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Trenton Board of Education

July 1, 1997 to September 30, 1999

Richard L. Fair
State Auditor

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Enclosed is our report on the audit of the Trenton Board of Education for the period July 1, 1997 to September 30, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
December 17, 1999

Table of Contents

	Page
Scope	1
Objectives	1
Methodology	1
Conclusions	1
Findings and Recommendations	
Medical Billings	3
COBRA	5
Dental Coverage	6
Eligibility for Incentive Plan	6
Leave Time Payments	7
Maximum Salaries	8
Computer Inventory	9
Special Services	10
Consultants	11
Capital Construction Contracts	12
Unused Equipment	13
Home Instruction	13
Operational Continuity	14
Information System Security	16

Trenton Board of Education

Scope

We have completed an audit of the Trenton Board of Education (TBOE) for the period July 1, 1997 to September 30, 1999. Our audit was limited to expenditures and did not include revenues. The prime responsibility of the board is to provide a quality education to approximately 12,000 pre-kindergarten to twelfth grade students. The TBOE employs approximately 1900 full and part- time employees. Total expenditures were $152 million in fiscal year 1998 and $162 million in fiscal year 1999.

Objectives

The objectives of our audit were to determine whether expenditures were related to the school district's programs, were reasonable, and were recorded properly in the district's accounting system. This audit was conducted pursuant to the State Auditor's responsibilities as set forth in N.J.S.A.18A:7F-6d.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In preparation for our testing, we studied legislation, administrative code, policies of the board and the New Jersey Department of Education Comparative Spending Guide. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget, reviewed financial trends, and interviewed district personnel to obtain an understanding of the district's programs and internal control. In addition, we reviewed audit reports issued by the board's certified public accounting firm.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected.

Conclusions

We found that the expenditures included in our testing were related to the school district's programs, were reasonable, and were recorded properly in the district's accounting system. However, we did note internal

control weaknesses and matters of compliance with laws and regulations meriting management's attention.

Auditee's Response

The Trenton Board of Education acknowledges certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention as reported by the State Legislature Auditors. We have included our response to each recommendation.

It is important to note that the Trenton Board of Education received an unqualified Audit Report as of June 30, 1999 from their public accounting firm. Both the State Legislative Auditors and the public accounting firm reported that expenditures related to the school district's programs were reasonable and were recorded properly in the district's accounting system. No transaction of malfeasance or defalcation was uncovered during the audit period.

Medical Billings

Cost savings can be realized by reviewing monthly billings.

The district provides health, prescription and dental coverage for its full-time employees and their dependents through contracts with various private health insurance companies. The total annual costs of the medical and dental plans are $12.6 million and $1.2 million, respectively. Each company bills the district monthly for the costs of premiums and submits a list of employees enrolled in its plan. The district relies upon its insurance broker to maintain its health benefits rosters and to review bills from insurance companies. No oversight is performed by the district. On a monthly basis, the broker provides a memo to the Assistant Superintendent of Human Resources stating that the bills have been reviewed and can be processed for payment. Our review of the district's insurance bills revealed that the district has been overpaying for its employees' medical coverage.

We compared the June 1999 monthly lists sent by the insurance carriers with the district's June payroll register and found 1,365 errors which resulted in a monthly overcharge to the district of $165,000. The total annual overcharge to the district could be $2 million. The primary error found was subscribers who were not on the district payroll. The district also paid for dual coverage for its employees in some cases.

We sent several memos to the Human Resources (HR) department through the Business Administrator in July 1999 asking for explanations of these apparent errors. No explanations had been provided as of the end of our field work.

Recommendation

We recommend the district seek reimbursement from its insurance carriers for all overcharges. The district should assign an employee to maintain health benefits rosters and review monthly billings instead of relying on their insurance broker. Written policies which include procedures for timely removal of employees upon termination of employment should be developed.

Auditee's Response

The district is currently investigating the audit discrepancies between personnel listings on medical bills and payroll records. While valid differences cannot be

quantified at this time, they include personnel on approved leaves of absence with contractual medical benefits, terminated employees receiving medical benefits through COBRA, personnel with disciplinary charges pending and other valid personnel issues.

As reiterated in the December 10th letter from our insurance consultant to the Office of the State Auditors. "The auditor failed to recognize:

> The intricacies of list carrier billing; the June 1, 1999 billing statement more accurately depicts enrollment as of April 1, 1999. It can take upwards of 90 days for terminations, additions and changes to appear on a billing statement. Debits/credits would be recognized on a future billing statement.
>
> Individuals who are not on payroll but maintain eligibility for benefits such as those on approved leaves of absence, survivor's benefits, Family Medical Leave Act, litigations, etc..
>
> COBRA continuees and retirees whose premiums are reimbursed to the district through COBRA elect.
>
> Employees who are insured under one name but go by a different last name on the payroll.
>
> Employees who are covered under two labor agreements and are technically eligible for duplicate coverage.
>
> Ambiguous language in some of the older labor agreements which entitled the individuals to coverage in numerous medical plans. (We revised and updated the contract language to correct this matter.)"

During the period August - November 1999, the Trenton Board of Education hired a Human Resources Manager, purchased Human Resource Computer software and began a re-enrollment process for all of its employees.

COBRA

Reimbursements from retirees should be reconciled to insurance billings.

In compliance with federal regulations, the district makes medical, dental, and prescription coverage available for a limited amount of time to employees and their dependents who have terminated their employment with the district. The district pays the medical carriers for this coverage. These former employees are supposed to reimburse the district for the cost of their coverage by submitting monthly payments to Cobra Elect, the administrator of this program. Each month, Cobra Elect sends the money that it has collected to the district. TBOE received $486,600 from Cobra Elect during fiscal year 1999.

Our review noted that the district does not know the total amount that it should receive from Cobra Elect and it does not perform any steps to ensure that it has received proper payment. In addition, Cobra Elect does not submit a list of uncollected payments to the district. Therefore, the district does not know whose coverage should be discontinued.

We requested a list of all Cobra participants from Cobra Elect and compared this list to the June 1999 medical billings. Our review revealed that the district paid $5,600 in June for 44 Cobra participants that Cobra Elect did not have on its active files.

Recommendation

We recommend that the district reconcile future reimbursements received from Cobra Elect to assure that proper reimbursements are received. Those who are not paying for their coverage should be removed from the plan. We further recommend that reconciliations of Cobra Elect reports to the actual health plan billings be performed to verify that billings are correct and proper coverage is provided.

Auditee's Response

The response to the medical billings finding also addresses the COBRA issue. In addition, the Human Resources Department will be developing new written procedures for the timely removal of employees upon terminations of employment and the expiration of eligibility of benefits.

Dental Coverage

Payroll deductions should be made for mechanics and laborers receiving dental coverage.

The agreement between the Trenton Board of Education and the Mercer County/Vicinity Building and Construction Trade Council, which covers mechanics and laborers, states that "Employees may arrange for dental coverage at the employees' expense, and the Board will ... [arrange] payment through payroll deductions". We reviewed the June 11, 1999 payroll register and found seven mechanics and laborers who received dental coverage but did not have the required deduction made from their paycheck. The cost to the district for the two year audit period was $8,700. This oversight occurred because HR staff did not submit to the payroll section of the business office the documentation needed to assure the proper payroll deductions.

Recommendation

We recommend that the district seek payment from employees for dental coverage. We further recommend that corrective action be taken to assure that proper payroll deductions are made in the future.

Auditee's Response

The Human Resources Department has begun the process of verifying payroll deductions for dental coverage. Back payments of dental premiums will be pursued.

Eligibility for Incentive Plan

The district should ensure that only employees who are eligible participate in its incentive payment plan.

The Trenton Board of Education adopted an Attendance Incentive Payment of Accumulated Sick Leave Plan in 1999 for members of the Trenton Administrators and Supervisors Association, the Trenton Education Association, and the Paraprofessional Unit. The plan provided employees with at least 20 years of full-time service with the Trenton School District double the amount normally paid for accumulated sick leave. The total cost of the plan is $4.3 million, to be paid out over four years. Our review of recipient eligibility for the plan found two retirees who were not eligible because they had been employed by the district for less than 20 years. These two employees received an additional $30,600 in incentive pay because they were improperly included in the plan and because of calculation errors in determin-

ing their payout. Such errors could be minimized if the HR department, whose responsibility was to verify the eligibility of employees for the plan and to calculate the payouts, provided adequate supervisory review of work performed by its employees.

Recommendation

We recommend that the district seek reimbursement for all overpayments made to ineligible employees and strengthen the process of supervisory review in the HR department.

Auditee's Response

The district will seek reimbursement from the two (2) employees. The supervising review process in the Human Resources Department has been increased with newly hired personnel.

Leave Time Payments

Leave time payments should be reviewed for accuracy.

TBOE's contracts with its various bargaining units allow employees to receive payment for portions of their accumulated leave balances upon retirement. The payment is based on the total number of unused days and a "factor per unit agreement or District policy". Our review of payments to 33 retired employees noted that eight employees were underpaid a total of $11,000 and two employees were overpaid a total of $2,400. The underpayments were due to the use of the incorrect factor in the calculation. The overpayments were due to incorrect calculations of the total number of unused days. In addition, a teacher specialist who converted from a 12-month employee to a 10-month employee was overpaid $12,700 because the incorrect number of days and the incorrect factor were used in the calculation. These payments for unused leave time were not calculated correctly by the HR department because the proper factors were not communicated to the employees calculating the payouts and payments were not reviewed for accuracy.

Recommendation

We recommend that the district seek reimbursement for all overpayments and make appropriate payments to the underpaid retirees. We further recommend that future payments be monitored more closely for accuracy by an HR supervisor.

Auditee's Response

An accounting of all leaves will be maintained separately by the Human Resources Department. The newly hired Human Resources Manager, will monitor leave time payments carefully, to assure that the correct payment calculations are made.

Maximum Salaries

Future employment contracts should exclude the "supermax" provision.

The district's employment contracts with its administrators and custodians include a provision which automatically moves employees to the maximum salary of their salary guide upon a required number of years of service and/or years in the same job title. This is referred to as the "supermax" provision. The other school districts that our office has audited do not have such a contract provision. The administrators' contract states: "Any employee within the Association with thirty years of accredited service and at least seven years in their present position, or any employee within the Association with twenty five years of actual service to the district and at least seven years of service in their present position shall move to the appropriate salary guide presently in effect at maximum salary." The custodians' contract states: "Any employee having ten (10) years or more service in the system and/or seven (7) years in the same job title shall automatically go to maximum pay."

The supermax provision resulted in large payouts to district employees during our audit period. Our review of salary activity during fiscal year 1999 showed that these provisions cost the district $71,000.

- Four administrators received salary increases ranging from $9,700 to $13,100, which totaled $42,000 as a result of the provision.

- Six custodians received salary increases ranging from $2,300 to $9,600, which totaled $29,000 as a result of the provision.

Recommendation

We recommend that future contracts for administrators and custodians include only normal salary increments.

Auditee's Response

TASA and the Trenton Board of Education agreed on November 4, 1997 to terminate the supermax salary provision. Anyone hired in his or her current position after July 1, 1993 is not eligible for this benefit.

The Custodian Contract has a similar clause that provides a supermax incentive. This is still part of the current contract. The contract expires in June 2000.

Computer Inventory

The district's computer inventory procedures should be improved.

The district's management is responsible for establishing a fixed asset inventory system which will safeguard assets from loss or unauthorized use. In addition, this system should help to fix responsibility for particular assets, obtain optimum insurance coverage, support insurance claims, identify surplus property, and track items purchased with different types of funds. The district has established a property inventory policy which defines equipment, establishes a system of identifying assets and record-keeping, and requires physical counts of all district-owned equipment.

The district purchased over 2000 computers and related equipment at a cost of $3 million in June 1998. Our efforts to locate these computers revealed instances of noncompliance with the district's inventory procedures, as follows:

- None of these computers are included on the district's fixed asset master inventory list.
- We could not locate 47 computers and 45 monitors out of a total of 319 purchased for Trenton Central High School. This represents approximately $62,000 in missing equipment.
- There were no inventory tags, which are required, on the computers observed at two schools.

Recommendation

The district should ensure that all computers are included on its fixed asset master inventory list and that adequate distribution procedures are established. It

should attempt to locate the missing computers at Trenton Central High School.

Auditee's Response

Due to the funding complications, the purchase of the 2000 computers did not flow through the district's normal purchasing procedures.

These computers are now on the district's fixed asset master inventory list and are properly tagged. There are still 41 missing computers and this matter is currently being addressed by district security.

Special Services

Special Services contracts should be monitored more closely.

The district's Special Services department utilizes the services of many consultants to provide student evaluations and therapies. Board resolutions and letters of agreement between the consultants and the board establish the services to be provided, the rates of pay, the period of the agreement, and, in some cases, a cap on total payments. Our review of payments to a sample of these consultants during fiscal years 1998 and 1999 revealed:

- Payments to three consultants totaling $215,300 were in excess of that authorized by board resolutions.
- Four providers were overpaid $12,700 because of payments in excess of the approved rates for their particular service and inaccurate time reporting.
- There was no board approval for the services provided by one of the vendors, which amounted to $33,200.

These errors occurred because the Special Services staff did not review the vendors' bills for compliance with the board agreements. In addition, the business office did not encumber funds in the amount of the contract caps to prevent unauthorized payments.

Recommendation

We recommend that the Special Services department review vendors' bills more closely to ensure compliance with the board agreements. When a contract cap is established by board agreement, funds should be encumbered for the capped amount.

Auditee's Response

The Department of Special Services will ensure that the Board of Education approves professional consulting services. After the approvals are secured purchase orders shall be prepared to encumber funds. Invoices received by Accounts Payable for consulting services will not be paid in excess of the purchase order amounts.

Consultants

Contract terms for consultants should be enforced.

During fiscal year 1998, there were vacancies in the following management positions in the district: Superintendent, Assistant Superintendent for Human Resources, Assistant Superintendent for Curriculum and Instruction, and Business Administrator/Board Secretary. These positions were filled by interim consultants for specified periods of time at per diem rates of pay. The terms of employment were established by board resolutions, as required by the Public School Contract Law. Our review of the board agreements and of the payments to these consultants revealed unauthorized payments totaling $21,900. These payments were unauthorized because the time worked by the consultants was not approved by board resolution, contract caps were exceeded, or payments exceeded the approved rate. These exceptions occurred because the business office did not adequately review the invoices submitted by these administrative consultants against the board resolutions.

After a new interim Assistant Superintendent for Human Resources was hired, the previous interim assistant superintendent was authorized by the board to work as a consultant. The board's resolution provided that the consultant would serve the HR department. Management stated that his services were related to the HR computer system. However, management could not

identify work performed. The consultant was paid $7,200.

Recommendation

The business office should compare consultants' invoices to board resolutions more closely. In addition, the board should specify consultants' responsibilities in their resolutions.

Auditee's Response

The Business Office will prepare purchase orders in support Board of Education authorizations for all consultants. Accounts Payable will only pay invoices against these purchase orders. Consultant responsibilities will be included in Board resolutions.

Capital Construction Contracts

Contracts should be prepared for all construction projects.

TBOE employs a construction management consulting firm to plan and oversee renovations and construction projects for the district's schools. The consultant's responsibilities include the development of job specifications, review of contractors' bids, and oversight of construction activities. The consultant's work is reviewed by the district's buildings and grounds unit within the business office. Our review of the district's capital construction activities revealed that there were no contracts for 6 of the 15 projects that we tested. The total value of these projects was $1.9 million. The state's Public Schools Contract Law requires that all purchases over $12,900 must have a written contract. However, the construction management consultant did not prepare contracts and the district business office did not ensure that all jobs had contracts.

Recommendation

We recommend that the construction management consultant prepare contracts for all future capital construction projects.

Auditee's Response

With a change in construction manager personnel and the Trenton Board of Education, contracts were not prepared for all capital construction projects. During the fall of 1998, a new policy was enacted requiring written contracts for all capital projects.

Unused Equipment

Purchased equipment should be put to use in a timely manner.

The district purchased 80 Sony Playstations and educational software to be used for home bound instruction. These items, which cost $79,000, were delivered to the district's warehouse in December 1998. However, as of October 1999 they remained in the warehouse. Warehouse personnel informed the Special Services department of the arrival of the equipment but never received a response. According to a memo from the Special Services department to the Assistant Superintendent for Curriculum and Instruction, "we were all tremendously impressed with the program and are envisioning its application in many areas to enhance our Special Education programs...". The fact that the Playstations have not been used for nearly one year suggests that the purchase was not so important or that the home bound instruction program has been deprived of an important educational tool.

Recommendation

The district should not purchase equipment unless there is a clear need for the items. The warehouse should prepare a report of unclaimed equipment for distribution throughout the district on a regular basis.

Auditee's Response

According to the Special Services Department, this project was delayed due to programming and training issues. This equipment has been delivered to Grant Elementary School. The Buildings and Grounds Department is currently developing procedures to monitor the warehouse on a regular basis.

Home Instruction

Home Instruction hours should be monitored.

The Board of Education is required to provide qualified students with home instruction in lieu of classroom instruction. New Jersey Administrative Code 6A:14-4.8 states "Instruction shall be provided for no fewer than 10 hours per week." In addition, the administrative code states that home instruction due to temporary illness or injury for students with or without disabilities shall be provided for no fewer than five hours per week.

Our review of home instruction records disclosed that 9 out of 21 students did not receive the required hours of instruction. In addition, we found that instructors' reimbursement requests were not accurate. Five instructors included zero travel time on their reports, even though they worked at various homes. Two instructors' records claimed that they provided home instruction to students at different locations at the same time. As a result, home instructors were compensated for time that was not spent teaching. This lack of compliance with the administrative code and the improper claims were not detected because of the lack of supervisory review by the Special Services department.

Recommendation

We recommend that the Special Services department monitor the home instruction attendance sheets submitted by instructors to ensure compliance with the Administrative Code and the accuracy of the time reported.

Auditee's Response

Effective September 15, 1999, the Department of Special Services revised the forms used to document home instruction hours. The new form includes individual arrival/departure times and parental signature of each visit, which reports instructional time and lists the student's entitlements. All forms are verified and monitored by the Department of Special Services Supervisor.

Operational Continuity

The district should implement formal plans to address Year 2000 data processing problems.

Computer programs were historically designed to conserve data storage space by using two digits to depict the year-date. When the year 2000 occurs, "00" will present an ambiguity that prevents such systems from distinguishing between 1900 and 2000. This problem threatens the information systems upon which the school district relies to conduct its business and deliver quality education to its students.

TBOE does not have a formal districtwide Year 2000 plan that specifically acknowledges or addresses this issue. Our review disclosed that the responsibility to ensure systems compliance could not be ascertained.

There is no districtwide inventory of hardware or software. While the AIX Version 4 platform's hardware and software appear compliant, the status of other system platforms, embedded systems, telecommunications and internal and external interfaces could not be determined. Any compliance accomplished to date has resulted from unrelated consultant directed system design and development initiatives. A districtwide strategic plan is necessary to provide a systematic approach to Year 2000 compliance. Critical issues to consider include assessment, budgeting, embedded systems, and testing of all hardware and software products. Implementing a structured planned approach can decrease the risks associated with the Year 2000 problem.

The district should maintain a disaster recovery contingency plan.

A disaster recovery contingency plan should be maintained to ensure the timely resumption of critical applications in the event of system failure or data loss. The plan should establish procedures and areas of responsibility. It should specify hardware and support staff requirements and costs. The plan should also stipulate the expected recovery period and interim contingency procedures.

Recommendation

We recommend that the district immediately develop and implement a Year 2000 plan which provides a systematic approach toward Year 2000 compliance and minimizes problems with the district's business processes, and prepare contingency plans in case of Year 2000 related failures.

We further recommend that district management develop a formal disaster recovery plan, which may include the contracted services of a third party to ensure the timely resumption of critical business processes in the event of a disaster.

Auditee's Response

The district's student records software was upgraded for the year 2000 on July 27, 1999. The administrative software was upgraded on December 1, 1999.

The district technicians will be upgrading all of the operating systems with the latest patches supplied by the Microsoft Corporation. All administrative computers will be upgraded by December 23, 1999.

The district's major software files are backed up on a daily basis and the year 2000 compliant upgrades have been implemented and tested.

In the event of a systems failure, the district developed in December, 1999 a written plan. This plan contains the service contracts with the hardware, software and network third party vendors who will assist us in a timely resumption of business processes, if necessary.

Information System Security

The district should maintain formal security policies and procedures for the administration of access to its computer resources.

Lack of formal policies and procedures weaken the internal control environment throughout the organization. Access controls are maintained to prevent and detect unauthorized access to computer resources. Polices and procedures established for administering these controls should be designed to ensure user accountability and password confidentiality and to provide only the access necessary to perform assigned job responsibilities. Our review noted system security was not being adequately administered as evidenced by the following conditions.

System access is not traceable to specific individuals. The current method of assigning access to computer resources establishes IDs that are generic or not identifiable with a specific individual. This reduces the usefulness of the audit trail maintained by the system.

Passwords are not periodically changed. Under the current system, operating, network and application passwords are either not required or not changed at regular intervals. At the time of our review, there were five operating system IDs that did not require a password and eight IDs whose password have never been changed. Currently, the password management option for network security has not been implemented. Management of application user passwords has not been manually performed. These factors increase the risk of passwords becoming public knowledge.

Assigned privileges provide access beyond that required to perform job responsibilities. The current privileges

afforded to vendor programmers are less restrictive than desired. These programmers have access to both programs and data and are able to log onto the data center's computer without the prior knowledge of management. This increases the risk of unauthorized use, loss or modification of financial data.

Individuals no longer requiring access are not removed timely. A periodic monitoring of individual's access of computer resources is not performed. At the time of our review, there were ten operating system IDs that had not been used since 1996, five of which had never been used. In addition, two employees retiring in June 1997 and December 1998 still retained access to the business application. This also increases the risk of unauthorized use, loss or modification of financial data.

Recommendation

We recommend that the district develop and maintain security policies and procedures to ensure user accountability, password confidentiality, privilege suitability and timely termination.

Auditee's Response

The MIS Department is in the process of developing security policies and procedures that will monitor personnel changes for access to computer programs. In addition periodic scheduled password changes will be made to enhance security. The projected completion date is March 2000.