

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

PATERSON INTERNAL AUDIT UNIT

FIXED ASSETS REVIEW REPORT

JULY 2014 - JUNE 2015

OCTOBER 2016

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON FIXED ASSETS REVIEW REPORT
OCTOBER 2016**

Distribution List of Final Review Report

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Paterson Public Schools

**NEW JERSEY DEPARTMENT OF EDUCATION
PATERSON FIXED ASSETS REVIEW REPORT
OCTOBER 2016**

EXECUTIVE SUMMARY

The Paterson Internal Audit Unit has conducted a review of the Paterson School District's (District) fixed asset purchases for FY 2014-2015. The purpose of the review was to verify that assets purchased were properly recorded in the general ledger and in the District's fixed asset schedule. In addition, the review was conducted to determine that assets purchased were properly tagged and purchases were approved by the Paterson Board of Education (board). The review consisted of a sample of 27 payments totaling \$1,091,125.83 made to various vendors that were charged to the general ledger account designated for equipment, instructional equipment and non-instructional equipment.

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

- Four instances of purchase orders with inconsistent account classifications;
- Purchase orders for the same item(s) charged to both a supply and an equipment account;
- Three confirming orders;
- Several assets with no visible tag numbers; and
- Incomplete information in the fixed asset inventory.

REVIEW SCOPE

The Internal Audit Unit reviewed fixed assets purchased by the District between July 2014 and June 2015.

The review consisted of a sample of 27 payments totaling \$1,091,125.83, which was 78 percent of the total expenditures for the fiscal year. The auditors reviewed purchase orders and the fixed assets register in order to determine that fixed assets purchased were properly recorded. In addition, the auditors traced items from the fixed assets register to the location indicated in the register to verify the accuracy and existence of the asset. The auditors also traced items from their location/tag number back to the fixed assets register to verify the accuracy of the schedule and to determine if assets were properly recorded. The auditors interviewed the person in charge of Central Stores to determine the adequacy and effectiveness of the procedures for receiving and tagging assets.

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

- The payment packet contained all of the required information;
- Assets were in existence;
- Assets were properly recorded;
- Assets were tagged accordingly with the district property tag; and
- The asset purchase was board approved.

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The remainder of this report details the auditor's findings.

FINDINGS AND RECOMMENDATIONS

1. The auditors noted four instances of purchase orders with incorrect account classifications.

All assets purchased by the district should be properly recorded and classified consistent with The Uniform Minimum Chart of Accounts for New Jersey Public Schools. An item with a cost of less than \$2,000 should be considered a supply; and an item in excess of \$2,000 should be considered equipment. It is important to note that all ancillary costs including installation charges be considered when calculating the unit price. The auditors noted on several occasions that equipment purchased with a unit cost in excess of \$2,000 did not equal the total amount charged to the fixed asset account on the purchase orders. For example, PO# 1408255 (Attachment A) totaled \$83,242.32. Items with a unit cost in excess of \$2,000 totaled \$48,556.56; however, the PO indicated that \$44,430.60 was charged to a fixed asset account. The auditors could not determine the methodology used to classify the items and the District was unable to clarify the discrepancy.

Recommendation

The auditors recommend that the District implement procedures to ensure that assets are properly classified consistent with the guidelines in The Uniform Minimum Chart of Accounts. Also, District employees responsible for preparing requisitions and purchase orders should keep adequate records to support the amounts charged to different general ledger accounts. Items must be consistently charged correctly in both the general ledger and fixed asset schedule.

2. The auditors noted purchase orders for the same item(s) charged to both a supply and an equipment account.

PO# 1506195 had a line item identified as a services license in the amount of \$5,697.15 that is appropriately charged to a supply account. The same line item on PO# 1506194 for the same item and amount is charged to an equipment account.

Recommendation

The auditors recommend that the District implement procedures to ensure that assets are properly classified consistent with the guidelines in The Uniform Minimum Chart of Accounts. Items must be consistently recorded correctly in both the general ledger and fixed asset schedule.

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3. **On three occasions the District failed to issue a purchase order prior to goods being purchased or services being 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. District policy and state regulations require that a properly executed purchase order be issued 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 noted three payments that were confirming orders. The dollar amount associated with these confirming orders was \$135,508.95, 13 percent of the sample total. The three confirming order payments pertained to the purchase of computer network related devices from Presidio Network Solution. The items purchased were shipped prior to issuing the purchase orders.

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 District is in the process of updating its purchasing manual and policies to outline the penalties for unauthorized purchases.

4. **The auditors noted several fixed assets with no visible tag numbers.**

The standard operating procedures on fixed assets adopted by the District states that all assets purchased by the District should be tagged by labeling the item with an identifying barcode and also with the name "Paterson Public Schools." The auditors inspected a sample of computer network devices purchased by the District during FY 2014-2015 and noted that several of the items did not have the standard tag numbers on them. These items were inspected at School 24 and the New Roberto Clemente School. Assets with visible tag numbers will ensure easy asset tracking and identification.

Recommendation

The auditors recommend that the District implement measures to ensure that all fixed assets purchased are properly tagged.

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5. Information in the District's fixed asset inventory is incomplete.


The auditors generated a report from Edumet (fixed assets database report) to trace assets in the database back to the location on record to verify that the information is correct. Auditors noted that the location, department, and room number is not always populated.

Recommendation


The auditors recommend that when a fixed asset is added to the District database that all information regarding the physical location is properly entered.

**Auditor:
Michael Osei**

Submitted by:


**Daniel Sackner
Supervising Auditor**

Approved by:


**Steven Hoffmann
Coordinating Auditor**



PURCHASE ORDER

Paterson Public Schools

Division of Business Services
Department of Purchasing
80 Delaware Ave
Paterson NJ 07602

THE PURCHASE ORDER NO. MUST
APPEAR ON ALL INVOICES, PACKING
COMPARISON

PO# 1408255

PO DATE	08/27/14
REQ#	00048864
PAGE	1

VENDOR	78882
DELL MARKETING LP. ONE DELL WAY ROUND ROCK TX 78682	

SHIP TO	
Office Of Central Storage Office Of Central Storage 172-200 Sheridan Ave Paterson NJ 07602	

CONTRACT# 7888

EMAIL	NPA_NE_ORDERING@dell.com	CONTACT	DEPT OF TECH
PHONE	(908) 77-3388	CONTACT PHONE	(908) 21-0000
FAX	(908) 21-0000	AUTHORIZED BY	Network Technology Management

SPECIAL INSTRUCTIONS:
KENNETH SUMNER FOR DOT VM WARE

QTY	UOM	DESCRIPTION	UNIT PRICE	TOTAL
1	EA	QUOTE #688891560		
24	EA	A5405064 VIA VMWARE VCHENTER SVR 5 STD VMWARE5 INSTANCE	2,510.95	2,510.95
	EA	A5415118 VIA VMWARE VCHENTER 5 ENT 1 PROC 64GBVRAM ENTITLE PROC	1,445.24	34,585.76
1	EA	A5415120 VIA VMWARE PROD SOP/SUB VCHENTERSVR 5 STD VMWARE 5	3,107.93	3,107.93
1	EA	A6342399 VIA VMWARE PROD SOP/SUB VMWARE5 ENT 1 PROC 3 YR	42,937.60	42,937.60
1	EA	A3458532 ELECTRONIC LICENSE CONFIRMATION	0.00	0.00
		Freight		0.00
		Total		83,242.32

For Paterson Public Schools use only				
		14-11-000-252-506-543-000-0000-000	38811.72	
		14-12-000-252-730-543-000-0000-000	44430.60	

*******INVOICES MUST ITEMIZE ALL CLAIMS BY COMPONENT PRICING*******

The vendor will honor all of the terms and pricing stated on this purchase order. Any term or pricing that is inconsistent with a contract between the Board of Education and the vendor the terms of pricing policies of the vendor is the responsibility of the vendor. The maximum obligation of the Paterson Board of Education to the vendor for the cost of goods and the delivery of or the performance of services to the district will not exceed the amounts included on this purchase order.

CONTRACTOR'S SIGNATURE AND DECLARATION
I do hereby declare and certify under penalties of perjury that the above bill is correct in all its particulars; that the contractor has been licensed or otherwise authorized as stated therein; that no money has been given or received by any person or persons within the knowledge of this contractor in connection with the above claim; that no amount should be paid to the contractor until the bill is approved by the Board of Education; that the contractor will accept the terms and conditions of the purchase order and will not be held responsible for any errors or omissions on the part of the contractor.

VENDOR COMPLETE CERTIFICATION AND RETURN WITH INVOICE FOR ATTACHMENT A


[Handwritten Signature]
DATE: 8/27/14

CORRECTIVE ACTION PLAN

Name of School: Paterson Public School
 Type of Audit: Fixed Assets
 Date of Board Meeting: November 16, 2016
 Contact Person: Daisy Ayala, School Business Administrator
 Telephone Number: 973-321-0772

County: Passaic

AUDIT FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>1. Finding: The auditors noted four instances of purchase orders with incorrect account classifications</p> <p>Recommendation: Any employees responsible for preparing requisitions and purchase orders should ensure that proper account codes are utilized in accordance with their designated budget and all requisitions are properly coded by function. Any item with a cost of less than \$2,000 should be considered a supply; and any item in excess of \$2,000 should be included in fixed asset module.</p> <p>2. Finding: The auditors noted purchase orders for the same item(s) charged to both a supply and an equipment account.</p> <p>Recommendation: Any employees responsible for preparing requisitions and purchase orders should be consistent proper account codes are utilized in accordance with their designated budget and all requisitions are properly coded by function. Any item with a cost of less than \$2,000 should be considered a supply; and any item in excess of \$2,000 should be included in fixed asset module.</p> <p>3. Finding: On three occasions the District failed to issue a purchase order prior to goods being purchased or services being rendered (confirming order)</p> <p>Recommendation: District will update purchasing manual and policies to enforce penalties for unauthorized purchases.</p>	<p>The initiator of requisition will ensure proper account coding according to Uniform Minimum Chart of Accounts and in accordance with their prospective budget plan.</p> <p>This is the same as item #1</p> <p>The district has revised the purchasing policy to include penalties for confirming orders</p>	<p>During the budget process the SBA will disburse a copy of the Chart of Account to all Cabinet members, Principals, Directors and Supervisors.</p> <p>Requisitions will not be approved by the SBA if the coding is incorrect.</p> <p>District will post the Uniform Chart of Accounts of NJ on the District Accounting Dept. website for easy access.</p> <p>During the budget process the SBA will disburse a copy of the Chart of Account to all Cabinet members, Principals, Directors and Supervisors.</p> <p>Requisitions will not be approved by the SBA if the coding is incorrect.</p> <p>The District will maintain a list of employees that are responsible for unauthorized purchases and penalty as outlined in the District policy for Purchasing. The confirming order list will be provided to the Cabinet member on a quarterly basis.</p>	<p>SBA</p> <p>SBA</p> <p>Accounting Manager/SBA</p> <p>SBA</p> <p>SBA</p> <p>Purchasing Supervisor/SBA</p>	<p>Dec. 1. 2016</p>

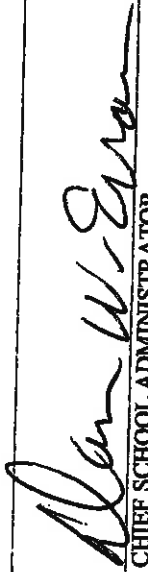

 ALAN W. SWAN 12/13/16
 CHIEF SCHOOL ADMINISTRATOR DATE


 SCHOOL BUSINESS ADMINISTRATOR /DATE

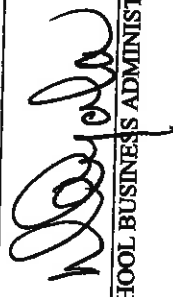
CORRECTIVE ACTION PLAN

Name of School: Paterson Public School
 Type of Audit: Fixed Assets
 Date of Board Meeting: November 16, 2016
 Contact Person: Daisy Ayala, School Business Administrator
 Telephone Number: 973-321-0772
 County: Passaic

AUDIT FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>4. Finding: The auditors noted several fixed assets with no visible tab.</p> <p>Recommendation: The District will make every effort to tag items in a conspicuous location that will be visible if installation and/or assembly is required.</p>	<p>District will make the tag visible for any auditing purpose</p>	<p>Central Stores will tag fixed assets in a conspicuous location on all equipment which will be visible for auditors to review.</p>	<p>Manager of Central Stores/ Purchasing Supervisor</p>	
<p>5. Finding: Information in the District's fixed asset inventory is incomplete.</p> <p>Recommendation: All data pertaining to fixed assets will be properly noted in the database to accurately trace assets. The location, department, room number will be utilized.</p>	<p>District will maintain an accurate data base, which will include the department, location and room number if deemed necessary for easy location of all fixed assets.</p>	<p>Central Stores will ensure that Edumet fix assets module is accurate with information pertaining to fixed assets to include location, department and or room number.</p> <p>Accounting will conduct a reconciliation and run a quarterly fix assets report in Edumet to ensure that POs are properly coded and included in the Fix Assets module with the location for every item.</p>	<p>Manager of Central Stores Purchasing Supervisor</p> <p>Accounting Manager</p>	


 CHIEF SCHOOL ADMINISTRATOR

12/13/16
 DATE


 SCHOOL BUSINESS ADMINISTRATOR /DATE

CORRECTIVE ACTION PLAN

Name of School: Paterson Public School
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AUDIT FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>Recommended Actions</p> <p>The auditors recommend:</p> <ul style="list-style-type: none"> • District implement procedures to ensure that assets are properly classified consistent with the guidelines in the Uniform Chart of Accounts. Also, District employees responsible for preparing requisitions and purchase orders should keep adequate records to support the amounts charged to different general ledger accounts. Items must be consistently charged correctly in both the general ledger and fixed asset module. • District implement procedures to ensure that assets are properly classified consistent with the guidelines in the Uniform Chart of Accounts. Items must be consistently recorded correctly in both the general ledger and fixed asset schedule. • District implement 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 District is in the process of updating its purchasing manual and policies to outline the penalties for unauthorized purchases. • District implement measures to ensure that all fixed assets purchased are properly tagged. • Auditors recommend that when a fixed asset is added to the District database that all information regarding the physical location is properly entered. 	<p>Already address above</p>			

[Signature]
 CHIEF SCHOOL ADMINISTRATOR

12/13/16
 DATE

[Signature]
 SCHOOL BUSINESS ADMINISTRATOR /DATE