding 5:

The District was not in compliance with 18A:18A-40

N.J.S.A. 18A:18A-40 states that all contracts for the provision or performance of goods or services shall be in writing. The auditors noted one instance in FY 2013-2014 where there was no contract for an amount in excess of the bid threshold amount. The services provided were technical support by the Pearson Education Partnership in the amount of \$39,997.80.

Recommendation:

The District must comply with 18A:18A-40 and ensure that all contracts for the provision or performance of goods or services be in writing.

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Finding 6:

The District was not in compliance with 18A:19-15

N.J.S.A. 18A:19-15 states that each Board of Education shall maintain a current and updated listing of payments made for legal, consulting, and maintenance fees. The statute states "Each of these lists shall be available for public inspection...." The auditors requested a copy and the District was unable to produce a complete listing.

Recommendation:

The District must comply with 18A:19-15 by maintaining a current and updated listing of payments made for legal, consulting, and maintenance fees.

OBSERVATIONS:

Recently adopted regulations (EDGAR 2 C.F.R. Part 200) governing all federal grants, enacted effective July 1, 2015, include significant changes to the procurement process when using federal funds. The auditors recommend that the District review these changes and make any necessary updates to the policy and procedure manual.

District purchase orders contain a field labeled "contract #." The auditors noted that field is not always populated when applicable. Every purchase order for goods or services procured by a competitive process should have an entry in that field including either a valid PPS contract number, a state contract number, an RFP or RFQ number, or an 18A reference to a bid exception. The auditors recommend that the District populate that field whenever applicable.

The auditors noted during the review that it was a difficult process to locate contracts because not all contracts are secured in one location. All contracts issued through the Purchasing Department (ex. those with a PPS#) are located with the Purchasing Department; however, contracts initiated by other departments were maintained by the person who initiated the requisition for the goods or services. The auditors recommend that the District implement procedures to ensure that all vendor contracts be located in one centralized location within the District.

The auditors noticed during the review that a vendor (Allstate Information Management) has possession of District files and the District is currently paying a monthly rental fee of \$1,500.00 to the vendor. The auditors inquired about this expenditure and were informed that in 2007, a visit from the City of Paterson Fire Marshall required files/boxes deemed a fire hazard be moved. As a result, the Facilities Department procured the services of the vendor to store the files off-site. Per the Supervisor of the Purchasing Department and Central Stores Manager, the District has tried unsuccessfully to retrieve the files and cancel the contract. The auditor's review revealed that the vendor claims the District owes a fee which totals \$83,716.96 as of January 13, 2014. The District is paying a

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monthly rental fee of \$1,500.00 (\$18,000.00 annually) for a storage facility that the district is not using. The auditors recommend that if the District does not intend to use the storage facility, then it should seek legal advice on how to settle the outstanding balance and cancel the contract. This action can save the District \$18,000 annually.

As noted above in Finding number 2, invoices were missing for payments made to the University of Pittsburgh. As part of the review, auditors requested a copy of the contract with the vendor and noted that item number 18 on the contract, which deals with criminal background checks, states that the University of Pittsburgh shall certify under oath, that there is no criminal history record information on file which would disqualify any person from entering into this agreement. Per the contract "The University shall, in accordance with law, ensure that a criminal background check has been performed on all of its employees, agents, and representatives that will provide services under this Agreement. Before execution of this Agreement, the University will supply the district with proof of satisfaction of its obligations under this Article." The auditors requested this proof from the District and none was provided. The auditors recommend that the District obtain this information from the vendor and provide a copy to the auditors.

Auditor:


Michael Osei

Submitted by:



Daniel Sackner
Supervising Auditor

Approved by:



Steven Hoffmann
Coordinating Auditor

CORRECTIVE ACTION PLAN

Name of School: Paterson Public School
 Type of Audit: Paterson Internal Audit, Consultant Review Report
 Date of Board Meeting: August 31, 2016
 Contact Person: Daisy Ayala, School Business Administrator
 Telephone Number: 973-321-0772

County: Passaic

AUDIT FINDINGS AND RECOMMENDATIONS	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p><u>Consultants Review Report</u></p> <p>1. Finding: On 38 occasions the district bypassed the purchase order process by issuing purchase orders after goods had been ordered or services rendered (confirming order)</p> <p>Recommendations: The District must issue purchase orders to all vendors prior to goods or services being provided. The District has indicated on prior corrective action plans (CAP) that it would implement procedures to curtail confirming orders. The District is in the process of updating its purchasing manual and policies to outline the penalties for unauthorized purchases.</p>	<p>In order to prevent confirming order the District will enforce policy #6740 regarding non-compliance penalties</p>	<p>The Purchasing Dept. will train all Administrator and staff. A document of understanding will be provide for them to sign acknowledging receipt of the Purchasing manual and that they fully understand the penalties associated with non-compliance regarding procurement regulation and the district policy #6740.</p> <p>The Purchasing Dept. will maintain a list of non-compliance for reporting to the Fiscal Committee</p> <p>The Purchasing Dept. has modified bid packets and developed a letter for vendor regarding confirming order and the repercussion of non-compliance, which will result in nonpayment.</p>	<p>SBA Supervisor of Purchasing</p>	<p>Sept. 30, 2016</p>

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<p>2. Finding: On numerous occasions the District payment packets were missing required information</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, properly prepared and reviewed. Management should review payment packets on a periodic basis to ensure that they include all of the required information and disciplinary action should be taken for non-compliance. When applicable, a properly executed voucher must be obtained from the vendor prior to a payment being made by the district. The checklist that had been used by the district required that evidence of a proper voucher be checked off and approved via a signature. The District should investigate incorporating that approval step within alio. The District should obtain copies of the missing invoices from the University of Pittsburgh and provide a copy to the auditors for review.</p>	<p>The district will ensure that all payment packets are fully in compliance</p> <p>Once the Internal auditors gives the district a list of missing invoices the district will pull out the payment packets and if invoice(s) are missing the Supervisor of Accounts Payable will obtain a copy for our records as well as a copy to the Internal auditors.</p>	<p>Supervisor will periodically review payment packets to ensure that all required documents have been obtained before payments are generated.</p> <p>AP Staffs that are non-compliance will receive notice and indicated in their annual evaluation.</p>	<p>Supervisor of Accounts Payable</p>	

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<p>3. Finding: Payment was made to a vendor under a FY2014-15 purchase for work performed in FY2013-14</p> <p>Recommendation: Expenditures should be charge to the period in which they were incurred. Also, the department responsible for initiating payments should ensure that all the necessary documentation is properly secured in order to facilitate payment.</p>	<p>In order to prevent confirming order the District will enforce policy #6740 regarding non-compliance penalties</p>	<p>The Purchasing Dept. will provide the Administrator with a copy of his or her signed acknowledgement; where they acknowledged receipt of the Purchasing manual and an understanding of the penalties associated with non-compliance.</p> <p>The SBA will notify the appropriate Cabinet member to direct the staff to reimburse the district immediately.</p>	<p>Supervisor of Purchasing SBA Cabinet members</p>	
<p>4. Finding: A contract awarded to a vendor without request for quotations</p> <p>Recommendation: The District must comply with N.J.S.A. 18A:18A-37 to ensure compliance with all applicable procurement rules and regulations. The auditors also recommend that the District scrutinize the use of mentoring contracts.</p>	<p>This was a one-time occurrence by the former SBA, which the Purchasing Agent disagreed. Mentoring contracts should be reviewed carefully</p>	<p>All mentoring contracts should be accompanied with scope of work and data to support that there is a significant ROI and submitted to the Cabinet for discussion before submitting to the Board approval.</p>	<p>Cabinet members</p>	

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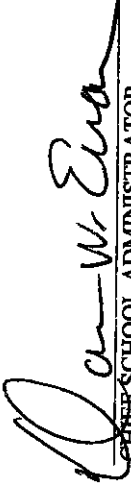
AUDIT FINDINGS AND RECOMMENDATIONS	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>5. Finding: The District was not in compliance with 18A:18A-40</p> <p>Recommendation: The District must comply with 18A:18A-40 and ensure that all contracts for the provision or performance of goods or services be in writing.</p>	<p>The district will ensure that any staff seeking services must obtain a contract number from the Purchasing Dept. to assure that contract has been review by Legal and the Purchasing Agent.</p>	<p>The Purchasing Dept. will institute a new procedure. Purchasing will develop a sequence of contract numbers, which will incorporate all state contract, RFP, quotes (3) and contract under the bidding threshold.</p> <p>Staff must indicate the number assigned by Purchasing in every board action.</p> <p>Cabinet level Administrator will not approve any board action without the contract number indicated on the board action.</p>	<p>Supervisor of Purchasing Cabinet members</p>	

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<p>6. Finding: The District was not in compliance with 18A:19-15</p> <p>Recommendation: The District must comply with 18A:19-15 by maintain a current and updated listing of payments made for legal, consulting and maintenance fees.</p>	<p>The district will ensure that the listing is readily available for review.</p>	<p>Edumet our current financial system has a payment standard report, which can be retrieved by categories addressing this issue. The Supervisor of Accounts Payable will be responsible for generating and providing this report to all auditors.</p>	<p>Supervisor of Accounts Payable</p>	


 CHIEF SCHOOL ADMINISTRATOR
 9/2/16
 DATE


 SCHOOL BUSINESS ADMINISTRATOR /DATE