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OSC Audit Finds the Jersey City Municipal Utilities Authority Failed to Conduct Annual Financial Reviews, Raised Customer Rates Despite Having Multi-Million Dollar Surpluses

TRENTON – The Jersey City Municipal Utilities Authority (“JCMUA”) failed to conduct yearly financial reviews before it approved water and sewer service rate increases, during a period when it had multi-million dollar budget surpluses, an audit conducted by the Office of the State Comptroller (“OSC”) has found.

Specifically, OSC found that from 2006 through 2015 sewer rates increased by 93.8 percent and water rates increased by 38.9 percent. During this same time period, JCMUA’s year-end net position also grew from \$10.1 million in 2006 to \$86.4 million in 2015, a nearly 760 percent increase.

During this period of increased service rates and annual budget surpluses, JCMUA also failed to ensure that its vendor billed and collected substantial payments from its institutional bulk-water customers. That failure resulted in JCMUA losing an estimated \$575,000 in revenue for nearly 300 million gallons of water delivered to those customers. Throughout this time, the City’s water services, including billing, collections, and bulk water sales were managed for JCMUA by United Water – Jersey City, which is owned by Suez Water, Inc. OSC found that United Water – Jersey City failed to collect the outstanding bulk water fees from two companies that are also owned by Suez Water.

OSC also found that during the audit period, JCMUA incurred additional expenses by allowing its former Executive Director to give himself raises and by allowing him to start a buy-back program for unused sick and vacation days for all administrative employees, including himself.

“Customers paid more for their water and sewer services each year, when JCMUA’s Board and management failed to ensure sufficient justification or need for any of these rate increases,” State Comptroller Philip James Degnan said. “The residents of Jersey City have

no choice in the selection of what entity delivers water to their homes. As a result, JCMUA and its vendor have a heightened responsibility to safeguard residents' funds and justify any necessary rate adjustments with a thorough and transparent process. We've recommended corrective actions designed to address this and other deficiencies found at JCMUA by OSC auditors."

OSC's audit also found that JCMUA did not have adequate procurement and contract administration controls to ensure compliance with appropriate laws and regulations, contract terms and conditions, or its own policies and procedures. These deficiencies resulted in overpayments, improperly managed contract change orders and amendments, and a lack of compliance with the state's Local Public Contracts Law and applicable purchasing regulations and internal policies and procedures.

The audit contains several recommendations for specific actions that the JCMUA should implement to address the various deficiencies found in the audit.

OSC is an independent state agency that conducts audits and investigations of government agencies throughout New Jersey. The Office also reviews certain government contracts and works to detect and prevent Medicaid Fraud. The Office strives to enhance the efficiency and transparency of government and to ensure that public funds are spent effectively and efficiently.

Suspected government mismanagement or fraud can be reported to OSC by calling 1-855-OSC-TIPS (1-855-672-8477) or via email at comptrollertips@osc.nj.gov.

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