



State of New Jersey

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KEVIN D. WALSH
Acting State Comptroller

September 15, 2020

Mr. Miguel Edghill, Chairperson
Plainfield Municipal Utilities Authority
127 Roosevelt Avenue
Plainfield, NJ 07060

Re: Follow-Up Report – Plainfield Municipal Utilities Authority

Dear Chairperson Edghill:

On February 15, 2017, we issued an audit report regarding selected fiscal and operating practices at the Plainfield Municipal Utilities Authority (PMUA)¹ in which we made recommendations to address various identified weaknesses. Pursuant to *N.J.S.A. 52:15C-1 et seq.*, we have conducted a review of the audited entity's corrective actions to assess the implementation of the recommendations contained in our initial audit. Our findings and conclusions are set forth below.

Background, Scope, and Objective

In our initial audit of the PMUA, we identified three areas for improvement: monitoring of indirect cost allocations, employee separation policies, and compliance with purchasing requirements.

Our follow-up engagement objective was to determine if the PMUA has implemented the five recommendations contained in our 2017 audit report.

Summary Conclusion

The PMUA did not submit a formal corrective action plan as required by *N.J.A.C. 17:44-2.8(a)*. However, the PMUA's response to the initial report specified corrective actions it had taken. We found that the PMUA has made progress in implementing the recommendations set forth in our initial audit report. Of the five audit recommendations, one was implemented, two were partially

¹Available at: https://www.nj.gov/comptroller/news/docs/pmua_final_letter_report.pdf.

implemented, and two were not implemented. We urge the PMUA to continue its efforts to comply fully with all of our recommendations.

Status of Initial Audit Recommendations

Recommendation 1

The 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. The PMUA should periodically monitor and evaluate the indirect cost allocation methodology to ensure the accuracy of user rates.

Status: Partially Implemented

During the initial audit, we found that the PMUA did not monitor its indirect costs regularly. Nor did it evaluate its indirect cost allocations to determine if they were proportionately applied to its departments. The PMUA simply halved the indirect costs for administrative expenses between its sewer and solid waste departments without determining or verifying the actual usage by department.

The PMUA's response indicated it would periodically monitor and evaluate its indirect allocations between its departments to allocate properly the operational cost of its administrative activity, which will increase the accuracy of user rates.

Our review found that the PMUA did analyze its indirect cost allocation methodology and claimed summarily that its current methodology of equally allocating the indirect costs for all administrative departments was reasonable and appropriate. The PMUA further contended that any change in its indirect cost allocations would not have any significant impact on sewer and solid waste rates. The PMUA acknowledged that the departments did not equally use the human resources and purchasing functions and stated that it would revisit indirect cost allocations for these departments during its next rate adjustment.

The Government Finance Officers Association has issued best practice guidance that recommends local governments use full-cost accounting for municipal solid waste management.² Full-cost accounting requires allocating indirect expenses among functions or departments with the objective of allocating all expenses, including certain general government expenses. See GASB No. 34. We continue to recommend that the PMUA follow the Government Finance Officers Association's best practices with regard to indirect cost allocations.

²See <https://www.gfoa.org/materials/municipal-solid-waste-management-and-full-cost-accounting>.

Recommendation 2

The 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.

Status: Partially Implemented

Our initial audit found that the PMUA did not have adequate policies and procedures for the management of employee separation. Specifically, the PMUA did not receive, nor did it require, formal written notice from the then-Executive Director and then-Assistant Executive Director of their employment separation. The PMUA's response stated that it had implemented a procedure that requires all resignations to be submitted in writing to the Human Resources Department, which then issues written notice to the employee confirming the separation terms. The PMUA informed us that these procedures were effective as of June 2017 and were formalized in its revised employee handbook issued in November 2018.

Our review found that the PMUA revised its policies and procedures. However, the revised policies and procedures have been followed inconsistently. We found that between July 1, 2017 and February 28, 2019 ten employees had separated from the PMUA. Our review noted that two of the employees did not resign in writing and one employee was not issued written notice confirming the resignation. We urge the PMUA to comply fully with this recommendation.

Recommendation 3

Current employment agreements should be reviewed and revised as appropriate to ensure compliance with the PMUA's policies and procedures and to clearly specify contract terms and definitions to avoid ambiguous language. The 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.

Status: Implemented

Our initial audit found that the PMUA entered into employment contracts that contained ambiguous language. When the then-Executive Director and then-Assistant Executive Director separated from the PMUA, they alleged their departures were the result of constructive terminations, and demanded post-employment benefits pursuant to the terms of their employment agreements. In its response to our initial finding, the PMUA stated that all current employment agreements have been prepared and reviewed by the PMUA's legal counsel and committed to continuing that practice for future employment agreements. The PMUA further indicated that current employment contract terms, including termination and post-employment compensation, were clear and unambiguous.

We confirmed during our review that the current contract for the Executive Director was prepared by the PMUA's legal counsel. The contract incorporates the PMUA's employee handbook, which details the rights and responsibilities of the parties, including termination and post-employment compensation.

Recommendation 4

The 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 PMUA's Purchasing Manual or the Local Public Contracts Law. In addition, the PMUA should obtain the required number of quotations as specified in its Purchasing Manual and the Local Public Contracts Law and ensure that, when quotations are necessary, such quotations are obtained before the PMUA receives any goods or services.

Status: Not Implemented

Our initial audit concluded that the PMUA made certain purchases in violation of its purchasing manual and the Local Public Contracts Law. The PMUA purchased goods and services prior to receiving quotations or without first obtaining the minimum number of quotations. The PMUA also made multiple purchases from the same vendor. While each purchase was below the threshold set by its purchasing manual and the Local Public Contracts Law for obtaining quotations, these purchases exceeded the quotation thresholds when aggregated for the contract year.

The PMUA's response indicated it had implemented a process to monitor purchases to comply with its purchasing manual and the Local Public Contracts Law. The purchasing manual addresses the number of quotations that the PMUA requires before it may award a contract. The purchasing manual also mandates that the PMUA monitor multiple purchases from the same vendor to ensure that the purchases, in aggregate, comply with the requirements of the Local Public Contracts Law.

Our review found the PMUA's purchasing records do not contain the part or commodity level detail necessary to ensure compliance with the Local Public Contracts Law's aggregate purchase requirements. Of 812 purchases over \$1,000 made by the PMUA in 2018, we judgmentally selected eight to verify that it obtained quotations before receipt of goods or services, and that it obtained the required minimum number of quotations. We found that the quotations were all received prior to the PMUA's receipt of the goods or services. However, in four of the sampled purchases, the PMUA did not obtain the minimum number of quotations required by its purchasing manual. We stress to the PMUA the importance of tracking aggregate purchases and obtaining the required number of quotations for purchases in accordance with the Local Public Contracts Law and its own purchasing manual.

Recommendation 5

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

Status: Not Implemented

Our initial audit found that the PMUA did not include all required information when it provided a written certification of available funds prior to the Board of Commissioners' authorization for purchases, as required by *N.J.A.C. 5:30-5.4* and *5:30-5.5*. Specifically, in several certifications, the PMUA failed to 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. The PMUA's response stated that resolutions would include all necessary information when the written certification of available funds was required for purchases.

During our follow-up review, we evaluated whether the PMUA developed policies and procedures to provide a written certification of available funds to ensure compliance with the Local Finance Board regulations. We found that the PMUA revised its Purchasing Manual in 2017. However, the PMUA did not include policies or procedures specific to the requirements of *N.J.A.C. 5:30-5.4* and *5:30-5.5*. We judgmentally selected four contracts awarded in 2018 to verify that all of the required information for the certification of funds was completed. We found that the PMUA did not provide a written certification of available funds for all four of the contracts in accordance with *N.J.A.C. 5:30-5.4* and *5:30-5.5*.

We stress to the PMUA the importance of our recommendation and its obligation under *N.J.A.C. 5:30-5.4* and *5:30-5.5* to provide a written certification of available funds and to include all necessary information. Furthermore, the PMUA should develop policies and procedures to incorporate the requirements of *N.J.A.C. 5:30-5.4* and *5.5* when it seeks Board approval for purchases.

Reporting Requirements

We provided a draft copy of this report to the PMUA for its review and comment. The PMUA agreed with our audit findings and conclusions, and its response indicated they have already taken some actions and will continue to implement corrective actions to address our recommendations. The PMUA's response was considered in preparing our final report and is attached as Appendix A.

By statute, we are required to monitor the implementation of our recommendations. To meet this requirement, municipal officials must report periodically to our office advising what additional

steps they have taken to address the unresolved issues in this report. The PMUA is required to report on the status of its corrective action plan within nine months of this final report. We will continue to monitor the PMUA's progress.

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

Sincerely,

KEVIN D. WALSH
ACTING STATE COMPTROLLER

By: 

Yvonne Tierney, Director
Audit Division

c: Eric Jackson, Executive Director
Beverley Morris-Gill, Deputy Director/Chief Financial Officer



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Eric E. Jackson, Executive Director

July 30, 2020

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

**RE: Follow-Up Report from
 Plainfield Municipal Utilities Authority**

Dear Director Tierney,

The Plainfield Municipal Utilities Authority has received the above-reference follow-up 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 costs to the using departments. The PMUA should periodically monitor and evaluate the indirect cost allocation methodology to ensure the accuracy of user rates.*

RESPONSE: The PMUA did analyze its indirect cost allocation methodology. The Authority may not be equally using the human resources and purchasing functions, and would revisit the indirect cost allocations for these departments during its next rate adjustment. However, the Authority does not think that any change in indirect cost allocations would have a significant impact on sewer and solid waste rates. The PMUA will seek to comply with the Government Finance Officers Association's best practices with regards to indirect cost allocations.

- Responsible Party – Chief Financial Officer
- Completion Date – Next Rate Adjustment

- 2. The 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: The Human Resources department will follow up with a written confirmation to any employee who resigns but does not submit a resignation letter, to confirm the understanding and terms of separation. The PMUA will also look into revising its policies and procedures to reflect that "where possible, it will attempt to get all resignations in writing".

- Responsible Party – Human Resources Manager
- Completion Date – March 1, 2021

3. *Current employment agreements should be reviewed and revised as appropriate to ensure compliance with the PMUA's policies and procedures and to clearly specify contract terms and definitions to avoid ambiguous language. The 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.*

RESPONSE: The current contract for the Executive Director was prepared by the PMUA's legal counsel. The contract incorporates the PMUA's employee handbook, which details the rights and responsibilities of the parties, including termination and post-employment compensation.

- Responsible Party – Legal Counsel
- Completion Date – Implemented

4. *The 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 PMUA's Purchasing Manual or the Local Public Contracts Law. In addition, the PMUA should obtain the required number of quotations as specified in its Purchasing Manual and the Local Public Contracts Law and ensure that, when quotations are necessary, such quotations are obtained before the PMUA receives any goods or services.*

RESPONSE: PMUA's Qualified Purchasing Agent ("QPA") has implemented a process and procedure to monitor purchases to comply with the PMUA's 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. Effective immediately, the QPA will review purchases on a quarterly basis to ensure compliance and to ensure that in the aggregate, the PMUA has not exceeded the quote or bid threshold. In addition, the QPA will ensure that the required number of quotes are obtained before goods or services are received.

- Responsible Party – Qualified Purchasing Agent
- Completion Date – Effective Immediately

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

RESPONSE: Effective immediately, the PMUA will revise its written certification of available funds to include all necessary information according to N.J.A.C. 5:30-5.4 and 5:30-5.5. The PMUA will make a sample of such document available for approval by the Office of the State Comptroller. Certifications will be done before contracts are awarded.

Director Yvonne Tierney
July 30, 2020
Page Three

In addition, the PMUA has a requisition system that requires the approval by the CFO, prior to issuance of a purchase order. That purchase order is then encumbered against the budget line account listed on the purchase order.

- Responsible Party – Chief Financial Officer
- Completion Date – Effective Immediately

The PMUA has thoroughly reviewed the above 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.

Please let me know if you need any additional information.

Respectfully submitted,

A handwritten signature in blue ink that reads "B. Morris-Gill". The signature is stylized with a large, looped initial "B" and the name "Morris-Gill" written in a cursive-like font.

Beverley J. Morris-Gill, CPA, MBA
Deputy Director/CFO

cc: Miguel Edghill, PMUA Chairman (via email)
Eric E. Jackson, Executive Director (via email)