



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

ANNUAL REPORT

Fiscal Year 2009

**IMPROVING THE EFFICIENCY, TRANSPARENCY
AND FISCAL ACCOUNTABILITY OF
NEW JERSEY GOVERNMENT**

**A. Matthew Boxer
COMPTROLLER**

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*Dear Governor Corzine,
Members of the State Legislature,
and Residents of New Jersey:*

The Office of the State Comptroller is an independent office created with a statutory mission to bring greater efficiency, transparency and fiscal accountability to the operation of all levels of New Jersey government.

That mission serves as a guide for our staff as we identify areas where public dollars are being wasted and then assist and educate public entities so they can employ the most efficient fiscal practices. Our jurisdiction stretches from state agencies to public institutions of higher education to independent authorities, municipal governments, county governments and boards of education.

In this past fiscal year, our first full year of existence, the Office of the State Comptroller completed a series of audits that have led public entities to make cost-saving changes to a host of basic and complex fiscal practices. Those audits included 64 recommendations – all of which are required to be incorporated into corrective action plans being implemented by the audited public entities.

Our procurement team pre-screened and reviewed hundreds of government contracts, and required and enforced changes in more than 10 percent of those contracts.

Our research team developed a pair of reports, each of which prompted introduction of now-pending state legislation that would promote greater transparency and efficiency in government spending.

Along the way, we completed the staffing of the office with top-notch personnel, coordinated audit efforts at state agencies, staffed a hotline to respond to concerns from members of the public about government waste, began to train government entities on the use of best fiscal practices and began our oversight of the state's expenditure of federal stimulus dollars.

In short, the Office of the State Comptroller produced a body of work in the past year that has begun to change the way public entities spend tax dollars in New Jersey. This annual report sets forth the highlights of that effort.

One of the first tasks the office undertook involved an inventory of all the government entities in the state, an effort that had never been comprehensively undertaken. We found there are approximately 1,900 government units in New Jersey with the power to contract - one unit for every four square miles of our state. Those numbers make it impossible for any single office to conduct a full-scale audit of every government unit in the state. With that in mind, our office uses a set of objective factors to determine where to focus audits and performance reviews.

Our first report of the fiscal year examined the hiring and performance of external audit firms, which have long served as the primary vehicle for oversight of fiscal practices of local government units in New Jersey. We found hundreds of public entities are hiring their outside auditors without opening the selection process to competition, and are often choosing the firms that make the largest political contributions. In some cases, we found public entities retaining the same auditors for 40, 50 and 60 years. Our review showed such practices have had substantial repercussions for the quality of audits produced in New Jersey, and it led to the introduction of legislation that would require public entities to rotate auditors every ten years and use a competitive selection process every five years.

We also completed an audit of the Governor's Council on Alcoholism and Drug Abuse, a state agency that had not undergone an independent audit since its inception in 1989. The audit found the agency has handed out \$10 million in grants annually without engaging in a proper review of how the money was spent. Our audit recommended consideration be given to consolidating the agency with the Division of Addiction Services and also made 10 recommendations to improve operations. Perhaps more importantly, the audit sent a message that New Jersey government agencies big and small can no longer expect to operate without fiscal and programmatic oversight.

Our audit of Irvington Township found a municipal government with financial management practices in need of significant reform. The township is now required to implement a corrective action plan that would cover our 21 recommendations, including steps to implement appropriate internal controls, enhance personnel practices and ensure improved cash management procedures aimed at safeguarding public funds.

Our review of the expenditure of public funds to lobby state government found that government entities that hire outside lobbying firms are not held to the same disclosure and transparency requirements as private companies. The report also contained a series of recommendations to help public entities limit costs when hiring such firms. Legislation has been introduced that would codify our recommendations to require public entities to disclose the amount of money paid to outside lobbying firms and to explain why such expenditures are necessary.

In the Borough of Washington in Warren County, we examined a garage project that had increased five-fold in cost while yielding minimal construction progress over a 10-year period. The audit found borough officials never compiled a budget to help rein in or keep track of costs. Nor did they take other steps to properly manage the project. The audit also determined the borough steered a contract for a new fire truck to a specific vendor.

And an audit of the Department of Children of Families found the state agency failed to properly manage the assignment and usage of its fleet of 2,900 vehicles, leaving taxpayers to cover the cost of parking tickets, suspect gasoline usage, and a series of other expenses that could have been avoided.

Looking back on our first full year of existence, we are proud of what we have accomplished and we look forward to continuing to serve as an advocate for New Jersey taxpayers in the years ahead. We respectfully present to you this first annual report from the Office of the State Comptroller.

A. Matthew Boxer
State Comptroller

CREATING A NEW OFFICE

Matthew Boxer was publicly sworn in as New Jersey's first State Comptroller on January 17, 2008. Comptroller Boxer's first tasks were to build a staff and determine how to organize the office to best meet the office's statutory obligations.

Comptroller Boxer created two divisions in the office, audit and procurement, to parallel the legislative responsibilities vested in the office to audit New Jersey government and monitor government contracting practices. He hired accomplished professionals to lead each of these divisions and undertook an extensive recruiting process to locate skilled staff to perform the critical functions of the office.

The Office of the State Comptroller (OSC) now includes 57 employees who embody a wide range of skill sets. The Audit Division includes professional auditors, accountants and research analysts. The division is led by William Challice, whose 35 years of experience with the New York State Comptroller's Office included 20 years as an audit director. Mr. Challice is also the current chair of the New York/New Jersey Intergovernmental Audit Forum. The Procurement Division, staffed with attorneys, is directed by Dorothy Donnelly, a former assistant United States Attorney in the Civil Division of the District of New Jersey, who has litigated and counseled government agencies regarding contract matters for over 20 years.

The office staff includes dozens of accomplished professionals, including a former director of technical audit services for the Pennsylvania Department of the Auditor General; a former director of auditing for a New Jersey state agency; a former assistant professor with experience at the U.S. Government Accountability Office; and three former federal agents who investigate tips provided by members of the public concerning government waste.

The staff's educational background includes 23 advanced degrees in fields such as law, business and

public policy. Also on staff are nine Certified Public Accountants, three Certified Government Financial Managers, two Certified Internal Auditors, two Certified Fraud Examiners and five staff members who possess other certifications or professional designations, such as Certified Information Systems Auditor. Twenty-three staff members belong to one or more professional organizations, such as the Association of Government Accountants, the Institute of Internal Auditors, the Association of Certified Fraud Examiners, and the American Society for Public Administration.

OFFICE OF THE STATE COMPTROLLER

BY THE NUMBERS

- 10** – Percent of proposed government contracts changed for improvements after review by the OSC procurement team
- 23** – OSC staff members with advanced degrees
- 64** – OSC recommendations for improving government operations that must now be implemented by the audited public entities
- 227** – Tips fielded through the OSC hotline
- 374** – Percentage increase in the cost of a poorly managed Borough of Washington garage project that yielded minimal construction progress over a 10-year-period, according to an OSC audit
- 389** – Government entities found by OSC to have retained the same auditor longer than a decade, contrary to best practices
- \$3.87 million** – Money spent by government entities on outside lobbying firms in the last legislative session, according to an OSC report
- \$10 million** – Amount of grant money distributed by the Governor's Council on Alcoholism and Drug Abuse each of the last three years without a proper review, according to an OSC audit

A YEAR OF ACCOMPLISHMENTS

In our first full year of existence, the Office of the State Comptroller released audits that exposed a small state agency distributing millions of dollars without oversight, a large state department's failure to properly manage its fleet of 2,900-plus vehicles, a tiny borough's decade-long mismanagement of a garage project, and the poor management practices that left a large township's finances in disarray. In each case, taxpayers were left to pay the cost of poor management practices - but in each case the audited public entity is now following a corrective action plan to ensure public funds will be better safeguarded in the future.

Our first year also saw the release of a report that examined New Jersey's reliance on external auditors and exposed significant flaws in the way those auditors are hired and used. We also studied the use of public funds to lobby state government and found such expenditures suffer from a lack of transparency.

The capsules that follow detail some of the highlights of those audits and reports as well as some of our other efforts from the past year. These reports can be viewed in their entirety on our website, www.nj.gov/comptroller.

Report on Auditor Rotation – August 2008

One of the first tasks the OSC undertook involved cataloging the number of government units in New Jersey. The office tallied approximately 1,900 government entities with the power to contract.

With this information, our first public report focused on the independent audits that all local government units in New Jersey are required to have performed annually. Public entities spend millions of dollars on annual contracts with such external auditors and the public relies on their work as a primary source of oversight for the spending of billions of taxpayer dollars each year. Our report, entitled "Selection and Use of Audit Firms by New Jersey Government Units," found significant flaws in the way government

entities hire and use those outside audit firms. More importantly, it found those flaws lead to significant negative repercussions for the quality of audits produced.

Specifically, the OSC found public entities frequently avoid a competitive process when selecting their auditors. We found the audit firms that have received the most work generally are the firms that have made greater campaign contributions. OSC's report also revealed that close to 400 government entities in the state have held the same auditor for more than a decade, contrary to best practices, and at least two have retained the same auditor for more than 60 years.

The report recommended public entities hire external auditors through a competitive selection process at least every five years while rotating auditors every 10 years and refraining from hiring audit firms that make political contributions. These recommendations are now part of legislation that has been introduced in the State Legislature.

Audit of Governor's Council on Alcoholism and Drug Abuse – December 2008

Our audit of the operating practices of the Governor's Council on Alcoholism and Drug Abuse (GCADA) marked the first audit of that state agency's operations since its inception in 1989.

The audit found GCADA distributed more than \$10 million in grants each of the last three years without a proper review and without requesting sufficient documentation. It also found the state agency did not take steps to determine whether those grant dollars are producing positive results.

In fact, our review of county agencies funded by GCADA showed grant dollars intended for drug and alcohol prevention and education have been used to fund petting zoos, community fairs and, in one instance, an undocumented "rent expense" sent to the

home of a municipal coordinator. The audit also found GCADA was overstaffed and failed to meet basic responsibilities, such as performing required site reviews.

The audit made 10 recommendations for improving GCADA's operations, including reallocating staff, establishing specific guidelines to govern fiscal reviews and developing a system to evaluate the effectiveness of funded programs. In response, GCADA noted it has either begun to take steps or plans to take steps to comply with all 10 of the audit's recommendations.

The audit also suggested state policymakers evaluate consolidating GCADA within the Department of Human Services' Division of Addiction Services (DAS). The move would save the state an estimated \$600,000 in operating costs, in addition to other efficiencies obtained through DAS combining GCADA's grant funds with grants it is already awarding. Legislation that would implement the consolidation has been introduced in the State Legislature.

Audit of Irvington Township – March 2009

Our audit of Irvington Township found a government whose financial management practices were in disarray. The township's financial books had been out of balance since 2000, the general ledger was off by \$59.7 million and an un-reconciled shortage of \$2.6 million existed between the bank balance and Irvington's books and records.

The audit detailed 21 steps for improving Irvington's fiscal operations. The township is now required to implement those recommendations, which include steps to add appropriate internal controls, enhance personnel practices and improve cash management procedures.

Concerns noted in the audit included a consistent late payment of bills, including overdue telephone charges that were 14 times the amount of the latest monthly

bill. Numerous security deficiencies related to information technology also were noted, including the ability of 24 terminated employees to access Irvington's computer network and the township's inability to account for recently purchased computer equipment.

Our review of county agencies funded by GCADA showed grant dollars intended for drug and alcohol prevention and education have been used to fund petting zoos, community fairs and, in one instance, a rent expense.

In addition, the township's senior financial officials did not know how many bank accounts the township maintained. While the township confirmed it uses 29 separate bank accounts for Irvington business, the OSC audit identified five more.

Inappropriate expenditures were identified as well. For example, the township sent 19 employees to a three-day conference in Atlantic City without obtaining any documentation for stays at a

casino hotel. As a result of our audit, the OSC informed the township it actually had overpaid the hotel \$2,271.

Report on Use of Public Funds to Lobby State Government – March 2009

In March of this year, we released a report examining the practice of government entities spending public dollars to lobby state government. The report found public entities paid at least \$3.87 million to outside lobbying firms to lobby state government during the last legislative session (2006-2007). Perhaps more significantly, the review found that current state law does not hold public entities to the same disclosure and transparency standards as private companies in regard to the hiring of lobbying firms.

The report recommended state officials require public entities to disclose their justification for retaining a lobbying firm and detail what was accomplished as a result of the lobbying efforts. Legislation has since been introduced that would enact those recommendations into law. The report also

contained a series of recommendations to help public entities limit costs when hiring outside lobbying firms. Through its research for this report, the OSC found one municipality provided compensation to the principal of a lobbying firm by paying the individual as a salaried municipal employee. The matter was referred to the Department of the Treasury, Division of Pensions and Benefits, which then issued an administrative decision determining that the lobbyist's arrangement with the city was actually that of an independent consultant and not an employee. As a result, the division discontinued the individual's participation in the state pension system.

Audit of the Borough of Washington – May 2009

An audit of the Borough of Washington in Warren County revealed that poor contract and fiscal management were responsible for a municipal garage project increasing nearly five-fold in cost while yielding minimal construction progress over a 10-year period.



An OSC audit detailed the poor management practices that caused this Washington Borough garage project to increase nearly five-fold in cost while yielding minimal construction progress over a 10-year-period.

The Borough of Washington – a municipality with a total annual budget of \$6.16 million and 6,712 residents – borrowed nearly \$3 million to erect a pre-fabricated garage for its public works department. Borough officials never compiled a budget for the project and never attempted to track project expenditures. The borough also failed to place caps on items such as engineering fees, which rose from an estimated six percent of the total project cost to 22 percent (from \$33,000 to \$419,330).

The borough had estimated the total cost for the garage project at \$569,311 in 1998. The projected final cost now stands at \$2.7 million and the garage still has not been completed. The audit also found the borough steered a contract for a new fire truck to a specific vendor by loading the contract with tailored bid specifications and by not allowing sufficient time for competing bidders. The Borough of Washington has committed to a series of corrective actions that will implement the 15 recommendations listed in the audit for improving its procurement and fiscal practices.

Audit of Vehicle Usage at the Department of Children and Families – May 2009

An audit of the Department of Children and Families (DCF) found the state agency failed to properly manage the assignment and usage of its fleet of 2,900 vehicles, leaving taxpayers to cover the cost of a series of expenses that could have been avoided. The audit also found that the state fueling system used by DCF does not require any method of validation, allowing numerous vehicles to fuel consecutively with the same access card and potentially allowing non-state vehicles to receive fuel improperly.

Poor management and recordkeeping led to a series of other problematic consequences, precluding DCF from obtaining compensation from third parties who were at fault in accidents involving DCF vehicles and rendering DCF unable to recoup parking-ticket fines from responsible employees, the audit found. DCF employees paid for only 18 percent of the parking fines charged to DCF vehicles during the two and one-half year period covered by the audit, with public dollars used to pay the remainder.

Overall, the audit found, DCF was often unaware of basic information about its vehicles, from how much each car was being used to the identity of the driver or even the local DCF office to which each vehicle was assigned. Included with the audit were 18 recommendations for improving DCF's fleet management. Department officials have stated their commitment to comply with all of those recommendations.

Audits in Process

Pending OSC audit work ensures that this coming fiscal year will be as productive and significant for the office as the year that just ended. Our staff is working throughout the state on a number of audits that are at various stages of completion. These include audits of personnel and payroll practices in Atlantic City; Workforce Investment Act federal stimulus spending; contract oversight at the Department of Human Services; operating expenses at the New Jersey Turnpike Authority; school district operating expenses; the water and wastewater collection systems contract in the City of Camden; and procurement and contracting practices at Rutgers University. Collectively, these audits encompass the broad spectrum of audit coverage called for by OSC's enabling legislation.

Procurement Division

While OSC's Audit Division is the larger of the office's two divisions, the work of the Procurement Division is equally vital. As prescribed by statute, the Procurement Division prescreens the legality of the proposed vendor selection process for all government contracts exceeding \$10 million and has post-award oversight responsibilities for such contracts exceeding \$2 million.

As of the close of the fiscal year, the Procurement Division had received notice of 806 contracts with values exceeding \$2 million. Contracts have been received from numerous local and state government entities, school boards and public colleges and universities. Through notification letters sent electronically to each of the state's 1,900 government units, early meetings with government agencies, and speaking engagements, OSC was able to make contracting units aware of the notice requirements and OSC's contract review procedures. We continue to work to achieve full compliance in this regard.

For contracts exceeding \$10 million, the Procurement Division works closely with government entities as they formulate specifications, intervening when necessary to assist in achieving procurements that comply with all applicable laws, regulations and rules. For contracts over \$2 million, the division reviews the fully advertised and awarded contract. In these cases, staff members conduct exit interviews to enable government units to make corrections for their next procurement and in problematic cases can refer the matter for audit or take other appropriate remedial action.

In total, OSC took action to correct the procurement process in approximately 10% of the contracts we reviewed in the past year, resulting in improved government procurement procedures that are now beginning to turn the corner on many of the problems of the past. As a result of our review and direction, contracting units have corrected specifications that were improperly vague or proprietary, contained incorrect term lengths, illegally permitted the cancellation of solicitations following the receipt of bids or contained other legal deficiencies. Significantly, as a result of Procurement Division intervention and in accordance with the statutory intent, those corrections were made before the contract was advertised or a vendor selected.

OSC took action to correct the procurement process in approximately 10% of the contracts we reviewed in the past year, resulting in improved government procurement procedures that are now beginning to turn the corner on many of the problems of the past.

Through the collection of data from both contract reviews and special Procurement Division inquiries, OSC will continue to identify both best practices and legal deficiencies for contracting units. Short reports on these topics enable the division to provide appropriate guidance to government agencies throughout the state.

Presentations and Speaking Engagements

In an effort to provide information about OSC's policies and procedures and to solicit feedback from the public, Comptroller Boxer has served as the featured speaker at various conferences and events across New Jersey. Audiences have included public administrators, elected public officials, law enforcement officials, auditors and other parties impacted by the creation of the Comptroller's Office.

These speaking engagements offered an opportunity to provide a detailed overview of the office's operations, mission and authority and included extensive question and answer sessions which, in some cases, generated tips for the office to pursue. In addition to these types of speaking engagements, Comptroller Boxer also appeared on television programs to update the public on the progress of the office. The directors of the Audit Division and Procurement Division, as well as other senior staff members, were also featured speakers at conferences and seminars.

POLICIES AND PROCEDURES

Having started a new office, a large part of our efforts as we opened for business involved developing policies and procedures to guide our audit and contract review processes. Below are descriptions of some of the policies and procedures we have put into effect.

Audit Manual

For professional audit organizations such as ours, it is essential that clearly defined policies be promulgated to provide guidance in audit situations and to ensure the quality and consistency of the audit work performed. To that end, we developed an Audit Manual as the authoritative compilation of professional auditing practices as well as other policies, standards and requirements for OSC staff. We have been providing our staff with training concerning the manual. The Audit Manual is a constantly evolving document and will undergo revision as standards are amended and other changes in the auditing profession occur.

Audit Process Brochure

Open communication concerning the audit process lets the auditee know up front what to expect. With that in mind, we developed a brochure entitled *The Audit Process*, outlining the critical components of an audit from initiation to completion. This brochure is provided to the auditee prior to the start of an audit and is also posted on our website.

Risk/Priority Evaluation

Our enabling legislation requires us to “establish objective criteria for undertaking performance and other reviews authorized by this act.” To that end, OSC has developed a risk/priority evaluation that encompasses a number of risk factors, including: the entity’s past performance, size of budget, whether the program is a new one, management turnover, indications of fraud or abuse and referrals or recommendations from other government agencies.

OSC staff conducts research along these parameters and assesses risk associated with each applicable factor as high, medium or low, resulting in a determination of audit priority.

Quality Control and Peer Review

Government Auditing Standards require audit organizations to establish an internal quality control system and to participate in an external quality control “peer-review” program. The internal quality control system provides the organization with ongoing assurance that policies, procedures and standards are adequate and are being followed. The external quality control peer review, to be conducted once every three years, provides independent verification that the internal quality control system is in place and operating effectively and that the organization is conducting its work in accordance with appropriate standards. The OSC has become a participating member in the National State Auditors Association (NSAA) peer review program. In fact, a member of our senior staff was named to the NSAA 2008-2009 Peer Review Committee, which oversees technical and administrative aspects of the national peer review program.

Audit Coordination

The OSC enabling legislation requires the State Comptroller to establish a system of coordination with other state entities responsible for conducting audits, investigations and reviews. This system serves to avoid duplication and fragmentation of efforts while optimizing the use of resources, promoting effective working relationships and avoiding the unnecessary expenditure of public funds. We have had a series of ongoing meetings with a variety of state agencies to ensure that the state is marshalling its internal and external audit resources in a coordinated way and as efficiently as possible. We also have been working closely with both state and federal law enforcement officials in this regard. We look forward to continuing these efforts in the next fiscal year.

Training

Government Auditing Standards require that auditors receive 80 hours of qualifying continuing professional education (CPE) every two years. The OSC is committed to providing such training in the most cost-effective way possible. Accordingly, we are seeking to provide as much in-house training as possible. Recently, our office was recognized as a sponsor of continuing professional education on the National Registry of CPE Sponsors. As part of the registration process, we developed and submitted an extensive training curriculum. To date, our staff has received formal training on topics such as ethics, performance auditing techniques and the application of government auditing standards. Several staff members have also attended local conferences sponsored by professional organizations such as the New York/New Jersey Intergovernmental Audit Forum and the Association of Government Accountants.



On Jan. 12, OSC senior staff members held a three-hour training seminar for a 25-member delegation from China's National Bureau of Statistics. The group learned about the methods OSC uses to audit government finances, examine the efficiency of government programs and scrutinize contracts.

Procurement Review Process

As referred to earlier, this office's enabling legislation requires government units to provide notice to the OSC of planned procurements exceeding \$10 million so that our office can undertake a review of the process by which the government entity intends to award the contract. Our legislation also requires post-

award notice of contracts that are valued between \$2 million and \$10 million.

Preparing for such responsibilities required the Procurement Division to set up a system to deal with a vast yet unknown number of incoming contracts. Unlike states with a single Procurement Act, New Jersey has different procurement legislation tailored to differing types of contracting units such as school boards, state authorities, local governments and local authorities, state purchasing and construction divisions and colleges and universities. With that in mind, the Procurement Division and OSC's specialized information technology auditors created an internal cataloguing system that allows contracts to be searched based upon different criteria, such as reporting unit, contract partner, contract cost or contract type.

Once received by OSC, proposed procurement contracts are docketed and assigned to attorneys within the Procurement Division. The assigned attorney reviews the information provided and, in most instances, requests actual bid packages.

The review of contracts valued at more than \$10 million begins with judging the appropriateness of the vendor selection procedure chosen by the contracting unit. The reviewing attorney assesses, for example, whether the procurement requires a sealed bid or whether other competitive contracting procedures are appropriate. The reviewer further determines whether the government unit has followed all other statutes, rules and regulations applicable to the procurement. Specific additional questions asked include: Has the governing body, department or authority approved the procurement? Are the specifications designed to ensure a competitive process? Is the method of advertisement appropriate?

For contracts exceeding \$10 million, the contracting unit must submit notification to OSC 30 days before advertising, bidding, negotiating or otherwise entering into a contract. With some frequency, contracting units request flexibility in that time period. Accordingly, as is contemplated by the OSC statute, we put into place a procedure through which to waive

the 30-day time frame. OSC has worked closely with contracting units needing such a waiver to ensure that solicitations can be made in a timely manner.

All contracts exceeding \$2 million, including any \$10 million contracts submitted for pre-approval, are examined post-award. The focus post-award remains on compliance with laws and regulations. In addition, a determination is made as to whether the award followed the contract award guidelines in the solicitation. For example: Did the lowest bidder get the award in a sealed bid determination that permitted and then appropriately considered alternates? Did the governing body approve and certify the funding? Are the records submitted sufficient to justify the body's action? Is there any evidence of collusion or bid rigging?

To ensure that OSC's contract review creates better contracting processes in both the long and short terms, the Procurement Division consults directly with contracting units during and following reviews. Depending upon the review and any deficiency noted, the Procurement Division might hold exit interviews, prepare a written determination or simply provide oral advice to the contracting unit. In cases of serious deficiency, OSC may refer cases for audit or further civil or administrative action such as actions to terminate or debar contractors or to recover monies expended. Criminal activity is referred to the appropriate law enforcement authorities.

On occasion, circumstances may require more extensive OSC review of a contract including events leading up to contract execution. In these instances, OSC's Special Investigators may team up with Procurement Division attorneys to engage in further investigation.

Complaint Review/Investigative Process

As an advocate for New Jersey taxpayers, OSC relies on the public to bring to our attention allegations of waste of taxpayer dollars. Tips are received through a toll-free hotline, via e-mail and through the mail. Each tip is assigned to an investigator and reviewed to determine whether the allegations warrant further action. Our investigative team, comprised of two

former FBI agents and a former U.S. Postal Service inspector, utilizes a variety of investigative tools to assess and document all relevant facts. A determination is then made as to whether a full-scale audit is warranted or whether the matter should be referred to another agency for action.

As of the close of the fiscal year, OSC had fielded 227 tips through the hotline, e-mail and regular mail. Such tips from the public already have led to full-scale audits that have been completed or are ongoing. OSC investigators also review matters referred to our office from other agencies and from members of the State Legislature. Several of those matters have led to full-scale audits as well.

OFFICE OF THE STATE COMPTROLLER

**FINANCIAL WASTE
AND MISMANAGEMENT
HOTLINE:**

1-866-547-1121

comptrollertips@osc.state.nj.us

Visit our website at
www.nj.gov/comptroller

NEW RESPONSIBILITIES

In addition to the responsibilities vested in OSC by its enabling statute, subsequent legislation and other executive action has created other responsibilities for the office. We appreciate the confidence that the Governor, the Legislature, and the public have expressed in this office through this expansion of our responsibilities.

Federal Stimulus Monitoring

In February, Governor Corzine asked the State Comptroller to serve as the co-leader of a task force that will oversee federal investment in New Jersey through the American Recovery and Reinvestment Act. Specifically, the group will review whether recovery funds are awarded based on clear and appropriate criteria and then distributed in a prompt, fair and reasonable manner.

The panel has been meeting on a regular basis. Among other tasks, the group has been providing internal controls guidance and training to New Jersey government units, reviewing project selection criteria and assisting in the development of a website that catalogues Recovery Act spending in New Jersey.

OSC is working closely with the U.S. Government Accountability Office and the New Jersey Office of the State Auditor to coordinate our stimulus-related audit efforts. An OSC audit of Workforce Investment Act federal stimulus spending is currently underway.

State Police Monitoring

Legislation passed in June requires the State Comptroller to conduct risk-based audits and performance reviews of the Division of State Police. The legislation follows the decade-long consent decree under which the U.S. Department of Justice monitored the New Jersey State Police in an attempt to eliminate racial profiling. As part of its duties, the OSC is charged with examining stops, post-stop enforcement activities, internal affairs and discipline,

decisions not to refer a trooper to internal affairs and training. The State Comptroller may also make recommendations on the funding and staffing levels of the State Police. We look forward to assisting in these vital functions following gubernatorial action on this bill.

Schools Development Authority and Other Responsibilities

When the Legislature authorized an additional \$3.9 billion for school construction, the legislation included a requirement that OSC work with the Schools Development Authority (SDA) to ensure audits are conducted of any project with a state share greater than \$10 million. Accordingly, OSC has been providing the SDA with recommendations on setting up a system of oversight for these projects.

Separately, recent legislation required OSC to work with the Department of Community Affairs to ensure that Special Municipal Aid funds are audited. As a result, private vendors are now conducting the required audits.

Additionally, when the Legislature created the "Health Care Stabilization Fund," it required OSC to work with the Department of Health and Senior Services (DHSS) to ensure that these grants are audited. The OSC has thus worked with DHSS to set up a structure to audit every entity that receives these funds.

Newsday.com
NJ comptroller: Irvington finances in disarray

March 4, 2009
TRENTON, N.J.

New Jersey's comptroller says the finances of one Essex County community are in disarray. State Comptroller Matthew Boxer says an audit of Irvington's books found late payment of bills, checkbooks out of balance and wasteful spending, including more than \$36,000 over a 13-month period in cell phone overage charges. * * *

HEADLINES

Wpp.com
August 15, 2008

Pay-to-play: Bid it adieu

A report released by the state comptroller this week has drawn renewed and badly needed attention to pay-to-play, the practice of awarding government contracts in exchange for campaign contributions. The report focused on auditors hired by government entities. But it showed how deeply entrenched pay-to-play is in New Jersey, demonstrating once again the need to put a halt to it wherever and whenever it rears its ugly head. * * *

NorthJersey.com

Audit finds concern some state workers got free fuel-ups

Friday, May 29, 2009

BY NICK CLUNN
NorthJersey.com
STAFF WRITER

Taxpayer dollars may have been used to buy fuel for the personal vehicles of state child-welfare workers and to pay their parking fines, according to an audit released Thursday.

The potential for such wastefulness was a result of lax record keeping by their employer, the state Department of Children and Family Services, the state comptroller's office found. * * *

The Record

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Watching closely

Auditors get cozy with governments

THE STATE Comptroller's Office has been doing some watching of our ostensible watchdogs — the auditors who are supposed to independently evaluate local government finances. Its findings suggest that many of them have close relationships with towns and school districts that aren't conducive to arm's-length scrutiny of their bookkeeping.

State Comptroller Matthew Boxer and his staff report that auditors, like government lawyers and engineers, are often awarded contracts at the discretion of politicians, even as they help underwrite their campaigns. This is well known to anyone familiar with the workings of local government in New Jersey. But Boxer's office has done us the service of pointing out that, from the perspective of any reasonable outsider, that kind of arrangement clashes with the auditor's role.

Boxer put it with refreshing clarity in a statement: "Financial oversight ... should not be left to firms that have obtained that role through contributions to the political structure they are supposed to be overseeing."



BOXER

business. The 10 auditors with the most public-sector clients were responsible for more than \$1 million in donations over the previous two years. Among the firms with the least clients, political contributions were virtually unheard of.

The report raises obvious questions about the quality of oversight the public can expect from these favored firms. But Boxer's office did not stop at raising those questions. It also found some evidence of loosened standards by comparing special court-ordered audits of 22 school districts to those conducted by the districts' regular auditors not long beforehand.

The comparison showed an "alarming disparity," particularly when the one-time audits were compared to those conducted by auditors who had been working for a district for at least a decade. In one case, the regular annual audit found no deficiencies in a district's finances, while the subsequent special audit found 60.

As Boxer put it to reporters in Trenton this week, "The independence and effectiveness of audits in New Jersey cannot be trusted unless

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Government spent \$3.9M to lobby government

Jersey comptroller urges limits or ban on hiring of private consultants by public entities

BY ELISE YOUNG
STATEHOUSE BUREAU

New Jerseyans shelled out at least \$3.9 million in private consultant fees so towns, counties, authorities and other government units could lobby other public bodies, according to a report released yesterday by the state Comptroller's Office. Seven government units paid more than \$100,000 to consultants in 2006 and 2007, topped by the Passaic Valley Sewerage Commission, which spent \$638,000. The City of Newark spent \$164,032, the

fourth-highest amount. The study recommended that New Jersey tighten regulations or consider a ban on the practice, as five other states have done. "One of the potential issues with public entities spending significant money on lobbying firms is that other government officials may feel compelled to do the same to achieve an equal playing field in the competition for state dollars," Comptroller Matthew Boxer said in a statement. "You

can end up with a financial escalation that ultimately is a race to the bottom for taxpayers." In instances where utilities pay to lobby government units, the costs are shouldered by ratepayers. Boxer noted that the consultants' fees could have exceeded \$3.9 million, because firms may have interpreted a 2006 election-law advisory as permission not to disclose public contracts. The Comptroller's Office took no position on that advisory.

The report infuriated Sen. Loretta Weinberg (D-Bergen), who said she was working on legislation that would force reporting of such lobbying payments. "According to the comptroller's report, most of the spending goes toward lobbying the Assembly and Senate on pending legislation," Weinberg said in a statement. "Why are they spending the public's money to lobby lawmakers when they should have access to them free of charge?"

The comptroller's findings were based mostly on public-finance reports filed by the lobbyists. One firm disclosed that it had worked to designate School Bus Driver Appreciation Day, increase fines for violating the Open Public Meetings Act and form a panel to study fuel reserves. Newark Mayor Cory Booker said the consultants' results justified their expense, bringing home money for parks and community development and tech grants. "Washington's a complicated world," Booker said. "I do not have time, or net-her does anybody on my staff have time to [See LOBBYING, Page 21]

The Star-Ledger

Petting zoos and problems

Thursday, December 11, 2008

It may be that bringing a petting zoo or a pony to a neighborhood is just what it takes to get children and parents to listen to an educational message about alcoholism and drug abuse. But it's hard to know, since those items turned up in an audit of the Governor's Council on Alcoholism and Drug Abuse with no explanation of why the money was spent or what results it bought.

Payments for an unexplained "rent expense" that were mailed to a local official's home address are even harder to explain. That was another item that the Office of the State Comptroller found when it looked at the council's books. * * *

Study: Auditors hold jobs too long in N.J.

By TOM BALDWIN
Gannett State Bureau

TRENTON

At least 400, and maybe many more, of New Jersey's nearly 2,000 government entities have paid the same auditing firms to examine their public books for more than a decade without ever seeking bids for the work, the state comptroller said Tuesday. And auditing firms that

get the most work also give the most to political campaigns in the time-honored system called pay-to-play, the report said.

"Too few New Jersey government units are selecting and rotating their auditors in a way that is in the best interest of New Jersey taxpayers," said State Comptroller Matthew Boxer.

See A11B
THURSDAY, MARCH 5, 2009

THE STAR-LEDGER

UNION COUNTY

Audit: Irvington finances in disarray

OPINION

EDITORIALS

Checking up on auditors

Tough outside audits are crucial to keeping honest the financial operations of New Jersey's hundreds and hundreds of towns and school districts. In many local government offices, however, the auditors aren't tough or even very far outside the power structure.

State Comptroller Matthew Boxer found cozy financial ties and political contributions have undermined the independent accounting oversight that is supposed to ensure that billions of public dollars are spent properly.

Consider that at least 389 government bodies haven't changed auditors in more than 10 years and that for some it has been far longer. Haddon Township's board of education has had the same auditing firm since Harry Truman was president in 1947.

Released Tuesday, the first major study done by Boxer's recently created office makes it clear why. There is no requirement that auditing services be put up for competitive bid. Accordingly, almost half the 813 government bodies that Boxer was able to question do not seek competitive proposals for their auditors. * * *

A report by the state comptroller shows that strict new standards for selecting auditors are needed to make sure that financial operations in New Jersey's towns and school districts are kept honest.

The Express-Times

New Jersey Comptroller audit finds problems with Washington's fiscal management

Thursday, May 07, 2009
By STEPHEN J. NOVAK
The Express-Times

WASHINGTON | Over the last 10 years, costs for a still incomplete public works garage increased fivefold due to a lack of oversight and neglect of standard contracting policies on the part of borough officials, says a state report issued Wednesday.

The 20-page report details several glaring deficiencies in the borough's fiscal management. It also provides recommendations on how the borough can correct its financial flaws. * * *

NJBIZ ALL BUSINESS • ALL NEW JERSEY Comptroller Cracks Down on State Contracts

By Scott Goldstein
5/8/2008

Ever wonder how many New Jersey government entities—from park commissions to state agencies—hand out contracts to private companies? The answer: More than 1,900. That's according to the newly created state Comptroller's office.

The four-month old comptroller's office, initially proposed by Gov. Jon S. Corzine, sent letters late yesterday to every one of those agencies, directing them to provide details on contracts that are worth more than \$2 million. * * *

Town garage not finished after 10 years

The Associated Press

TRENTON, N.J. - Taxpayers have spent millions over ten years on a municipal garage in New Jersey that's still not finished.

The state comptroller found wasteful spending and mismanagement problems in the project in Warren County's Washington Borough. * * *



State of New Jersey
Office of the State Comptroller

We strive to be a team of professionals that provides unbiased and objective information that government officials and New Jersey residents value.

OUR MISSION

To promote the integrity and transparency of government operations by reviewing government contracts and conducting independent audits of government entities and programs throughout New Jersey.

OUR VALUES

Focus on Excellence ~ Produce quality work that adheres to professional standards and provides meaningful and useful information.

Innovation ~ Encourage creativity and identify and use new technologies and approaches to enhance our work.

Foster a Healthy Work Environment ~ Make trust, respect, integrity, and teamwork the foundation of our interactions.

Develop Staff ~ Serve as coaches and mentors, and emphasize open communication, collaboration, constructive feedback, and recognition. Emphasize training and continuous personal development in our profession.