



State of New Jersey

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PHILIP JAMES DEGNAN
State Comptroller

December 5, 2018

The Honorable William P. James
Mayor
Gloucester City
512 Monmouth Street
Gloucester City, NJ 08030

The Honorable Dahlia O. Vertreese
Mayor
Hillside Township
1409 Liberty Avenue
Hillside, NJ 07205

The Honorable Wilda Diaz
Mayor
City of Perth Amboy
260 High Street
Perth Amboy, NJ 08861

Re: Follow-Up Report - Controls Over Personnel And Fiscal Practices At Selected New Jersey Municipalities

Dear Mayors James, Vertreese, and Diaz:

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, *Controls Over Personnel and Fiscal Practices at Selected New Jersey Municipalities* issued on December 18, 2014. Our findings and conclusions are set forth below.

Background, Scope and Objective

Our initial audit evaluated controls over selected personnel and fiscal practices at three municipalities: Gloucester City, the Township of Hillside, and the City of Perth Amboy. In our 2014 audit, OSC identified areas for potential cost savings related to payroll costs, a lack of review of unemployment claims, and the failure of one municipality to hire a Business Administrator, a position required pursuant to *N.J.S.A. 40:69A-44*.

The objective of our follow-up engagement was to determine if the municipalities have implemented the six recommendations contained in our initial audit report.

Summary Conclusion

We found that each of the municipalities has made progress in implementing the recommendations set forth in our initial audit report. Of the three audit recommendations applicable to Gloucester City, all three were implemented. Of the four audit recommendations applicable to Hillside, two were implemented and two were not implemented. Of the five audit recommendations applicable to Perth Amboy, three were implemented, one was partially implemented, and one was not implemented.

OSC reminds Perth Amboy and Hillside to continue their efforts with the goal of reaching full compliance with the recommendations not fully implemented.

Status of Initial Audit Recommendations

Recommendation 1

In future CBA negotiations, Hillside, Perth Amboy, and Gloucester City should seek to reduce or eliminate annual longevity payments to their employees.

Status: Implemented – Gloucester City, Perth Amboy, Hillside

During the initial audit period, OSC found all three municipalities had significant longevity benefit costs.

Both Perth Amboy and Gloucester City provided corrective action plans (CAP) and reported that they had renegotiated longevity benefits in most, if not all, of their Collective Bargaining Agreements (CBA or agreements). OSC reviewed the CBAs and determined that all seven agreements for Gloucester City and seven of the eight agreements for Perth Amboy included terms that reduced or eliminated longevity benefits. Although Hillside did not submit a formal CAP, our follow-up review found that all eight CBAs had been renegotiated which resulted in the reduction of longevity benefits in seven of the agreements.

Recommendation 2

Perth Amboy should eliminate its current use of paper payroll cards and consider using an electronic form of payroll records or other method that will ensure proper calculations and record retention.

Status: Implemented – Perth Amboy

During the initial audit, OSC found that Perth Amboy used paper payroll cards that included manual notations summarizing pay increases. The payroll cards, however, did not include calculations or define the type of salary increase.

For our follow-up review, OSC found that Perth Amboy replaced the paper payroll cards with an electronic payroll system that includes calculations, formulas, and labels with specific employee data and salary increases.

Recommendation 3

Perth Amboy should establish controls to ensure that severance payments do not exceed allowable limits as prescribed by its CBAs.

Status: Partially Implemented – Perth Amboy

The initial audit found that Perth Amboy had issued severance payments to terminated employees that exceeded the limits specified in applicable CBAs.

Perth Amboy advised in its CAP that internal controls had been implemented, including the use of an electronic process to track accrued leave to ensure the approval and accuracy of severance payments.

Our review found that Perth Amboy had implemented a new electronic system to track accrued leave. OSC found the new system provides improved controls for recording employee accrued leave balances. However, our testing of the twenty-four severance payments issued in 2015 and 2016, totaling about \$775,000, found that Perth Amboy paid severance payments to six employees that exceeded applicable CBA limits by \$12,947.

Recommendation 4

In future CBA negotiations, Hillside, Perth Amboy, and Gloucester City should seek to reduce cash payouts to employees upon separation.

Status: Implemented – Gloucester City, Perth Amboy

During our initial audit, OSC found that Gloucester City and Perth Amboy issued significant severance payments to employees upon separation for accumulated compensatory, sick, personal, and vacation leave absent any limits in the CBAs for such payments.

The CAPs for both Gloucester City and Perth Amboy reported that the municipalities had attempted to renegotiate reductions for severance payments.

Our follow-up review found that Gloucester City renegotiated all seven agreements and Perth Amboy renegotiated five of the eight CBAs that now include limits for severance payments.

Status: Not Implemented – Hillside

In addition, to the severance payments for accumulated leave, employees retiring from Hillside were entitled to terminal leave that is calculated based on one to three days' pay for each year of service.

Hillside noted in its response to our initial audit report that it would explore eliminating or at a minimum reducing payouts and establish limits for severance payments to separating employees. During the follow-up review, however, Hillside did not provide any evidence that it had taken any such action. Specifically, OSC reviewed the CBAs and found that none of them contained revisions to substantiate any reduction or limits for severance payments.

Recommendation 5

Hillside, Perth Amboy, and Gloucester City should implement procedures to ensure proper review of unemployment claims and verify employment information concerning crossing guards to ensure that crossing guards are not receiving unemployment benefits for periods when they are working.

Status: Implemented – Gloucester City

The initial audit identified a school crossing guard who received unemployment benefits for the same time period while also working and being paid as a crossing guard.

Gloucester City advised in its CAP that it would review the quarterly unemployment claim reports. OSC found that Gloucester City established a process to review unemployment claim reports to identify improper benefit payments.

Status: Not Implemented – Hillside, Perth Amboy

The initial audit identified sixteen school crossing guards in Hillside and twenty-four crossing guards in Perth Amboy who received unemployment benefits for the same time period while also working as crossing guards.

Perth Amboy advised in its CAP that it would continue to review and dispute unfounded claims. Hillside officials told OSC that they would try to keep crossing guards working during the school year breaks and summer months.

During our follow-up review, our testing found that crossing guards in both Perth Amboy and Hillside had worked while also receiving unemployment benefits. In addition, OSC could not verify that Hillside properly reviewed the unemployment claim reports because the township officials did not provide evidence of receipt and/or review of the reports.

Recommendation 6

Hillside should hire a Business Administrator in accordance with N.J.S.A 40:69A-44.

Status: Implemented – Hillside

Our initial audit report found that Hillside did not employ a business administrator at the time of our initial audit.

During the follow-up review, OSC confirmed that the township had hired a business administrator.

Reporting Requirements

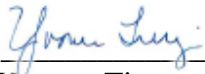
We provided a draft copy of this report to Gloucester City, the Township of Hillside, and the City of Perth Amboy for their review and comment. Their responses were considered in preparing our final report and are attached as Appendix A.

The Office of the State Comptroller, by statute, is required to monitor the implementation of our recommendations. To meet this requirement, municipal officials 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 Gloucester City, the Township of Hillside, and the City of Perth Amboy for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

PHILIP JAMES DEGNAN
STATE COMPTROLLER

By: 

Yvonne Tierney, Director
Audit Division

- c: Frank Robinson, Chief Financial Officer – Gloucester City
- Jack Lipsett, Administrator – Gloucester City
- Glynn Jones, Chief Financial Officer – Hillside Township
- Hope Smith, Administrator – Hillside Township
- Jill A. Goldy, Chief Financial Officer – City of Perth Amboy
- Gregory Fehrenbach, Interim Business Administrator – City of Perth Amboy



TOWNSHIP OF HILLSIDE

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Glynn E. Jones, CFO

Dahlia O. Vertreese, Mayor

10/23/18

Yvonne Tierney, Director Audit Division

Office of the State Comptroller

PO Box 024

Trenton, NJ 09625-0024

Subject: Follow-Up Report-Control Over Personnel and Fiscal Practices at Selected New Jersey Municipalities

Dear Ms. Tierney,

This letter represents the Township of Hillside's response to the subject above. As a new administration we welcome all input that is for the benefit of our taxpayers. Below are our responses to the recommendations that have not been implemented.

Recommendation 4

All 8 of the Township of Hillside's CBAs are in negotiations. A reduction in the to the separation payouts to employees will be one of the most important items to be discussed. If possible, the Township would request if the OSC could share the terms that were agreed to by municipalities that were successful in reducing employee separation payouts. In addition, the Township would like to know what the terms were pre and post negotiations. We feel that this could lend the proper gravity as to why the Township is seeking a reduction.

We would like to point out that the odds of success in achieving the desired results with our public safety units are not very encouraging. There are many past arbitrations that stack the deck against municipalities. Unless there is statewide legislative assistance to help localities in this regard, we will be negotiating in futility.

Recommendation 5

The Township receives the unemployment reports (form B187Q) quarterly. The reports are also reviewed. The Township would request if OSC could assist with a more efficient way to protest charges with LWF than regular mail, perhaps a liaison could be suggested for more direct contact. Data transmission of protests would seem more efficient. The Township would also ask if OSC could assist with getting LWF to update our access to the TWES system.

The Township thanks you for the insight.

Sincerely,



Glyn Jones,

CFO



City of Perth Amboy

Wilda Diaz, Mayor

November 9, 2018

William McCormick
Office of the State Comptroller
P.O. Box 024
Trenton, New Jersey 08625

**Subject: Controls over Personnel and Fiscal Practices
Follow Up Report Response**

Dear Mr. McCormick:

You supplied the City with following draft follow up report focusing on Recommendations #3 and #5 which read as follows:

1. No Response Necessary = Recommendation #1 - Implemented
2. No Response Necessary = Recommendation #2 - Implemented
3. Recommendation #3 – Partially Implemented
 - a. Our follow-up review deducted compensatory time accruals recorded during our initial audit in 2012. However, going forward, the previously earned leave did not eliminate the over payment of accumulated compensatory time beyond current bargaining agreement limits and terms (same year usage, 36 hours maximums, etc.). Additionally, although compensatory time payments were the largest of the overpayment categories, vacation time and personal time were also contributed to the overpayment. Management is still allowing personnel to accrue leave beyond CBA limits.
4. No Response Necessary = Recommendation #4 – Implemented
5. Recommendation #5 – Not Implemented

OSC requested but did not receive adequate supporting information from Perth Amboy regarding earnings for submitted unemployment crossing guard claims in calendar year 2015. On May 16th, prior to our preliminary findings conference call, we sent our testing schedule of crossing guards working during school operations and filing for unemployment (see attached). During our conference call that same day, we encouraged Perth Amboy to review the testing schedule and to submit any supporting documentation that could reduce or eliminate any exceptions noted. We were not provided anything until we received the October 24th email and attachment.

OSC reviewed the attachment and noted that there were only two disputes that coincided with our testing that resulted in a reduction of over payment calculations (see attached forms). As noted in our testing schedule and during our conference call, we selected crossing guard unemployment weeks claimed **when school was in session and not for weeks claimed during school breaks and recesses**. The majority of the remaining pages within the attached

document was specifically for wages of separated employees and did not reference our findings of payments made to employees during times when school was in session. In addition, if work was available for crossing guards who were still employed by the City and did not report for duty they would be ineligible to collect unemployment and those payments were also identified as overpayments.

Please note that in order to file a successful protest for crossing guards working and collecting while school is in session, Perth Amboy **must submit the protest in writing**. The attached form can be submitted along with the protest or Perth Amboy can submit the Quarterly charge notice (B-187) which has a place to protest charges and readily identifies weekly charges during school operating hours.

I will address as a response from the City the above follow up report for Recommendation #3.

RESPONSE TO RECOMMENDATION #3 OF THE REPORT ABOVE:

Of the six (6) personnel identified in the report having been allegedly overpaid compensatory time, vacation and personal leave, three (3) were in the department of fire and three were in the department of police. The values of alleged overpayment for personal leave was \$86.68 or 1.84 hours. Staff believe this was an agreement reached by the Fire Chief at the time due to an inability to have the employee take the time off.

The value of alleged vacation overpayment was for 2.5 days or \$1438.30. The remainder of the alleged overpayment of \$12,946.95 was for compensatory time paid to five (5) of the fire and police personnel. The basis for the allegation is that the payment was made in excess of the contractual limits in the contract. However, the auditors did not at all inquire into the past practice of the department and the extent to which the department as obligated under past practice to continue the payments.

Nevertheless, according to your report, the Departments of Fire and Police should have forced the employees to take the time off prior to retirement so the payout would not have been necessary, no matter what the impact might have been on service levels or staffing complements in order to satisfy the concerns expressed in this follow up report. Their failure to force the time off necessitated the City to satisfy its statutory obligation under the FLSA and pay them for their accrued compensatory time.

If it is your continued opinion that the Recommendation #3 was only partially implemented, please amend it to read: "Partially implemented due to departments of fire and police not forcing employees to use time due them under contract"

RESPONSE TO RECOMMENATION #5 OF THE REPORT ABOVE:

It is patently unfair of the OSC to characterize the diligent work performed by the administrative staff in the Department of Administration in challenging wrongful claims for unemployment compensation by school crossing guards as "NOT IMPLEMENTED."

The entire process of monitoring unemployment claims and complying with the requirements of the Department of Labor in this regard is quite time consuming and labor intensive. Much time has been and is spent challenging multiple inappropriate and sometimes illegal claims

because the system of unemployment compensation is so slanted to favor the employee over the employer. In a 08.24.2017 communication to the OSC, the City explained that the City did not have the appropriate records to challenge some of the claims during the OSC evaluative period.

Had the OSC staff chosen another evaluative period to study the results would have been different.

A more appropriate response would have been "PARTIALLY IMPLEMENTED"

Sincerely,



Gregory C. Fehrenbach
Interim City Administrator

cc: Wilda Diaz, Mayor
Jill A. Goldy, CFO/Comptroller
Sonia Neira, Personnel Officer