



State of New Jersey

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PHILIP JAMES DEGNAN
State Comptroller

December 6, 2017

Honorable James A. Fife
Town of Harrison
318 Harrison Avenue
Harrison, NJ 07029

Re: Follow-up Audit – The Town of Harrison, Selected Financial and Operating Practices

Dear Mayor Fife:

Pursuant to *N.J.S.A. 52:15C-1 et seq.*, the Office of the State Comptroller (OSC) has conducted a follow-up review to assess the implementation of the recommendations contained in the audit report, *The Town of Harrison, Selected Financial and Operating Practices* issued on March 20, 2014. Our findings and conclusions are set forth below.

Background, Scope, and Objective

The Town of Harrison (Town or Harrison), which is located in Hudson County, is governed by a Mayor and eight-member Council. Harrison's annual fiscal budget for Calendar Year 2016 was approximately \$46 million.

In our 2014 audit report, OSC identified weaknesses in Harrison's fiscal and operating practices as well as several opportunities for the Town to achieve cost savings. The objective of our follow-up review was to determine if the Town has implemented the 13 recommendations contained in our initial audit report.

Summary Conclusion

Our follow-up report indicates that the Town has made progress in implementing the recommendations contained in the initial audit report. Specifically, 10 of the 13 audit recommendations have been implemented, 1 has been partially implemented, and 2 have not been implemented.

Status of Initial Audit Recommendations

Recommendation 1

Create a specific and consistent payout calculation method for lump sum payouts, stating exactly how each employee category is to be paid, including hourly rate calculations, proration calculations, carry-over limits, etc.

Status: Implemented

During the initial audit, OSC found that Harrison had made errors in calculating lump sum payouts for some employees' unused sick and vacation time. These errors resulted in overpayments to these employees totaling approximately \$30,000.

In response to this recommendation, Harrison implemented a new process to calculate lump sum payouts through the use of an electronic spreadsheet template that accurately captures how each employee category is to be paid. OSC selected a sample of lump sum payouts issued in 2014 and 2015 and verified the payouts were correctly calculated and supported with the appropriate documentation.

Recommendation 2

Using appropriate benchmarks, seek to negotiate collective bargaining agreements to eliminate excessive benefits and payouts.

Status: Implemented

During the initial audit, OSC found that Harrison had entered into collective bargaining agreements that provided excessive benefits to its employees.

As of September 2017, Harrison has executed an agreement or adopted an ordinance that defines the terms of each of its union's successor collective bargaining agreements. With regard to employee benefits, the agreements and/or ordinances: (1) eliminate longevity payments for new hires; (2) eliminate the Town's payment of health insurance premiums for newly hired employees and their dependents after age 65 (or the age of eligibility to receive Medicare benefits); and (3) require the Town to prorate an employee's payment for unused

sick and vacation time during their final year of service. The Town also incorporated similar limitations into its current employment agreement with its Chief of Police.

Recommendation 3

Provide greater clarity in the collective bargaining agreements as to employee benefit commitments and abide by those provisions.

Status: Partially Implemented

During the initial audit, OSC identified various employee benefits that Harrison had provided to its employees that were inconsistent with or not specified in operative collective bargaining agreements.

As stated in Recommendation 2, Harrison has taken steps to better define employee benefits in their current collective bargaining agreements. The Town should continue its efforts with the goal of reaching full compliance with this recommendation.

Recommendation 4

Evaluate annually the costs and benefits of participating in the State Health Benefits Plan (SHBP) and consider continuation in SHBP based on that evaluation.

Status: Implemented

During the initial audit, OSC found that Harrison provided health benefits for its employees through the private healthcare market. OSC further found that the Town could have saved approximately \$5.8 million by instead enrolling its employees in the SHBP.

In August 2013, the Town negotiated with its unions to join the SHBP instead of providing health benefits through a private healthcare insurance program. Harrison has also expressed its intent to consider the costs of various options for providing health care coverage in future negotiations of its collective bargaining agreements.

Recommendation 5

Through the collective bargaining process and using appropriate benchmarks, seek appropriate publicly funded health benefits for employees upon retirement.

Status: Implemented

During the initial audit, OSC found that from 2009 to 2011 Harrison had paid \$532,374 for post-employment health benefits for 14 retirees who had between 15 and 24 years of service with the Town. Harrison provided those benefits through the private health care market.

As mentioned in Recommendation 4, in August 2013 Harrison joined the SHBP. The SHBP will now determine the circumstances under which Harrison will provide health insurance coverage for its retirees.

Recommendation 6

Periodically request an updated listing of retirees and their status (living or deceased) from the State's Division of Pensions and Benefits and cross check the listing with Town data to ensure benefits are not being improperly paid on behalf of deceased individuals.

Status: Implemented

During the initial audit, OSC found that from 2009 to 2011 Harrison had paid \$21,488 in health benefits premiums for three deceased retirees.

As noted above, since Harrison now participates in the SHBP, the Town receives a monthly activity report from the state Department of Treasury, Division of Pensions and Benefits (DPB) indicating any member changes, including deaths that have been reported to DPB for the prior month.

Recommendation 7

Through the collective bargaining process and using appropriate benchmarks, seek to eliminate the additional life insurance benefit.

Status: Not Implemented

During the initial audit, OSC found that collective bargaining agreements obligated Harrison to provide "active" employees with a \$2,500 term life insurance policy in addition to the life insurance benefits provided to employees through the state's various pension programs. OSC also found that, despite the limitation in the agreements, Harrison provided this benefit to "retired" employees as well. From 2009 to 2011, Harrison paid a total of \$54,881 in premiums for these employee groups.

Notwithstanding OSC's recommendation, Harrison continues to provide this additional life insurance benefit to both its active and retired employees.

Recommendation 8

Structure any future financial agreements with developers in a way that requires completion of projects within a certain time frame and imposes penalties for failing to meet deadlines.

Status: Implemented

During the initial audit, OSC found that the Town failed to include in its contracts with developers provisions to protect the Town from absorbing the financial burden of construction delays.

During our follow-up, we reviewed three redevelopment contracts the Town had entered into since the initial audit. Each contract includes appropriate provisions to protect the Town financially from construction delays. These provisions, for example, allow the Town to impose certain penalties upon a developer for failing to meet project deadlines.

Recommendation 9

Adhere to N.J.S.A. 40A:11-6.1(a) procedures for the procurement of insurance, including solicitation of at least two quotations.

Status: Implemented

During the initial audit, OSC found that Harrison did not follow the statutory procedure for awarding a contract for insurance in that it did not solicit quotations from any other insurance providers.

During our follow-up, OSC was provided with documentation demonstrating that the Town had issued a Request for Quotations for insurance, but that it received no responses from interested vendors. Having satisfied its obligation under the procurement law to solicit quotations, the Town then renewed its membership with the Garden State Municipal Joint Insurance Fund (GSMJIF) for an additional three years of insurance coverage.

Recommendation 10

As required by N.J.A.C. 5:30-5.4, designate the specific line item appropriation(s) of the official budget or the ordinance to be charged when certifying the availability of adequate funds for each contract.

Status: Implemented

During the initial audit, OSC found that Harrison did not indicate the specific line item appropriation of the municipal budget to which its contracts would be charged.

OSC selected a sample of contracts awarded after the issuance of our initial audit report and verified that the supporting documentation for each contract award included the specific line item appropriations of the official budget.

Recommendation 11

State in resolutions awarding each professional services contract the reasons for awarding the contract to the selected vendor, as required by N.J.S.A. 40A:11-5(1)(a)(i).

Status: Implemented

During the initial audit, OSC found that Harrison's resolutions for eight professional service contracts merely stated that the Mayor and Council are "desirous of accepting the proposals under the fair and open process."

OSC selected a sample of contracts awarded after the issuance of our initial audit report and verified that each resolution stated the reasons for the contract award to the selected vendor as required by N.J.S.A. 40A:11-5(1)(a)(i).

Recommendation 12

Treat outstanding checks remaining unclaimed for more than one year as abandoned and either return to the owner or escheat to the State as required by law.

Status: Implemented

During the initial audit, OSC found that Harrison did not comply with applicable laws concerning unclaimed property.

During our follow-up, OSC identified two checks Harrison had issued but had not been presented for payment for more than one year. The Town took appropriate action with regard to both outstanding checks by reissuing one check to a confirmed payee and

forwarding the proceeds of the other check to the New Jersey Unclaimed Property Administration as required by state law.

Recommendation 13

Develop, adopt and adhere to written user access control policies and procedures for the Town's Information Technology (IT) systems.

Status: Not Implemented

During the initial audit, OSC found that Harrison had no written policies or procedures governing user access controls for its IT systems.

During our follow-up review, Harrison provided OSC with a corrective action plan stating that the Town would augment its current policies/practices regarding user access to its IT systems. To date, however, Harrison has not provided OSC with any updated policies specifically addressing this matter.

Reporting Requirements


We provided a draft copy of this report to Harrison for their review and comment. Its response was considered in preparing our final report and is attached as Appendix A.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, the Town shall report periodically to this Office advising what additional steps they have taken to address the unresolved issues in this report. This Office will continue to monitor those steps.

We thank the management and staff of the Town for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

PHILIP JAMES DEGNAN
STATE COMPTROLLER

By: 

Yvonne Tierney, CPA
Director, Audit Division

- c. Gabriela V. Simoes, Chief Financial Officer
Paul J. Zarbetski, Town Clerk/Attorney

Appendix A-Auditee Response

Town of Harrison Response to Office of the State Comptroller Follow-up Report

The Town of Harrison (the “Town”) hereby responds to the “Follow-up Audit of the Town of Harrison, Selected Financial and Operating Practices” report (“Follow-up Report”) as prepared by the Office of the State Comptroller (“OSC”), in furtherance of the OSC’s March 20, 2014 Report (“Original Report”).

The Town, already working with the Division of Local Government Services, welcomed the both the original OSC audit and the instant follow-up audit. During the original audit, the OSC auditors made several suggestions for cost-saving and operational improvements, many of which were already executed/implemented by the Town. The OSC did list findings and 13 recommendations in its Original Report. In the Follow-up Report, the OCS went through all 13 of these recommendations and indicated its opinion as to whether same have been “implemented,” “partially implemented,” or “not implemented.”

This Town response to the Follow-up Report will address the recommendations found by the OSC to be either “partially implemented” or “not implemented.”

OSC RECOMMENDATION 3 (“Partially Implemented”): Provide greater clarity in the collective bargaining agreements as to employee benefit commitments and abide by those provisions.

TOWN RESPONSE: During 2016/2017, the Town engaged in negotiations regarding the collective bargaining agreements (“CBAs”) for all of its unions—police (superiors and patrolmen), fire, civil service, and department heads. For the first time in 30 years, the Town was represented by in-house salaried professionals, which saved the taxpayers thousands of dollars in special labor counsel/consultant fees. This new in-house team was able to secure the elimination (or severe reduction) of many costly benefits that the Town has been trying to accomplish for years. Some of the benefits that were eliminated include:

-) Elimination of longevity pay for all new hires (except for the Fire Dept., which has drastically reduced same);
-) Elimination of paid health insurance for retirees and their dependents when the retiree and his/her spouse/partner reaches Medicare age (currently 65).

In addition, the Town was able to negotiate several favorable terms, including:

-) Addition of 4 steps in the salary guide for Patrolman and Fire Fighter with no change in the minimum and maximum salaries;
-) Permanent straight-time pay for overtime assignments in the Fire Dept. (subject to FLSA parameters);

-) Clarification of contractual items such as proration of vacation and sick time in the final year of employment and elimination of retroactive pay for raises in 2016.

The foregoing terms were included in detailed Memoranda of Agreement with the unions, and provided to the OSC as part of the follow-up audit. The in-house team is in the process of incorporating all of the terms of the Agreements into formal CBAs, while also taking the opportunity to clarify any provisions that require same, and incorporating all duly adopted and implemented benefit commitments into the CBAs. The result will be a set of CBAs that contain all of the terms and conditions of employment, set forth clearly and concisely within the respective documents.

OSC RECOMMENDATION 7 (“Not Implemented”): Through the collective bargaining process and using appropriate benchmarks, seek to eliminate the additional life insurance benefit.

TOWN RESPONSE: The current CBAs with the unions provide as follows with regard to life insurance: “Active members shall receive a \$2,500 term life insurance policy.” During the aforementioned CBA negotiation process, the Town and the unions did not agree on mutually-acceptable contract language regarding life insurance policies. As such, same does not appear in the Memoranda of Agreement recently provided to the OSC. Notwithstanding same, the Town is going to take steps consistent with the language in the various CBAs to either amend the current life insurance policy to only provide benefits to active employees, or establish a self-insured retention for same.

OSC RECOMMENDATION 13 (“Not Implemented”): Develop, adopt and adhere to user access control policies and procedures for the Town’s Information Technology (IT) systems.

TOWN RESPONSE: The Town hereby supplements its previous response to the OSC regarding the Town’s IT system to add the following IT policies/practices:

All users must have a unique user ID and secret password for access to the Town’s multi-user computers and computer networks. Users are responsible for all activity performed with their personal user IDs. User IDs must be created according to the Town’s user ID creation guidelines and standards.

To protect the Town’s information system data, software and hardware from accidental or intentional unauthorized use, information security is needed. Information security consists of user identification, user authentication and user authorization.

User Identification:

Unique user identification is needed for individual accountability for all computer activities.

- 1) Establish unique user ID: first initial, last initial followed by four system generated numbers.

2) Microsoft directory to maintain user ID's (add, remove and change).

User Authentication:

Passwords will be used to verify that the authorized person is using the correct user ID.

- 1) Unshared passwords.
- 2) Non-displayed passwords.
- 3) Passwords should be internally encrypted.

The system administrator does not maintain a list of passwords. If a password is lost or forgotten, a new password will be assigned to the user.

User Authorization:

Authorization is a means of restricting users with valid identification from accessing computer resources that are not necessary to their work duties. Authorization may be assigned to a group or an individual user. Only system administrators shall have full control of all the data and program resources on the network. Individual staff members will have appropriate levels of authorization to department resources as well as access to other department resources as needed.