



STATE OF NEW JERSEY

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June 2, 1993

Mary Lee Fitzgerald
Commissioner
Department of Education
CN 500
Trenton, NJ 08625-0500

Dear Commissioner Fitzgerald:

During the course of a broader investigation of the City of Passaic in 1991, this Commission received allegations of improprieties in the operation of the print shop at Passaic High School. The Commission has verified those allegations, finding that Lawrence Mayo, head of the school's Industrial Arts Department, used the print shop to conduct a commercial printing operation for personal gain. Not only did he use the print shop equipment but also the school's paper, ink and other supplies, as well as the labor of students and salaried teachers.

The Passaic High School print shop operates as both an educational and industrial facility within the school district. The shop is a modern, well equipped operation where students are taught printing skills through classroom instruction and practical training. The curriculum also includes a work-study program in which students are paid while getting on-the-job experience printing materials such as memo forms, passes, report cards, medical forms and other documents used in all the schools in the district.

As overseer of the print shop, Mayo is solely responsible for ordering supplies, procuring equipment, scheduling and assigning work to the students. Although printing is a structured course in the high school's curriculum, the print shop operates year-round including hours after school, on weekends and holidays, and during summer vacations. Teachers who work in the print shop outside normal school hours are compensated at rates ranging from \$19 to \$21 per hour. As a result, some faculty members working in the

print shop have earned substantial overtime pay. Between 1986 and November 30, 1990, total print shop operational overtime was \$331,687. During the 1990-91 school year Lawrence Mayo's earnings exceeded \$85,000 and Wayne Molesan, another industrial arts teacher, earned almost \$73,000, with about 27 percent of each total attributed to overtime. A third industrial arts teacher, Joseph Drobik, earned \$5,000 in overtime during the same year. Mayo scheduled and approved all teacher overtime, including his own.

From time to time, especially during preparation of the annual budget, some Passaic School Board members expressed concern about escalating print shop costs. Excerpts from board minutes show, for instance, that during its March 15, 1988 meeting, board members questioned the salaries for printing and publishing and discussed the relative economics of in-house printing versus use of a commercial operation. But then-Board Secretary and Business Administrator Samuel G. Jarquesy defended shop costs by invoking the educational objective that "children are learning how to operate the equipment." A year later, during the Board's March 8, 1989 meeting, increases in printing and publication costs again were questioned. Then-Board President Vincent Capuana stated that it was much better for the system to do its own printing, a position reiterated by Superintendent Beryl Zankel during an April 18, 1989 meeting when board member Herbert Sorkin raised the possibility of cutting overtime in the print shop to help alleviate budget shortfalls. Without citing the basis of her conclusion, Zankel stated that "we save a great deal of money by having our print shop take care of the entire school system."

Although the print shop was regularly praised by the members of the Board, not only as a educational facility but also as a cost saving alternative to the high cost of commercial printing, how they came to such a conclusion is a mystery to this Commission. No cost comparisons were ever made and neither the financial records of the school district nor the operational records of the print shop are kept in a fashion that would lend themselves to conducting such a comparative analysis. Another mystery is how the Board concluded that the print shop was an efficient facility. In fact, while the Passaic School District's printing work, all of which was planned and predictable, was often backlogged for as long as two weeks, Mayo's commercial customers had no such problems. Certainly, one factor Board members did not consider as they debated the budget and the merits of the print shop was that Mayo was also running a commercial operation which served several businesses in the Passaic area, using school facilities, equipment and supplies as well as school-financed labor. The labor included janitors who had to work on weekends to allow Mayo access to the print shop to conduct his commercial work. Nevertheless, Mayo still billed his customers for janitorial services.

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Union Photo, a Hackensack wholesale photo finisher, used the services of Mayo and his high school print shop operation, paying him \$19,260.66 between January 8, 1986 and July 24, 1987. Union Photo's marketing base is supermarkets, department stores, drug stores, corner grocery stores and the like. Film processing envelopes are made available to customers at these various drop-off points. The envelopes were printed at the Passaic High School print shop.

John A. Sanders, who had been hired by Union Photo to develop its graphic arts department, found Mayo early in 1986 through an associate. Sanders, who was compelled by the Commission, under a grant of immunity, to testify about his dealings with Mayo, said he had been looking on behalf of Union Photo for an inexpensive alternative to commercial printing. Sanders described his impression of the high school's printing facility:

You would have to see the facility to believe it. It rivaled -- the amount of grant money that Passaic has been able to get for being an under-privileged area gave him some enormously expensive equipment. I never saw such nice equipment in my life. It was perfect.... He had better equipment than most commercial shops.

Mayo operated his commercial enterprise under a fictitious corporate name, Ramapo Graphics. As Sanders explained, Union Photo was not going to pay just anyone. It needed an invoice for its records, so Mayo created a Ramapo Graphics invoice which had no address, no telephone number and no post office box. Union Photo accepted Mayo's invoices, however incomplete, because it served the company's purpose to do so -- printing work done at the price it wanted.

In late 1986, Wayne Molesan, an industrial arts teacher who worked in the print shop, started his own printing business outside the high school. Molesan, along with print shop employee Jose Cabreja and John Sanders of Union Photo, formed Trinity Industrial Graphics, Inc., of Elmwood Park. As a result of Sanders joining with Molesan, Trinity took the Union Photo account from Mayo.

Mayo then found a new customer -- Gold Cleaners and Launderers, Inc., of Passaic. Between December 5, 1986 and July 7, 1989, Mayo was paid \$15,475 by Gold Cleaners for printing dry cleaning tickets. The ticket forms were not a stock item in the print shop inventory and had to be ordered specially. The owner of Gold, Martin Feigenson, who paid for the printing with checks payable to Ramapo, told incredulous Commission staff members that he thought Mayo was giving the money to the high school.

Mayo was able to procure additional commercial printing jobs of varying sizes elsewhere in the Passaic community. For instance, between April 18, 1984 and September 7, 1988, Mayo received a total of \$2,400 from the Education Association of Passaic. Another customer, Belinda Norman of Jaime Trinkets in Passaic, could not provide the Commission with specific amounts, but she estimated that she gave Mayo small jobs costing no more than \$400 total between 1987 to 1989.

* * *

New Jersey law requires bids and the awarding of contracts based on those successful bids when a public entity anticipates that it will exceed a certain dollar threshold in annual purchases. The Passaic School District, however, allowed Mayo to purchase paper and other supplies without competitive bidding. The district was cited for noncompliance in a 1989 audit by the Department of Education.

In addition to those bidding irregularities, other purchasing controls in the school district were lax. For instance, orders did not list reasons for purchases, such as replacement of stock, special job, etc., and negotiations for price, vendor and terms were all handled by Mayo for the Industrial Arts Department. Higher administrative approval was required only to confirm the availability of funds. Because print shop payroll records did not allocate particular work hours to any specific project or printing job, the amount of overtime wages attributable to Mayo's commercial printing activities could not be calculated. Similarly, inventories of supplies and materials were not maintained; nor were records of job requests or job costs. Clearly, lack of compliance with generally accepted administrative and business procedures, as well as the decentralization of purchasing and payroll duties, created an atmosphere that afforded Mayo the opportunity to conduct a commercial printing business utilizing publicly funded facilities, material and labor.

Purchasing agent James Shoop, who was hired late in 1989, testified that he has made some progress tightening procedures in the school district. But he said it has been a difficult educational process trying to get the staff to understand the requirements of the law.

* * *

A review of deposits to the joint checking account of Lawrence Mayo and his wife for the period 1986 through mid-1990 revealed 16 deposits, totaling \$7,387.37, that were identified from a variety of sources as payments to Mayo or Ramapo Graphics for printing services. But there were also a substantial number of unexplained cash deposits. An examination of those transactions, eliminating cash deposits explainable as redeposits, transfers and partial

check deposits, still left more than \$100,000 from unidentifiable sources. Considering the extent of Mayo's commercial activity, these cash deposits may very well be additional revenues derived from commercial printing activity at the high school print shop.

Mayo was subpoenaed to testify before the Commission concerning the print shop operation, as were teachers Wayne Molesan and Joseph Drobik. Mayo answered questions until he was asked about use of the print shop to do private or commercial work. He also testified that no books and records existed for Ramapo Graphics. Thereafter, he invoked his constitutional privilege against self-incrimination and refused to answer further questions. Both Molesan and Drobik refused to answer any questions posed to them, invoking the same privilege.

Conclusions and Recommendations

1. This matter will be referred to the Attorney General to determine if there was any prosecutable criminality.

2. The Commission believes that if inventory procedures had been in place whereby both perpetual and physical inventories of the stock and supplies of the print shop had been maintained, the likelihood of events such as those revealed in this report occurring would have been greatly reduced. The Department of Education should consider the need for a directive to local school districts in this regard.

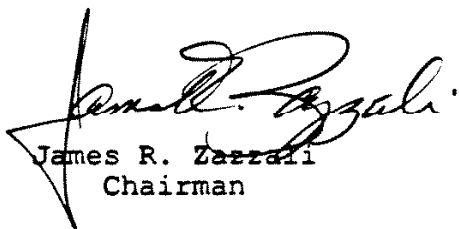
3. The Commission notes that purchasing procedures in the Passaic School District have been tightened as a result of this investigation. Purchasing responsibilities have been transferred from department heads to a centralized purchasing office, which provides more complete internal control of the purchasing function, as well as checks and balances that did not exist previously. However, there is still no requirement that order forms contain justifications for purchases. A certification by the individual requesting supplies or purchases should be required along with the stated purpose for the requisition. The Department of Education should promulgate specific procedures in the area of purchasing for all school districts to follow beyond the mere requirement of a purchase order and an account number.

4. Members of the Passaic Board of Education and the administrative staff of the school district repeatedly made the argument that the cost of materials, labor and investment in equipment in the print shop was justified because the alternatives were more costly. This Commission questions this assertion and recommends that a detailed cost study be done of the print shop. In addition to the improvements already made in the purchasing system by the school board, a job order cost sheet should be

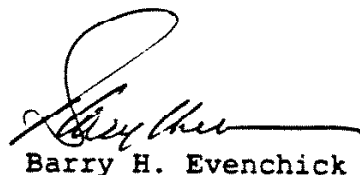
designed and implemented to capture all costs of printing, including materials used and labor hours for each employee in order to make such an evaluation.

5. Finally, this Commission notes that approximately 260 public schools in New Jersey offer vocational training and more than 50 of these schools have a printing curriculum in addition to many other industrial arts and vocational education programs. Because such programs all may be subject to abuses similar to those outlined here, the Department of Education should establish strict guidelines as to what use can be made of school facilities. In addition, school districts throughout the state should develop administrative policies governing the conduct of their faculty and staff and the use of school facilities to prohibit abuses such as those that took place in Passaic.

Respectfully,



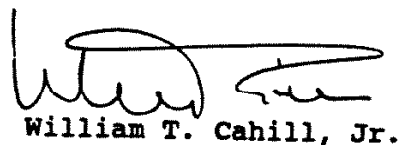
James R. Zazzari
Chairman



Barry H. Evenchick



Kenneth D. Merin



William T. Cahill, Jr.

cc: Robert H. Holster, Acting Superintendent