

**STATE OF NEW JERSEY**  
**DEPARTMENT OF EDUCATION**

**PATERSON INTERNAL AUDIT UNIT**

**PURCHASING AUDIT**

**2009-2010 FISCAL YEAR**

**JANUARY 2011**

NEW JERSEY DEPARTMENT OF EDUCATION  
PATERSON INTERNAL AUDIT UNIT  
PURCHASING AUDIT  
JANUARY 2011

Distribution List of Final Audit Report

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New Jersey Department of Education

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Paterson Public Schools

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Office of Fiscal Accountability and Compliance  
New Jersey Department of Education

Steven C. Hoffmann, Coordinating Auditor  
New Jersey Department of Education

Daniel Sackner, Supervising Internal Auditor  
Paterson Public Schools

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**EXECUTIVE SUMMARY**

The Paterson Internal Audit Unit has conducted an audit of the district purchasing function in order to determine the adequacy of procedures and controls over the purchasing process as well as compliance with all applicable procurement regulations and procedures. The audit consisted of a review of a sample of purchases made throughout the 2009-2010 fiscal year.

The audit included a review of all applicable documentation including bid files, payment packages, and applicable regulations and procedures. Interviews and discussions were conducted with the Supervisor of Purchasing and staff of the purchasing department in an effort to gain a full understanding of the purchasing process.

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

- The district issued payment for services provided outside the scope of the contract.
- Required documentation supporting the payment of claims was not always obtained.
- A clerical error resulted in two bids with the same bid number and one bid improperly advertised; in violation of N.J.S.A. 18A:18A-21.
- The auditors noted a delay in the approval process for several requisitions.

The remainder of the report details our findings.

**BACKGROUND**

The Purchasing Department consists of a total of seven employees. Currently there is one vacant purchasing agent position. The Department includes a supervisor, two purchasing specialists, a purchasing analyst, a senior purchasing analyst, senior purchasing agent, and a purchasing agent. The supervisor reports to the Business Administrator. When procurement services in the form of a bid are required, they are assigned to Purchasing Department staff based on workload. If a contract is due for re-bid or renewal, it may or may not be assigned to the same person who handled the original bid. When goods or services are required, a requisition is created in the district database. Once the requisition has been verified and approved, the requisition becomes a purchase order, at which time the vendor can provide the goods or services.

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

- Purchases are made in accordance with federal regulations and New Jersey Public School Contract Law (PSCL).
- Procurements were made in accordance with district policy.
- Payments were made in accordance with the terms of the contract(s).
- The purchasing process from requisition to purchase order was completed in a timely manner.
- The purchase order was issued prior to the procurement of goods or services.
- The contract file(s) contained all pertinent information.

Below is a summary of our findings:

**DETAILED FINDINGS**

The Paterson Internal Audit Unit selected 96 requisitions totaling \$72,182,302.79 from the 2009-2010 fiscal year for review.

**1. The district issued payment for services provided outside the scope of a state contract.**

Purchase Order #1003900 in the amount of \$20,831.07 was created on October 6, 2009 for Carousel Industries. The purchase order was for security cameras at East Side High School. The purchase order referenced state contract number T-1316 Telecommunications Equipment – Wired. According to the specifications on the state website, the services provided under this purchase order do not fall under the five categories listed under the state contract.

**Recommendation**

The auditors recommend that all purchases made under state contracts are verified by appropriate district personnel to ensure that the goods or services requested are within the scope of the contract(s). If the item being purchased is not under contract it should be purchased in accordance with the requirements of PSCL.

**2. Required documentation supporting the payment of claims was not always obtained.**

As part of the audit process, auditors reviewed a sample of payments made against the purchase orders. A “payment packet” is the district’s supporting documentation for payments made to vendors. It should include the voucher copy of the purchase order with the vendor’s signature, a receiver copy of the purchase order with the originator’s signature, an original vendor invoice, a copy of the check, and a payment approval checklist signed and approved by the Accounts Payable Supervisor and the

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District Comptroller. The auditors noted the following while reviewing the payment packets:

- Twenty five – 11% of receiving reports required in support of invoices audited in the sample were blanket copies and not specific to the invoice being paid. This is a violation of N.J.S.A. 18A:19-2.
- Twelve – 5% of the vouchers were blanket vouchers and not specific to the invoice being paid. This is a violation of N.J.S.A. 18A:19-3.

By failing to adhere to the receiving report requirements, the district is issuing payments without proper evidence of goods and services being received.

**Recommendation:**

The auditors recommend that the district ensures that no payment for goods or services is issued without a properly prepared, signed, and dated receiving report, which should be dated subsequent to the goods or services being received. In addition, the district should not employ blanket receiving reports in support of partial shipments or any partial services rendered. The report should clearly indicate when any goods or services are not received, and payments should not be issued in full until the goods and/or services are confirmed as received by the district. It should be noted that this is a repeat finding. In the district's corrective action plan, dated February 28, 2007, in response to the "2005 Calendar Year Accounts Payable" audit, the district stated "The District will not process payments unless the receipt copy indicates the orders is complete". The auditors recommend that the district complies with the previously agreed to corrective action plan. The auditors also recommend that the district complies with N.J.S.A. 18A:19-3 and ensures that a properly prepared, signed and dated voucher is obtained prior to the payment of vendor invoices. The auditors recommend that the district discontinues the use of blanket payment vouchers. All vouchers should clearly describe the goods and services provided along with the specific dollar amount due under each invoice.

**3. A clerical error resulted in two bids with the same bid number and one bid improperly advertised; in violation of N.J.S.A. 18A:18A-21.**

When goods or services are requested that require a bid, they are assigned a sequential bid number based upon the type of services requested. The auditors noted that PPS 275-10 was inadvertently assigned to two different bid files; one for Gate Installation and Repair and one for Environmental & Remedial Services (a re-bid). Upon further inspection of the bid files the auditors noted that the required bid advertisement for the Gate Installation and Repair that was published in the newspaper incorrectly referenced the Environmental & Remedial Services bid title. The bid number in the advertisement was correct, but the bid title was incorrect.

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**Recommendation:**

The Purchasing Supervisor has informed the auditors that after bringing this error to his attention, the district has implemented the following: "To prevent duplication of bid and RFP numbers, the Purchasing Department took the corrective action of centralizing the numbering system in a shared drive so that all employees pull from the **same** bank of numbers. When a new number is sought, the list reveals to all whether the number is already taken or not".

**OBSERVATION**

**1. The auditors noted a delay in the approval process for several requisitions.**

Before a requisition becomes a purchase order, it must be approved by the site administrator, assistant superintendent and/or director, and the business office. Of the 96 requisitions in the audit sample, the auditors noted that 11 requisitions took more than one month to become an approved purchase order. Upon review, the delay for three of the 11 occurred during the summer months due to the employee responsible for approving the requisition being on vacation. For others, the reason for the delay was more complex. Requisitions are sometimes entered with the expectation that the goods or services will be needed in the coming months. As the need approaches, the originator approves the requisition and starts the approval process. Two of the remaining eight purchase orders would fall in this category. Other reasons for delays included requisitions entered in advance of executed contracts and requisitions entered prior to board approval.

**Recommendation:**

The auditors recommend that the district closely monitor the requisition approval process to avoid future delays. At the request of the auditors, the technology department has created a report in Edumet that management can use to monitor the dates coinciding to every step in the approval process. In addition, the district should explore implementing a contingency for approving the requisition in the case of an employee's extended absence. This contingency should include a procedure that would assign responsibility for approving the requisition.

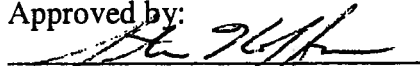
**Auditors:** Rashmi Rawtani  
Patricia Sewak

Submitted by:

  
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Dan Sackner  
Supervising Internal Auditor  
Paterson Public Schools

Approved by:

  
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Steven C. Hoffmann  
Coordinating Auditor  
New Jersey Department of Education

**CORRECTIVE ACTION PLAN**

Name of School: **Paterson Public School** County: **Passaic**  
 Type of Audit: **Purchasing Audit 2009-2010**  
 Date of Board Meeting: **February 16, 2011**  
 Contact Person: **Joseph AmatuZZi/David Renderknecht, Co-Interim Business Administrators**  
 Telephone Number: **973-321-0703/973-321-0701**

FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
1) The district issued payment for services outside the scope of the state contract.  All purchases made under state contract be verified by appropriate District personnel.	In review of purchase requisitions, Purchasing department will check for state contract compliance.	During review of requisitions in the Edumet System, items not under state contract will be purchased by other means.	Supervisor of Purchasing	February 1, 2011

*Don W. Zuer*  
 CHIEF SCHOOL ADMINISTRATOR

2/18/11  
 DATE

*Joseph R. AmatuZZi* 2/18/11  
 SCHOOL BUSINESS ADMINISTRATOR / DATE

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<p>2) Required documentation supporting the payment of claims was not always obtained.</p> <p>Auditors recommend that the district ensure that no payments for goods or services are made without properly prepared, signed and dated receiving report and that, in compliance with 18A:19-3, such is obtained prior to payment of vendor invoices and no blanket orders are used.</p>	<p>District will ensure that no payment for goods or services is issued without properly prepared, signed and dated receiving reports which will be dated subsequent to the goods and/or services being received.</p>	<p>Supervisor of Accounts Payable will monitor payment packets to ensure that payments are issued only after a receipt copy indicates that the order is complete. Procedures state that all vendors submit a voucher with all invoices. If no voucher is received, A/P staff stamps "claimants signature and declaration" on a substitute copy of the purchase order for signature. To ensure timely receipt, A/P does accept emailed signatures on the voucher. Currently the A/P department instructs initiator to indicate which items have or have not been received. Effective 02/07/11 the department has created a reference guide that will be posted on the District website.</p>	<p>Accounting Manager/Supervisor of Accounts Payable</p>	<p>February 7, 2011</p>

*Sam W. Egan*  
 CHIEF SCHOOL ADMINISTRATOR

2/24/11  
 DATE

*Joseph R. AmatuZZi* 2/18/11  
 SCHOOL BUSINESS ADMINISTRATOR / DATE



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FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
<p>3) Clerical error resulted in two bids having the same bid number, one being advertised with the wrong number.</p> <p>Bids should all have different numbers for clear identification and advertisement.</p>	<p>All bids will be assigned separate numbers to give distinct identities.</p>	<p>To prevent duplication of bid and RFP numbers, the Purchasing Department took the corrective action of centralizing the numbering system in a shared drive so that all employees pull from the same bank of numbers.</p>	<p>Supervisor of Purchasing</p>	<p>January 1, 2011</p>

*Don W. Egan*  
 CHIEF SCHOOL ADMINISTRATOR

**2/24/11**  
 DATE

*Joseph R. AmatuZZi*  
 SCHOOL BUSINESS ADMINISTRATOR **2/8/11**  
 DATE

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FINDINGS AND RECOMMENDATION	CORRECTIVE ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
4) *OBSERVATION* Auditors noted a delay in the approval process for several requisitions.  Requisitions should be closely monitored to avoid future delays.	A report should be developed to list outstanding purchase orders with dates coinciding with every step of the approval process.	Technology will develop a report to provide information to be reviewed by management for requisitions that are remaining in the system for lengthy periods of time. Building administrators will review requisitions for their location in a timely and regular manner.	Director of Technology/Building Administrator	March 1, 2011

*Don W. Egan*  
 CHIEF SCHOOL ADMINISTRATOR  
 DATE **2/24/11**

*Joseph Amatuzy*  
 SCHOOL BUSINESS ADMINISTRATOR  
 DATE **2/18/11**