

**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**



ATLANTIC CITY

**A PERFORMANCE AUDIT OF
FINANCIAL MANAGEMENT PRACTICES**

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PA-07**

TABLE OF CONTENTS

Background	1
Audit Objective, Scope and Methodology.....	4
Summary of Audit Results	6
Audit Findings and Recommendations.....	8
Internal Controls.....	8
Fiscal Operations.....	9
Cash Management.....	12
Grants Management	17
Information Technology	20
Payroll and Personnel	24
City Council	28
Mercantile Licensing.....	31
Police Department	39
Reporting Requirements	45
Auditee Response	Appendix A

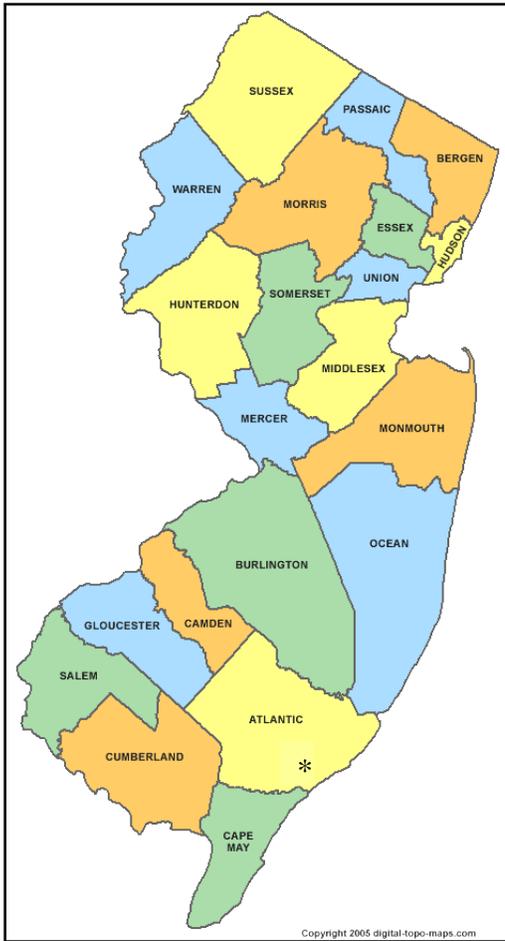
BACKGROUND

Atlantic City (City) was incorporated by an act of the New Jersey State Legislature on May 1, 1854. According to 2007 United States Census Bureau estimates, the City is home to 39,684 residents.

The City is governed under the Faulkner Act/Mayor-Council form of government. As chief executive of the City, the Mayor, who is elected for a four-year term, is responsible for enforcing all City ordinances and charter provisions, and for proposing the municipal budget in anticipation of review by the Council. The Mayor is not required to attend Council meetings and has no voting rights at those meetings.

The City Council is comprised of nine members, one from each of six wards and three who serve at-large. Each Council member is elected for a four-year term. The legislative power of the municipality is vested in the City Council, which may adopt ordinances and resolutions to regulate City government. Council members also review budgets submitted by the Mayor, provide for annual audits of City accounts and transactions, organize standing committees and hold public hearings.

The following maps show the location of the City within Atlantic County.

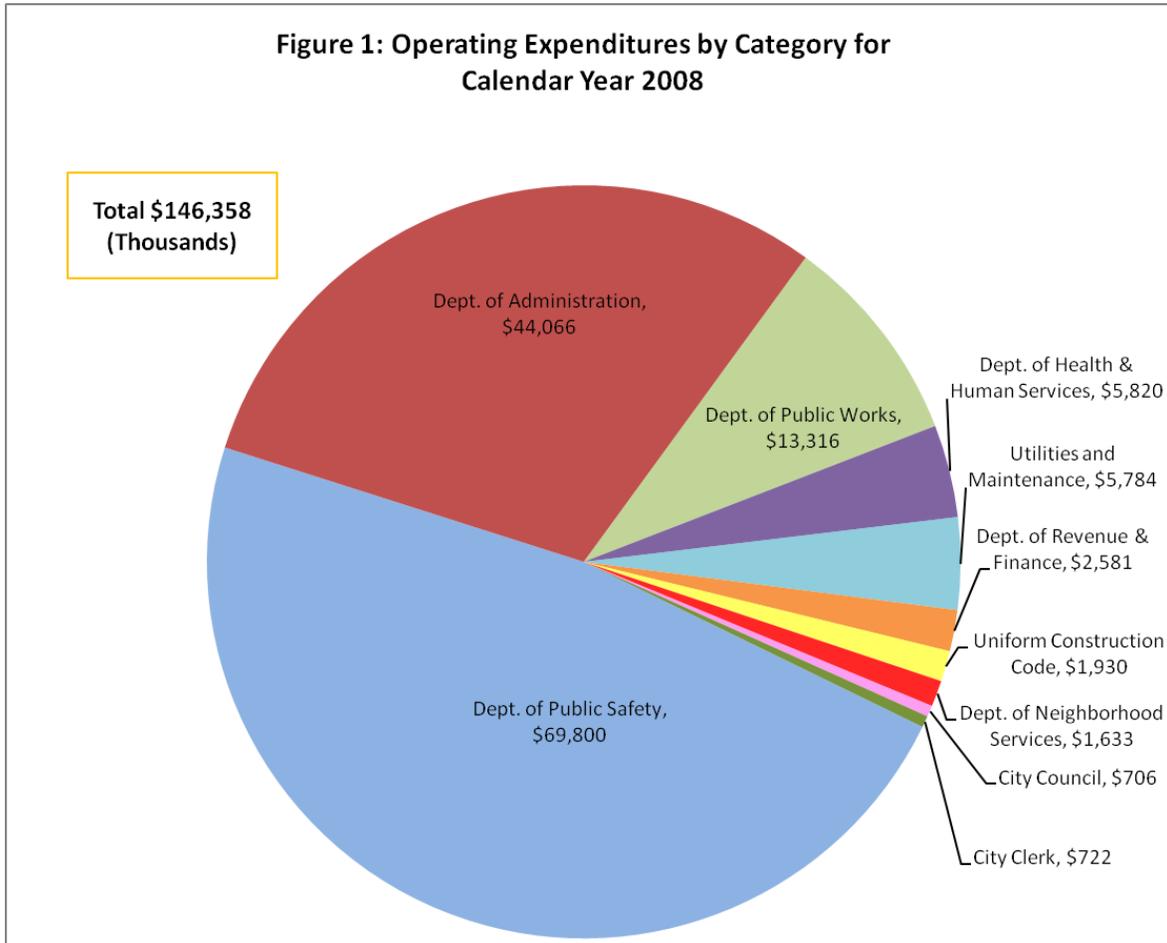


According to its audited financial statements, the City’s budget for calendar year 2008 was \$202,504,333 and actual expenditures were \$200,837,884. This resulted in an unexpended cancelled balance of \$1,666,449.¹ The 2009 budget was \$201,513,319 (audited actual expenditures were not available as of the close of our audit).

In addition, in calendar year 2008, the City received federal grant funds in the amount of \$3.6 million and state financial assistance in the amount of \$1.8 million.

¹ This information does not include the Atlantic City Municipal Utilities Authority and the Atlantic City Special Improvement District, which are component units of the City.

Figure 1 below depicts the City's calendar year 2008 operating expenditures.



AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our performance audit was to evaluate the adequacy of the City's internal controls over selected financial management practices for the period January 1, 2007 to the field work completion date of December 22, 2009. Specifically, we evaluated:

1. internal controls and selected fiscal operations;
2. cash management practices with emphasis on cash collections and disbursements;
3. grant management practices as well as utilization of awarded amounts;
4. effectiveness of the City's information technology (IT) operations;
5. payroll and personnel;
6. City Council staffing practices;
7. business license and inspection activities; and
8. Police Department operating practices.

This audit was performed in accordance with the State Comptroller's authority as set forth in N.J.S.A. 52:15C-1 et seq. We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), issued by the U.S. Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained in this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our objectives, we conducted interviews of City officials, management and staff. We identified and reviewed relevant laws, policies and procedures, and other documents. Using data provided by the City, we performed a review of expenditures and tests of transactions. We also reviewed

cash and grants management records, personnel and payroll information, business license and inspection records, and the City's controls over IT.

SUMMARY OF AUDIT RESULTS

Our audit identified widespread weaknesses in the City's financial management practices and internal control structure. These weaknesses manifest themselves across numerous fiscal and operational areas. Some of the more significant issues we identified in our audit include:

- The personnel structure of the City Council is contrary to State law. Specifically, based on the City's population, City Council members should not have aides. Yet, there are 11 such individuals employed at a cost to the City of nearly \$484,000 in 2008. They have little to do and there are few controls over their time and attendance.
- Properties eligible for foreclosure that are valued at \$9 million are not being foreclosed upon by the City, some even after many years of eligibility for foreclosure. By not properly utilizing an attorney who was hired to perform foreclosure work on the properties, the City is losing the benefit of the proceeds from these sales as well as the benefit of the ensuing property tax revenues.
- The City does not do an adequate job of contracting for and overseeing its grant consultant services. As a result, grant consulting services provided are costly and of marginal benefit to the City.
- The City's IT operations lack a dedicated staff, resulting in inefficient, ineffective, and unsecure processes.
- The City's payroll practices are vulnerable to abuse. For example, one individual was reportedly "volunteering his time" for the City, yet we found him on the payroll at a salary of \$51,500. We further found the City had waived the required 60-day waiting period for the individual's eligibility for medical benefits.

- City police officers received fiscally imprudent buyouts for their accumulated leave balances upon promotion. Compounding this situation is the granting of extended sick leave to officers which could last for periods of more than one year. We found that for the 15 officers most frequently taking advantage of this benefit, the cost to the City was \$1.8 million, or nearly \$122,000 per officer.
- The City is not effectively enforcing its Municipal Code regarding business license suspensions and revocations. Businesses are receiving licenses from the City without the required documentation on file such as health inspection certificates. Further, the City issued licenses to jitney² and taxicab drivers without required fingerprint and criminal history checks.
- The City has not addressed audit recommendations repeatedly made by its external auditor. We reviewed the City's audited financial statements for five consecutive calendar years. In 2008, there were a total of 20 audit findings, 7 of which carried forward each year from 2004.

Our audit makes 40 recommendations for needed improvements. We will follow up to ensure the appropriate corrective actions are taken.

² A jitney is a small bus that carries passengers on a regular route.

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Controls

Atlantic City's management has not established an effective system of internal control, resulting in weaknesses in key operational areas.

Internal controls are the methods and measures adopted within an entity to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Additionally, such controls should be in place to ensure compliance with applicable laws and regulations. Management is responsible for performing a risk evaluation of its operations including its fiscal environment and establishing an effective system of internal control.

We found that the City's policies and procedures are insufficient to foster an effective system of internal control. Key areas of the City's government are not subject to policies and procedures, and operate autonomously. Further, there was limited evidence of actions by the City's management to develop, evaluate, and monitor fiscal and administrative controls.

The following sections of this report discuss in detail the lack of controls in areas such as cash management, receipts and disbursements, and payroll, and the effect that the lack of such controls has had on City operations.

Recommendation

1. City management should perform its own comprehensive risk evaluation of the City's fiscal and operational environment. Based on the results of this evaluation, management should establish an effective system of internal control that mitigates risks and vulnerabilities. Management should train staff in the application of controls and monitor adherence thereto.

Fiscal Operations

Atlantic City's management has not addressed past audit recommendations, allowing the effect of weaknesses to continue unabated.

Financial accounting represents the process of recording, measuring, interpreting, and communicating financial data. Each transaction is represented in the system of financial accounting using balanced debits and credits, otherwise known as double-entry bookkeeping. Use of such an accounting system by government entities in New Jersey is required by N.J.A.C. 5:30-5.7.

We reviewed certified audit reports concerning the City as well as the annual reports prepared by the City and filed with the Department of Community Affairs' (DCA) Division of Local Government Services. We reconciled the 2007 audited financial statements to the DCA annual report with minimal differences.

Repeat Audit Recommendations by External Auditor

We reviewed the City's audited financial statements for five consecutive calendar years. In 2008, there were a total of 20 audit findings made by the City's external auditor, of which the following 7 carried forward each year from 2004:

- Inter-fund transfers³ were not reconciled and eliminated prior to year end.
- General ledger accounts did not agree with the subsidiary accounts.
- The planning escrow trust account was not maintained.

³ An inter-fund transfer is an accounting transaction which moves fund balances from one fund to another fund.

- Goods and services were being ordered and received prior to a purchase order being issued.
- Overtime was not being approved in accordance with City policy.
- The City tax assessor's map was not being maintained by the engineer's office.
- Sick and vacation leave accruals could not be verified for City employees.

The City's lack of progress on these issues and other matters identified in this report results in excess costs to taxpayers.

External Auditor Requirements

The City's external auditor did not maintain its independence as required by GAGAS. Specifically, we found that in accordance with a December 2008 contract, the City's external auditor has provided the City with various non-audit services such as preparing the City's financial statements and budget, and developing and implementing the corrective action plan to address audit findings. GAO Auditing Standard 3.22 prohibits an external auditor from providing such non-audit services that involve performing management functions or making management decisions.⁴ Simply put, the audit organization may not audit its own work.

Our audit also examined the City's contracts with its external auditor to determine whether the City violated New Jersey's "pay-to-play" laws. The pay-to-play statute prohibits a municipality from entering into a contract with a vendor when that vendor has made reportable contributions to certain political committees within the preceding year, unless the contract has been awarded pursuant to a "fair-and-open" process. In general, a "fair-and-open" process requires an advertised, competitive vendor-selection process.

⁴ GAO, *Government Auditing Standards (GAO-07-731G)* [2007] at 41.

Although in this instance no statutory pay-to-play violations were found, these contracts had numerous deficiencies. Contracts that had been advertised as part of a “fair-and-open” process recited that they were non-fair and open. Resolutions supporting the award of these contracts likewise misstated that the process was non-fair-and-open. In addition, appended to one of these contracts was a certification form regarding political contributions, but the certification did not refer to the external auditor, but rather to another, unrelated company. Although the contract was signed by City representatives, they did not correct the disclosure form.

Poorly crafted documents such as these create a false impression concerning political contributions by municipal vendors and the manner in which contracts are awarded to such vendors.

Based upon these contract documents, we reviewed the political contributions made by the City’s external auditor. We found that the external auditor did make contributions to several City Council members. A prior State Comptroller report, *Selection and Use of Audit Firms By New Jersey Government Units*, recommended that government units not hire any audit firm that has made political contributions in the year preceding the audit engagement.

Recommendations

2. Implement corrective actions to address the recommendations made by the City’s external auditor.
3. Require the retained audit firm to adhere to the GAGAS independence standard.
4. Carefully review all contracts and resolutions to ensure the accuracy of the information contained therein.

Cash Management

Atlantic City's controls over its cash management system need to be strengthened to safeguard City assets.

Cash management policies and procedures should include appropriate controls. Objectives of an effective cash management system include, among others:

- collecting and depositing revenues in a timely manner;
- complying with applicable laws, regulations, policies, and guidelines;
- protecting against fraud, waste, and abuse; and
- effectively monitoring and reviewing cash activities.

Cash Review

Our review of City receipts, disbursements, and bank statements found:

- Nine of the City's 35 bank accounts had minimal or no activity over the past 12 months. The original purpose of these accounts has expired or there are other duplicate accounts for the same purpose. The combined balance of these 9 accounts as of October 2008 was approximately \$429,100, ranging from \$49.02 to \$270,818.20.
- Numerous stale-dated checks were carried forward on the City's bank reconciliations. The dates on these checks went as far back as calendar year 2001. The total of all outstanding checks older than three years as of September 30, 2008, was approximately \$127,670. The Uniform Unclaimed Property Act, N.J.S.A. 46:30B-1 et seq., directs municipalities to treat checks that have not been cashed within one year as abandoned property. This Act also requires the municipality to transfer the abandoned property to the State.
- Bank reconciliations were not signed and dated by the preparer, nor was there evidence of management review. In addition, bank reconciliations

were performed manually when an automated process would be more reliable and save time.

Furthermore, upon visiting the City Clerk's office, we observed:

- The City vault is kept open throughout the day with no security or monitoring in place to protect the vault's contents, including undeposited checks, landlord/tenant records, and the checkbook for dog license fees and alcohol beverage license fees (which is kept on top of a filing cabinet and not in a secure location).
- The City Clerk signature stamp used to sign City checks is kept in an unlocked and unsecure location in the office of the Deputy Clerk. The stamp should be kept in a secure location to prevent its misuse.
- Per City practice, only one signature is required on all checks paid from the City Clerk's office. Dual signatures would help ensure proper segregation of duties.

We also tested license fees collected for 16 alcohol beverage control licenses, 26 dog licenses, and 10 bingo and raffle licenses for the period August 2008 through December 2008. We found no exceptions regarding the processing and timely depositing of such funds.

Lastly, we tested the propriety of 47 sampled cash disbursements (24 items from 2007 and 23 from 2008) totaling more than \$1.9 million. No significant exceptions were noted.

Bond Proceeds

We identified unexpended bond proceeds of approximately \$8 million issued for various projects going as far back as 1998. These funds have remained unused instead of being evaluated by the City to determine if the unexpended funds should be transferred to other pending projects or the outstanding debt retired. N.J.S.A. 40A:2-39 permits the transfer of borrowed monies from one project to another if the funds are no longer needed for the original bonding

purposes and the governing body authorizes the transfer of such funds by bond ordinance.

Property Foreclosures

The City continues to lose revenue as a result of not foreclosing on properties that are eligible for foreclosure. According to the City's condensed foreclosure listing, as of January 2009 the City held 218 properties eligible for foreclosure, with a value totaling \$9 million, one dating back to 1975.

In an attempt to resolve the backlog of foreclosures on these properties, the City sought to hire a foreclosure attorney and a real estate attorney. Following a Council resolution, the City entered into a contract with such a law firm in 2008 for an amount not to exceed \$125,000. However, the contract did not clearly delineate the scope of work expected from the firm. It merely stated that the firm would "represent the City in all matters assigned by the City Solicitor including, but not limited to, matters in the areas of foreclosure." This statement of work did not follow best practices for performance-based service contracts, which call for a specific description of the tasks to be performed.⁵

Information concerning the services actually provided by the firm presents contradictory pictures of the work completed. The applicable purchase order stated, "Foreclosure Matters \$100,000, ABC Board Matters \$20,000 and Tax Issues w/Atlantic County \$5,000." However, the City's real estate officer informed us that the attorney was immediately reassigned to the Mayor's office and performed no foreclosure work. Most significantly, we note that there were no foreclosures during the period of this contract.

IRS Violation-City Vehicles

Atlantic City assigns vehicles to City Council members and other City officials without restricting the personal use of these vehicles. The Internal Revenue

⁵ GAO, *Contract Management: Guidance Needed for Using Performance-Based Service Contracting* (GAO-02-1049) [2002].

Service (IRS) considers the personal use of business-owned vehicles as a taxable fringe benefit. The City is required to calculate the value of that fringe benefit and to report the value as income to its employees. In February 2009, the IRS assessed Atlantic City for taxes due based upon the City's failure to value these fringe benefits. The City settled with the IRS, paying \$41,534 in withholding taxes and other contributions for the more than 20 employees who received this fringe benefit in calendar years 2006 and 2007. The City did not recoup the amounts collected by the IRS from the employees that actually owed these taxes, thereby resulting in local taxpayers bearing the loss. We are referring this matter to the State Division of Taxation to determine if any State taxes are owed.

Property Revaluation

We confirmed that the City complied with the 2006 New Jersey Superior Court mandate to reevaluate all properties in the City.

Recommendations

5. Develop appropriate cash management policies and procedures to safeguard the City's assets. At a minimum:
 - Review activity in City bank accounts and close accounts that are not necessary.
 - Perform automated bank reconciliations and ensure they are signed and dated by the preparer and reviewer.
 - Ensure compliance with N.J.S.A. 46:30B-1 et seq. by canceling stale-dated checks and either return the funds to the bank account or escheat⁶ to the State as appropriate.

6. Maintain a sign-in/sign-out sheet for the vault within the Clerk's office.

⁶ As defined by the Government Accounting Standards Board, escheat refers to "the reversion of property to a governmental entity in the absence of legal claimants or heirs."

7. Secure blank checks in the City Clerk's office along with the signature stamp.
8. For checks greater than a specified threshold as determined by management, require at least two signatures on checks paid from the City Clerk's office.
9. In compliance with N.J.S.A. 40A:2-39, ensure that bond proceeds are transferred or utilized to retire outstanding debt when the funds are no longer needed for their original purpose.
10. Foreclose on eligible properties in a timely manner to generate revenue for the City.
11. Ensure that all service-related contracts follow GAO's guidelines concerning statement-of-work provisions.
12. Ensure compliance with IRS regulations regarding reporting of taxable fringe benefits. Discontinue the practice of paying such benefits on behalf of City employees. Consider recouping the cost paid to the IRS from the employees in question.

Grants Management

Controls over the City's grants management system are inadequate, resulting in poorly written grant consultant contracts that are not cost beneficial for the City.

Policies and procedures concerning management of federal and State grant awards should include appropriate controls. Objectives of an effective grants management system include:

- central tracking of all grant activity;
- adequate guidance and procedures to support the grant process from application to closeout;
- updating and maintaining the general ledger accounts to reflect grant accounting and reporting; and
- complying with applicable State and federal laws, regulations, policies and guidelines.

The City does not have formal policies or procedures in place to ensure an effective grants management system. In addition, there is a lack of communication among the City's departments regarding who is responsible for obtaining and monitoring grants. As a result, grants are not managed consistently throughout the City. While the City's Finance Department has begun to develop and establish formal guidelines, these guidelines have not been distributed and communicated to the City departments receiving grants.

One of the ramifications of not implementing an effective grant management system, as identified by the City's external auditor for two consecutive fiscal years, is that "several cancellations of receivables and appropriations balances were necessary." Further, in 2007 and 2008 the City's external auditor found the City's grant expenditures were not in compliance with grant requirements. The auditor also identified instances where expired grants no longer available to the City were nonetheless being carried forward in the City's financial records.

The City's Grants Analyst, who was responsible for writing grant applications and tracking all grants within the City, retired in January 2007. Since that time, the Grants Analyst position has remained vacant.

Contracts with Outside Grant Consultant

In March 2006, the City began contracting with a grant consulting firm. Our review of the contracts between the City and the consulting firm found the contracts were unclear as to what specific grant-related duties the consulting firm was to perform. The contracts merely stated that the consultant would "provide grant writing application services in good faith and in accordance with generally accepted accounting principles and the Governmental Accounting Standards Board." These accounting requirements, however, have no relevance to the grant-related services to be provided. In addition, as was the case with the foreclosure attorney contract cited earlier in this report, the City did not follow GAO-identified best practices concerning scope-of-work provisions in these performance-based service contracts.

We reviewed 26 grant consulting invoices, totaling \$150,000, for three contracts covering the period March 2006 through November 2008. Twenty-two of those invoices described the services performed simply as "monthly retainer" with no information set forth as to the nature of the specific services provided or hours spent on them. Further, the monthly retainers paid by the City were \$4,167 beginning in January 2007, then increasing to \$8,333 in June 2008. However, the terms of the June 2008 contract did not expand or add to the duties of the consultant. Thus, such an increase in cost does not seem warranted or cost beneficial for the City.

We further noted that contracting for a grant consultant was of questionable fiscal benefit to the City. For example, in 2007, the City received nearly \$4 million in grant awards, of which the consultant was responsible for \$270,000. Similarly, in 2008, the City received \$5.4 million in grant awards, of which the consultant was responsible for \$59,400.

By filling the vacant Grants Analyst position, the City could eliminate the need for a consultant, provide grant writing and application services to all City departments, and address other deficiencies related to the City's grants management practices such as ensuring that grant awards do not expire.

Recommendations

13. Develop written policies and procedures for the City's grants management process and distribute them to all relevant personnel.
14. Require all invoices submitted by the grant consultant to adequately describe the services performed prior to disbursing City funds.
15. Perform a cost-benefit analysis to determine if filling the vacant Grants Analyst position to manage the grants system would be cost beneficial.

Information Technology

Atlantic City's IT processes and operations lack cohesion, resulting in inefficient, ineffective, and unsecure IT.

Our review of the City's IT operations included an evaluation of:

- staffing and outsourcing,
- computer hardware and software inventory,
- system user access, and
- cellular phone usage.

IT Staffing and Outsourcing

The City does not have an IT strategic plan. Such a plan should describe the short-term and long-term initiatives that aim to provide for a safe and effective information technology infrastructure. Nor does the City have any IT staff to develop or implement such an IT strategic plan. In fact, there is currently no dedicated City employee that oversees IT activities. The City does have an IT committee that reports directly to the City Council. It is comprised of representatives from the City Council, as well as the Administration, Finance, Police, and Fire Departments. This committee has been working on plans to bring back internal IT staff for the past 18 months.

In January 2005, the City entered into a \$38,600 contract with the New Jersey Institute of Technology (NJIT) to implement a new financial system and evaluate the City's IT operations. The City subsequently agreed to pay NJIT an additional \$611,000 for additional work under this contract. The IT evaluation resulted in a recommendation from NJIT that the City outsource its IT operations. The City agreed, resulting in an August 2006 contract with NJIT to perform these outsourced functions at a cost of \$443,796. The outsourcing contract's scope of services encompassed the maintenance of the City's networked PCs, network, and servers, as well as desktop support. The contract did not, however, encompass IT operations of the City's Police Department.

The Police Department's IT operations are largely performed by police officers, except when specific requests for assistance are directed to the City's IT consultant.

From 2005 to date, the City awarded NJIT annual contracts, contract modifications, and special project contracts that were not subject to a competitive bidding process. As per N.J.S.A. 40A:11-5(2), as a public educational institution NJIT's consulting work is exempt from bidding and advertising requirements generally governing contracts awarded by municipalities and counties. However, in this instance, NJIT subcontracted its contract functions to a private company. That subcontracted work, in turn, was not subject to bid since it was considered by NJIT to be a sole source contract with that private company. On several occasions, the City paid the subcontractor directly. Taken together, these arrangements have the appearance of an attempt to avoid State bidding requirements.

In total, the City contracted to pay \$2,477,229 for IT services dating from 2005 to 2008, averaging \$619,307 per year. If the City were instead to hire one or two qualified individuals as staff members to oversee IT operations, it could experience substantial savings and have full-time dedicated staff available on a daily basis to serve all City departments.

Computer Hardware and Software Inventory

It is unclear who is responsible for safeguarding the City's computer equipment. When we asked City officials about procedures concerning such safeguarding, we were directed to the NJIT staff. After discussing the matter with NJIT staff, we learned that no such procedures had been recommended or issued. NJIT claimed the ultimate responsibility of managing the City's assets, including its data and IT systems, resided with City management.

From computer equipment records, we selected 14 pieces of equipment in City Hall for review. Four of the items were missing. Neither NJIT nor a representative of the City was able to locate the equipment.

Additionally, during our walkthrough of the Police Department, we observed new computer equipment still in its original boxes. When we asked Police Department personnel who were responsible for the equipment about the items, we were told the equipment had been sitting in boxes for several months because qualified staff was not available to set it up.

System User Access

We also reviewed the City's active directory, which governs user access to the City's computer network. Within the active directory, we found three individuals who could not be identified by City personnel, two terminated employees, and two retired employees. When we further tested access to the City's application system for financial operations, we found 15 terminated employees that had access, three of whom also had computer network access. Inappropriate access to computer networks and application programs presents a risk that a former employee or unknown individuals could obtain personal employee or confidential operational information, process or approve inappropriate transactions, or damage critical operational information.

Cellular Phone Usage

Lastly, we reviewed the City's cellular telephone management practices concerning overages billed to a City account. Testing of usage overages revealed that they were appropriately resolved. Thus, we concluded the City is following its Telephone Usage Policies and Procedures.

Recommendations

16. Develop and implement an IT strategic plan that includes short-term and long-term objectives. If the City determines, based on a cost-benefit analysis, to in-source IT, it should develop a plan to execute this objective.
17. Ensure that any outsourced IT functions are aligned with the City's strategic plan to be developed.
18. Task a City employee with overseeing any outsourced IT functions.

19. Ensure competitive practices are followed where possible if selecting consultants to perform IT work.
20. Develop and maintain an accurate inventory system for the City's IT hardware and software, encompassing all City departments. Conduct physical inventories regularly.
21. Ensure that all purchased computer equipment is installed and used, or returned to the vendor and a credit received for returned items.
22. Perform periodic user access reviews for IT systems. Maintain access levels consistent with employees' current employment status.

Payroll and Personnel

Atlantic City's payroll and personnel practices are inadequate, resulting in the potential for abuse.

On August 15, 2008, the City issued an amended Policy and Procedure Manual (Manual). Prior to amending the Manual, only classified City employees were required to report the use of sick, vacation, or personal leave time. This allowed appointed and other unclassified employees to operate under the premise that they had “unlimited time” to take at their discretion, thus affording the opportunity for abuse. Our review also found that despite the Manual requirement, some classified employees were similarly not submitting leave forms.

The amended Manual eliminated unlimited sick and vacation time. In its place, the City granted its 34 unclassified employees the generous package of 31 vacation days per year and 15 days of sick time. They were also credited with leave hours for any unused sick time accumulated during their entire career with the City. To accomplish this, the employees were asked to go back and document for the City the amount of their accrued/used sick days prior to 2008. However, in the absence of City time records, the City had no way to verify the accuracy of the self-reported leave information.

Biometric Clock Project

To increase accountability, the City entered into a contract in September 2007 for the purchase and installation of a biometric time tracking system to be used by all City employees. Biometric time clocks are a class of employee time clocks that use a person's biological attribute to record his or her time and attendance. In this case, the system implemented by the City requires an employee to place his or her badge through a scanner to record their employee number. The employee then places their fingertips on the device to confirm their identification. Biometric time clocks help cut down on misconduct such as “buddy punching,” which involves an individual clocking in on behalf of

another person. According to the former Mayor, the City implemented this system to “increase accountability ten-fold.” The Manual requires all City employees to use the biometric time clocks.

The contract for installation of the biometric system cost the City \$191,431. The City also purchased a \$4,500 payroll interface, which allows information to be uploaded from the biometric system to the City’s payroll system.

Implementation of the biometric system has suffered from a series of delays. Correspondence from the vendor dated June 27, 2008, stated that they are “trying to complete this project, in a timely manner, and get paid. Unfortunately, AC’s constant delays make this very difficult. At the current rate this project could take up to a year or more to complete.” As of November 25, 2009, the biometric clocks still have not been installed throughout all City departments. In those departments where the biometric clocks were installed, our audit confirmed that more than half of the employees are not utilizing the system, despite the requirements of the Manual.

The delays have resulted in the City continuing with its practice of manual timesheet reporting, in addition to some of the same employees also using the biometric clock. In our review of a three-month period, we selected ten manual timesheets for different employees and compared them to the biometric clock time reporting for those employees. We identified 12 reporting discrepancies between the biometric clock and the manual timesheets, such as differences in hours recorded as worked.

City employees continue to be paid based upon the time recorded on the manual timesheets even though the biometric clock should give an exact count of hours worked. By fully implementing the biometric clocks and payroll interface, the City could rectify its fragmented approach to time reporting.

Human Resources Practices

During our review of internal controls related to Payroll and Personnel, we identified a lack of segregation of duties in that Payroll personnel are responsible for entering new hires, terminations, and salary changes into the payroll system. These functions should be performed exclusively by the Human Resources staff to ensure that those employees producing and distributing pay checks do not also have the ability to enter fictitious employees into the payroll system or to adjust individual wages inappropriately. This weakness is compounded by the lack of documented performance evaluations to support purportedly merit-based pay increases. Such documentation is required by the City's Manual. We reviewed 14 employee personnel files and found that only two files had adequate documentation as required by the Manual. The other 12 files were missing employment applications, hiring approvals, proof of degrees, and performance evaluations.

Volunteer on City's Payroll

In reviewing the City's payroll system, we identified an employee whom the Mayor had described as "volunteering his time," rather than earning a salary. We found that the employee was, in fact, receiving an annual salary of \$51,500. In addition, contrary to the Manual, the City had waived the required 60-day waiting period for the commencement of this employee's medical benefits.

The Mayor, in an interview with our staff, explained that the employee was initially hired under the assumption that the City Council would approve the funding for the position to be filled. However, the City Council ultimately denied the funding for the position. As a result, according to the Mayor, the employee was not supposed to be receiving a paycheck for his time in City Hall. Rather, he was to be "volunteering his time" until a funded position opened up which he could fill. The Mayor explained that the employee's receipt of compensation was due to an oversight on his part to sign and submit termination papers for the employee to the Payroll Department. With regard to the waiving of the benefit waiting period, the Mayor explained that since the employee was

previously employed by the City, the Mayor had allowed the benefit waiting period to be waived.

Following our discussion with the Mayor, the employee was removed from his position.

Settlement Repayment

We verified that the Mayor and City Council President have made timely repayments to the City following the Superior Court of New Jersey's June 25, 2008 order requiring repayment of previously awarded settlement amounts. We did not review the merits of the settlement agreement. The settlement payments stemmed from a lawsuit by the now Mayor and City Council President against the City based on claims that their civil and constitutional rights were violated due to job termination from the Atlantic City Board of Education.

Recommendations

23. Complete the installation of the biometric clock system and implement the payroll interface.
24. Adhere to the Manual with regard to the use of the biometric clock system.
25. Adhere to the Manual with regard to the 60-day waiting period for health benefits.
26. Ensure that documents such as job applications and performance evaluations are completed and maintained as required by the Manual.
27. Properly segregate duties by requiring Human Resources personnel, not Payroll personnel, to enter into the payroll system all new hires as well as information concerning terminations and salary changes.

City Council

City Council personnel structure wastes taxpayer dollars and is not permitted by State law.

New Jersey law permits municipalities with a population greater than 270,000 and that have adopted the Mayor-Council form of government to appoint four aides for each Council member. State law permits municipalities with a population between 200,000 and 270,000 residents to appoint one aide per Council member.⁷ New Jersey law does not empower smaller towns to hire Council aides.

Council Aides and Their Work Responsibilities

Based on 2007 Census Bureau estimates, the City's total population was 39,684, which is significantly less than the population threshold specified in State law for the appointment of Council member aides. Nonetheless, the City employs 11 Council aides, with annual salaries ranging from \$22,000 to \$60,000. The annual cost of these aides to taxpayers is \$483,582.

We interviewed each of the 11 individuals serving as Council aides and found that 9 of the aides work exclusively for individual Council members. The remaining 2 aides work in the office of the Council but do not exclusively support any individual Council member.

We asked the nine aides assigned to individual Council members to provide any type of record detailing their duties on a daily, weekly, or monthly basis. Seven of the nine aides did not produce any such record. One of those seven aides stated that the only consistent duty she had was to monitor the *Press of Atlantic City* obituaries daily for individuals from her Council member's ward. The families of the deceased constituents were then sent a letter of condolence.

⁷ N.J.S.A. 40:69A-60.5.

Council Aides' Timekeeping and Leave Reporting

According to the City Code, any personnel appointed by the Council shall report to the City Clerk's office and be held to the general administrative procedures and requirements of that office. This reporting structure would ensure that these full-time Council aides (who work for part-time Council members) have sufficient work responsibilities throughout the day, that the aides report their leave time, and that a City official is confirming the amount of time worked from pay period to pay period.

In practice, the City Council aides are not accurately reporting their sick, vacation, and administrative leave time as required by the Code and the Manual. Further, City officials are not confirming the time worked by the aides during each pay period. In one instance, an aide was signed in on the City's timesheet but could not be located in the building by this office's staff for the entire day. No City official could identify the aide's location or what, if any, duties were being performed.

Council Member Vehicles

Eight of the nine Council members are assigned a City vehicle. None of those members maintain a log concerning the use of the vehicles. In fact, in the amended Manual, the City deleted previous requirements for elected City officials and City employees to submit vehicle travel logs substantiating appropriate use of vehicles. As a result, the City is unable to determine whether its vehicles are being used for appropriate business purposes. In addition, this lack of oversight exposes the City to potential liability claims stemming from any unauthorized use of a City vehicle. A more prudent arrangement may be to establish a mileage reimbursement policy for personal vehicles used for official business.

Recommendations

28. Eliminate the use of City Council aides and restructure the staff to conform with N.J.S.A. 40:69A-60.5.

29. Consider mileage reimbursement for Council members instead of assigning a City vehicle to each Council member. In the interim, require automobile usage logs of all Council members, documenting dates, locations and business justification for the vehicles' usage.

Mercantile Licensing

Long-standing practices have made the City's Mercantile License Section ineffective and wasteful.

The Mercantile License Section (Section) is part of the City's Neighborhood Services Department. This Section is responsible for issuing operator licenses to mercantile businesses; inspecting taxicabs, jitneys, limousines, and businesses operating within the City; and registering landlords and tenants. In 2008, the City spent \$586,557 on salaries and benefits for 14 full-time employees in the Section, including 8 License Inspectors, 2 Chief License Inspectors, 3 Clerk Typists, and the Executive Assistant who is in charge of the Section.

We interviewed several License Inspectors, who informed us that on a regular work day their duties consist of coming to the office, signing in, getting their City vehicle and proceeding to ride throughout the City looking for City Code violations. For example, they check taxicab lines for vehicles in violation of the City Code regarding inspection stickers, meter charges, routine maintenance and overall appearance of the vehicle. They also check jitneys and limousines for Code compliance. License Inspectors also walk the boardwalk looking for vendors selling items without a valid license. None of the License Inspectors are assigned to a particular ward or zone.

Our review of the eight License Inspectors' daily log sheets over a four-month period from October 2008 through January 2009 found that, on average, each License Inspector issued two summonses and three warnings per month. The Chief License Inspector does not sign the log sheets of the License Inspectors to verify the hours worked or that the duties performed were adequate. On one occasion, our investigators observed a License Inspector take his City vehicle home during his work hours for more than 45 minutes. In his daily activity log,

the License Inspector recorded this time as being spent inspecting rolling chairs⁸ at a casino.

At times, License Inspectors are also given clerical responsibilities such as delivering invoices to businesses or fulfilling other duties normally carried out by other City departments, such as Health and Sanitation. This is an indication that these inspectors are experiencing excessive downtime.

Enforcement of the City Code

We reviewed administrative orders given to the License Inspectors regarding the issuance of summonses to limousine drivers who mislead prospective passengers into thinking that the limousine service charges the same rates as taxicab services. According to a City employee, one common occurrence in the City is a hotel patron will ask a bell person to call for a taxicab to take him from his hotel to another location. Instead of calling for a taxicab, the bell person will call for a sedan car or limousine pursuant to an arrangement the bell person has with that car service. As a result, the patron is charged a higher fare than a taxicab would have charged.

Section 233-18G of the City Code, which sets forth rules governing limousine drivers, states, “Drivers shall not knowingly solicit business in a manner similar to that of a taxicab or attempt to solicit business by knowingly misleading a prospective passenger.” The City Code provides that a \$200 fine is to be charged for violations of that provision.

On December 12, 2008, the Executive Assistant in charge of the Section distributed an order to the License Inspectors regarding the Code section noted above. Pursuant to the order, License Inspectors are forbidden to issue citations concerning the above City Code provision and are instead directed to submit a report of any such incident to one of the two Chief License Inspectors. This order appears to create a barrier to Code enforcement and allows the unlawful practice described above to continue. When our auditors asked for the reports

⁸ Rolling chairs are chairs that are pushed by vendors to transport patrons from one portion of the boardwalk to another.

and citations that had been issued for violations of this Code section during the period October 2008 through June 2009, we were informed that no such reports had been submitted and, as a result, no citations were issued. According to the City official to whom the Executive Assistant and the Section report, the inspectors should issue citations whenever there is a violation of the City Code, despite the Executive Assistant's order.

Figure 2 on the following page is the order issued to the License Inspectors.

Figure 2: Order for License Inspectors



CITY OF ATLANTIC CITY

DEPARTMENT OF NEIGHBORHOOD SERVICES
REGULATORY DIVISION
MERCANTILE LICENSE SECTION
LANDLORD TENANT AFFAIRS SECTION

JACK IMFELD
EXECUTIVE ASSISTANT

CITY HALL - ROOM 120
1301 BACHARACH BOULEVARD
ATLANTIC CITY, N.J. 08401
TELEPHONE (609) 347-5315
TELECOPIER (609) 347-6113

December 12, 2008

To All Mercantile License Inspectors:

Effective immediately, no License Inspector will issue a summons for Ordinance 233-18.G, Drivers shall not knowingly solicit business in a manner similar to that of a taxicab or attempt to solicit business by knowingly misleading a prospective passenger, without my permission. If a License Inspector believes that a Limousine Driver is in violation of the aforementioned Ordinance, they are to write a legible report as to their observations along with contact information of the passengers and or complainants who will testify in Municipal Court.

It has also been brought to my attention that License Inspectors are directing Hotel Personnel not to call Limousine Businesses and then threatening them with a summons if they do. This practice will cease immediately. Any License Inspector found to be in violation of this directive will face disciplinary charges.

All License Inspectors will print and sign their name on this directive as having been understood and received. The original signed copy of this directive will be placed into my bin.

Print Name

Sign Name

Cc: Director Dooley

Incorrect License Fees Charged to Casino-Hotels

We found that since 2006 several casino-hotels have been charged incorrect license fees for rooms and parking facilities. At the time of our audit, four casino-hotels remained overcharged (due to duplicate billings) and two undercharged for license fees for rooms. Similarly, two casino-hotels were charged incorrect amounts for parking license fees. One was overcharged \$5,384 and the other was undercharged \$190.

Mercantile Business Owner Licenses

Chapter 170 of the City Code states that any person who engages in or carries on any business for goods or services in the City must obtain a license. Such license applications and renewals in the City continue to be processed on an automated system that the New Jersey Department of Treasury found to be faulty in a March 1996 report and that continues to be inaccurate and unreliable.

We tested 16 files pertaining to new and renewed licenses and found that none of the files contained all of the documentation required by the City Code, such as a copy of the license application, annual inspection reports, a land use certification, a valid photo identification of the business owner, a file copy of the license issued, a copy of the cashier's receipt, a health inspection certification, or a certificate of occupancy.

Additionally, we noted that a delicatessen in the City has failed for well over a year to pay health inspection fees resulting from an inspection that took place on April 4, 2008. As of October 26, 2009, the business remains open, even though the City Code states that if health inspection fees remain unpaid for more than 90 days, the license of the delinquent business shall be revoked.⁹

Lastly, during our review of license applications, we identified an establishment that was granted approval for a license in June 1998 for the purposes of selling, renting, and exhibiting rated and unrated videos, and selling books, magazines and related sundries. It was noted on the application that unrated adult and X-

⁹ City Code, Section 170-45.

rated movie titles were to be available in a separate section of the establishment with private preview facilities. This, according to the application, would be a “minority portion” of the business.

A certification from the company acknowledged that State criminal law prohibits the sale, distribution, rental or exhibition of obscene material and imposes limitations on the location of a sexually oriented business. The owner agreed in the certification that the business would not violate any of the prohibitions set forth in that statute. In addition, the company agreed that in the event that the establishment qualified as a sexually oriented business, as defined in N.J.S.A. 2C:34-6, the City would revoke the license.

Despite these conditions, in reality the business operated as an “Adult Novelty Store” and “Porn Shop,” as described by the City’s own License Inspectors in the course of their annual inspections. Photographs of the business are set forth in Figure 3 and Figure 4, below.



Figure 3- Date of Photo: 4/3/09



Figure 4- Date of Photo: 4/21/09

Despite the various inspections and documentation regarding the nature of the business over a period of years, the license remained in effect and the business open.

It was not until a letter complaining about minors peering into the windows of the business was received during the time of our audit that the City ordered that the business be closed for 30 days. Minors are now precluded from peering in the windows due to adjustments made to the windows, and a wall now separates the “adult” items from the rest of the store.

Jitney Licenses

We tested ten jitney licenses issued between June and December 2008. We found that all ten files reviewed were missing from three to ten of the documents required by the City Code. For example, eight of the files did not contain required criminal history checks. In addition, one of the license applications was signed on May 2, 2008. However, the notary stamp certifying the signature of the applicant had expired eight years earlier, on June 8, 2000.

The lack of appropriate oversight of jitney operations can result in employing jitney drivers of doubtful character, putting passengers at risk.

Taxicab Drivers/Owners Licenses

We reviewed ten taxicab driver and five taxicab owner license applications to verify compliance with City Code Section 233-2(e-x) regarding license issuance and renewals. Of the ten taxicab driver applications reviewed, only one file contained all of the documentation required by the City Code. The remaining nine files were missing between one and three of the required items. One out of five taxicab owner applications was missing a required document.

Recommendations

30. Train all staff regarding licensing and billing procedures, the City Code and other applicable laws.
31. Train clerical staff to ensure proper recording of information in the City’s accounting system and accurate data entry for rates and fees.
32. Assign each License Inspector to a designated section or ward of the City.

33. Require Chief License Inspectors to review daily log sheets to ensure adequate geographic coverage of City neighborhoods and appropriate monitoring of License Inspectors.
34. Invoice casino-hotels for underpayments and reimburse or credit casino-hotels for overpayments made due to errors in hotel room and parking space license fee calculations.
35. Revoke the license of any business failing to pay health inspection fees in a timely manner as per Section 170-45 of the City Code.
36. Provide a checklist of required documents to Mercantile License Section clerks regarding all licenses issued by the Section. Ensure that all documents required for licensure are requested, received, and maintained in appropriate files with respect to jitney drivers, taxicab drivers, limousine drivers, and other business owners.

Police Department

Various operating weaknesses and excessive use of extended leave by Police Officers exhaust City funds.

As of April 2009, there were 378 sworn police officers, 162 civilians and 50 school crossing guards employed within the City's Police Department. Ongoing City spending practices have exhausted funds that could have been used to enhance officer safety such as by equipping police vehicles with a computer system that would allow officers to run a license plate check or name check.

Accumulated Leave Buy-Outs Upon Promotion to Captain

Historically, Atlantic City police officers were entitled to receive a lump sum payment upon retirement for any accumulated unused sick time. According to the City's Policy and Procedure Manual issued November 27, 1992, "employees that belong to collective bargaining units shall accumulate sick leave and will be compensated for same upon termination, if permitted, pursuant to their respective contractual agreements." The sick-time payouts were based upon the officer's most recent rate of pay. No cap existed on the number of sick days an officer could accumulate. That practice runs counter to New Jersey State government practices, in which sick leave buyouts for State employees, including State law enforcement officers, are capped at \$15,000.

In 2004, the City entered into an agreement with the bargaining unit for senior-level police officers that changed the historical policy for sick time such that instead of having to wait for retirement, officers could cash out unused sick time upon reaching the rank of captain. Specifically, an amendment to the Superior Officer's Association (SOA) contract, dated May 12, 2004, provided that "any officer promoted to the rank of Captain after July 1, 2004 would be paid for all his/her accumulated sick leave as a lump sum as of the date of the promotion." The amendment provided that the lump sum would be calculated "at the full rate of pay in effect for that officer as a Lieutenant on the date of the officer's

promotion to Captain.” Under the amendment, those officers promoted to captain were then entitled to use unlimited sick time going forward but would not be entitled to further cash-outs of sick time.

However, the concession made by those officers not to accept further sick-time cash-outs was negotiated away in December 2007 when the SOA contract was amended to once again allow for the accumulation of credits for up to 15 days of unused sick time each year, even following the promotion to captain. This allowed officers to receive a second buyout of sick-time credits, limited to 45 days, upon future promotions or retirement. We have alerted the Division of Pension and Benefits to these sick-time buyouts to ensure the payments are not treated as pensionable compensation.

The ability to cash out sick time before retirement and the practice of allowing unlimited sick time or unlimited sick-time buyouts are not in the best interests of taxpayers, particularly when considering that the early buyouts have continued even through very difficult financial times for the City.

For example, one round of sick-time cash outs was approved over the objections of the City budget officer, who warned that Police Department funds were near depletion. Specifically, on November 5, 2008, the City’s budget officer sent an e-mail to the then Mayor to “strongly recommend” that 12 planned promotions in the Police Department “not go through” because the City had only a small amount of excess funds. The funds, according to the budget officer, were needed for police overtime that had been committed for upcoming holidays and special events. A day after the e-mail, the City promoted two officers to captain, paying out \$130,590 for accrued sick time. The City also promoted two officers to lieutenant and eight officers to sergeant. In addition to the sick-time payout, the 12 promotions cost the City \$139,488 annually.

Accumulated Leave Buy-Outs for Deputy Chiefs

On at least one occasion, the City attempted to grant a pre-retirement sick leave buyout not provided for in any collective bargaining agreement or associated with a promotion.

On November 3, 2008, the then Mayor, who was eight days away from leaving office, signed memoranda of understanding (MOU's) with three deputy chiefs that compensated the officers for unused sick time. One of the three deputy chiefs had already received a sick-leave buyout on April 20, 2005, upon his promotion to captain. His MOU called for the City, among other things, to adjust that previous buyout to calculate it at the deputy chief's now higher rate of pay.

Resolutions approving the three deputy chief sick-time buyouts were scheduled to appear on a City Council agenda for April 8, 2009, but were removed after a letter was sent by this Office concerning the proposed arrangement. If passed, the City would pay \$530,106 to compensate the three deputy chiefs for unused leave time. As of this writing, the resolutions have not been voted on by the City Council.

Use of extended sick leave

The collective bargaining agreements for the City's rank and file police officers are negotiated by the City and the Policemen's Benevolent Association (PBA). We reviewed PBA contracts and associated time records for 1996-2002, 2003-2007 and 2008-2012, focusing specifically on the extended sick leave policy.

Sick leave for Atlantic City police officers that extends beyond 15 continuous working days is classified as extended sick leave. Officers are entitled to take extended leave for as long as a year, and there is no cap on the amount of times an officer can go out on extended leave. While on extended leave, officers receive full salary and also continue to accrue sick time and vacation time.

We found there is a lack of controls over the City's approval of extended sick leave. Specifically, we found there is no medical review board that reviews the claims submitted or monitors potential abuse of such sick-leave time. Also, the PBA contract does not provide limitations concerning the types of injuries that entitle an officer to take extended sick leave. Extended leave requests are approved by one of the Department's ranking officers.

During the period January 2006 through December 2008, a total of 104 City police officers were out on extended sick leave, 35 of whom took extended sick leave multiple times and four of whom took extended leave time that exceeded the one-year limit set forth in the PBA contract.

We reviewed records concerning the 15 officers who took the greatest amount of extended sick leave between 2006 and 2008. We found those 15 officers took an average of 105 days of sick leave per year at an average cost over that three-year period of \$121,967 per officer. The City paid out a total of \$1,829,508 to those 15 officers during their leave (\$1,492,017 for salary compensation and \$337,492 for negotiated items such as uniform allowance and longevity pay).

The failure to monitor the granting of extended leave or to cap the amount of extended sick-leave time that can be taken can result in positions being left unstaffed for extended periods of time, large buyout amounts due to the continued accrual of sick time, and abuse of the leave policy. These failures can have a significant negative impact on the City's budget.

Timekeeping

Our review of payroll and timekeeping within the City's Police Department found several flaws that raise questions regarding the accountability and accuracy of employee timekeeping.

There are two civilians employed within the Department who are responsible for keeping track of time for all police and civilian personnel. The timekeeping procedures used by the Police Department are antiquated and tedious. The personnel overseeing this function are inundated by paperwork that is comprised of scheduling reports, overtime reports, roll call sheets and a six-year calendar. In order to process payroll within the Department, the civilians manually transfer information from the computerized Police Officers Scheduling System (POSS) to the six-year calendar and then type the information into the accounting system. The POSS is simply a scheduling module used for duty assignments and overtime approval.

With regard to overall attendance and leave time, employees are not required to submit leave request forms. Nor are they required to use the City's biometric time clock or other form of timekeeping attestation. In addition, every captain, lieutenant, and sergeant can make or change entries regarding time entered for officers within the POSS. As per the Police Department's internal policy, General Order Number 15, "the commanding officer of a unit has the discretion to assign and/or delegate to a subordinate . . . the assignment of entering daily schedules, schedule changes, or exceptions, and overtime into POSS." This practice, if not properly monitored, can lead to erroneous entries in the system because too many employees are authorized to make edits.

Court Security

We also looked at court security issues involving City police officers. We found the Police Department was not in compliance with Directive 15-06 of the New Jersey Administrative Office of the Courts, which requires all municipal courts to have a security plan that includes armed law enforcement personnel in each courtroom. During our audit there were no police officers assigned to work in the municipal courts and no such security plan was implemented. The failure to comply with the directive endangers both court employees and those appearing in court.

(On November 20, 2009, the City's Business Administrator advised us that officers are now staffing the municipal courtrooms. We will follow up to ensure that such staffing is being carried out.)

Recommendations

37. Upon renegotiation of the PBA and SOA contracts, the City should address the issues of extended sick leave as well as accumulated time buy-outs. The City should specifically address:
 - a. Capping the amount of time and number of times an officer can be absent from work due to extended sick leave.

- b. Capping the number of vacation and sick days that can be accrued while on extended sick leave, especially when the extended leave time exceeds one year.
 - c. Revising the additional allowances paid to officers while out on extended sick leave.
 - d. Defining the types of injuries or illnesses that would permit an officer to be out on extended sick leave.
 - e. Eliminating prior to retirement and limiting upon retirement the lump sum payments received for accumulated time.
38. Limit the number of users that may access the POSS and add or change entries.
39. Consider the need to upgrade the use of safety-related technology in Police vehicles.
40. Ensure compliance with the Administrative Office of the Courts' Directive 15-06. Officers should be assigned to work in the municipal courts to ensure the safety of court personnel as well as those required to attend.

Reporting Requirements

We provided a draft copy of this report to City officials for their review and comment. Their comments were considered in preparing our final report, and are attached as Appendix A.

The City limited its response to what it believed were the more significant issues. Accordingly, to meet the statutory requirement outlined below, we will, after issuance of our final report, obtain from the City a comprehensive Corrective Action Plan.

We are pleased to note that the City's response indicates that the City already has considered and taken steps to address several of the findings in our report, particularly in the areas of developing an exit strategy for the IT consultant, terminating the contract of the grants consultant, and re-instituting a medical review board.

Regarding the issue of City Council aides, the City refers to steps it is taking and notes that it is exploring whether to seek an "exempt[ion]" from the limits imposed by State law. Particularly in view of the apparent lack of work responsibilities of these aides, we emphasize that our recommendation requires the City to eliminate the unlawful use of such aides and restructure its staff accordingly.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, the City shall report periodically to this Office advising what steps have been taken to implement the recommendations contained herein, and if not implemented, the reason therefore.

CITY OF ATLANTIC CITY

Lorenzo T. Langford
Mayor

Telephone (609) 347-5400
Fax (609) 347-5638

January 15, 2010

William P. Challice, CIA, CFE, CGFM
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, New Jersey 08625-0024

RE: Corrective Action Plan – State Comptroller Draft Audit Report

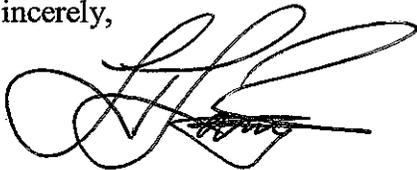
Dear Mr. Challice:

Enclosed herewith, please find the response to the State Audit for the City of Atlantic City.

If you have any questions, please contact Michael A. Scott, Business Administrator at (609) 347-5245.

Thank you.

Sincerely,



Honorable Lorenzo T. Langford
Mayor

LTL/kmt

C: Michael A. Scott, Business Administrator

CITY OF ATLANTIC CITY

Department of Administration

City Hall – Suite 701

1301 Bacharach Boulevard

Atlantic City, N. J. 08401-4603

(609) 347-5245

Fax (609) 347-5249

e-mail: dcarrington@cityofatlanticcity.org



Duaane B. Carrington, Sr.

Budget Officer

MEMORANDUM

To: Michael A. Scott, Business Administrator

From: Duaane B. Carrington, Sr., Budget Officer 

Date: Friday, January 15, 2010

Re: **Corrective Action Plan – State Comptroller Draft Audit Report**

Sir, after reviewing the draft audit report with the appropriate Offices, Sections, Divisions, and Departments, I humbly submit the following responses from the respective Offices, Sections, Divisions, and Departments to the draft audit report. Please note that a response was not deemed for all of the comments under the heading of "Summary of Audit Results", on page 6 in the draft audit report. The response format will refer to the actual comment in the draft audit report with respect to the page number, and bullet.

Due to the fact that the all encompassing nature and volume of the draft audit report would have lent the City's responses to the same volume. The draft audit report was reviewed with staff in its entirety and in the interest of time the City limits its responses to the more significant issues that were identified in the draft audit report.

Page 6:

Issue #1: The personnel structure of the City Council; is contrary to State law.

Response: This issue has been discussed with the legislative branch and this administration has taken the first step by placing a limit on the employment term of the Aide to the Councilperson (*in-house title*), when the Councilperson's term expires the aides employment is terminated. In previous administrations, the Aide to the Councilperson would remain as an employee of the city as a Clerk Typist after the Councilperson's term was complete.

Further it is being explored whether or not the state would exempt The City of Atlantic City from the population stipulation in order to keep this title and/or to suggest to the City of Atlantic City an appropriate title for the same.

The following two pages are a detailed corrective action plan addressing issues and establishing procedures for council staff.

**City of Atlantic City
Office of City Council
Corrective Action Plan**

1. Reporting Procedures:

Beginning February 1, 2010, all city council aides will use the bio-metric time clock to report for work. Additionally, aides will also sign in at the front office time sheet as well. Sign-in and out times shall be 8:30am – 4:30pm or 9:00am – 5:00pm.

Council Aides will sign out leaving for lunch and sign in when returning. In the event that a council aide has to leave the office for Council related business they must sign out and indicate nature of business.

Council members shall be responsible for signing appropriate aide's time sheet. All time sheets must be signed each Friday. The Council President must also sign general time sheets at the end of the work week. The signature of the council member is to verify the hours of your aide. The bio-metric system will also be submitted along with the hard copy of the time sheets.

2. Procedures for Requesting Time Off:

Request for vacation days must be submitted to the appropriate council member at least (7) days in advance of vacation date. Councilmember must sign vacation request and submit a copy to the Council President and Personnel. The Council President must sign the request prior to submission to Personnel. All aides are required to inform the Office Manager of his/her vacation.

The Office Manager must ensure that the Council Offices are covered at all times. The Office Manager shall submit his/her vacation requests to the Council President for approval. At no time shall there be no coverage.

Council aides will call their appropriate council member and the Office Manager when not reporting to work due to illness. This shall be done no later than 9:00am on the day of the illness. The Office Manager shall be responsible for assisting the council member in the absence of his/her aide. If the council aide fails to make the necessary call to his/her Council member and the Office Manager, the absence will be documented as a **no call, no show.** The Office Manager will also be responsible for informing the Council President of an aide's absence.

3. Submission of Documentation of Work Performance:

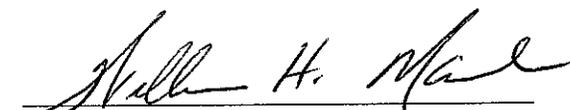
Council aides will submit to the appropriate council member a breakdown of weekly activities and job responsibilities performed, i.e., correspondence, special events, constituent complaints, telephone calls during the week. The council member will copy weekly activities and submit to Office Manager for filing and documentation to state auditors.

4. City Clerk:

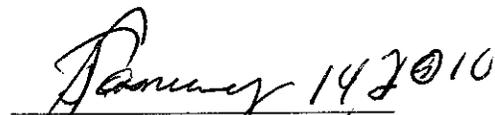
The City Clerk will be in receipt of any documentation submitted to the Council President, i.e., vacation requests, illness, time sheets, bio-metric clock printouts, and out of office visits. The City Clerk will perform periodic checks on Council Aides to verify attendance. City Clerk will submit a report to the Council President on any irregularities and/or concerns pertaining to the business of City Council and its employees.

5. Office Coverage:

All City Council offices of assigned council aide must be covered at all times. Council aides must be in their appropriate office/area from the beginning of their work schedule to the end of their work schedule, less lunch break or otherwise on an approved assignment by the appropriate council member. Random calls will be made to ensure that this policy is being followed by all aides and other assigned council employees. An evaluation of all aides will be conducted on a bi-yearly basis by each individual council member. This evaluation will also be conducted of the Office Manager(s) by the Council President.



William H. Marsh, Council President



January 14, 2010

Issue #2: Properties eligible for foreclosure that are valued at \$9 million are not being foreclosed upon by the City, some even after many years of eligibility for foreclosure.

Response: In 2009 this administration took the initiative and composed a list of approximately 110 of the properties in question and submitted by resolution to the City Council for disposition. City Council subsequently authorized the foreclosure of that listing.

It is the intent of this administration to continue to move those foreclosed properties and dormant city owned properties back to the tax rolls in order to lessen the burden on our residents and businesses.

Issue # 3: The City does not do an adequate job of contracting for and overseeing its grant consultant services.

Response: In 2009 a review of the grant consultant in question, was done and it was deemed that the benefit to the city was minimal. The contract was terminated and not renewed with that vendor. At the current time grant services are done in-house and continue to be reviewed.

Issue # 4: The City's IT operations lack a dedicated staff, resulting in inefficient, ineffective, and unsecure processes.

Response: The City met with the IT consultant and developed an exit strategy for this vendor. It is the intent of this administration to follow through with the exit strategy and to hire the proper staff to culminate IT.

Issue # 5: The City's payroll practices are vulnerable to abuse.

Response: The Mayor addressed this finding and on page 26 & 27 of the draft audit report. The result of this particular finding being an oversight and the respective employee terminated.

Page 7:

Issue # 6: City police officers received fiscally imprudent buyouts for their accumulated leave balances upon promotion.

Response: The Mayor and the union has to come back to the negotiating table and work out a contract that better meets the State policy on accumulated leave and extended sick. These issues are being addressed through the re-institution of a medical review board and more stringent police oversight, along with the administration.

Issue # 7: The City is not effectively enforcing its Municipal Code regarding business license suspensions and revocations.

Response: All of the recommendations and findings are well founded and will be wholly integrated into the Mercantile Division's new Standard Operating Procedures. At this time the Director would not like to make comment at this time as to assess the situation referred to in the draft audit report.

Page 7:

Issue # 8: The City has not addressed audit recommendations repeatedly made by its external auditor.

Response: The City is in the process of hiring an accountant to replace staff that retired. The main function of this individual, under direction, will be to work with the respective office, section, division, department to address the problem as outlined in the external auditor's report and develop a plan of implementation and monitor the ongoing progress.