Department of the Treasury
Division of Pensions and Benefits
Selected Pension Services

July 1, 1998 to May 31, 2000

Richard L. Fair
State Auditor
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 Department of the Treasury, Division of Pensions and Benefits - Selected Pension Services for the period July 1, 1998 to May 31, 2000.

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

August 23, 2000
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Unpaid Loans</td>
<td>3</td>
</tr>
<tr>
<td>Death Claims</td>
<td>4</td>
</tr>
<tr>
<td>Salaries of Potential Retirees</td>
<td>5</td>
</tr>
<tr>
<td>Post-Retirement Employment</td>
<td>7</td>
</tr>
<tr>
<td>Periodic Medical Reexaminations of Disability Retirees</td>
<td>10</td>
</tr>
<tr>
<td>Disability Retirees - Annual Employment Earnings</td>
<td>11</td>
</tr>
<tr>
<td>Disability Retirements</td>
<td>12</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>14</td>
</tr>
<tr>
<td>Segregation of Duties</td>
<td>16</td>
</tr>
<tr>
<td>Access Security</td>
<td>17</td>
</tr>
<tr>
<td>Operational Continuity</td>
<td>17</td>
</tr>
</tbody>
</table>
Department of the Treasury  
Division of Pensions and Benefits

**Scope**

We have completed an audit of the Department of the Treasury, Division of Pensions and Benefits, Selected Pension Services for the period July 1, 1998 to May 31, 2000. Our audit included expenditure transactions accounted for in the Public Employees’ Retirement System (PERS), Police and Firemen’s Retirement System (PFRS), State Police Retirement System (SPRS), and Teachers’ Pension and Annuity Fund (TPAF). Annual expenditures of the selected pension trust funds were $3 billion. Each of the pension fund’s financial statements is audited annually by an independent accounting firm. Based on these audits and our survey, we limited our audit to the following issues:

- Retiree loan repayment
- Death benefit payments
- Salaries reported as basis for pension allowance
- Post-retirement employment
- Payment of disability retirements

In addition, we evaluated computer controls involved in the processing and maintaining of retirement applications and payroll for the period November 29, 1999 to March 31, 2000.

**Objectives**

The objectives of our audit were to determine whether expenditure transactions related to the above issues were reasonable and were recorded properly in the accounting systems. This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Additional guidance for the evaluation of computer controls was provided by *Assessing the Reliability of Computer-Processed Data* issued by the United States General Accounting Office, *Auditing Computer Applications* issued by
Auerbach, the *Handbook of EDP Auditing* issued by Coopers & Lybrand, and *Control Objectives for Information and Related Technology* issued by Information Systems Audit and Control Foundation. In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. We also studied computer system user, operation, and facility documentation that existed. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also reviewed reports of other auditors, the budget message, and financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

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

**Conclusions**

We found that the expenditure transactions included in our testing were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and compliance issues meriting management’s attention.
Unpaid Loans

The division should collect outstanding loans from all retirees.

Members of PERS, TPAF, PFRS and SPRS who have at least three years of service in the funds may borrow up to 50 percent of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4 percent. Currently, members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any pension benefits or continuing their monthly loan payment schedule into retirement. If a retiree dies before the loan balance is repaid, the remaining balance is paid from the group life insurance proceeds. Prior to July 1999, most retirees had to repay the loan before receiving retirement benefits.

From a listing of inactive outstanding loans, we identified 89 of the largest balances (totaling $1.1 million) that were never repaid. Some of these loans date back to 1984 and there were no payments collected since retirement. The division is aware of the unpaid loans which were due to input errors at retirement, but has not allocated resources to investigate them. There is no electronic interface between the retirement payroll system and the loan system. The division implemented a system in April 1996 to apply life insurance benefits against the outstanding loans. However, the loan would remain outstanding without interest for the duration of the retiree’s life.

Recommendation

We recommend the division review quarterly reports to identify the individuals who have outstanding loan balances and begin deductions from their pension benefits. In addition, the division should consider interfacing the current loan system with the retirement payroll system. This could eliminate omissions or input errors in recording outstanding loan balances of members pending retirement.

Auditee’s Response

Effective with the July 1, 2000 retired payroll cycle, the Division of Pensions and Benefits (DPB) implemented the outstanding loan balance automated interface suggested by the auditors. In addition, the division recently received approval to hire additional staff to audit retired member accounts. These steps will improve collection efforts. In any case, if the retiree
dies before the loan balance is paid, the pension funds are reimbursed for the outstanding loan amount from the death benefit payable to beneficiaries.

---

Death Claims

At the time of death of a retiree or an active member, a group life insurance benefit is paid to the designated beneficiary through the state’s insurance carrier. The total amount of death insurance payments annually is $160 million with $8 million in administrative fees paid to the insurance carrier. The division performs the calculations to determine the beneficiaries’ entitlements, initiates payment to the beneficiaries, and notifies the insurance carrier of the transactions. Benefit claims paid through the insurance carrier are billed to the division monthly for reimbursement including the administrative fee. We found the division does not reconcile the billings from the insurance carrier with the original benefit initiated by the division. Although we are not aware of any improper or duplicate billings, the possibility of overpayment exists.

We also noted the same insurance carrier has been the sole provider performing these duties since the 1950's with automatic renewal and without competitive bid. Although the division is not required by law to seek competitive bids, it would be prudent to do so.

Recommendation

We recommend the division reconcile the death benefit payments to the insurance carrier’s paid benefit claims to determine whether the payments are proper. In addition, we recommend the division seek bids for future contracts with insurance carriers.

Auditee’s Response

The DPB, in conjunction with the OIT, is reviewing the requirements necessary to develop a system that will automate the reconciliation process of death benefits initiated by DPB to the monthly billings of death claims paid by the insurance carrier. This system will require the insurance carrier to provide monthly claims paid data via transmission to the DPB. The transmitted data will then be interfaced with the division’s
Death Information Benefits System to determine the accuracy of the insurance carrier’s monthly billings.

Until this system is developed and implemented, the division is manually reviewing and comparing the death benefits initiated by the DPB to claims paid by the insurance carrier. Because of the high volume of death claims paid, the manual review is not being performed at a detailed member level. Instead, the division is reviewing and comparing the monthly totals initiated by the DPB to the monthly total billing amounts submitted by the insurance carrier. Also, the division continues to review the monthly claims paid reports received from the insurance carrier for reasonableness. Any claim that appears unusual in dollar amount is flagged and sent to the division’s Death Claims Unit for further review.

---

The division should compare potential retiree salary increases to others within that organization.

Salaries of Potential Retirees

The division has the responsibility of maintaining members’ salary history and calculating retirement benefits. Under each system, the amount paid to retirees is governed by rules that take into account a number of factors, including the length of employment service and the annual salary. It is often difficult for the division to determine whether the final salary has been improperly or unjustifiably inflated in anticipation of an employee retirement. The division relies upon the employers for reported salaries and has no independent means to verify the propriety of reported salaries by employers other than state government.

Currently, the division’s data system is programmed to identify for review an individual salary increase of 15 percent or more in the years preceding retirement. Salary increases in excess of 15 percent over the previous year’s salary may be considered a possible violation of state statute governing the definition of final compensation. The statutes prohibit salary adjustments granted primarily in anticipation of the member’s retirement. A recent report by the State Commission of Investigation stated “In order to avoid scrutiny by state pension regulators, such raises typically have been calculated to fall just below a threshold amount - 15 percent of a given annual salary - .....”
We compared salaries and increases of individuals who retired from January 1994 to January 2000 for PERS, PFRS and TPAF pension systems and found more than 200 instances where the retiring individual’s salary increase was greater than others in the same organization. This does not indicate that the salary increases were improper, but it does warrant further review by the division. Currently, only those increases above 15 percent receive such a review. A comparison of a potential retiree’s salary increases to others within the same organization could highlight individuals whose salary increases are above the average. It would provide the division another means to verify propriety of a retiree’s salary upon which their pension amount is based.

**Recommendation**

We recommend the division implement a procedure to compare the potential retiree’s salary history to other employees in the same organization to verify reasonableness and consistency.

**Auditee’s Response**

The division and boards of trustees share the audit concern of large salary increases granted in anticipation of retirement and is addressing this problem from several perspectives. These include revisions to administrative code, more stringent retirement salary edit criteria and an increased effort to ensure employers understand their role in preventing salary increases in anticipation of retirement. Within the past year the boards of trustees of the major retirement systems adopted rule revisions clearly defining the types of compensation that can, and can not, be included as compensation creditable for retirement and death benefits. In addition, the division initiated a data processing program request to reduce the edit tolerance for salary increases prior to retirement. This modification is being tested and should be implemented soon. A long-range objective is to implement more sophisticated automated audits, as suggested by the auditors. The division has commenced a study of its information technology systems and anticipates that a fully integrated data processing system will be designed in the future.

The education effort of the division has been multifaceted. It includes the publication of several articles in employer newsletters drawing attention to the problem, presentations to
employers and union groups at conventions and seminars, and the establishment of an employer education unit.

---

**Post-Retirement Employment**

In accordance with state statutes, retirees from PERS, PFRS and TPAF are permitted to work for private industry, the federal government or a government agency in another state without affecting their retirement benefits. However, any PERS retiree would be expected to re-enroll in PERS if their annual salary in a PERS-related public employment position exceeds $10,000. PFRS and TPAF retirees can return to work in a position covered by a different New Jersey state administered retirement system without affecting their retirement benefits, but the retirees have to re-enroll if the position is covered by the same pension fund into which they retired. We compared retirees to wage reporting records, state vendor files, and state payrolls to identify retirees currently re-employed. We found the following:

- Thirty-six PERS retirees, each earning more than $10,000, were in public employment covered by PERS. These retirees were earning wages of $1 million while collecting retirement allowances of $700,000. Twenty of these retirees are working for the same organizations from which they retired. The division does not have a procedure to identify retirees whose earnings in public employment exceed the $10,000 maximum.

- Four PERS retirees were being paid as state vendors for the same agency from which they retired. The division has not made a determination as to whether the retiree is an employee or an independent contractor.

- Thirty-six PFRS retirees were working for state agencies that participate in the PFRS and PERS retirement systems. They are collecting $1.2 million in wages plus their $1.4 million retirement allowances. The division does not have a procedure to verify that these employees are not performing duties similar to those from which they retired.
• Thirty-seven TPAF retirees are working for organizations covered by TPAF and PERS. They are collecting $1.2 million in wages plus their $1.5 million retirement allowances. The division does not have a procedure to verify that these employees are not performing duties similar to those from which they retired. It should be noted that 12 of these retirees are working for the same organizations from which they retired.

We found that the division does not currently monitor re-employment and relies on the retired member and public employer to report employment after retirement. For employers participating in multiple pension systems, it becomes difficult to determine the pension system in which the employee should be enrolled because the division does not have sufficient information about the re-employed retiree’s job duties.

Recommendation

We recommend the division develop a procedure to manage this re-employment issue and gain access to the wage reporting system to identify and investigate re-employment activity after retirement.

Auditee’s Response

The basic philosophy of operation of the pension systems has always been to rely on the employer to make proper enrollment decisions regarding new employees - including those returning to work after retirement from a public system. This philosophy requires an educated employer with the necessary publications defining the enrollment requirements of the various systems.

Over the past two years, the division has moved to strengthen the foundations of this philosophy of operation. We have created an employer education unit whose sole purpose is to visit and train benefits administrators in correct administrative procedures and identifies issues requiring special attention. We have also created a special employer newsletter, Updates, that keeps employers informed about changes in pension statutes, rules and administrative procedures and identifies issues requiring special attention. All our current publications are readily accessible and available to members and employers on our internet home page. We are currently in the process of rewriting our employer administrative manual in an HTML format to make it more user-friendly to the employer benefits administrators. We have also created an External Audit Unit to
audit employers to ensure compliance with pension and health benefits statutes.

The division is working to gain access to wage reporting records from the Department of Labor. It will use the information obtained when it conducts external audits of employers. It will also be used to follow up on individual cases that appear irregular. Access to this information will not be a panacea, however, because it will identify many working public retirees who are legitimately not enrolled in a pension system - all of whom will have to be checked out to find the few who should be enrolled. The wage reporting records also will not identify retirees who are working as consultants or independent contractors.

The issue of whether an individual is an employee or a contractor extends much further than its impact on pension membership. It affects state and federal income tax withholding, social security and Medicare tax withholding, unemployment and disability payments, and the ability of employers for federal and state penalties if they report incorrectly. Perhaps the issue should be addressed on this broader aspect by the state. The division has already addressed the pension aspect with employers by drawing their attention in a recent Updates newsletter to the independent contractor criteria established by the Internal Revenue Service. We are developing a questionnaire for employer use, based on the IRS criteria, to assist them in making the determination as to whether an individual is an independent contractor or an employee. We are also considering developing a form that employers would use to report hiring of a public system retiree. They would have to indicate that they enrolled the member or the reason why they did not enroll the member.

The division has never had sufficient staff to closely monitor the operations of the over 1700 participating local employers and has relied on employer competence and honesty, backed up by oversight by concerned citizens and the press. Even with recent staff increases and additional increases under consideration, the Division will still have to rely heavily on employers fulfilling their responsibilities.
The division should re-evaluate disability retirees on a regular basis.

Periodic Medical Reexaminations of Disability Retirees

Annually, the division processes 1700 disability applications. Upon receipt of a complete application, the division refers the application to a medical board within the division. The physician assigned a case makes a determination and recommendation to the pension board as to whether the applicant is disabled and no longer able to perform their job duties. Often, the medical board will recommend that a member be re-evaluated at some later date to determine whether their condition has improved, enabling the member to resume their former position. Our review noted that the division does not re-examine disability retirees.

We noted numerous instances of individuals that have been granted disability retirements from PERS, TPAF and PFRS positions and are working in private industry. They are not precluded from seeking employment. However, in some cases, these individuals may have similar jobs that they were determined to be unable to perform due to their disability. We noted the following examples where re-examinations may be warranted:

- A custodian for a board of education was determined to be disabled and could no longer perform the duties of a custodian as of July 1998. According to wage records, the same individual has been employed by a private maintenance company since retiring.

- A correctional officer was granted a disability pension due to problems in his legs from a stroke suffered ten years earlier. Immediately after receiving a disability retirement, the individual found employment with a private state contracted correctional facility.

- A teacher’s aide for a board of education was determined to be totally disabled in October 1998 with severe degenerative osteoarthritis of the knee, unable to stand or walk any distance. Wage records indicate that the individual has been employed at a geriatric medical services company since that time.
• We found instances where disability retirements were granted to individuals who are now being paid as state vendors providing care to developmentally disabled clients.

The division does not re-evaluate disability retirees on a regular basis. Periodic re-examination of these individuals could reduce the likelihood of disability pension payments to individuals who may no longer be disabled.

**Recommendation**

We recommend that the division develop a data base to identify disability retirees to be re-examined. This could be facilitated by utilizing wage reporting data files. In addition, the division could require certain disability retirees to undergo a periodic state conducted medical re-examination to determine whether their condition has improved.

**Auditee’s Response**

The issue of periodic reexamination of disability retirees is more complex than it appears on the surface. The disability retirement statues provide for periodic reexamination of retirees, however, retiree benefits can not be terminated until the member returns to work with a public employer. Since the statutes do not require the former employer to rehire the member and there is little incentive for the retiree to seek reemployment with another public employer, able bodied retirees will continue to receive benefits even though they are no longer disabled. Until the “catch-22" situation is rectified, the division will continue to conduct reexaminations upon request, when there is an employer willing to rehire the retiree.

**Disability Retirees - Annual Employment Earnings**

During our testing of disability retirees’ earnings, we noted instances in 1998 and 1999 where wage earnings as recorded by the Department of Labor and retirement disability allowances exceeded the retiree’s former salary. N.J.A.C. 17:2-6.14 provides that PERS and TPAF members retiring under a disability provision must refund such excess amounts to the pension fund. The excess occurs when the retiree’s earned income is greater than the difference between the pension and
the salary the retiree would have received had they not been disabled.

The division does not monitor disability retirees’ income earnings. All disability retirees are required to file a report with the division which includes copies of the retiree’s Internal Revenue Service tax forms and W-2 forms plus other proofs of employment. Currently, the division is not enforcing this requirement for their 7300 disability retirees.

**Recommendation**

We recommend the division monitor income earnings of disabled retirees. The division could use state resources to verify income for in-state retirees and enforce reporting requirements for out-of-state retirees.

**Auditee’s Response**

The division ran a pilot earnings test program last year in which we sent out letters to two hundred randomly selected PERS and TPAF retirees asking for earnings information. The program was not cost effective in that it generated considerable alarm and confusion amongst the retirees and only identified one retiree who may be earning enough income to affect her disability retirement allowance. Based on these results, we will modify our approach and continue the pilot program for another year. This type approach will always be required because access to wage earnings information would only identify members as working as employees in New Jersey. It would not identify independent contractors or out-of-state retirees. We will use New Jersey wage earnings information to identify disability retirees who are working who appear to exceed the earnings limit.

---

**Disability Retirements**

The federal Older Workers Benefit Protection Act effective October 1992 preempted various New Jersey retirement system disability statutes regarding age restrictions for disability retirements. As a result, employees over the age of 60 in PERS and TPAF, and over the age of 55 in PFRS were able to apply
for ordinary disability retirement if they otherwise met the requirements. The division has received a significant increase in applications, causing a corresponding increase in disability retirements as disclosed in the following chart.

**Number of Retirements Age 60 and Older**

Disability retirements are often more advantageous than normal service retirement. For many, there are substantial increases in their retirement allowance. This occurs when the ordinary disability benefit, which for members of the TPAF, PERS and PFRS equals 40 percent of salary, surpasses the benefit that would have been received had the member been retired on a normal service retirement. A 60 year old non-veteran PERS or TPAF member must have at least 24 years to receive a service retirement allowance equal to 40 percent of salary. In addition, the retiree may qualify for free health benefits coverage under ordinary disability retirement. The following table illustrates the difference between normal and disability retirement allowances.
<table>
<thead>
<tr>
<th>Age of Retiree</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years of service</td>
<td>15</td>
</tr>
<tr>
<td>Final Average Salary</td>
<td>$40,000</td>
</tr>
<tr>
<td>Normal Service Retirement Allowance</td>
<td>$10,000</td>
</tr>
<tr>
<td>Ordinary Disability Allowance</td>
<td>$16,000</td>
</tr>
</tbody>
</table>

Increased disability retirements has increased pension costs for the state and local governmental employers who participate in the state retirement system. The division is aware of the issues noted above and in 1995 researched alternatives, but has not proposed any changes to return the disability benefit structure to what was intended by the state legislature.

**Recommendation**

We recommend the division re-evaluate the impact of the federal mandate and propose disability pension rule changes.

**Auditee’s Response**

This is a problem that requires legislation, not rule-making, to fix. Any change would be difficult to enact because of anticipated opposition of labor unions protecting their members’ benefits. The division wants to develop a different approach to disability retirements, will research possibilities, and will propose legislation to enact the best approach.

---

**Administrative Costs**

The division issues over 180,000 pension benefit checks each month for the state’s 9 pension funds. More than 100,000 of these checks are issued via Electronic Fund Transfers (EFT) to retirees’ bank, savings or mutual fund accounts. Retirees who receive their monthly benefit via EFT also receive a nonnegotiable printed version of the check by mail. Paper stock, printing and mailing costs for EFTs could be eliminated if the division established dial-in phone centers or a secure Internet site where retirees could access information about their pension benefit. Discontinuing the printing and mailing of EFT
stub statements could save the pension funds as much as $400,000 a year.

**Recommendation**

We recommend the division discontinue the printing and mailing of EFT statements to retirees and establish dial-in phone centers and/or a secure Internet site for members to access information about their pension benefit.

**Auditee’s Response**

The recommendation to discontinue the printing and mailing of EFT statements (check stubs) to pension recipients is not a new one to the DPB. We previously studied this issue and determined that it was not feasible to discontinue sending check stubs at that time. Our rationale for that decision was that the check stub provides pension recipients with critical information regarding deductions from their monthly benefit for federal and state taxes, health benefit premiums, and dental premiums. Additionally, we use the check stub as a way to get critical information via check stub messenger to all retirees and beneficiaries. Consequently, we were concerned that eliminating check stubs would significantly increase the number of telephone calls coming into the division from pension recipients whose net monthly benefit has changed because of a change in one or more of the deductions. Also, additional mailings would have been required since the check stub could no longer be used as a vehicle to communicate with all pension recipients reducing somewhat the projected dollar savings that would be achieved.

Although we decided to continue sending check stubs, we made the decision that if we were to change our policy of sending out check stubs, it would be to providing EFT recipients with a stub anytime there is a change in their net monthly benefit. Also, this change wouldn’t be made until our automated telephone system was enhanced to provide pension recipients with an alternative method of obtaining information provided on the check stub. This enhancement occurred in August of 1999.

As a result, effective with the January 1, 2001 payment, EFT recipients will receive, on a pilot basis, a check stub only when there is a change in their net monthly benefit. Projected savings from this approach will be approximately $300,000 on an annual basis.
Programmers’ access to production data should be reduced.

Programmers have virtually unlimited access to production data. Due to the physical distance between the programmers and users, and the dissimilarity between the production and test environments, programmers cannot see first-hand problems encountered by the users nor can they replicate those errors in the test environment. As a result, programmers investigate and fix errors while in production.

When an agency establishes a data processing organization, proper recognition should be given to the achievement of internal control, important to which is segregation of duties. The same principle that calls for a separation of the functions of record-keeping, operations, asset custody, and internal auditing also applies to the separation of basic data processing functions. The improper segregation of duties that currently exists exposes the application to risk of impropriety in that 11 people have both operational knowledge and access to procedures and programs.

Recommendation

We recommend the number of programmers with access to production files be reduced and monitored. We also recommend the differences between the test and production environments be investigated and resolved.

Auditee’s Response

The number of Office of Information Technology (OIT) users with update capabilities will be reduced in accordance with the audit’s recommendation. To further reduce the risk, procedures will be put in place, which will require a written document be submitted to OIT prior to any changes to data being made. Inquiry access only will continue for the rest of the staff to allow for resolution of production problems.

Presently the Division of Pension is planning an IT initiative which will result in the redesign and development of a new system. At that time the issue of segregation of duties will be fully addressed along with the investigation of a development environment which mimics production, thereby eliminating the need for OIT personnel to have other than “read only” access to production.
The division should ensure that access to systems is commensurate with job functions.

Access Security

Fifty-one employees have access to retired payroll systems that are no longer appropriate to their job functions. Employees’ ability to access information not appropriate to their job function may lead to unauthorized access and compromising of critical programs and data.

Adequate controls over a computer system would require that access be granted appropriate to an employee’s job function. There is currently in place a well documented and well controlled method of issuing access privileges to the various retired payroll on-line systems. However, organizations do not remain static, neither do the employees in an organization. Access privileges should reflect an employee’s current job function; therefore, access privileges should be changed or removed when an employee’s job function changes.

Currently, the individuals who grant access to the retired payroll systems do not periodically review the appropriateness of employees’ current access to their systems. A report, by application of users and their level of access, which would make review easier, is not produced.

Recommendation

We recommend the division request the creation of a periodic report listing employees’ access privileges by application, and change or remove privileges that are no longer appropriate.

Auditee’s Response

In response to this recommendation, the DPB will prepare a request for IT services with OIT. The existing monthly reporting system will be enhanced to produce an additional report for section supervisors. This listing will delineate employees’ access privileges by application.

Operational Continuity

The retired payroll computer systems are operated at the Office of Information and Technology’s (OIT) River Road Data Center.
The Office of Information Technology should test its disaster recovery and backup plan and formalize this plan.

Industry technical standards mandate that a disaster recovery plan be exercised at a data center at least annually to ensure that it will satisfy a site’s processing requirements. The functions of such tests are to determine the ability to recover key processing components based on a documented set of instructions and assure that the measures in place will enable recovery and processing. The retired payroll systems’ programs and data have been successfully recovered in tests performed at the state’s recently contracted hot site. However, tests of processing have been limited to the issuance of retired payroll checks. Comprehensive tests of all critical application processing have not been performed, but are being planned as is the formalization of the individual applications’ operational continuity plans. Due to the limited nature of the test performed, the state’s ability to provide the required benefits to the systems’ 180,000 retirees in a timely manner could be weakened in the event of an emergency or natural disaster.

Recommendation

Although OIT has performed limited tests of the retired payroll system, we recommend OIT complete a comprehensive test within one year and formalize the disaster recovery plan. Additionally, this test should be exercised annually.

Auditee’s Response

OIT is presently negotiating the expansion of our network capability to our IBM Hotsite Provider (Sunguard). It is their intent, once this expansion is complete, to test full recovery of specific applications. Although there are procurement hurdles and funding issues to address, it is expected that this expanded network will be in place during the fall of 2000. Subsequently, the level of testing on the application can be expanded.