

URBAN SCHOOLS SUPERINTENDENTS OF NEW JERSEY

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Lucille E. Davy, Commissioner of Education
New Jersey State Department of Education
100 River View Plaza
PO Box 500
Trenton, New Jersey 08625

Dear Commissioner Davy:

As President of the **Urban Schools Superintendents of New Jersey (USSNJ)**, I am writing to share the experiences of our Abbott District members regarding the forensic audits now being performed by the accounting firm of KPMG, under contract with the New Jersey Department of Education (DOE). In particular, I want to discuss the concerns our Abbott members have regarding the overall audit process, and make recommendations as to how these audits can be handled more effectively and the results reported more accurately.

In reviewing the audits that have already been completed in Camden, Newark, Paterson, and Jersey City, we have found the overall spirit of the audits, as well as the approach taken by the DOE in completing and reporting on the audit results, to be needlessly adversarial. It also appears that the DOE is more interested in embarrassing the districts involved -- and negatively influencing public opinion regarding urban education in New Jersey -- than in providing leadership and guidance in assisting the districts maintain a high level of fiscal responsibility.

In order to ensure that the audits of the remaining twenty-seven Abbott districts proceed in a more positive manner, we offer the following comments and recommendations.

First, it is essential that the DOE and KPMG work collaboratively and in partnership with the school districts being audited. In order to ensure this happens, we would recommend that a small leadership group of Abbott superintendents and DOE and KPMG officials discuss weekly, by conference call, the status and progress of the audits and any concerns that may arise as the auditing process moves forward. A line of ongoing communication is absolutely critical to ensure that both the auditing process and the final audits provide solid assistance to districts in improving fiscal operations.

Second, the audits must not only point out weaknesses, but also recognize strengths and significant steps that many districts have already taken to improve overall fiscal management, to implement various internal controls, and to appropriate funds with the needs of their students always foremost in mind. Quite frankly, the first four Abbott audits presented an entirely one-sided, unfair, and unbalanced picture of the districts' fiscal operations.

Third, the audit results must be developed and presented as a means by which to provide a constructive platform for districts to improve, and not as a tool to make political or public relations points. Our members understand that audits are done to identify possible issues and concerns. Each is willing to listen, to learn, and to make changes for the better based on the auditors' findings.

Fourth, the KPMG employees performing the auditing work must be properly trained and better prepared to review school district records. To date, district administrators have had to spend countless hours providing KPMG employees with basic information regarding such things as GAAP, state education mandates, and Board of Education regulations, fiscal policies, etc. Our members are finding that a majority of KPMG staff are unfamiliar with the school districts, with urban education, and with the programs, staff, and strategies necessary to serve Abbott district students.

Fifth, and very important, KPMG must be instructed to follow accepted and required federal standards and guidelines developed for audits dealing with government entities. In particular, this includes the manner in which the auditors handle so-called "questionable expenses." In the first four audits, the DOE instructed KPMG not to follow standard procedures that require an auditor to give a district the opportunity to clear up any questions about expenses before the audit is completed. Instead, the auditors did not allow for this opportunity and simply listed expenses as "questionable" in the final audits released to the public, a practice inconsistent with standard accounting procedures.

This improper practice has been extremely harmful to our districts. For example, in Camden, KPMG reported payments to deceased employees as a questionable expense when, in fact, these payments were entirely proper when the issue was further investigated. Even now, legislators and members of the public accuse Camden and, by inference, all Abbott districts, of having paid "dead people" when in fact this was not the case. This type of practice by the DOE and its auditors not only conflicts with standards for audits, but also does irreparable damage to our districts, schools and students.

Accordingly, we strongly recommend that whenever KPMG identifies any questionable expenses during the auditing process, a meeting be promptly held with district staff to present the issue and give the district the opportunity to conduct further investigation.. If the matter is cleared up, it should not appear in the final audit. It is simply inconsistent with standard accounting procedures to include "questionable" expenses in a final audit, leaving the districts to provide a written explanation that only gets "attached" to the audit when publicly released. We are, quite frankly, astounded that KPMG would even consider following this improper practice.

Further, we recommend that the written explanations that the districts are allowed to provide regarding disallowed or improper expenses be incorporated into the actual audit reports and disseminated as such and not handled as just attachments.

Lastly, it is imperative that an exit conference is conducted **prior** to the final report's completion and dissemination to the public. With the first four audits, DOE officials "leaked" an advance

copy of the final KPMG audit to select news reporters before the districts were given a copy. This conduct is intolerable. An exit conference is standard practice in any audit situation. At this conference, district staff would be given the opportunity to provide whatever documentation or clarification is available to demonstrate that a questioned expenditure is actually legitimate and necessary.

In sum, we welcome the opportunity to meet with Departmental officials and the auditors to discuss the concerns outlined in this letter.

It is our intent that the State Department of Education and the Abbott Districts work together to make the current audit process one that is worthy of the time and money expended, a process in which both State and local officials do whatever is necessary to ensure the accuracy of each report issued and, most importantly, make any changes or corrections necessary in order to guarantee the proper use of public funds in our schools.

Thank you for your attention to this matter and we look forward to your reply.

Sincerely,

/s/ Mary T. Stansky

Mary T. Stansky, President
Urban Schools Superintendents of New Jersey (USSNJ)

cc: Abbott District Superintendents
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Heather Howard, Governor's Policy Director
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