



State of New Jersey

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May 20, 2011

Dr. David Campbell
Superintendent of Schools
Cherry Hill Public Schools
45 Ranoldo Terrace
Cherry Hill, NJ 08034-0391

Dear Dr. Campbell:

Beginning in March 2008, the Office of the Inspector General for the State of New Jersey (OIG) commenced a review of some of the operations of the Cherry Hill Public School District (CHPSD). On June 29, 2010, Governor Chris Christie signed legislation effecting a consolidation of the functions of the OIG into the Office of the State Comptroller (OSC).

OSC is providing the attached summary outlining: (1) the former OIG's review; (2) the 2008 KPMG Operational Review and the 2007-2010 Wiss & Company LLP audits; and (3) recent follow-up (March 2011) to determine whether the CHPSD had addressed the concerns raised by the OIG, KPMG and Wiss & Company. We provide the attached for your information as well as to bring closure to the 2008 OIG review.

If you have any questions or comments regarding the attached summary, please contact me at 609-777-3104.

Very truly yours,

John Hoffman, Esq.
Director of Investigations

Cherry Hill Public School District Summary Review Concerning Operations and Internal Controls

Background

On October 9, 2007, the Cherry Hill Board of Education (CHBOE) hired Klynveld, Peat, Marwick and Goerdeler (KPMG) to perform an “operational review” of the 2005-2006 and 2006-2007 school years. The review was prompted by newly hired Superintendent of Schools David Campbell, who had requested that the Cherry Hill Public School District (CHPSD) obtain a “baseline audit” in order for him to gain a better understanding of the status and operations of the district. KPMG issued its report on March 14, 2008 and concluded that the CHPSD’s financial records were unreliable and internal controls were inadequate.

In a letter dated March 5, 2008, a Cherry Hill taxpayer wrote to the Office of the Attorney General calling for KPMG’s engagement to be expanded from an operational review into a forensic audit. The letter alleged excessive expenditures of \$750,000 to install a new school roof and \$100,000 for moving expenses. The Office of the Attorney General forwarded the taxpayer’s correspondence to the Office of the Inspector General for the State of New Jersey (OIG). From July 2008 through 2009, the OIG, which has since been consolidated into the Office of the State Comptroller (OSC), conducted a review of CHPSD operations and internal controls, and interviewed several past and present CHPSD employees. The OIG did not conduct a forensic audit of the CHPSD. In performing its review, OIG examined the roof and moving expense allegations and found them to be without merit.

Wiss & Company LLP (WISS) was appointed as the certified public accountant for CHPSD in April 2008. WISS has since issued audit reports for the 2007-2008, 2008-2009 and 2009-2010 school years. The ‘07-‘08 report by WISS had 35 findings, echoing many of the concerns stated in the 2008 KPMG report. The ‘08-‘09 WISS report had 14 findings and noted the significant progress CHPSD had made in improving operations. The ‘09-‘10 WISS report had four findings that were less consequential in nature than those from previous years.

Objectives and Methodology

The objectives of this review were to assess whether the CHPSD had adequately addressed the issues brought to light as a result of the KPMG Operational Review report dated March 14, 2008, the audit findings of WISS and the issues reviewed by the OIG.

Among other steps, we conducted interviews and reviewed appropriate documentation at the CHPSD in order to determine if the respective issues had been addressed.

Summary of Issues from the KPMG report

In 2008, as reported by KPMG, the CHPSD did not have effective internal controls in place for several key areas, including: human resources, payroll, accounts payable, purchasing, inventory, technology and financial reporting.

KPMG identified several weaknesses and deficiencies that required improvement:

1. CHPSD did not maintain formal policies and procedures for all areas and operations.
2. CHPSD did not develop or consistently use standard forms and/or checklists in many areas.
3. CHPSD did not provide guidance, direction or formal job training to staff, which led to confusion and inconsistency among staff regarding many aspects of daily operations.
4. CHPSD failed to monitor employee attendance to ensure weekly hours worked were in accord with district policy.
5. CHPSD failed to properly implement useful information systems in key areas including finance, human resources and payroll.
6. CHPSD did not ensure proper segregation of duties to reduce the possibility of fraud occurring.
7. CHPSD failed to educate staff in the importance of internal controls.

Actions taken by CHPSD since the release of the KPMG report

Since the release of the KPMG report in 2008, the CHPSD has implemented numerous new or updated policies and procedures, installed updated financial software, updated checklists and forms, provided employee training, updated required management reports and hired outside consultants to tighten its internal controls.

Several key personnel changes also have occurred. A new Business Administrator, Assistant Business Administrator, Purchasing Manager, and Accounts Payable Manager have been hired. CHPSD also has upgraded its accounting processes by adopting formal policies and standard operating procedures in key financial areas, along with implementing upgraded computer software. CHPSD replaced its Keystone operating software with Systems 3000 in July 2009 for its integrated accounting, payroll and human resource needs. Systems 3000 software is the prevalent system used by New Jersey school districts. Using Systems 3000, CHPSD is now able to run management-requested exception reports as needed. The software, when properly used, also provides numerous checks and balances that were lacking with the old system.

CHPSD also has implemented a new hiring process called Appli-Track, which is an automated application system used by prospective job applicants. This has streamlined the application process by cutting down on staff time, reducing paperwork and ensuring that required approvals are obtained in an organized and timelier fashion.

CHPSD also has deployed the Automated Substitute Placement and Absence Management System to manage employee attendance and ensure that classrooms are covered when teachers call out sick. The system also helps to ensure the fair allocation of substitute placements.

Unresolved Issues

Based upon interviews and review of documents, it appears that CHPSD has begun to address most of the issues contained in the prior KPMG, WISS and OIG reviews by hiring new, more qualified key personnel, installing updated operating software and heightening awareness of internal controls.

It is recommended that the CHBOE consider the following areas as improvement opportunities for the operations of the CHPSD:

A. Human Resource Performance

1. We noted a stronger system exists at the CHPSD for the evaluation of certificated personnel than for administrative staff or non-certificated personnel. While the bulk of CHPSD staff works in the classroom and is evaluated as a statutory or contractual requirement, the same cannot be said for the non-certificated staff.

Recommendations:

- Update or develop job descriptions for all CHPSD employees.
 - Complete annual written performance evaluations for all certificated and non-certificated employees.
2. KPMG noted that certain substitute teachers, who were retirees from the district teaching in specialized areas and in long-term substitute assignments, were receiving \$300 per day as salary. It was noted that CHPSD had reduced that rate from the prior amount in 2007 of \$500 per day. The Business Administrator and Human Resources Manager told us that the 2011 daily substitute teacher rate is \$80 and the long-term rate is now \$248 per day. However, that new rate has not been formally approved by the CHBOE.

Recommendation:

- CHBOE should determine if the current long-term substitute teacher rate is warranted and, if so, formally approve the rate.
3. KPMG reported a concern in 2008 relative to CHPSD hiring officials (i.e., principals) making reference checks of prospective applicants. The report concluded this is more appropriately a Human Resources function. The CHPSD Human Resources Manager acknowledged this is still the practice at CHPSD, but stated that more useful information often is obtained in these calls as opposed to calls made from one Human Resources person to another.

Recommendation:

- CHBOE should determine if the current process for conducting reference checks is appropriate in view of CHPSD's needs.

B. Administrative Matters

1. KPMG reported a concern regarding the handling of Student Activity Funds at CHPSD in 2008 related to the lack of proper cash management procedures and loose internal controls. This concern also was noted by WISS in 2008 and 2009. Some controls have since been put into place, including reconciliations of accounts at the elementary schools.

Such controls are needed at the district's high schools as well to ensure the proper handling and accounting of district funds.

Recommendation:

- CHBOE should work with its auditor to ensure proper controls are in place at all schools for the handling of Student Activity Funds.
2. It was noted that the Woodcrest School has been the site of an Underground Storage Tank remediation project since 1992. The CHPSD failed to file timely insurance claims to recoup expenses and had yet to complete the remediation effort as of January 2011.

Recommendation:

- CHPSD should pursue its insurance claim to closure, ask the New Jersey Department of Environmental Protection for updated guidance and develop a plan to address any other storage tanks on-site.
3. We noted that the CHPSD maintains its own fueling facility. A former Superintendent and the present Superintendent were allowed to fuel their vehicles at the facility. The former Superintendent was provided a vehicle at CHPSD expense by contract, with fueling privileges, while the current Superintendent is given an allowance in his contract whereby he can fuel his personal vehicles three times each month at the facility. This provision allows for the Superintendent to be reimbursed for using his vehicle for work-related travel. The OIG noted a concern over the lack of security at the fuel pumps resulting in a risk of unauthorized fueling. During our work, CHPSD reported an intention to cease the fueling operation and enter into an inter-local agreement to use the township fueling facility.

Recommendation:

- CHPSD should finalize the inter-local agreement with the township concerning the fueling facility.
4. The OIG noted that the CHPSD had accepted donations from service vendors in 2007 and 2008. The vendors had contracts with the district at the time they made the donations. While it appears the donations were legally permissible, they could create the appearance of an inappropriate relationship between CHPSD and its vendors and give the impression of a quid pro quo.

The OSC provided New Jersey government entities with a set of detailed procedures to follow in order to assist with the awarding of contracts for services. The OSC report, issued on March 4, 2010, entitled "Best Practices for Awarding Service Contracts," includes guidance to help entities avoid conflicts of interest.

Recommendation:

- CHBOE should review its policies to ensure the district maintains an appropriate “arms-length” relationship with its vendors.
- CHBOE should ensure all statutory guidelines and best practices are followed in the publication, bidding and award of professional service contracts by CHPSD.

C. Information Technology Matters

1. It was noted by KPMG and confirmed by this office that CHPSD does not conduct periodic reviews of access to the IT system for all its users. Such reviews are important to determine if former employees, or employees who no longer need access to parts of the system, still have access.

Recommendation:

- CHPSD should conduct periodic reviews, perhaps semi-annually, to ensure system access is limited to those employees needing such access.
2. It was noted that CHPSD has improved its process for the backup of systems data since KPMG initially reported concerns in 2008. Scheduled backups of all critical data, coupled with off-site storage, have significantly improved CHPSD’s data security. However, CHPSD is not periodically testing its backup data stored off-site to ensure the backup data could be used to bring CHPSD back on-line if needed.

Recommendation:

- CHPSD should test its backup data periodically to ensure it can be relied upon for disaster recovery purposes.