City of Camden
Board of Education

July 1, 1997 to June 30, 1998
The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the City of Camden, Board of Education for the period July 1, 1997 to June 30, 1998.

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

Richard L. Fair
State Auditor
August 9, 1999
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City of Camden  
Board of Education  

Scope  
We have completed an audit of the City of Camden Board of Education (CCBOE) for the period July 1, 1997 to June 30, 1998. Our audit was limited mainly to payroll expenditures and payments to employees made by the board for school year 1997-1998. In some cases, testing was expanded to include the period from July 1, 1997 to the end of our field work. The prime responsibility of the CCBOE is to provide a quality education to approximately 19,000 pre-kindergarten to twelfth grade students.

Objectives  
The objectives of our audit were to determine whether financial transactions were related to the school district’s programs and were reasonable. The total expenditures for the fiscal year ended June 30, 1998 were approximately $222 million. Our audit testing was concentrated in the areas of payroll and personnel. The board employs approximately 4,400 full and part-time employees. Expenditures for salaries and benefits were $131 million and $32 million or almost 70 percent of the total expenditures of the CCBOE for the year.

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 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 message, reviewed financial trends and interviewed the board’s personnel to obtain an understanding of the board’s programs and internal controls.

In addition, we reviewed audit reports issued by the board’s Certified Public Accounting firm, the state’s Local Government Budget Review (LGBR) and the
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 payroll expenditures were related to the school board’s programs and were reasonable. However, payments for other items as described in this report need to be more effectively controlled. In making this determination we noted significant internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

The CCBOE should review its internal controls and design and implement procedures to ensure that its objectives are being met in the most effective and efficient manner. Management should create an audit committee, comprised of elected board members and administrative personnel, that would report directly to the elected board and superintendent to ensure that deficiencies are identified and addressed promptly.

Based on the following definition of internal controls and given the numerous errors noted in our findings, there is a serious lack of internal controls in the accounting processes of the CCBOE. We found errors in almost all areas we audited. No written policies or procedures were available for many of the areas reviewed. Payments (e.g. travel) to employees were often based on employment contracts. Often there were no written procedures explaining how the policy would be carried out by staff. Communication and cooperation within the board is also lacking. In spite of a memo requiring approval of all overtime by the business administrator, we noted numerous payments of overtime without his approval. According to the former board president, “there is a lack of cooperation from the superintendent on down.” Monitoring is lacking in many areas. The lack of supervisory review and monitoring is noted as the cause of many of our findings.
An entity’s internal controls consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. The American Institute of Certified Public Accountants’ *Statement on Auditing Standards* No. 78 defines internal controls as a process, effected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: a) reliability of financial reporting, b) effectiveness and efficiency of operations, and c) compliance with applicable laws and regulations. Internal controls consists of five interrelated components: the control environment, risk assessment, control activities, information and communication, and monitoring.

The control environment includes the management philosophy and operating style, manner of assigning authority and responsibility, and human resource policies and procedures. Information and communication relates to the policy manuals or other means used to give the employees an understanding of their roles and responsibilities. Management is responsible for setting objectives and assessing risk in key areas. Some of these areas include purchasing, receiving, use of technology, processing payroll and human resource management. Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities usually involve two elements, a policy that states what should be done and the procedure that implements the policy. Segregation of duties is one example of a control activity. This includes assigning the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets to different people within the organization. Monitoring is a process that assesses the quality of an organization’s internal control over time. This can be accomplished by management or supervisory activities. Internal auditors may contribute to an entity’s monitoring of controls.

We also found that the school district has not resolved significant issues noted in LGBR and Level II External Monitoring Reports by the Department of Education.
An internal audit of the reasons for and ways to reduce other pay is needed.

Overtime and Other Pay

During calendar year 1998, 77 employees received other pay totaling more than 30 percent of their contractual pay. The CCBOE’s payroll consists of payments that are covered by various negotiated contracts and other pay. Other pay includes substitute teachers, part-time satellite food service staff, all other part-time positions, compensation for employees with more than one job, compensation for work performed after regular work day hours as defined per contractual agreements, summer pay, salary adjustments, overtime, home instruction, extra curricular activities, and various contractual stipends. Other pay totaled $11.9 million during our audit period, or nine percent of total payroll. Management was unaware of the total cost of other pay and they were unable to assure us that the other pay was reasonable and necessary. Based on our inquiries and testing it appears management is not performing the necessary monitoring and evaluation of other pay.

The Local Government Budget Review (LGBR) report dated September 1996 recommended the CCBOE perform an analysis to determine the reasonableness and necessity of all other pay. They recommended the analysis include an evaluation of all after hours and summer programs to determine their need, worth, and the need for the number of employees serving each. Additionally, a review to ensure employees were not receiving other pay for responsibilities that are already considered to be within the scope of their job description was recommended. The CCBOE’s corrective action plan did not address these recommendations.

During calendar year 1998 overtime totaled approximately $700,000. Custodial overtime made up over $500,000 or 78 percent of this total. Three custodians received large payments for other pay that year, increasing their base salary by over 90 percent.

The management of the CCBOE issued two memos in the last year in an attempt to control the amount of overtime being worked and the costs associated with these additional payments. One memo from the former superintendent dated August 20, 1997 required that all
overtime be authorized by the superintendent or business administrator. The second memo from the board secretary/business administrator stated that, “As of April 1, 1999, I will not approve the payment for any overtime employment.” It further stated that if you work after the normal work day it will be considered a voluntary act and the payroll will be denied. For the month of April 1999, the custodial staff still incurred and was paid for overtime of $18,000. There was no evidence of approval of overtime for maintenance or custodial staff by the superintendent or business administrator for any payrolls during our audit period. Payments for overtime were submitted by department heads and payments were routinely made as part of the monthly payroll, contrary to the memos issued by management.

Other pay should be supported by timekeeping records and reviewed for accuracy.

Payments for other pay should be based on a time sheet, sign in sheet, or other documentation that the employees worked the hours for which they are being compensated. Because of the lack of detailed review of the pay rate or hours prior to payment, numerous errors occurred. We tested 82 payments and found that 24 were not supported by documentation. In 37 of the remaining 58 cases, the timekeeping records were not adequate to determine which hours and days were worked. Thirty-seven of the timekeeping records reviewed did not have any evidence of supervisory review and/or approval. In 46 cases an incorrect payment was made due to either an incorrect hourly rate used or incorrect calculation of hours worked, as discussed below.

- Pursuant to their contract, custodians receive double time for holiday pay. When submitting overtime for a period, 8 hours of holiday work is reported as 16 hours by the clerk in charge of custodial overtime. The form used to report these hours automatically computes the total pay due at the overtime rate of time and a half. This results in a rate for holiday pay of triple time. Additionally, if a holiday is during the regular work week, the employee is paid for eight hours at the regular rate combined with the triple time reported for holiday overtime, resulting in payments of four times the regular
rate. This practice resulted in excess payments of $100,000 annually.

- In one case, a duplicate request for payment was submitted and overpayments were made to five employees totaling $1,200.

- Other employees tested were being paid time and a half even when their work week did not exceed 40 hours resulting in a $2,700 overpayment.

- One custodian’s request for pay indicated he worked 597 hours in the month of December 1997. This appears highly unreasonable since the time claimed averages 19 hours per day for each of the 31 days in the month.

**Recommendation**

We recommend a review of the reasons for and ways to reduce the total other pay be conducted by an internal audit staff. In addition, the CCBOE should develop, implement and enforce procedures to ensure the hours and rates for other pay are authorized, correctly calculated and adequately documented.

**Auditee’s Response**

A great portion of the payments were due to the custodial and maintenance negotiated contract. Such things as shift differentials and weekend building checks can make a big difference in overtime pay outs. The Board is currently discussing this issue and will look to revising policies and procedures pertaining to this matter.

In an effort to improve accountability in submitting and reviewing payrolls, procedures will be developed and policies will be written and communicated to staff.

Beginning August 1, 1999, no monies will be paid to custodial and maintenance staff, in the area of “other pay” without first getting Board approval. All payrolls must be reviewed and signed by appropriate supervisors or directors before they are received by payroll. The Business Administrator and/or his designee must sign-off on such payrolls.
Beginning August 1, 1999, a program will be developed to avoid the possibility of duplication of calculations for time and a half and double time.

Salary Adjustments

Nonbargaining unit administrative staff (those not covered by a contract) received salary increases of 4.25 percent per year in fiscal years 1997 through 1999 based on CCBOE Resolution No. 3 adopted August 25, 1997. We recalculated the salaries of the employees affected by this resolution for fiscal years 1997 and 1998. Thirteen employees received overpayments of $22,000 and ten were underpaid $10,000 during the two years tested. One employee received an increase of 23 percent for the two years tested. These differences are the result of management’s use of salary guides that did not conform to the board resolution.

The pay increase covered prior months requiring lump sum retroactive adjustments to several employees for fiscal year 1997 and part of fiscal year 1998. Payment for 1997 was based on the salary guide and did not reflect the board approved 4.25 percent increase. Salary adjustments for the period from July 1 to August 31, 1997 were based on a comparison of 1996, rather than 1997, to 1998 base salary. Current salaries continue to be paid incorrectly.

The board also adopted Resolutions No. 4 and No. 5 granting five percent annual increases in base salary for two high level administrative employees. The resolutions were applied liberally, resulting in fiscal year pay increases of six percent (1997), seven percent (1998) and seven percent (1999). The method used to calculate these increases included the cumulative effect of additional payments of $1,000 or $2,000 added to the base salary each year. The language in these resolutions was significantly different than that of the administrative employees contract, where the additional payments were not added to the base salary. The resolutions did not specifically state the intention of the elected board members or the resulting salary increases. If the
intent of the resolutions had been to grant increases of more than five percent, it should have been clearly stated. It was misleading to state increases of five percent and then use a calculation that resulted in annual raises in excess of that amount.

There was no supervisory review of the calculations and the personnel department was not involved in the process. Changes should be submitted to the personnel department for calculation and supervisory review and then electronically updated into the payroll system. The payroll department should also be responsible for the accuracy of the changes. Salary adjustments for high level employees should also be specifically approved by the superintendent.

**Recommendation**

We recommend the CCBOE change the method for instituting adjustments to all employee salaries. The board should correct the errors in salaries, make payments where necessary and institute collection proceedings where applicable. Board resolutions involving salary increases should clearly state the method of calculation, the percentage increase and the resulting salary. Salary guides for titles affected by the resolutions should be included for approval by the elected board members.

**Auditee’s Response**

The board resolution dealing with contract negotiations shall be written with a greater degree of clarity with guidance from the Board Solicitor and Labor Attorney. There shall be no salary approval or adjustments made without an affirmative vote of the full board. A question and answer period shall be held to assure that all board members have a full understanding of the contents of the resolution and that their intent has been captured.

All salaries shall be calculated with the collaboration of the Superintendent, Business Administrator, Board Solicitor and Labor Attorney. The salary calculations and steps taken to determine any new guides shall be accompanied by an approval statement from the Superintendent, Business Administrator, Board Solicitor and the Labor Attorney. The adjustments to staff salaries can only be activated when the aforementioned steps have been taken.
Significant cost savings can be achieved by the timely cancellation of employees’ health benefit coverage upon termination.

**Termination of Health Benefits**

Full-time employees of the CCBOE and their dependents receive free health benefit coverage. The CCBOE is a member of the State Health Benefits Program (SHBP) for health benefit coverage only. Private health insurance companies provide prescription drug, dental and vision care plans for all employees of the board. The total annual cost of these plans is $22 million. Each plan bills the CCBOE monthly for the cost of premiums by submitting a list of employees enrolled. The CCBOE is required to notify the plan administrators of any changes in coverage due to hiring or termination of employment.

By comparing the monthly lists sent by the health insurance carriers with a list of current employees for the CCBOE, we found names of former employees still receiving coverage paid for by the CCBOE. We examined 3,573 (100 percent) of the names on the SHBP roster and found 33 errors. Most were former employees still listed as active employees. One former employee was terminated in 1989 and the CCBOE has paid premiums for 117 months at a cost of more than $40,000. Total overpayment of premiums for the errors noted is over $200,000. The CCBOE employee responsible for termination of employees from the SHBP roster also reviewed the list during the course of our fieldwork. Based on this, an additional 56 former employees were deleted from the SHBP. These were former employees still appearing on the active employee roster.

A sample of employees receiving prescription drug benefits was also tested. The plan includes approximately 3,750 active employees and cost $4 million for school year 1998. We tested 940 enrollees and found 53 former employees still enrolled, an error rate of 5.6 percent. Projecting this error rate to the total employees enrolled in the prescription plan, the CCBOE is paying an estimated $230,000 annually for prescription drug premiums for people who are no longer eligible.
There are many reasons for the errors. The health benefits rosters are handled by three employees, each reporting to a different supervisor. There is little or no communication between the three employees, evidenced by the fact that there is no consistency between the administration of the various plans. Errors that appear on one list do not appear on the others. Also, there is a lack of written procedures. Deletions from the listings are based on the superintendent’s monthly report which includes terminations and leaves of absence. Often, this report does not include all payroll actions requiring changes to the health benefit coverages. Direct communication between the payroll department and health benefits section would be more effective and should result in timely removal of terminated employees from the health benefits rosters.

**Recommendation**

We recommend the CCBOE change the organizational structure of its health benefits unit so that all staff report to one department. In addition, the plans must be compared so that enrollment is consistent among the different plans. Written policies should be developed and properly communicated to the responsible staff members. The policy should include improved procedures for the timely removal of employees from listings upon termination of employment.

**Auditee’s Response**

Effective August 1, 1999, the reorganization of the health benefits unit has been implemented via the transfer of all health benefits unit employees under that department.

All benefit plans will be cross-checked for enrollment consistency and written guidelines will be developed for health benefits unit staff responsible for monitoring employee benefits. The guidelines will include improved procedures for the timely removal of employees from benefits listing once their employment status so dictates.

Effective August 1, 1999, the Office of Human Resources has provided the Health Benefits unit with weekly updates on employees whose employment status may effect their health benefits coverage. Employment status may include but not be limited to employee deaths and leave of absences without pay.
Prescription Drug Program

Annual savings of $780,000 would result from changing the prescription plan management.

The CCBOE prescription drug plan is managed by a private company that was awarded the contract on an annual basis beginning in July 1997. The rate charged for the prescription drug program is currently $103 per month regardless of the level of coverage (e.g. single, married, etc.). Using the enrollment data for the State Health Benefits Plan (SHBP), we computed the cost of the current prescription drug plan compared to the premiums charged for the SHBP prescription drug plan. Based on enrollment of 3,573 employees times the rates for each plan, the CCBOE could save $780,000 annually by changing its prescription coverage to the SHBP. The largest difference is in the rate for single employees which is only $49 per month under the SHBP. In addition, the health benefit and prescription coverages would be managed by one provider. This would eliminate some of the problems regarding enrollments and terminations that currently exist.

Recommendation

We recommend the prescription drug plan administration be changed to the most cost effective plan.

Auditee’s Response

We do not disagree that there could be considerable savings if the Board changed its prescription coverage to State Health Benefits Program (SHBP). The prescription drug program for the Camden Board of Education employees is a negotiated benefit. The Board is currently in discussion about this issue.
Vision Care Benefit Plan

By changing the way it provides vision care insurance to its employees, the CCBOE could save $220,000 annually.

The employment contract between the CCBOE and its employees states that optical insurance coverage will be provided by the board. The board provides vision care through Vision Service Plan (VSP), a private insurance provider. The total annual cost is $278,000 ($6.50 per member per month). The managed health care plans, in which all but 670 employees are enrolled, provide vision care benefits at no additional cost to the board. All of these plans and VSP allow for periodic routine eye exams and discounts on glasses and contact lenses.

The board’s vision care benefit cost can be reduced by 80 percent to $55,000 annually if employees use the vision care benefit which is provided by the managed health care plans. The cost to the employee is limited to a five dollar co-pay. An additional benefit to the employee is a reduction in the cost of eye glasses and contact lenses. One managed care plan offered a 50 percent discount on glasses and frames compared to 20 percent from VSP.

Recommendation

We recommend the board eliminate the redundant vision care health insurance by terminating the additional coverage for employees enrolled in managed care plans. Coverage would still be required for the 670 employees and their dependents not covered through their health insurance plans.

Auditee’s Response

The optical insurance coverage for the Camden Board of Education employees is a negotiated benefit. The question of whether the proposal that the Board makes is “equal or better” continues to be debated. The Board is currently in discussion about this issue.
The CCBOE should examine its expenditures for administration and determine ways to reduce costs.

The New Jersey Department of the Treasury, Local Government Budget Review (LGBR) was invited by the CCBOE to conduct a review of their operations and to identify areas for potential cost savings. The LGBR report was issued in September 1996 and made numerous recommendations with regard to savings. One of the largest areas identified in their report was overstaffing. The board employs 4,400 full and part-time employees. Titles that should be examined for possible reduction include:

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<tr>
<th>TITLE</th>
<th>NO. OF STAFF</th>
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<tr>
<td>Instructional Assistants</td>
<td>756</td>
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<tr>
<td>Bus Aides</td>
<td>97</td>
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<tr>
<td>Lunch Aides (part-time)</td>
<td>600</td>
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<tr>
<td>Clerks</td>
<td>174</td>
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<tr>
<td>Clerical Aides</td>
<td>58</td>
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<td>Mechanics &amp; Helpers</td>
<td>51</td>
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<tr>
<td>Custodians</td>
<td>227</td>
</tr>
<tr>
<td>Community School Coordinators</td>
<td>55</td>
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Custodians
The board currently employs 227 custodians who are responsible for housekeeping, landscaping and other functions in 40 schools and administrative buildings. The LGBR reported 325 custodians employed during the 1995-96 school year. Through attrition, this number had been reduced by 100 custodians since that report. Using standards set by the *American Schools and University Magazine* for the New Jersey and New York region, we compared the regional averages to the CCBOE. The standard used as the average for the region is 17,760 square feet per custodian. Based on a total of 2.6 million square feet in the board operated buildings, they should need 143 custodians. While this is only an estimate of the number of custodians needed, it is 84 custodians less than is currently employed by the CCBOE.
An additional comparative measure of cost effectiveness is cost per square foot. The average payroll cost (including fringe benefits) for custodial staff for the region was $1.81 per square foot. When applied to the square footage in all board operated buildings of 2.6 million, the total custodial cost should be approximately $4.6 million. The actual cost for custodial payroll in Camden is $6.1 million. By staffing its custodians at a level closer to the standards noted above, the CCBOE could save at least $1 million.

Custodians also serve as night watchmen in the Administration Building and three other locations. Most of the buildings have burglar alarms and surveillance cameras and the use of night watchmen was eliminated in these buildings. The Jerrothia Riggs Adult Education Center has both of these types of security, but continues to be staffed by watchmen. The salary cost for the three watchmen in April 1999 at the Riggs Center was $6,700 or an estimated annual cost of approximately $80,000.

**Comparative Spending Guide**

The Department of Education issues an annual Comparative Spending Guide, “...to allow school officials and the public the opportunity to review and compare various components of a school district’s annual budget to other similar districts in the state...” This report further supports the conclusion that the administrative costs in the district are high when compared to 85 school districts in New Jersey with over 3,500 students. The total cost per pupil for the 1997-98 school year was $9364, the tenth highest in the group (out of 85). The district ranked 78th in the area of administration, spending $1,514 per student. Only seven districts in this category spent more per student on administrative costs. The cost per pupil in the comparative spending guide is different than the amount noted above because some costs are omitted by the Department of Education for its comparison.

**Recommendation**

We recommend the CCBOE take immediate action to reduce its administrative costs. Other findings in this report suggest some ways that immediate reductions in costs could be realized.
Auditee’s Response

The standard used by the Local Government Budget Review Team cited an American School and University Standard of one custodial staff person per 18,000 square feet of space with one night cleaning staff person for every 30,000 square feet of space. The L.G.B.R. recommended a reduction to 231 custodial staff. As stated by the Legislative Audit Team, Camden City Board of Education has only 227 staff, which is four less than the L.G.B.R. recommended.

Satellite Lunch Aides

The operations of the CCBOE food service program are accounted for in the Food Service Enterprise Fund and reported on annually in the CCBOE Comprehensive Annual Financial Report (CAFR). According to this report, the food service program reported a net loss of $544,000 for the fiscal year ended June 30, 1998. In addition, the enterprise fund received a transfer of $1.3 million from the CCBOE General Fund. Expenses of the food service program for fiscal year 1998 included $3.9 million in salaries and benefits. This amount included wages of $2 million annually for approximately 600 part-time satellite lunch aides. Their duties include escorting the children to and from the cafeteria, serving lunch, supervising the children during lunch and cleaning up after lunch. Most work in schools having limited kitchen facilities that serve prepackaged meals. Some of the elementary schools employ from 30 to 50 aides. The LGBR’s report on the CCBOE dated September 1996 recommended that the 721 part-time satellite lunch aides be reduced by 333. They reached their conclusion by performing a detailed analysis of the number of lunches served per employee at each school. The response prepared by the CCBOE to address recommendations in the report said that the reduction of number of lunch aides was being “seriously investigated”. While the current number is less than reported by the LGBR, further reductions may be needed.

The CCBOE should examine the need for the 600 part-time lunch aides on their payroll.
Hiring of satellite lunch aides is not approved by the CCBOE.

Pursuant to N.J.S.A. 18A:27-4.1(a), “A board of education shall renew the employment contract of a certificated or non-certificated officer or employee only upon the recommendation of the chief school administrator and by a recorded roll call majority vote of the full membership of the board.” The CCBOE does not approve the hiring of any part-time satellite lunch aides. Given the high turnover of these positions, the administration of the program does not think that board approval of all hires is practical.

Internal controls over the payroll for satellite lunch aides should be strengthened.

The payroll is processed by one employee at the central administration office, whose supervisor is located in an elementary school three miles away. The time records are sent to the administration office and entered into the payroll system to generate employee paychecks. The checks are prepared at the district’s data center and delivered to the employee who performs the data entry prior to the delivery to the employees. No other employee reviews the checks, other than the employee who inputs the data to create the paychecks. This lack of supervisory review and segregation of duties represents a significant weakness in accounting procedures. The employee responsible for the preparation of the paychecks should not have access to the paychecks. Review by a separate employee is essential to the accuracy and integrity of the payroll process.

In addition, neither the employees nor their supervisors sign the time cards or accompanying list of employees and hours worked. The supervisor at each school should review the time records for that location and certify the accuracy of the hours worked. We tested the payroll for the pay period ending December 15, 1998 by tracing the hours paid to the employees’ time cards. Of 51 employees tested, we noted errors in 24 instances. The largest overpayment was $55 and most were for pay of two to four hours. The significant fact is that almost half of the payments tested were not correct.

Another weakness in the time reporting of lunch aides involved reporting time for instructional assistants who sometimes fill in as lunch aides. The time cards for some lunch aides were not punched in and out properly. When we asked why, we were told that these employees
were full-time instructional assistants. We interviewed two instructional assistants at one school and they said that when functioning as lunch aides they never clocked in or out. They only clocked in and out using the time card for their full-time jobs. They had no knowledge of time cards relative to their part-time lunch assignments. This practice results in a risk that they could be paid for days when absent or did not work through lunch as a lunch aide.

Terminations from the payroll is another problem. We did a 100 percent test of the lunch aides at one school and noted that of 44 employees listed, 12 had not been paid during the current school year. Given the weaknesses in internal controls, it would be easy for a paycheck to be generated for a former employee and not be detected.

**Recommendation**

We recommend the CCBOE complete its investigation of the number of lunch aides and reduce the staffing wherever possible. In accordance with state law, all hiring must be approved by the elected board members. In addition, the board must institute procedures to improve internal controls over the payroll processing function for lunch aides. Separation of duties is needed between the data entry function and paycheck handling. Also, the accuracy of the hours paid must be improved and should be subject to supervisory review. Employees must properly punch in and out to record time worked and the list that accompanies the time cards should be signed by a supervisor to certify its accuracy. Employees no longer receiving paychecks should be removed from payroll promptly to reduce the risks of errors or abuse.

**Auditee’s Response**

Effective July 1, 1999, a feasibility study will be made at each school employing lunch aides to determine the actual number needed. The study will be completed January 1, 2000. July 1, 1999 the district’s records show that 332 lunch aides are currently employed at all of the schools, not 600 as stated in this report.

A process has been established, in conjunction with the Department of Human Resources, to place all new hired lunch aides on the board minutes. This was approved and passed by the Board in March 1999.
Internal Controls have been put into place to assure that the payroll processing functions are carried out properly. The separation of duties needed between the data entry function and paycheck handling has been established and is currently in place. A procedure has been put in place to assure that hours paid are accurately separated and reviewed by the Food Services Supervisor. All lunch aides have been required to punch in and out and the accompanying time card list must be signed by the location supervisor certifying its accuracy prior to forwarding it to Food Services for payment. Each location will notify the Food Services Office when an employee leaves the district. The Food Services will notify the Department of Human Resources of the termination and it will take appropriated action to remove the individual from the payroll.

Prior to July 1, 1998 employees could, and sometimes did, receive tuition reimbursements without satisfactorily completing or enrolling in the courses.

Tuition Reimbursements

Employees are entitled to tuition reimbursement or advance in accordance with the current labor contracts. The agreements stipulate the employee must refund the payment to the CCBOE if a grade and subsequent employment requirement is not met. During fiscal year 1998, tuition payments totaled $100,000. There were no documented procedures to ensure adequate controls over the tuition payments processed prior to the current school year. In addition, except for the invoices, all fiscal year 1998 supporting documentation for tuition payments could not be located.

Given this weakness, we used the labor contractual agreements as our criteria and documentation obtained from employees and colleges to perform our tests. Lack of adequate controls over this process resulted in improper payments and loss of money when payments made to employees not meeting the grade and employment requirements were not identified for recoupment. Our audit revealed the following:

- Tuition payments made to employees not meeting employment and grade requirements were not identified and recouped. Of 18 payments
tested, 12 payments totaling $6100 were not refunded to the CCBOE when resignation came prior to meeting the subsequent employment requirement. In addition, two payments totaling $300 were not refunded when the grade requirement was not met. In one instance, an employee refunded a tuition reimbursement, but only after he notified the board that he owed them the money upon his resignation.

- Reimbursement of $300 for credits purchased from a college that is excluded from the list of colleges approved by the New Jersey State Board of Education. The credits were for a portfolio assessment and not actual instruction or tuition.

- Reimbursement in 6 of 55 payments were for classes taken in the prior fiscal year using current fiscal year funds. Payments are on a first come, first served basis and should be for courses taken in the current fiscal year.

- Employees receiving an advance are not submitting official transcripts verifying they subsequently met the grade requirements in a timely manner.

Since the hiring of a new Director of Personnel, procedures have been developed and enforced and documentation maintained for the fiscal year 1999 tuition payments. Our review of these new procedures and records revealed the controls appear to be improved. However, no effort was undertaken by management to review payments made during those periods when controls were weak.

**Recommendation**

We recommend the Director of Personnel continue to strengthen, enforce and monitor the controls over the tuition payment process to ensure documentation is properly maintained, payments are properly distributed per CCBOE procedures and labor contractual agreements, and where grade or employment requirements are not met, payments are identified and recouped.
**Auditee’s Response**

The Office of Human Resources will continue to aggressively monitor the tuition reimbursement payment process, as implemented July 1, 1998. By September 30, 1999, all district employees will be notified of the strict enforcement of all processes and procedures for tuition reimbursement as per bargaining unit agreements, including July 1 - June 30 start and end date for fiscal year payments.

HR has recouped $2,865 in tuition reimbursement payouts for the 1998-1999 school year from employees who have failed to comply with tuition reimbursement requirements and the department will continue to vigorously monitor this process and pursue reimbursements.

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**Leave Records**

Payments to retirees and the maintenance of leave records should be reviewed to ensure accurate records and payments to retirees.

The CCBOE personnel office maintains leave records for all of its employees. Records are maintained either electronically or manually. We tested the leave records for 20 current employees and found that 13 had errors in their leave balances ranging from 0.5 to 11 days. The use of the computer eliminates mathematical errors, but we found errors in the posting of the manual records to the computer.

In addition, we tested 38 payments to retirees and deceased employees for unused sick leave and found errors on 23 payments. Total payments were $340,000 and the dollar amount of errors was $17,000. This included both over and underpayments.

Nonteaching staff also receive payment of unused vacation upon retirement. We tested 17 payments totaling $21,000. Errors totaling $7,000 were found in eight of these payments. The above errors are due to the lack of supervisory review of the amount to be paid after it is calculated.
The contracts for most CCBOE employees state that leave time is credited to an employee on the first day of the fiscal year or school year. The board credits each employee a full year’s leave in anticipation of the employee working the entire twelve month period. When an employee leaves before the end of the year there is not always a proration of leave time for the partial year of employment.

Payments for unused vacation time at retirement are not consistently calculated. We found three employees that received payment for unused vacation for the final year of employment. Although no other retirees received this benefit, some may have been entitled to these payments.

Based on board policy, vacation leave is calculated based on the employee’s salary divided by 240 days. The policy is based on 24 pay periods and ten days in each pay period. There are actually 10.9 days in each pay period and 261 working days in a year. By using 240 days in the work year for its calculation, the board is overpaying all unused vacation leave at a rate of eight percent. The payments tested of $21,000 should be $1,630 less when using the correct number of work days in the year.

**Recommendation**

We recommend the board develop a written policy that would be easier to follow and implement. This would provide more accurate and consistent leave records and payments to retirees. The current policy on the calculation of vacation leave should be changed to reflect the actual number of working days in the year.

**Auditee’s Response**

Effective July 22, 1999, the Office of Human Resources began intensive computer retraining of all HR personnel through Camden County Community College, in order to provide consistency of recording and reporting of HR data and information including but not limited to leave records, retirement payouts for unused sick time and vacation days.

Effective August 1, HR began implementation of new internal procedures designed to integrate discrete functions into more unified processes, thus reducing the potential for errors in reporting and recording. Each staff person who is responsible for an area of employee
attendance will also be responsible for leave time for that same group of employees.

Additionally, procedures between work sites and HR will be more intensely reviewed and revised to ensure accuracy and consistency in the calculation of employee leave time. By September 30, 1999, all employees at district work sites who are responsible for maintaining leave time will be in-serviced by HR on the proper procedure for handling leave calculations. By January 2000, a procedural manual will be in place.

By September 30, 1999, Human Resources will recommend to the Camden City Board of Education’s Policy Committee several policy changes, including but not limited to leave time for partial year employment, a recalculation of work days for twelve month employees, and more clearly defined regulations for consistency of calculation for payment of unused vacation time.

Communication Between Personnel and Payroll

The personnel and payroll units should work together to eliminate duplication of effort and increase internal control over the payroll process.

Lack of coordination between the payroll and personnel units creates inefficiencies and errors. The CCBOE has a contract with Edu-Met to provide computer software to perform most accounting functions including payroll and personnel. Within the Edu-Met system, personnel and payroll are two separate functions. While the two systems can work together, the CCBOE has chosen to keep them separate.

We compared salaries on both systems and noted over 200 differences. The CCBOE staff indicated that the payroll system was the more accurate of the two. Salary changes are often input into only the payroll system but not personnel. In many other instances, the change is input by both personnel and payroll. Often this is done by entering the data in the personnel system, printing the information and sending a copy to payroll to be entered again. This duplication of work increases the occurrence of errors in the input process. The Edu-Met system is capable of electronically updating payroll
using data in the personnel system. Since payroll staff also receive the paychecks, there is an internal control weakness because employees with access to the paychecks should not be able to change salary data. Changes to salary data should come from personnel. The payroll department can then verify the information using a report showing the old and new salaries.

**Recommendation**

We recommend the personnel and payroll departments work together to eliminate duplication of effort and to increase internal control over the payroll process.

**Auditee’s Response**

Effective August 1, 1999, Payroll and Human Resources began an examination of all functions to eliminate duplication and increase internal controls. Both departments began internal reorganization and both departments will submit new organizational charts for Board approval which will show linkages between the two departments. These linkages will be strengthened with appropriate checks and balances in place.

Guidelines will be developed for salary changes to be made through Human Resources. Payroll will verify the information through the utilization of comparison reports of new and old salaries.

Additionally, both departments have begun a thorough review and analysis of the current Edu-Met system with regards to upgrades or possible replacement.
Travel and Gasoline Allowance

Payments for mileage should be more effectively controlled.

The contract for administrators allows for annual mileage reimbursement of $.32 per mile up to $650. The CCBOE’s practice requires the submission of travel logs twice a year to report the daily mileage and the purpose of the trip. The total paid for mileage in fiscal year 1997-98 was $52,000. The board has no written policy regarding payments for mileage reimbursement. We tested a total of 46 payments for mileage and found 50 percent had either no mileage log attached or the mileage reported was overstated or questionable. In four of these cases the mileage logs appear to have been copied with only the dates changed. During one week an employee reported visits to twenty schools. During four other weeks in the school year the employee reported visits to the same twenty schools in the exact same order. Another employee’s mileage was similar to this employee’s except for a few minor changes.

Attendance officers and some support staff also receive travel allowances. Most had the required logs attached as evidence of business travel, but discrepancies were noted. In three cases, mileage was reported for weekends and days when the employee was out sick according to their attendance records. Some employees in titles that were not listed as being eligible for a mileage allowance were also paid this benefit. Mileage logs were due in November and May, but included mileage for December and June. Some logs noted these months as estimates, but others reported it as actual mileage for specific days. Travel should be supported by appropriate documentation, signed and approved by a supervisor.

Employees receive free gasoline for use in their personal vehicles.

The maintenance garage has a gasoline pump to provide premium unleaded fuel for board owned vehicles. Pursuant to their employment contract, attendance officers receive an allowance of 15 gallons per week. At least six administrators, who also received the mileage allowance, availed themselves of free gasoline at the maintenance pumps. During September 1998, one employee received 73 gallons of gasoline. Based on 15 miles per gallon, the employee would have had to
drive 1,100 miles on official business to justify the amount received. Through our discussions, we determined that two of these administrators worked primarily at the administration building and do little, if any, travel within the district. In addition, the purchase of premium unleaded gasoline cost the board $7,000 more annually than regular unleaded gasoline.

The employment contract for attendance officers allows them to receive three forms of travel payments. They receive gasoline from the board garage of up to 15 gallons per week. They also receive mileage reimbursement of $.32 per mile, based on the Internal Revenue Service rate, up to a maximum of $700 per year. In addition, they receive $200 per year for automobile insurance reimbursement.

**Recommendation**

We recommend the board prepare written procedures stating who is entitled to mileage reimbursement and how it will be paid. The current method allows for too many potential errors and overpayments. A more comprehensive review of mileage logs by supervisors is also needed. Access to the gasoline pump should be restricted to board-owned vehicles. Negotiations for future employment contracts for the attendance officers should include only payments for mileage reimbursement. The mileage reimbursement rate set by the Internal Revenue Service is intended to cover all costs of driving, including gasoline and insurance.

**Auditee’s Response**

Effective immediately, The Administration will visit other establishments to find a better method of keeping records and logs for gas.

With the help of the Labor Attorney, The Administration will present to the Board for approval an authorized list of people who are to receive gas.
Substitute Teachers

Substitute teachers are employed to fill in for regular teachers who are not available to cover their classes. The substitutes are paid at a rate of $70 to $100 per day based on experience and level of education. The CCBOE also applies this rate of pay to holidays, if the substitute works the day before and the day after the holiday. During fiscal year 1998, we noted $10,260 in payments to substitute teachers for holiday pay, in spite of the fact that there is no written policy providing for this type of compensation. All policies should be approved by the elected board members. The payments to substitutes for holidays are unauthorized.

Recommendation

We recommend the CCBOE pay substitute teachers only for days actually worked.

Auditee’s Response

The practice of paying substitute teachers for holidays has ceased. By August 30, 1999, all substitute teachers re-appointed by the Board for employment as a substitute teacher for the 1999-2000 school year will be notified by letter of substitute teacher working conditions, salaries, and procedures, per current board policy.

Garnishments of Wages

The board receives court orders requesting the CCBOE to withhold earnings of some employees and forward the funds to the courts for payment of judgments and child support. We noted one case where the money was withheld from an employee’s paycheck in error and later refunded to the employee. No adjustment was made to the CCBOE’s records and the payment was incorrectly made to the court. The internal controls in place are not adequate to detect errors of this type. We tested deductions from another 52 employees. For five employees, deductions were not consistently made from all paychecks tested. For one employee, deductions were taken from only 4 out of 19 paychecks. Total deductions ($300) were $1,500 less than the required amount. All five employees with errors were part-time employees whose earnings must be entered manually.
The payroll system will not automatically make the deductions unless it is properly programmed. We informed supervisory staff of the problem and some changes were made to ensure that proper deductions of garnishments were taken from part-time staff. At present, there are no written policies and procedures to direct the staff in performing these tasks.

Overtime and other types of extra compensation are not programmed to have an amount deducted for garnishments or child support. The order to pay is a predetermined bi-weekly amount for child support and a percentage of net income for most other types of deductions. If an employee receives an extra check for overtime, there is usually no deduction made for garnishments. One employee with a salary of $25,500 had earnings of $40,000. Only the regular salary amount was subject to garnishment. If a ten-month employee works in the summer, there is no deduction made for child support or other garnishments from the summer earnings. Another employee earned $3,700 in July and August 1997, but no deductions for child support were taken from his pay. The CCBOE violated the court order by not deducting and remitting payments of $688 to the court as required by law. In the case of child support, the board could be liable for failing to remit amounts as required by the notice to withhold. Pursuant to N.J.S.A. 2A:17-56.11, the spouse may commence legal action against the employer to recover the amount that should have been deducted, plus interest and attorney’s fees for failure to comply with the notice.

**Recommendation**

We recommend the CCBOE develop written procedures to ensure that garnishments are made in accordance with the court orders.

**Auditee’s Response**

We contacted the software vendor, Edu-Met, on July 26, 1999 to make the necessary changes in the Payroll System. This change will be made by September 1, 1999 and will enable the Payroll Clerks to deduct garnishments on all earnings in compliance with court orders.
Purchase and Utilization of Computers

During our audit, we observed several locations where computers were not installed or being used. In one case, 40 computers with a value of $60,000 at the time of purchase remained uninstalled over one year after receipt. In addition, we observed some administrators have more than one computer in their office because apparently some of the systems can only run on certain computers. Nevertheless, the CCBOE continues to purchase new computers without continuously performing a needs assessment.

The untimely installation of equipment is due to the limited staff qualified to perform the installation, incompatible security pads, and restrictions imposed by the Abbott ruling. Computers purchased with Abbott funds had to be encumbered by June 1998 and received by November 1998. Rather than lose the funding, computer purchases were made even though the CCBOE was not prepared to put them to use upon receipt and lacked the staff to install and secure them in a timely manner. In addition, the CCBOE was instructed that the computers could only be used by the specific school for which they were purchased and could not be redistributed to other schools.

Proper management of technology should include knowledge of computer equipment and a determination that it is being used efficiently. A review of requisitions should be made to determine whether new computer equipment is necessary and compatible with equipment and software already in use. Delivery of equipment should be scheduled to ensure timely installation and security.

Effective July 1998, the CCBOE created the Office of Technology and should be commended for their approach to identifying and resolving technology issues. Since inception, they have developed a District Technology Plan which states the board’s goals and objectives, the implementation strategies with a time line and a spending plan as they relate to technology. They have developed procedures and collected data that will allow them to have the management tools needed to assist in
informed decisions regarding the use, purchase and repair of the technology. However, purchasing of technology is not reviewed or approved by them. Therefore, purchases are made without the knowledge of whether the CCBOE already has the equipment elsewhere and without regard to whether it will function within their technological environment.

**Recommendation**

We recommend purchasing of new computers be closely reviewed until controls are improved, an assessment of available technology is completed, and current equipment is being used efficiently. The CCBOE has come to a resolution with the Department of Education regarding the computers purchased with Abbott funds. These computers have since been installed in the schools; therefore, no further recommendation is needed. Finally, the Office of Technology should review and approve future requisitions of technology equipment to ensure they will meet the CCBOE approved district technology plan and scheduling so that the CCBOE is ready to install and use them upon receipt.

**Auditee’s Response**

One of the areas identified in the 1999-2000 District Technology Plan is the identification and provision of appropriate hardware and software to serve administrative needs. The recommendation on the July board minutes to have the New Jersey Institute of Technology assist the district in accessing the status of administrative use of technology was the initial step in addressing this concern.

The Technology Department during the 1998-99 school year developed and implemented a procedure for conducting an inventory of all technology equipment in each school building and the establishment and maintenance of a school and a district data base of this information. Utilization of this database information by district and school staff will result in appropriate decision making regarding issues such as, the need to purchase additional equipment, upgrade existing equipment, redeployment and discarding of existing equipment. In addition, the Technology Department requested that all district schools submit by June a two year technology plan for their buildings and will con-
continue to provide technical support and monitor the maintenance of this information.

For future installation of unusually large quantities of computers, the Technology Department is recommending the establishment of a list of hourly rate employees, in accordance with hiring procedures, that can be utilized by the department on an as need basis to assist with immediate installations.

All technology purchases will be done in coordination with the Technology Department, which will review and approve all future requisitions of technology equipment.

Hydromagnetic System

The CCBOE contracted with a vendor to provide magnetic devices that would be attached to the pipes in the boilers and cooling towers in the schools to prevent and remove the build up of deposits in the systems. The devices were installed in 13 schools at a total cost of $175,000 in Abbott funds. In fiscal year 1997, the same vendor installed the devices in four other schools at a cost $105,000. An additional $30,000 was spent to install the magnets in the administrative building. The devices installed in Camden are comprised of a series of magnets that are attached to the pipes and covered with duct tape. Based on our research, the effectiveness of these types of systems is not conclusive.

Pursuant to N.J.S.A. 18A:18A-3, all purchases over $12,900 are subject to advertised bidding regulations. There were no bids or price quotes obtained. The statute lists some reasons why the schools may not have to get bids including “extraordinary unspecifiable services.” The statute defines these as services which cannot be reasonably described by written specifications. In addition, the statute states, “...the board of education shall in each instance state supporting reasons for its action in the resolution awarding the contract for extraordinary unspecifiable services.” No specific reason for not obtaining bids was provided to us by the
CCBOE. When we reviewed the official board minutes for the meeting when the purchase order was paid, we found no approval of the contract by the elected board members.

Using the Internet, we found two other vendors selling these types of devices. One vendor has been in business for 27 years. The vendor we contacted sells the devices for approximately $2,000 per inch in diameter of pipe. The CCBOE paid $30,000 for one magnetic device on an eight inch pipe. The device from the vendor we contacted consists of magnetic rods encased in stainless steel and would sell for approximately $16,000.

Reported benefits of the magnetic systems are to eliminate the need for using chemicals in the boiler systems and reduce maintenance costs. We observed three schools where chemicals are still being used in the boiler systems that had the magnetic systems installed. These chemicals perform the same function as the magnets and both should not be necessary in the same system.

**Recommendation**

We recommend future purchases of equipment be made in compliance with all applicable procurement statutes. In addition, the CCBOE should determine the effectiveness of the devices that are currently in place in its buildings.

**Auditee’s Response**

Pursuant to N.J.S.A. 18A:18A-3, all contracts for more than the bid threshold limit will be publicly advertised. Also, before the end of December, 1999, testing will be done to determine the effectiveness of the hydromagnetic systems.
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. Policies 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 identified system access is not traceable to specific individuals. The current method of assigning access to computer resources establishes user IDs that are generic and 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, passwords are not required to be changed at regular intervals. This increases the risk of the password 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. Currently, eight former employees, with separation dates occurring between April 1996 and November 1998, still retain business application access privileges. Two of these former employees had unlimited access. 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

Any employee who left the Board of Education and had a central computer account, had his/her account privileges terminated in July 1999. From July through September 1999, there will be a review of any existing board policies related to computer data management and the editing and/or creation of needed policies to ensure security of data access, accountability, password confidentiality, privilege suitability and timely termination of accounts. The board policy committee will be given all changes for review in October 1999, and pending board approval, in-service of staff will take place in January, 2000, with implementation immediately thereafter.

Operational Continuity

The board should implement formal plans to address the Year 2000 and other disaster recovery data processing contingencies.

Year 2000

Most older computer systems, including the district’s current NCR hardware and Unix operating system, store and refer to dates as a 6-digit number. The year is referred to by the last two digits and there is no reference to the century. Thus, when the calendar moves from 1999 to 2000, the year element of dates will change from “99” to “00”. The calculations that are performed using a two-digit year code will generate results that will range from misleading to disastrous, as the system will imply that the “true” year is 1900 instead of 2000. This will have obvious effects on processing which is date dependent and on calculations where dates are involved.

There is no formal district-wide Year 2000 plan that specifically acknowledges or addresses this issue. A Year 2000 compliant version of the business application has been installed by the vendor. However, the current operating system and hardware is not Year 2000 compliant. A district-wide strategy is necessary to provide a systematic approach to Year 2000 compliance. Critical issues to consider include assessment, budgeting, embedded systems, testing of all hardware and software products, and preparation of contingency
Implementing a structured planned approach can decrease the risks associated with the Year 2000 problem.

**Disaster Recovery**

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. Our review noted no formal disaster recovery plan or third party agreement to provide such assurance. Currently, the district relies upon verbal assurances from the business application vendor to make available the hardware required in the event of a disaster. In the absence of a formal recovery plan, either through a legally binding commitment by the vendor or other arrangements, the school district cannot be assured of the timely resumption of critical applications or the cost to accomplish it.

**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 core 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 Year 2000 (Y2K) upgrade path for the central computer, which is in progress, will be formalized into a district-wide policy by the end of September 1999. This policy will include the assessment, budgeting, and testing of all hardware and software products. A Y2K strategy, including contingency plans for the timely resumption of critical business processes in case of failure, will be developed by the end of October 1999 and submitted to the board for approval.
The district will review its existing disaster recovery plan, make needed changes and then formalize the plan for board approval by the end of November 1999. The plan will establish procedures and areas of responsibility, hardware and software support and staff requirements and costs. The plan will also stipulate expected recovery time and interim contingency procedures.