



State of New Jersey

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PHILIP JAMES DEGNAN
State Comptroller

February 15, 2017

Henry Robinson, Chairman
Plainfield Municipal Utilities Authority
127 Roosevelt Avenue
Plainfield, New Jersey 07060

**Re: Plainfield Municipal Utilities Authority Audit
Report PA-30**

Dear Chairman Robinson:

The New Jersey Office of the State Comptroller (OSC) has engaged in a performance audit of selected fiscal and operating procedures at the Plainfield Municipal Utilities Authority (PMUA). OSC conducted this audit in accordance with *N.J.S.A. 52:15C-1 et seq.* and with generally accepted government auditing standards applicable to performance audits. These 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 upon our audit objectives. What follows is our summary of the evidence obtained during the course of the audit, which provides a reasonable basis for our findings and conclusions.

Background

PMUA was created in 1995 pursuant to the Municipal and County Utilities Authority Law (*N.J.S.A. 40:14B-1 et seq.*). According to its website, PMUA was created "to provide stable and affordable waste management services to the City of Plainfield's residential and commercial communities." To meet this objective, PMUA and Plainfield entered into an Interlocal Agreement that memorializes PMUA's long-term lease of the components of the solid waste and sewer systems and reflects PMUA's obligation to administer a billings and collections system.

PMUA is governed by a Board of Commissioners (Board) consisting of five members and two alternate members, each of whom are appointed by the Mayor of Plainfield, with the advice and consent of the Plainfield City Council, for staggered five-year terms. The Board appoints an Executive Director who oversees PMUA's daily operations.

PMUA divides its primary responsibilities, collecting solid waste and operating and maintaining the sanitary sewer system for Plainfield, between two departments. The Department

of Solid Waste is responsible for collecting solid waste, including recyclable materials and bulk waste, and for sweeping streets in Plainfield. The Sewer Department is responsible for maintaining 110 miles of sanitary sewer system within Plainfield.

Audit Objective, Scope, and Methodology

The objective for this performance audit was to review PMUA's controls over selected fiscal and operating practices. In doing so, OSC audited PMUA's human resource, contract and procurement, fiscal, and budgetary operations.

To accomplish our objective, OSC reviewed relevant statutory laws, state regulations, and PMUA policies and procedures. We also reviewed PMUA's financial data, documentation related to human resources and payroll, as well as its purchasing policy, and certain individual contracts and purchases. In addition, OSC reviewed PMUA's internal controls and conducted interviews with PMUA personnel and Board members. Our audit covered the period beginning January 1, 2011 through May 30, 2014.

Audit Findings

Our audit identified areas for improvement in the monitoring of indirect cost allocations and compliance with purchasing policies. We also found that PMUA's procedures did not require employees to submit formal written notice of their employment separation. Key findings and recommendations are summarized below.

Inadequate Monitoring of Indirect Cost Allocations

OSC found that PMUA did not periodically monitor and evaluate its indirect cost allocation between the using departments. OSC found that PMUA allocates operational costs for administrative activities such as finance, accounting, sales, and human resources, to using departments. Specifically, PMUA assesses an equal amount of these indirect costs to the sewer and solid waste departments without determining whether the allocation method represents a measurable unit that best reflects the actual usage for each department. This practice of equal allocation, without consideration of actual usage, can distort the stated costs of operational services and may lead to inaccurate user rates.

Inadequate Management of Employee Separation

PMUA did not have adequate policies and procedures for the management of employee separation. Specifically, PMUA did not receive, nor did it require, formal written notices from the then-Executive Director and then-Assistant Executive Director (Executives) of their employment separation. PMUA's failure to require letters of resignation from the departing Executives may have contributed to a disagreement between the Executives and the PMUA Board on whether the Executives departed voluntarily or were constructively terminated, as alleged by the Executives.

In 2010, PMUA renewed employment agreements (Agreements) with the Executives. Thereafter, in 2011, the Executives demanded severance and other post-employment compensation

pursuant to the terms of their employment agreements alleging their departures were the result of constructive terminations. OSC's review noted that the Agreements for those Executives contained ambiguous terms that contributed to a dispute as to the Executives' post-employment compensation rights.

Procurement

PMUA made certain purchases in violation of the Local Public Contracts Law (LPCL) and its own Purchasing Manual. PMUA's Purchasing Manual (Purchasing Manual) outlines proper procedures for purchasing, including identifying circumstances in which a specific number of quotations must be obtained prior to entering into a purchasing agreement. We found, however, that in some instances purchases were made or services were rendered either before the quotations had been received or without evidence that the minimum number of quotations had been obtained. In addition, multiple single purchases were made from the same vendor that were individually below the Purchasing Manual and LPCL quotation thresholds in contract years 2011 and 2012. When aggregated by contract year, however, these purchases exceeded the Purchasing Manual's formal quote threshold and, in some cases the LPCL quote threshold, thus triggering the requirement that quotations be obtained.

OSC's review of the purchasing files and Board resolutions revealed that the certification of funds in support of each expenditure did not include all of the information required by *N.J.A.C.* 5:30-5.4 and 5.5. Specifically, several certifications of funds did not provide an express contract commencement or termination date, identify the budget year, designate the specific line item of the official budget from which funds were being certified, or specify the exact amount of the expenditure or a "not to exceed" amount for appropriation.

Recommendations

1. PMUA should analyze its indirect cost allocation method to ensure that indirect expenses are allocated to relevant departments based upon a proportional distribution of costs to the using departments. PMUA should periodically monitor and evaluate the indirect cost allocation methodology to ensure the accuracy of user rates.
2. PMUA should revise its policies and procedures for the management of employee separation and require formal written notice from all employees who voluntarily separate their employment.
3. Current employment agreements should be reviewed and revised as appropriate to ensure compliance with PMUA policies and procedures and to clearly specify contract terms and definitions to avoid ambiguous language. PMUA should consult its legal counsel to ensure that any future employment agreements contain clear and unambiguous terms to define all the rights and responsibilities of the parties.
4. PMUA should monitor its single purchases from the same vendor throughout each contract year to determine whether, in the aggregate, those purchases exceed the quote or bid thresholds of the Purchasing Manual or the LPCL. In addition, PMUA should obtain the required number of

quotations as specified in its Purchasing Manual and LPCL and ensure that, when quotations are necessary, such quotations are obtained before PMUA receives any goods or services.

5. PMUA should develop policies and procedures to ensure compliance with the Local Finance Board regulations governing the procedures and requirements for the certification of funds as specified in *N.J.A.C.* 5:30-5.4 and 5.5.

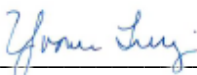
Report Requirements

OSC provided a draft copy of this report to PMUA officials for review and comment. Their comments are attached as Appendix A.

OSC is required by statute to monitor the implementation of our recommendations. In accordance with *N.J.A.C.* 17:44-2.8(a), PMUA shall report to OSC within 90 days following the distribution of the final audit report, what corrective action has been taken or is underway to implement the recommendations contained in the report. If PMUA chooses not to implement any of the recommendations, it must provide a written explanation for each such refusal. On behalf of OSC, I thank PMUA's management and staff for the courtesies and cooperation extended to our auditors during this engagement.

Very truly yours,

PHILIP JAMES DEGNAN
STATE COMPTROLLER

By: 
Yvonne Tierney, CPA
Director, Audit Division

c. Daniel Mejias, Executive Director, PMUA
Duane Young, Chief Financial Officer, PMUA

Appendix A - Auditee Response



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January 26, 2017

Yvonne Tierney, CPA
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

**Re: Plainfield Municipal Utilities Authority Audit Report PA-30
Corrective Action Plan**

Dear Director Tierney,

The Plainfield Municipal Utilities Authority has received the above-referenced Audit Report and would like to provide the following response to the Division's Audit Findings:

- 1. PMUA should analyze its indirect cost allocation method to ensure that indirect expenses are allocated to relevant departments, based upon a proportional distribution of cost to the using departments. PMUA should periodically monitor and evaluate the indirect cost allocation methodology to ensure the accuracy of user rates.***

RESPONSE: PMUA will periodically monitor and evaluate its indirect cost allocations between the using departments, taking into account actual usage by each department, to properly allocate operational cost for administrative activities and, thereby, increase the accuracy of user rates as recommended.

- Responsible Party – Chief Financial Officer
- Completion Date – September 30, 2017

2. *PMUA should revise its policies and procedures for the management of employee separation and require formal written notice from all employees who voluntarily separate their employment.*

RESPONSE: PMUA has implemented a procedure that all resignations are required to be submitted in writing. The Human Resources department follows up with a written confirmation to the employee to confirm the understanding and terms of separation.

- Responsible Party – Human Resource Manager
- Completion Date – June 30, 2017

3. *PMUA should consult its legal counsel to ensure that any future employment agreements contain clear and unambiguous terms to define all the rights and responsibilities of the parties. Current employment agreements should be reviewed, and revised as appropriate to ensure compliance with PMUA policies and procedures and to clearly specify contract terms and definitions to avoid ambiguous language.*

RESPONSE: As a result of the circumstances in 2011 with the then-Executive Director and then-Assistant Executive Director, all current employment agreements and future agreements are prepared and reviewed by PMUA Counsel. Contract terms, including termination and post-employment compensation, are clear and unambiguous.

- Responsible Party – Legal Counsel
- Completion Date – completed

4. *PMUA should monitor its single purchases from the same vendor throughout each contract year to determine whether, in aggregate, those purchases exceed the quote or bid thresholds of the Purchasing Manual or the Local Public Contract Law. In addition, PMUA should obtain the required number of quotations as specified in its Purchasing Manual and Local Public Contracts Law and ensure that, when quotations are necessary, such quotations are obtained before PMUA receives any goods or services.*

RESPONSE: PMUA's Qualified Purchasing Agent has implemented a process and procedure to monitor purchases to comply with the PMUA Purchasing Manual and the Local Public Contracts Law. The Purchasing Manual process addresses the number of quotations required

before awarding a contract and the monitoring of multiple purchases from the same vendor to ensure that the purchases, in the aggregate, comply with the requirements of the Local Public Contracts Law.

- Responsible Party – Qualified Purchasing Agent
- Completion Date – April 30, 2017

5. PMUA should develop policies and procedures to ensure compliance with the Local Finance Board regulations governing the procedures and requirements for the certification of funds as specified in N.J.A.C. 5:30-5.4 and 5.5

RESPONSE: PMUA Certification of Funds Resolutions will include all of the information required pursuant to N.J.A.C. 5:30-5.4 and 5.5.

- Responsible Party – Chief Financial Officer
- Completion Date – April 30, 2017

In conclusion, the PMUA has conducted a comprehensive review of the above-cited findings and is confident that our corrective actions as presented herein should adequately satisfy the Division's concerns. We look forward to receiving the final Audit Report.

Kindly let me know if you need any further information or clarification.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'D. Mejias', with a stylized flourish at the end.

Daniel I. Mejias
Executive Director

DM/tsw

cc: Henry V. Robinson, PMUA Chairman
Duane Young, PMUA Chief Financial Officer