



# NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS

## DIVISION OF LOCAL GOVERNMENT SERVICES

### PERFORMANCE AUDIT OF THE CITY OF ASBURY PARK

Performed by Wiss & Company, LLP for period from  
January 1, 2008 through December 31, 2008

## Table of Contents

# CITY OF ASBURY PARK PERFORMANCE AUDIT

	Page
<b>Performance Audit Report</b>	<b>1</b>
<b>Engagement Summary</b>	<b>3</b>
<b>Project Background</b>	<b>6</b>
<b>Cost Savings Opportunities</b>	<b>12</b>
<b>Internal Control and Compliance Review/Assessment:</b>	
<b>Purchasing/Accounts Payable/Cash Disbursements</b>	<b>14</b>
<b>Payroll and Human Resources</b>	<b>23</b>
<b>General Fiscal Operations, including:</b>	
Budget Process	33
Revenue and Cash Receipts	37
General Ledger Maintenance	45
Banking and Investment Policies	48
Capital Ordinances	51
Tax Abatements	53
Trust Funds	57
Grant Accounting	59
<b>Information Technology Operations</b>	<b>62</b>
<b>Risk Management</b>	<b>64</b>
<b>Inventory and Fixed Assets</b>	<b>67</b>
<b>Other Matters</b>	<b>70</b>
<b>Appendix:</b>	
Appendix A –Overall City Response	71



# PERFORMANCE AUDIT REPORT

---



April 30, 2009

Division of Local Government Services  
Department of Community Affairs  
State of New Jersey

This report presents the results of our performance audit (“audit”) of the City of Asbury Park (“the City”) for the period from January 1, 2008 through December 31, 2008. Our audit was conducted in accordance with the standards applicable to performance audits contained in *Generally Accepted Government Auditing Standards* (“GAGAS”), issued by the Comptroller General of the United States of America.

### **Audit Objectives**

The objectives of the audit were to (1) conduct a risk assessment to establish testing and sampling methods (2) provide an internal control review/assessment identifying potential internal control deficiencies and recommendations for correcting those deficiencies, (3) provide a compliance review identifying potential noncompliance with statutory/regulatory requirements, and (4) identify and provide any potential efficiencies or procedures that would lead to cost saving opportunities for the City.

### **Audit Scope**

In order to achieve the first objective enumerated above, we first developed an understanding of the City and its environment through interviews with City officials; review of key documents including: the current year annual financial statement, prior year audit reports and corrective action plans, annual budgets, the annual debt statement, the organization chart of the City, the City’s administrative code, and internal procedural manuals or policies developed by the City; reviewed the Memorandum of Understanding between the City and the State of New Jersey, Department of Community Affairs, Division of Local Government Services (the “Division”); and obtained an understanding of the City’s internal control environment.



For the second objective, we considered the internal control processes and related controls in place at the time of our fieldwork by performing inquiries, walkthroughs, observations and detailed tests of transactions, where appropriate. The internal control procedures performed were not sufficient to render an opinion on internal control nor was it the purpose of this performance audit. The City's processes included in the scope of our audit related to the assessment of the internal controls were purchasing/accounts payable/cash disbursements, payroll and human resources, general fiscal operations, information technology operations, risk management, and inventory and fixed assets.

The third objective was achieved by performing detailed tests of transactions, or other procedures deemed appropriate, for each process identified in the previous paragraph, as well as performing tests over certain areas specifically identified in the request for proposal ("RFP"). Additionally, we utilized data extraction software to summarize and tabulate certain information requested in the RFP of the City's payroll and non-payroll expenditures. With the resulting information, various sampling techniques were used to further analyze the data, review supporting documentation, perform inquiries and observations, and identify potential outliers. We also performed a payroll verification audit which resulted in verifying that all of the City's employees existed.

The fourth objective was achieved by obtaining information throughout the entire process and making assessments that may lead to cost saving opportunities.

### **Audit Methodology**

The audit methodology encompassed three phases: (1) Planning, (2) Information, Extraction, Gathering, Analysis and Validation and (3) Reporting.

### **Audit Observations**

Observations related to internal controls, compliance, cost saving opportunities and outliers noted during our audit have been presented in this report. The observations and related recommendations were presented to the City and the Division.

### **City of Asbury Park Response**

The City's Response to the Performance Audit is included in Appendix A.



Wiss & Company, LLP

Livingston, New Jersey  
April 30, 2009



# ENGAGEMENT SUMMARY

---

# Engagement Summary

While the scope of this performance audit is detailed in the Project Background section of this report, the Engagement Summary presents a high-level summary of the areas included as part of our procedures and our observations related to the risk for each of those areas. This Engagement Summary was developed based on our analysis of the internal control environment as well as the internal controls over the City's significant processes, inquiries made of City personnel, and observations made during our testing. A cost savings summary can be found in a separate section of this report.

As a condition of receiving Special Municipal Aid, the Division required the City to undergo an internal control and statutory/regulatory compliance audit focusing on the following areas:

- Purchasing/Accounts Payable/Cash Disbursements
- Payroll and Human Resources
- General Fiscal Operations, including:
  - Budgeting
  - Revenue and Cash Receipts
  - General Ledger Maintenance
  - Banking and Investment Policies
  - Capital Ordinances
  - Tax Abatements
  - Trust Funds
  - Grant Accounting
- Information Technology Operations
- Risk Management
- Inventory and Fixed Assets

For each of the areas above, we developed an understanding of the process through discussions with the process owners, which led to the development of our process narrative. In our process narrative, we identified the City's key controls that were developed by the City to ensure the appropriate processing of transactions. We then performed a walkthrough of a transaction, where appropriate, for each of the processes, ensuring the key controls identified in the narrative were actually operating as intended. Based on the results of our walkthroughs, we formulated a preliminary risk assessment of the process and decided whether or not it would be beneficial to perform a detailed test of controls over the process in order to obtain further evidence of the operating effectiveness of the identified key controls. Once the results of our tests of controls were obtained, we reevaluated our preliminary risk assessments, making modifications where necessary, and where warranted, expanding our tests of controls in areas where we found certain control deficiencies or compliance exceptions.

The primary purpose of this performance audit was to focus on the City's payroll/human resources and purchasing/accounts payable/cash disbursement processes based on the high level of activity associated with these processes as well as the accumulated dollar value of the items being processed. More detailed information is presented for each process noted below within the section of the report titled Internal Control and Compliance Review/Assessment. In that section, each area is presented and includes (1) overview and background, (2) internal control and compliance findings, (3) strengths, if any, and (4) conclusion on the effectiveness of internal control.

The results of our testing and procedures performed allowed us to compile, using our judgment, our final risk assessment into one of three categories (low, medium, high) as required in the RFP, which is illustrated below in the following table:

<b>Process</b>	<b>Final Risk Assessment</b>
Purchasing / Accounts Payable / Cash Disbursements	Medium
Payroll and Human Resources	Medium
General Fiscal Operations:	
Budget Process	Low
Revenue and Cash Receipts	Medium
General Ledger Maintenance	Medium
Banking and Investment Policies	Low
Capital Ordinances	Low
Tax Abatements	High
Trust Funds	Low
Grant Accounting	Medium
Information Technology Operations	Medium
Risk Management	Low
Inventory and Fixed Assets	Medium

From our initial meeting at the Division's office through our final closing meeting with City Management, the employees of the City of Asbury Park acted professionally, were cooperative, provided answers to questions and documentation requested in a timely fashion, and were an integral part of the fluidity and success of this project. The employees of the City were very receptive to our suggestions on how to improve the operations of the City and were not adverse to our findings and recommendations. Consequently, we feel that the results achieved from this performance audit will have a positive impact on the City and we extend our gratitude to the employees of the City for their continued positive attitude and support throughout this process.



It is important to note that the City's ability to implement some of the recommendations in the performance audit report focusing on segregation of duties may be difficult. In February 2009, the City's Chief Financial Officer resigned and, to date, has not yet been replaced. The City's Finance Office currently has four full-time employees and one part-time employee. The Accounts Payable Supervisor has been named the Acting Chief Financial Officer. Based on the current staffing of the Finance Department, there are inherent limitations on the segregation of duties.

Following this Engagement Summary section is the Project Background which will provide insight and useful information on the audit approach, planning, analysis, and report. It is important that the report be read and considered in its entirety.



## PROJECT BACKGROUND

---

## **Project Background**

During fiscal year 2008, the following municipalities participated in the Special Municipal Aid program: Asbury Park, Bridgeton, Camden, Harrison Town, Jersey City, Newark, Paterson and Union City. Each of these municipalities has executed a memorandum of understanding with the Division. A stipulation in the memorandum of understanding requires each municipality to undergo a review of its operations. During October 2008, the Division requested proposals from audit firms to perform internal control and statutory/regulatory compliance audits. The performance audit involved performing inquiries, interviews and observations of City personnel as well as gathering and analyzing various data. The period included in the scope of the projects was each municipality's 2008 fiscal year. For the City of Asbury Park, the performance audit covered the period from January 1, 2008 through December 31, 2008.

### **Background Information on the City of Asbury Park**

The City of Asbury Park is a municipality located in Monmouth County, New Jersey. It is organized as a Municipal Council and Municipal Manager form of government under the provisions of N.J.S.A. 40:79. The City is governed by an elected Mayor and Council. The Council consists of five members, one of which serves as mayor and one of which serves as the deputy mayor and serve a term of four years. The City's 2008 fiscal year budget was approximately \$39,000,000 and had approximately 300 full-time employees. The City's population approximates 18,000 residents that live in a 1.6 square mile radius.

### **Approach**

This audit was conducted in an objective, confidential, and independent manner. The approach and methodology utilized throughout the course of the audit are explained below.

### **Planning**

The objectives of planning included meeting with Division personnel to validate our understanding of the audit, confirming key areas to be included in the audit, and acceptance of our tailored audit work plan. To achieve the objectives of this phase, we conducted the following:

#### Meeting with the Division included –

- Introduced members of the WISS engagement team, the Division, and key members of each municipality.
- Discussed individual roles and responsibilities for each of the engagement team members.
- Discussed the purpose of the performance audit with members of management of each municipality.

- Discussed the scope, timing and expectations of the audit in detail and any specific issues related to the City.
- Confirmed the anticipated audit approach.
- Agreed that the final report would be a performance audit in accordance with *Government Auditing Standards*.

Developed a Tailored Audit Program / Work Plan – The engagement team commenced initial planning efforts by developing a tailored audit program / work plan in accordance with GAGAS, which was provided to and approved by the Division to meet the objectives of the engagement and RFP.

Data Request – A detailed request for information was provided to the City during the planning stages, identifying information that would be necessary to complete the required tasks.

City Planning Meeting – Wiss conducted a planning meeting with City management including the Chief Financial Officer and members of the Finance Department on-site at City Hall. This meeting set the tone for the audit and facilitated the audit schedule within the framework of management’s normal work routines. During this meeting, we introduced members of the Wiss engagement team, reviewed the request of documents and information, addressed the City’s questions or concerns related to the audit, and confirmed timing of audit fieldwork and availability of pertinent City staff.

## **Information, Extraction, Gathering, Analysis and Validation**

The objectives of this phase included meeting with representatives of the City to initiate the audit and perform fieldwork. To achieve the objectives of this phase, we conducted the following:

City Fieldwork – Our fieldwork was focused in four areas: (1) conduct a risk assessment to establish testing and sampling methods (2) provide an internal control review/assessment identifying potential internal control deficiencies and recommendations for correcting those deficiencies, (3) provide a compliance review identifying potential noncompliance with statutory/regulatory requirements, and (4) identify and provide any potential efficiencies or procedures that would lead to cost saving opportunities for the City. In conducting fieldwork, we utilized an array of techniques to gather and analyze data. We requested and reviewed various documents in order to gain a high-level understanding of the operations of the City. The following is a list of some of the key documents reviewed:

- 2007 and 2006 audit reports and related corrective action plans
- 2008 unaudited financial statement
- 2007 and 2008 adopted annual budgets
- 2008 minutes of the City Council
- Collective Bargaining Agreements and Various Contracts



1. Risk Assessment - Wiss obtained an understanding of the City and its environment through interviews with City officials; reviewed key documents, as noted above; reviewed the memorandum of understanding between the City and the Division; and obtained an understanding of the City's internal control environment. Through this process, Wiss determined a preliminary risk assessment over each of the City's significant processes.

The significant processes included the following:

- Purchasing/Accounts Payable/Cash Disbursements
- Payroll and Human Resources
- General Fiscal Operations, including:
  - Budgeting Process
  - Revenue and Cash Receipts
  - General Ledger Maintenance
  - Banking and Investment Policies
  - Capital Ordinances
  - Tax Abatements
  - Trust Funds
  - Grant Accounting
- Information Technology Operations
- Risk Management
- Inventory and Fixed Assets

**2&3. Internal Control and Compliance Review and Assessment** – Wiss performed various procedures that were required by the RFP, as follows:

A. Completed the following reports, studies, and analyses.

1. Provide a report on the municipality's Internal Controls that will identify both the municipality's strengths and weaknesses in each area of operational controls and include recommendations to correct any deficiencies identified. Areas that were tested and reported on shall include:
  - a. Purchasing, including but not limited to whether:
    - i. purchase orders were prepared only on the basis of written purchase requisitions or other appropriate form, and approved by authorized persons;
    - ii. controls exist preventing unauthorized purchases, unauthorized use of purchase order forms, and to prevent invoices from being paid in an amount greater than the original purchase order;
    - iii. controls exist to verify that goods and services were received as per contract;
    - iv. contracts (including purchase orders) were awarded in a manner consistent with the Local Public Contracts Law, and if aggregation policies were properly applied;

- v. there is an appropriate record of open purchase orders; and the use of any credit or procurement cards are used consistent with state law and regulations;
  - vi. contracts awarded by the governing body, have appropriate resolutions, certification of availability of funds, and executed written contracts; and whether there were, in the opinion of the auditor, any, unreasonable, or inappropriate contracts, and identification of any such contracts;
  - vii. an encumbrance system is properly used and administered;
  - viii. invoices agree with original purchase order; purchase order agrees with and is consistent with any governing body approved contract, or if to the contrary, proper procedures for change orders or emergencies were followed;
  - ix. voucher packages contain a purchase order, an invoice, a receiving slip, a proof of delivery (bill of lading, packing slip, notice of delivery, etc...);
  - x. payments are made from original invoices (not statements or duplicates) and invoice dates are not prior to delivery date; and,
  - xi. if written procedural documentation regarding the procurement function (i.e., administrative code, purchasing manual) exists
- b. general fiscal operations, including but not limited to whether:
- i. controls within the municipality's accounting functions: budgeting, cash receipts, accounts payable, encumbrance, general ledger maintenance, and if they are adequate, consistently applied, and in compliance with state law, regulations, and local ordinances;
  - ii. banking and investment practices are consistent with state law;
  - iii. investment policies and procedures are established, followed, and effective;
  - iv. grant accounting is compliant with contracts, draw-down and reimbursement procedures, and timeliness;
  - v. capital ordinances, tax abatements, and trust funds are maintained in compliance with state law, regulations, and local ordinances.
- c. payroll/human resources, including but not be limited to whether:
- i. there exist controls over manual and non-manual payroll payments;
  - ii. payments are made in accordance with contract terms;
  - iii. position control reconciles with payroll and budget information;
  - iv. verification that timesheets exist and tie into payroll records;
  - v. verification that salaries were properly authorized and paid in accordance with contract or ordinance; and,
  - vi. employee benefits are authorized by contract, ordinance, or resolution as appropriate, and received by employees pursuant to authorization (i.e., test to ensure that only active employees receive benefits).

- d. information technology operations: the adequacy of infrastructure, administrative support and fiscal applications, disaster management, and information security practices.
  - e. risk management: if adequate insurance coverage is provided at the least cost to the municipality; if self-insured, review of controls and oversight procedures; and; if risk management policies are in place and training provided for staff as appropriate; if procedures are established for periodic review of risk management practices and providers; if risk management contracts were awarded pursuant to law.
  - f. inventory controls: whether supplies, fixed assets, technology and electronic equipment with value greater than \$5,000 are adequately inventoried and controlled.
- 2. Payroll distribution audit: signed verification of employees receiving a paycheck, or in the absence of reasonable verification, verification of time sheet submissions.
  - 3. Statutory and regulatory compliance review of all (100 percent) professional services, competitive contacting, and extraordinary unspecifiable service contracts from the 2008 fiscal year.
  - 4. Reviewed all individual employee employment agreements for statutory and regulatory compliance, and identification of, in the opinion of the auditor, any unreasonable, or inappropriate benefits or compensation.
  - 5. Reviewed all public employee labor contracts to identify any benefits that in the opinion of the auditor are unreasonable, or inappropriate;
  - 6. Reviewed the organizational structure for its adequacy.

B. Additional procedures consisted of the following with a narrative explaining the finding:

- 1. analysis of purchase orders where the payment amounts exceed the original purchase order amount by more than 20 percent;
- 2. review of databases to determine if any vendors are paid at addresses listed as PO Box, commercial mail receiving agencies, etc.;
- 3. analysis of payroll/personnel databases to identify incomplete or missing hire date, birth date, status, address information and other key data elements;
- 4. analysis of payroll data to identify employees who receive greater than the normal number of payroll checks within the period covering Fiscal Year 2008,
- 5. analysis of payroll data to identify employees whose base salary increased by greater than \$7,500 from Fiscal Year 2007 to 2008.

4. Cost Savings Opportunities – Throughout the entire audit process, Wiss identified potential efficiencies or procedures that could lead to cost savings for the City. These cost savings opportunities are included in a separate section of this report and should be considered by the City.

Communication of Preliminary Observations – Wiss facilitated several engagement management meetings, including periodic status meetings and communications with the Division and City Management including the City Manager and the Chief Financial Officer throughout the entire process.

Validation – Wiss shared the summary of the processes and key controls with each process owner and management for validation to help ensure our understanding of the processes and key controls were valid. We also shared observations of potential internal control weaknesses and recommendations with City management for validation. We also communicated with the Division to discuss preliminary observations and engagement status throughout the duration of the fieldwork. Throughout the entire engagement, we also provided the City with the results of our testing and requested responses and additional information from City personnel. The Division also provided Wiss with clarification questions, or approving scopes of our testing procedures.

## **Reporting**

The objectives of this phase included developing a draft report, facilitating an exit meeting at the City, finalizing the audit report, and wrap up. To achieve the objectives of this phase, we executed the following tasks:

Draft Report – Wiss prepared a preliminary report inclusive of the results of all analyses to communicate the results of the fieldwork performed and shared this with the City and the Division. The City was given the opportunity to draft a formal response to the audit in addition to the ongoing discussions and responses. This formal response provided to us on April 6, 2009, is included in Appendix A to this report.

City Exit Meeting – Wiss conducted an exit meeting with City management including the City Manager and the Acting Chief Financial Officer at City Hall on February 27, 2009. This meeting discussed the results of all our procedures as well as presenting recommendations and observations noted during the process. This meeting gave the City the opportunity to ask questions and provide final comments and the audit team the opportunity to address them.

Final Report – Based upon the agreed-upon process, results, and outcome of discussions with the City and the Division, the engagement team finalized and issued the report to the Division, and the City as required by the RFP, on April 30, 2009.





# COST SAVINGS ANALYSIS

---

## Cost Savings Opportunities

During our fieldwork we made certain observations of areas where we believe there could be potential cost savings or revenue enhancements. The areas and/or items that should be considered for further evaluation are as follows:

- The City has established a health insurance opt-out policy for those employees that have access to health insurance through a spouse and do not elect coverage through the City's health insurance plan. Employees electing the opt-out policy currently receive fifty percent of the amount that the City would have paid in health insurance premiums. During 2008, 28 employees participated in the program. As an example, for family coverage, the City would have paid \$22,878 for an employee that elected to obtain health insurance through the City, but for an employee electing to opt-out, that employee would receive \$11,439 and the City would save \$11,439. We commend the City for establishing this program to reduce its costs, however, we would suggest that the City re-examine the opt-out reimbursements to determine if further cost savings could be achieved. The total cost of the program in 2008 amounted to \$292,963. If the opt-out reimbursements were limited to \$2,000 to \$5,000, the City could save between \$169,000 and \$237,000. We suggest that the City perform an analysis of similar programs in other municipalities to determine the feasibility of further reducing the amount of the opt-out reimbursements.
- The City currently provides hospitalization and medical insurance for permanent employees who work at least 24 hours in a business week, their spouses, and dependent children. The entire cost of providing the hospitalization and medical insurance is paid by the City. The City currently does not require its employees to contribute towards the cost of their health insurance. The City should consider requiring its employees to contribute towards their health insurance similar to the private sector, as well as some other public sector entities. As an example, if the City's health insurance plan covered 275 employees, and those employees contributed \$100 per month, the City would save \$330,000.
- One of the attorneys that the City currently employs receives health benefits that are paid for by the City. This attorney also represents several other municipalities throughout the State in a similar capacity. The City should consider not paying the cost of health benefits of individuals, which by the nature of the services being performed, are providing professional services. The cost savings associated with this suggestion would be \$16,930.

- The City's collective bargaining agreements currently have provisions for the payment of unused sick leave to employees upon retirement. Each collective bargaining agreement's provisions for such payout and associated capped payout amounts vary. Currently, the non-Police and Fire Union collective bargaining units are capped at \$15,000 for new employees. The Patrolmen's Benevolent Association, the Superior Officer's Association, and the International Association of Firefighters have caps on sick leave payouts that exceed \$15,000. The City should consider capping all payouts of accumulated sick leave at \$15,000 for all new employees for all of its collective bargaining units. The New Jersey Department of Personnel has established a cap of \$15,000 for accumulated sick leave for certain employees of the State of New Jersey and the City should consider adopting a similar policy.
- There are currently five collective bargaining units within the City. As of the date of this report, all five have expired as of December 31, 2007 and have not yet been renewed. The City is currently in arbitration with the Patrolmen's Benevolent Association and has made the following offer:
  - Two year contract, 0% increase for both 2008 and 2009.
  - Change from the current private health insurance provider to the New Jersey State Health Benefits Program.

The City anticipates making a similar offer to the other collective bargaining units. Based on the above offer, we have no other suggestions related to future salary increases or transitioning the health insurance coverage to the New Jersey State Health Benefits Program.

- Since 2002, the City has paid approximately \$218,000 to City employees, related to outside employment assignments (off-duty) for police officers and firefighters, in excess of the amounts collected from private entities. Additional information regarding this can be found in the internal control and compliance review/assessment section of this report related to payroll and human resources. We suggest that the City implement a process to collect amounts prior to the services being performed to reduce the possibility that the private entities do not pay amounts due to the City.
- As noted in our internal control and compliance review/assessment over the tax abatements process, opportunities exist for the City to enhance its overall billing process over its tax abatements. Implementing the recommendations noted in that section could produce additional revenues for the City.

All of these recommendations are suggestions to be considered by the City and may or may not produce current cost benefits or revenue enhancements. However, they should be considered and evaluated on a routine basis for added value or potential cost savings.



# INTERNAL CONTROL & COMPLIANCE REVIEW/ASSESSMENT

---

- Purchasing/Accounts Payable/ Cash Disbursements
- Payroll and Human Resources
- General Fiscal Operations
- Information Technology Operations
- Risk Management
- Inventory and Fixed Assets
- Other Matters



# **Internal Control and Compliance Review/Assessment**

This section of the report presents our assessment and review of internal controls and compliance through inquiries, observations, walkthroughs and testing of processes identified in the RFP. Each area within this section is presented with a general overview and background, identification of internal control and compliance findings, identification of any strengths and a conclusion as to the effectiveness of internal control.

## **Purchasing/Accounts Payable/Cash Disbursements**

### ***Overview and Background***

The Purchasing Department is comprised of 1 part-time purchasing supervisor. The Purchasing Department is responsible for the purchasing of goods and services, and establishing the request for proposal and bid processes.

The Accounts Payable Department is comprised of 1 full-time employee. The Accounts Payable Department is responsible for the Purchase Order process of all goods and services that are required to be approved by the Chief Financial Officer. Responsibilities of the Department include the preparation of Purchase Orders and preparing the voucher package, which is then presented to the Chief Financial Officer for approval. This Department is also responsible for the payment of invoices to all vendors once the voucher package is approved. It is the City's policy that all purchase orders are approved by the Chief Financial Officer and all payments are approved by the City Council.

The Purchasing and Accounts Payable Departments are under the supervision of the Chief Financial Officer.

As part of our procedures, we developed a high level understanding of the purchasing and the accounts payable processes. The following key sub-processes were identified as part of the Purchasing and Accounts Payable Departments assessment:

- Request process/Purchase requisitions
- Approval process
- Purchase orders
- Receiving reports
- Payment of invoices
- Contracts
- Bid/quote process
- Request For Proposal (RFP) Process
- Professional services

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the appropriate sub-processes of the Purchasing, Accounts Payable, and Cash Disbursement processes. In addition to our walkthrough, we performed tests of controls and compliance procedures related to the processes.

The following presents a summary of observations related to the purchasing, accounts payable and cash disbursement processes:

The purchasing, accounts payable, and cash disbursement processes begin with a purchase requisition form being completed by an employee of the City. The requisition is then reviewed and approved by the employee's supervisor or department manager and finally the Chief Financial Officer. If the request is greater than \$1,000, but less than \$29,000, the department is required to obtain quotes in order to obtain the lowest responsible price. Once the purchase requisition is approved, a purchase order is then created by the Accounts Payable Supervisor.

The Chief Financial Officer reviews and approves all purchase orders, certifies the availability of the funds, and verifies the correctness of the account charged. An order is then placed and four copies of the purchase order are printed. Two copies are sent to the vendor; one is for the vendor's records and one is required to be signed and returned with the order. Items are shipped to the Department that placed the order so that the Department can verify the completeness of the order and sign for acceptance of goods. A third copy of the purchase order is sent back to the location that ordered the goods or services and is kept until the item is received. Once the goods or services are received, the purchase order copies, along with the receiving documents are forwarded to the Accounts Payable Department to process. A fourth purchase order copy, which contains the Chief Financial Officer's signature, is kept on record in the City's Finance Office. Once the goods or services and an invoice are received, the transaction is entered for payment.

The Accounts Payable Supervisor generates a bill list report which is provided at the monthly Council meetings for approval. All checks for the bill list are printed and given to the Chief Financial Officer to be signed. Once the bill list has been approved by the Council, the checks are mailed.

Two signatures are required on the operating checks – the Mayor and the Chief Financial Officer.

Bank reconciliations are prepared on a monthly basis by the Chief Accountant.

The following key controls were identified during our review of the purchasing, accounts payable and cash disbursement processes:

- Pre-numbered requisition forms are utilized.
- Department managers review and approve requisitions.
- Quotes are obtained for purchases of goods or services that exceed \$1,000.
- Competitively advertised bids are obtained for purchases of goods or services that exceed \$29,000, except for those goods or services specifically exempt under the Local Public Contracts Law.
- The Chief Financial Officer reviews and approves the requisition, which includes verifying that the appropriate budget account was charged, adequate funds are available in the budgetary account, and that the requisition is mathematically accurate.
- The financial software prohibits the processing of the purchase order if there are insufficient funds in the budgetary line item.
- The Chief Financial Officer reviews and signs the purchase order.
- Claimant signature is obtained.
- Original purchase orders cannot be modified by more than \$75.
- Department managers certify the receipt of goods or services.
- Bill lists are reviewed and approved by the City Council.
- Check stock is kept in a secure location with limited access.
- The Chief Financial Officer reviews and signs each check.
- The Mayor's signature stamp is maintained in a secure location with limited access.
- A list of invoices paid by a check is sent with the check to the vendor.
- Bank reconciliations are prepared monthly.
- Change orders related to capital projects are reviewed and approved by the City Engineer and also approved by the City Council.
- Certified payrolls documenting employees of the contractors are paid in accordance with the prevailing wage requirements are reviewed by the City Engineer.

## ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the purchasing, accounts payable and cash disbursement processes.

### ***Purchase Orders***

During our review of the City's purchase order process, it was noted that twenty two, or twenty two percent of the purchase orders sampled, purchase orders were prepared subsequent to the receipt of goods or services. The exceptions were noted in a number of City departments including: Police (7), Public Maintenance (6), Recreation (5), Sewer (2), and Urban Enterprise Zone (2). An appropriately designed encumbrance accounting system reduces the risk of over expenditure of appropriations and allows the City to manage its budget to ensure appropriate resources are allocated to departments within the City.

We suggest that all purchase orders be encumbered prior to the ordering of goods or services in order to enhance internal controls over the purchasing and budgeting functions and ensure compliance with *N.J.A.C. 5:30-5*.

### ***Travel***

During 2008, the City signed a Memorandum of Understanding with the Division. One of the stipulations within the Memorandum of Understanding prohibited out-of-state travel and prohibited overnight travel within New Jersey, except for when essential for licensure or certification required for employment or where required as a condition of a grant. In September of 2008, an employee attended the Governor's Convention, that was not essential for licensure or certification required for employment or required as a condition of a grant, and was reimbursed by the City for an overnight stay in a hotel within New Jersey. The total cost of the hotel room, meals and parking amounted to \$179.53. The City did not seek or receive a waiver of this requirement from the Division.

We suggest that the City implement procedures to ensure that the City complies with the Memorandum of Understanding with the Division. Alternatively, if the City believes a waiver of a requirement should be granted by the Division, the City should prepare a waiver form and submit it to the Division for review and approval.

### ***Procurement, Suspension and Debarment***

In accordance with Federal OMB Circular A-133, organizations receiving federal grant awards are prohibited from entering into procurement contracts utilizing federal funds that exceed \$25,000 with an organization that is suspended or debarred by the federal government. Currently, the City does not have a process in place to ensure that procurement contracts exceeding \$25,000, utilizing federal funds, are not with organizations that have been suspended or debarred by the federal government.

Additionally, the State of New Jersey also maintains a list of vendors that have been debarred, suspended or disqualified from contracting with any of the agencies or departments of the executive branch of the State of New Jersey.

It should be noted that our testing over the City's expenditures did not reveal any instances in which the City utilized a vendor that was suspended or debarred by the federal or state government.

We suggest that the City develop a process and implement internal controls to ensure that the City does not enter into a procurement contract utilizing federal funds, in excess of \$25,000 with a suspended or debarred organization. This process should include City staff reviewing the *Excluded Parties Listing System* (EPLS) at <http://epls.arnet.gov>, which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the executed agreement prior to contracting with the organization. Additionally, the State's listing of suspended or debarred organizations can be found at <http://www.state.nj.us/treasury/debarred>.

#### *Vendor Master File*

Once a vendor is added to the vendor master list, they are never removed. Every vendor added to the list has remained on the list. This includes vendors that no longer have an active contract with the City. There are also instances in which the same vendor is included on the vendor list under two different names and two different vendor numbers. Additionally, the tax identification numbers are missing for several of the vendors in the vendor master file.

We suggest that the City review the vendor master file and perform the following:

- Remove vendors from the file that no longer do business with the City.
- Remove duplicate listings of the same vendor from the file.
- Obtain tax identification numbers for all vendors in which the City does business with.

Additionally, after the initial review to clean up the vendor master file, the City should perform the review on an annual basis to ensure that inactive vendors are removed from the system, duplicate listings of the same vendor are removed, required information is obtained prior to payment, tax identification numbers are included for all vendors with which the City does business and new vendors are being properly input in the system.

#### *Local Public Contracts Law - Quotations*

Pursuant to the State of New Jersey's Local Public Contracts Law (*N.J.S.A. 40A:11*), the City is required to obtain competitive quotations for any goods or services, not specifically exempted under Local Public Contracts Law, in which expenditures in any year exceed \$4,350. Additionally, the City has an internal policy that requires City employees to obtain competitive quotations for any goods or services in excess of \$1,000.

Our testing revealed six instances in which the City expended in excess of \$1,000 for goods or services and did not obtain competitive quotes where required.

We suggest that the City implement procedures to ensure competitive quotations are received for all categories of goods or services that exceed \$1,000, except for those that are specifically exempted under the Local Public Contracts Law.

#### *Local Public Contracts Law – Bid*

Pursuant to the State of New Jersey's Local Public Contracts Law (*N.J.S.A. 40A:11*), the City is required to obtain competitive bids for any goods or services, not specifically exempted under Local Public Contracts Law, in which expenditures in any year exceed \$29,000. Our testing revealed two instances, Fastenal Industrial and Hisco Pumps, in which the City expended in excess of \$29,000 for goods or services, not specifically exempt under the Local Public Contracts Law, and did not obtain competitive bids where required.

Purchases from these vendors can generally be characterized as purchases under an open-end arrangement. Per *N.J.A.C. 5:34-4-1*, competitive bids should be solicited on open-end arrangements on a unit basis because exact quantities needed are not known at the time of bidding.

We suggest that the City implement procedures to ensure competitive bids are received for all categories of goods or services (except for those that are specifically exempted under the Local Public Contracts Law) that may exceed the bid threshold for the year.

In 2008, the City awarded a bid to New Jersey Emergency for fire truck repairs. However, we noted certain instances in which the City contracted with Federated Fire Services for fire truck repairs under a bid that expired as of December 31, 2007.

We suggest that the City implement procedures to ensure that services are not procured from vendors under expired contracts.

#### *Local Public Contracts Law – Emergency*

During 2008, we noted a purchase order for emergency sewer repairs. However, the purchase order did not contain a certification of the responsible official that deemed it to be an emergency, nor the criteria that caused the repairs to be emergent in nature. *N.J.S.A 40A:11-6* sets forth the procedures for an emergency contract award.

We suggest that the City implement procedures to ensure that in the event any type of emergency purchase is identified, the official responsible for deeming the emergency, properly provide a certification, along with the reasoning for determining that the repair was considered an emergency, and attach it to the purchase order.

### *Local Public Contracts Law – Asbury Works Program*

During 2008, the City contracted with several vendors to provide job related training to Asbury residents through a grant. Two vendors that were contracted by the City exceeded the quote threshold. The City did not obtain competitive quotations and documentation could not be provided to show that the vendor was qualified to be designated a professional that could provide the services. The services provided related to computer training and employment counseling.

We suggest that the City implement procedures to ensure competitive quotations are received for all categories of goods or services, except for those that are specifically exempted under the Local Public Contracts Law, that exceed \$1,000 or maintain documentation that supports designating the vendor as a professional or extraordinary unspecifiable service in their field of expertise.

### *Business Registration Certificates*

*P.L. 2004, c.57* requires the City to obtain a vendor's business registration certificate prior to entering into a contract with a vendor. Our testing revealed several instances in which the City did not obtain a business registration certificate prior to entering into a contract with a vendor that exceeded the quote threshold, and was not considered exempt from the requirement.

We suggest that the City implement a process to ensure that business registration certificates are on file prior to entering into a contract with a vendor. The City can verify that a vendor is properly registered with the State through obtaining the vendor's business registration certificate, which is filed with the State of New Jersey, Department of Treasury, Division of Revenue.

### *Signature Stamp*

The City currently requires two signatures, the Mayor and Chief Financial Officer, on each check issued out of the operating account. Typically, each check contains the signature stamp of the Mayor and the actual signature of the Chief Financial Officer. During our procedures, we noted instances in which checks were issued with both the signature stamps of the Mayor and the Chief Financial Officer, with no actual signature on the check. Individuals within the Finance office have access to both signature stamps. We reviewed all of the checks that cleared the July and December 2008 bank statements and noted 14 checks, totaling \$150,530.25 that were signed using two signature stamps and did not contain an actual signature. We reviewed supporting documentation for items that were significant and found that the checks were properly supported by vendor invoices and payments that were made were appropriate. Through discussion with City personnel in the Finance office, verbal approval was obtained from the Chief Financial Officer prior to utilizing his signature stamp.

In order to strengthen internal control over the cash disbursement process, we suggest that all checks contain at least one actual live signature. Access over the signature stamp appears to be properly controlled; however, the possibility of inappropriate access does exist.

### *Disbursements to Recreation Officials*

The City operates a recreation program for the children of the City with funds from both the current fund operating budget and a dedicated recreation trust. During our examination, we noted several payments made to individuals involved in coaching youth sports, acting as activity instructors, and working as referees. As part of our procedures, we requested to see either an application or a resume for each of these individuals selected in our sample. We noted that in most instances, a resume or application was not maintained on file for the individuals involved in the recreation program. Additionally, we noted that background checks were not performed for these individuals. It should be noted, however, that background checks are not required under current State law.

We suggest that the City have each individual involved in the recreation program, including, but not limited to, coaches of youth sports, activity instructors, and referees, complete an application and submit a resume. City officials have stated that they are already in the process of starting a program that requires background checks for individuals involved in the recreation program.

### *Strengths*

During our procedures, we identified what we believe to be certain strengths in the City's internal control processes over the purchasing, accounts payable and cash disbursement processes. The following documents these identified strengths.

The City of Asbury Park processes over 3,000 purchase orders a year and operates a Current Fund budget of approximately \$40 million. During our testing of the City's purchasing, accounts payable and cash disbursement processes, which are the processes accountable for processing the approximately 3,000 purchase orders and accounts for the majority of the \$40 million in budgetary expenditures, we noted that each expenditure selected for testing was supported by both a valid invoice and an approved purchase order, and was for an expenditure that was deemed to be appropriate, based on the operations of the City. All of the City's purchase orders are pre-numbered, thus allowing the City to accurately account for all purchase orders. The accounting system used by the City adequately prevents purchase orders from being generated if sufficient funds do not exist in the respective budgetary line item being charged for the purchase.



The City also has developed a process and has procedures in place for obtaining quotes and bids for items that exceed the thresholds established by internal policy and the Local Public Contracts Law. Access to the computing platform used to process and record the purchases of the City is adequately controlled and monthly review procedures are performed in order to identify anomalies. The cash disbursements of the City are appropriately included in a monthly bill list which is approved by Council at their monthly meetings. The results of our procedures performed over the purchasing, accounts payable and cash disbursement processes did not reveal any deficiencies that would suggest that the funds of the City are not being expended in an appropriate fashion.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the purchasing, accounts payable and cash disbursement processes as medium.

# **Payroll and Human Resources**

## ***Overview and Background***

The Payroll and Human Resources Department consists of one full-time employee and is supervised by the Chief Financial Officer. The Payroll Department processes payroll transactions and check-runs through Primepoint, processes all of the City's time sheets and attendance records, and maintains all payment and payroll deduction information. Approximately 9,500 checks were processed during 2008. Some of the human resource functions performed by this department include hiring/terminating employees, processing health benefits, monitoring pension enrollment and modifications, and addressing compliance issues.

Payroll is processed on the 15<sup>th</sup> and last day of every month. If these days fall on a weekend, payroll is processed on the Friday before.

As part of our procedures, we developed a high level understanding of the payroll and human resources processes. The following key sub-processes were identified as part of the payroll and human resources processes:

- New hire process
- Changes to payroll
- Payroll deductions
- Attendance process
- Payroll checks
- Employee benefits
- Entitlements upon separation from the City
- Termination
- Personnel files

We interviewed all appropriate individuals within the processes and prepared a narrative documenting the processes and key controls in place. We also performed a walk-through of the appropriate sub-processes of the payroll and human resources processes. In addition to our walkthrough, we performed certain tests of controls and compliance procedures related to the processes noted above, including the performance of a payroll distribution audit to verify the existence of all of the individuals employed by the City. We also reviewed all labor contracts as part of our procedures and also noted that all labor contracts within the City are expired effective December 31, 2007 and are all currently under negotiation for new contracts.

The following presents a summary of observations related to the payroll and human resources processes.

The hiring process begins with each prospective applicant completing an application. Interviews of applicants are performed by each department head. As part of its memorandum of understanding with the State of New Jersey, the City must receive approval from the Division prior to hiring any new employees. Once an individual is hired, various payroll documents must be completed, including: IRS form W-4, IRS form I-9, health benefit applications, and pension enrollment forms. Insurance benefits are available to all full-time employees after sixty days of employment. There is no cost to the employees of the City for the health benefits received. If an employee elects to waive health benefits, they are entitled to receive fifty percent of the premiums that would have been paid by the City for the applicable coverage. The authorized salary is determined by either a collective bargaining agreement or an ordinance adopted by the City and is input by the Payroll Supervisor. Any changes in the authorized salary are also input by the Payroll Supervisor.

Payroll is processed and paid twice per month. The payroll data for each pay period is input by the Payroll Supervisor into the Primepoint database. Payroll is based on the authorized salary for full-time employees and the authorized hourly rate and the number of hours worked by the employee during that pay period for part-time employees. Time cards and time sheets are reviewed and approved by department heads prior to submission to the Payroll Department. Once all of the data is input into the Primepoint system, the third party payroll provider provides the Payroll Supervisor with a preview report. The data is reviewed by the Payroll Supervisor prior to the payroll being finalized for that pay period. The funds required to pay the payroll for that pay period are transferred to Primepoint prior to the pay date. Checks and direct deposits are executed directly by the third party payroll provider. Checks and wire transfers for payroll deductions are processed by the Payroll Supervisor and require the signatures of both the Mayor and the Chief Financial Officer.

Vacation, sick and compensatory time is earned in accordance with the applicable collective bargaining agreement or the personnel manual for those not covered by a collective bargaining agreement. The Payroll Supervisor maintains attendance records for each City employee. Prior to an employee taking vacation, sick or compensatory time, the department head must review and approve the taking of such time.

The payroll database is maintained on one computer and is secured in the office of the Payroll Supervisor. The program is password protected. The only other individual that has access to the database and the payroll office is the Accounts Payable Supervisor, who serves as the individual that has the ability to process the payroll in an emergency or when the Payroll Supervisor is on vacation.

Bank reconciliations are prepared on a monthly basis by the Chief Accountant.

The following key controls were identified during our review of the payroll and human resource processes:

- New positions must be approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services.
- New full-time employees must present, in person, a valid IRS form W-4 and I-9 to the payroll/human resources supervisor.
- Segregation of duties exist between the department head interviewing the job applicant, the individual approving the bi-weekly time, and the individual inputting the payroll data.
- All contractual employees that receive salary increases not covered by collective bargaining agreements must have approval from the City Manager and the City Council.
- The payroll/human resources supervisor verifies any terminated employees are removed from the Primepoint payroll register before checks are processed by viewing the payroll preview report.
- The Chief Financial Officer reviews, approves, and signs the pension form, indicating the employees' earned pension amounts, prepared by the Payroll Supervisor, prior to the form being submitted to the State of New Jersey, Division of Pensions.
- Department heads must approve employees' sick and vacation time. The payroll/human resources supervisor compares the days taken to the eligible days each employee has remaining.
- Department heads and the City Manager review and sign off on each payroll period's payroll register. The City Council approves the total payroll paid at each Council meeting.
- Department heads review and approve time cards/time sheets.
- Overtime is controlled by each department head. Each department head reviews and signs off on the overtime for every pay period before it is submitted to the payroll department.
- The payroll database is located in one office and is password protected.
- Payroll bank reconciliations are prepared by an individual not involved in payroll process.
- Two signatures are required for manual checks. The blank check stock is secured in a locked area.
- Payroll expenditures are periodically compared to the adopted budget.

## ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the payroll and human resources processes.

### ***Personnel Files***

During our review of employee payroll and personnel files, we noted some documentation missing from employee files. Our testing revealed two instances in which authorization forms to utilize direct deposit and two instances in which an I-9 Form, Employment Eligibility Verification, were missing. It should be noted though that these exceptions represented a small percentage of errors over the population tested and does not constitute a pervasive problem.

We suggest that the City perform a review of personnel files of active employees in order to ensure that appropriate documentation is maintained for each employee. The City's current personnel manual documents the minimum records that should be maintained in each employee's file. The City may find it helpful to develop a standardized checklist to be included in each employee's file in order to document forms that are required to be maintained for each employee.

### ***Hourly Employees***

During our review of employee compensation, we noted that two hourly employees of the Construction Code Department were being paid at an hourly rate that was not approved by ordinance of the City or in an executed collective bargaining agreement of the City. These two employees were paid \$35 per hour and the amounts were established at the discretion of the department head. The City has adopted an ordinance that addresses the compensation to be paid to these two employees. The City's ordinance does not mention a rate per hour, but does state that the maximum compensation for these two positions shall not exceed \$27,172.00. During 2008, these two employees were paid \$40,792.50 and \$35,770.00 respectively.

To ensure that hourly employees are being compensated at a reasonable rate and that the rates are applied consistently based upon position, we suggest the City amend its current ordinance to set hourly rates for all hourly employees or modify the maximum salary that may be earned for these positions to conform to current work load requirements.

### *P.L. 2007, Chapter 92*

During 2007, the State, through the enactment of P.L. 2007, chapter 92, created a new retirement program for certain public employees: the Defined Contribution Retirement Program. Additionally, the law set limits on pension system membership for employees that receive compensation through a professional services contract. Effective January 1, 2008, any professional performing services under a professional service contract cannot be a member of the Public Employees Retirement System or the Defined Contribution Retirement Program. During 2008, the City's planning board attorney received a retainer paid through payroll, was enrolled in the Public Employees Retirement System, and was paid approximately \$58,700 through a professional services contract with the City.

We suggest that the City amend their agreement with the City's planning board attorney, cancel this individual's pension system membership, and only make payments to this individual in accordance with their professional services contract.

### *Performance Evaluations*

The City's personnel manual requires that all employees of the City receive a formal annual performance evaluation and are given a performance rating. The review should be performed by the employees' direct supervisor. The City's personnel manual also contains a required form to facilitate the performance review process. However, we noted that performance evaluations were not consistently completed by each department.

We suggest that the City require each employee receive, on an annual basis, a formal performance evaluation, as required by the City's personnel manual.

### *Accounting for Outside Employment of Police Officers and Firefighters*

During our examination of the accounting for amounts paid for outside employment of police officers and firefighters we noted that since 2002, the City has paid approximately \$218,000 to City employees in excess of the amounts collected from private entities requesting the services of police officers or firefighters. The City typically does not collect the money from the private entities until the event has been held and the police officers or firefighters have already worked. During the 2006 calendar year, the City budgeted \$78,303 through a current fund appropriation to fund a portion of this amount. It should be noted that the City has a detailed analysis summarized by year, detailing the amount owed by each private entity that owes money to the City. This deficit is the result of the following:

- During the earlier years, individuals from the City setting up the agreement with the private entity did not always have accurate address and contact information which has made it difficult in following up with the private entity.

- During recent years, there have been instances in which police officers have worked at the event longer than originally contracted for based on their assessment of the situation and believing their presence was still needed. This is permitted in the standard contract entered into between the City and the private entity, but has resulted in disputed invoices.

We suggest that the City implement a process in place to handle the administration of outside employment of police officers and firefighters in the same manner as a Developer's Escrow Fund. Prior to the police officers or firefighters providing the service, the City should require the private entity submit a payment, based on estimates of the work to be performed, in advance of services being rendered. Any shortfall in the amount billed in advance would be subsequently billed, and conversely, any amount overpaid would be refunded to the private entity.

#### *Documentation of Annual Compensation*

During our examination of the payroll department, we noted that the documentation related to annual salaries, including additional compensation, such as stipends and longevity, could be improved. The City maintains all payroll information centrally on an excel file. During our testing, except as previously noted, we noted that salaries were being paid in accordance with applicable collective bargaining agreements and adopted ordinances. However, we noted certain employees, that were not part of a collective bargaining unit, were paid in accordance with an adopted ordinance that only contained minimum and maximum salaries. The employees selected in our sample were paid in accordance with that adopted ordinance and there was no increase in their compensation between the 2007 and 2008 calendar years, in accordance with the provisions of the memorandum of understanding with the Division. We believe that the City would benefit from having a more comprehensive employee file, including compensation information documented in a manner that is consistent for every employee in the City.

We suggest the City consider utilizing a personnel action form for every employee in the City in order to document their current year compensation in a manner that reflects how the amounts being paid agree with the applicable collective bargaining agreement or adopted ordinance. The personnel action form should consist of the following:

- Employment status, for example: full-time, part-time, temporary, elected official.
- Reason for salary change, for example: new employee, cost of living increase, merit increase, longevity increment, promotion.
- The change in current year salary from the previous year and how it correlates to the collective bargaining agreement, including information on position and step.
- Components of the salary, including, base salary, longevity, and stipend.

Additionally, the City should consider documenting a review and approval system that includes illustration of the employee's agreement to the salary, a department head's requisition of the salary, the Payroll Supervisor's review of the salary, and the City Manager, or designee's, approval of the salary. If implemented, each year's personnel action form should be retained to maintain a complete history of the employee's compensation records.

#### *Use of a Third Party Payroll Provider*

The City currently utilizes a third party payroll provider to process payroll, file quarterly payroll tax information, pay federal and state taxes, and process checks and direct deposits to pay employees. The City transfers the entire amount of the payroll, for each pay period, to the third party payroll provider's bank account. As part of our examination we noted the following:

- The third party payroll provider utilizes one bank account to process payroll for all of its clients.
- A list of checks not cashed by employees as of December 31, 2008 could not be readily provided. It should be noted, however, that a list was eventually compiled and provided for our examination. However, the list did not contain any checks that were outstanding prior to June 2008. It does not appear that, if there were any outstanding checks listed prior to June 2008, they were voided and re-issued.

It should be noted that the City has contacted each employee on the list provided by the third party payroll provider and requested them to cash any outstanding checks.

We suggest that the City put a process in place whereby the third party payroll provider report outstanding checks that have not been cashed at the end of each month. The City should follow up with employees, after a defined period of time, possibly three months, and request that all outstanding checks be cashed. If after such request is made and the checks remain outstanding, the City should consider the effects of New Jersey's unclaimed property law, when determining proper disposition of the funds.

#### *Hiring Process*

Our review of the hiring process revealed that the City has a different process in place for hiring part-time employees versus the hiring of full-time employees. When full-time employees are hired by a department head, each employee must meet personally with the Payroll Supervisor and fill out all required documentation. In contrast, when a part-time employee is hired by a department head, the department head forwards all of the completed documentation to the Payroll Supervisor. The part-time employee is not required to meet personally with the Payroll Supervisor. An appropriately designed internal control structure would require a City employee not directly involved with the hiring process to personally meet with every new employee to reduce the risk that a fictitious employee could be added to the City's payroll without detection.



We suggest that the City require all new employees, whether full-time or part-time, meet with the Payroll Supervisor to fill out all required documentation. In addition, each new employee should be required to meet with an individual outside of the hiring process to verify the existence of each new employee hired.

### *Segregation of Duties*

Proper segregation of duties is an element of an effective internal control structure. Segregation of duties provides for a system of internal controls to ensure that no one individual has the ability to perpetrate an error or fraud and conceal it without detection. Proper segregation of duties allows an employee not involved in the processing or recording of a transaction to independently review the transaction to ensure the transaction is appropriate. The City's payroll department consists of one full time Payroll Supervisor. The Payroll Supervisor also has responsibilities that would typically be assigned to a human resources department, such as maintaining personnel files. The Accounts Payable Supervisor serves as the individual to provide support to the payroll department in the event of an emergency.

The responsibilities of the Payroll Supervisor include the following:

- Enters new employees into the payroll database.
- Maintains employee personnel files.
- Processes pension enrollment applications.
- Processes health benefit enrollment applications.
- Updates employee compensation to reflect salary increases pursuant to executed collective bargaining agreements.
- Inputs payroll data into the payroll system for each pay.
- Transmits payroll data to the third party payroll provider.
- Reviews the payroll register prepared by the third party payroll provider.
- Approves the final payroll register to pay all City employees.
- Payroll checks are provided by the third party payroll provider and sent to the Payroll Supervisor, who then requests that each department head pick up the checks to then distribute to each employee.
- Prepare and process wire transfers and checks for payroll deductions.
- Maintains vacation, sick, and compensatory time records for each City employee.
- The payroll database is only maintained on the Payroll Supervisor's computer.

There is a compensating control for some of the above items that mitigate the ineffective segregation of duties control structure. Each department head is required to pick up the checks and direct deposit remittance advices for each employee in their department. Each department is required to sign a certification that is attached to the payroll register, which lists each employee in that department being paid for that pay period. Additionally, the City Manager signs a certification that he has reviewed that pay period's payroll register. The certification states that each person appearing in the payroll register has been appropriately appointed to their position and that service have been rendered for that pay period.

We believe that an opportunity exists to further strengthen the internal control environment related to the payroll process. We suggest the City review the current internal control structure and determine opportunities for further segregation of the payroll duties. We believe that it would be appropriate to restrict the ability of the Payroll Supervisor to modify or input new salaries within the payroll system. This duty should be designated to another employee, possibly the Chief Financial Officer. Additionally, after the payroll data has been inputted for each pay period, another employee, in addition to the Payroll Supervisor, should review the output provided by the third party payroll provider. This would establish an appropriate monitoring process. This monitoring process should be evidenced by written sign-offs on the data reviewed. The Chief Financial Officer may be the most appropriate City employee to perform this function. The City should consider these suggestions at a minimum, however, any further strengthening of internal control should be considered, taking into account the cost-benefits of doing so.

#### *Taxable Fringe Benefits*

The City currently provides approximately 20 employees with City owned vehicles that are not restricted from being taken home. The Internal Revenue Service rules and regulations define an employer provided vehicle that is used for commuting between an employee's residence and place of employment as personal use. The City has a policy that has been verbally communicated, prohibiting City owned vehicles from being used for personal use, except for commuting purposes. It should be noted however, that a number of employees live within the City's borders or in municipalities bordering the City. However, some employees authorized to take home City owned vehicles live up to 30 miles from the City. The Internal Revenue Service considers the personal use portion of an employer provided vehicle a taxable fringe benefit. The City currently does not have a process in place to evaluate whether any of their employees should have this type of taxable fringe benefit included in their annual income.

We suggest that the City develop a process to determine whether City owned vehicles taken home by City employees should be considered a taxable fringe benefit. If the determination is made that it does qualify as a taxable fringe benefit, the City should review Internal Revenue Service rules and regulations to determine the value of those fringe benefits. There are certain exceptions to the Internal Revenue Service rules and regulations that may apply to the City's circumstances that should be reviewed by the City. There are three vehicle valuation methods that are typically used which include: the automobile lease valuation rule, vehicle cents-per-mile rule and the commuting rule. Each of these valuation methods are fully described in the Internal Revenue Service rules and regulations. Additionally, the City should develop a written policy documenting expectations and prohibitions related to City owned vehicles that are taken home by employees. This will appropriately document the City's policy and may, in some circumstances, eliminate the need to consider this a taxable fringe benefit for certain employees.

## ***Strengths***

During our procedures, we identified what we believe to be certain strengths in the City's internal controls over the payroll and human resources process. The following documents our observed and identified strengths and are discussed as follows.

The City of Asbury Park employs over 300 full time employees as well as several part time employees who are each paid on a bi-monthly basis, and when combined with special pays for overtime, stipends, reimbursements, and other non-traditional payments, disburses over 9,500 checks and direct deposits annually. During the performance of our payroll verification, we were able to account for 100% of the City's employees and verify their existence. We also found the City's personnel files to be substantially complete, with very few exceptions noted. All full time employees tested were being paid in accordance with their approved contract or collective bargaining agreement. The City utilizes the services of a third party payroll provider in order to reduce the risk of miscalculating payroll deductions and in order to maximize efficiencies in the process. All new employees hired by the City were hired with the required approval of the Division and were accurately set up in the City's payroll system. All terminated employees were properly excluded from the subsequent period's payroll and were properly removed from the list of employees receiving health benefits. All hourly employee payments, as well as overtime payments, that were tested in our payroll sample were properly supported by approved timesheets. The payroll bank account was reconciled on a monthly basis throughout the year. The results of our procedures performed over the payroll process did not reveal any deficiencies that would suggest that payments are being made for services not provided.

## ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the payroll and human resources processes as medium.

# **General Fiscal Operations**

## **Budget Process**

### ***Overview and Background***

The State of New Jersey budget process is very conservative and only permits anticipated revenues to be budgeted based upon prior year's amounts collected in cash unless written consent is obtained from the Division. Appropriations cannot increase above a certain percentage (CAP) each year as designated by the State (2.5% or the cost of living adjustment, whichever is less, except for certain exceptions). The State also requires a reserve to be established as part of the appropriation for uncollected taxes, which is based upon the City's prior year tax collection rate.

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the budget process.

The following presents a summary of observations related to the budget process:

The budget process begins in November of each year when the Chief Financial Officer contacts each department in the City and obtains their budget requests for the upcoming year. Once the Chief Financial Officer receives the budget request forms from each department, it is compared to the total dollar amount requested from the prior year to the current amount. If the amount requested is smaller than, equal too, or within four percent higher than the prior year, the Chief Financial Officer will review it for clerical accuracy and approve the amount to be included in the budget. If the amount is in excess of the four percent increase from prior year, the Chief Financial Officer reviews the detail of requested appropriations to analyze the cause of the increase. The Chief Financial Officer and the Department head discuss the reasons for the increase and form a joint decision on the amount to be budgeted. When budgeting for the salary and wage appropriations, the Chief Financial Officer utilizes a spreadsheet that is compiled by the Payroll Supervisor. The spreadsheet breaks out each employee by department with their adjusted salary levels for the upcoming year. The spreadsheet is then sent to each of the department heads for their review and approval. If there are any discrepancies between the Payroll Supervisor's totals and the department heads' payroll projections, the Chief Financial Officer will meet with the department head to resolve the discrepancies. Once they are approved by the department head the Chief Financial Officer approves the amount to be included in the budget.

On an annual basis, the Chief Financial Officer prepares the annual budget in accordance with N.J.S.A. 40A:4 and it is introduced to the Municipal Council by the Mayor at a public meeting. The Municipal Council then holds budget workshops to discuss the budget and determine if any increases and/or decreases are necessary. The budget is then submitted to the Division and is reviewed for completeness by a budget examiner, which includes ensuring the City's appropriations are properly presented and within the CAP, all revenues do not exceed prior year collections without proper support for any amounts above the prior year, ensure debt service principal and interest amounts are properly budgeted, all grants are agreed to state aid certifications and any unusual items. After the budget examiner's review is complete, a letter is sent to the City to discuss any questions or concerns that the State may have and to obtain documentation for items questioned. The City is required to address each question and provide support where necessary prior to the Division permitting the City to adopt its budget. After the Division reviews the budget, the City holds a public hearing, which allows the taxpayers within the City to voice their opinion on the budget. After the public hearing, the City may adopt the budget or propose an amendment to revise the budget prior to adoption at the public meeting.

Once the Municipal Council approves the budget, it is certified and remitted to the State for filing. The budget software is then updated to the City's general ledger software package. The City is not permitted to overexpend budgetary line accounts by statute and therefore there is a control in place that the Chief Financial Officer must certify as to the availability of funds prior to a purchase order being processed and encumbered against a budgetary line account. Further, budget transfers are only permitted in the final two months of the year and the first three months of the subsequent year as part of the appropriations reserves and must be approved by the Council.

The following key controls were identified during our review of the budget process:

- Chief Financial Officer reviews budget request forms received from various departments.
- Department Heads review and approve the prospective salary and wage budgets for their departments.
- Budget is submitted to the Division for review.
- Budget is approved by the City Council at a public meeting.
- Budget is approved by the Division before the public hearing is held.
- The Chief Financial Officer must certify as to the availability of funds prior to a purchase order being processed and encumbered against a budgetary line account.
- Budget transfers are only permitted in the last two months of the year and the first three months of the subsequent year as part of the appropriation reserves and must be approved by the City Council.

## ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the budget process.

### ***Budget***

During 2008, the City misclassified \$80,000 in expenditures against the current fund street and roads budget appropriation that should have been posted to the beach utility salary and wages budget appropriation. The expenditures represented salaries related to the beach utility from the August 29<sup>th</sup>, September 15<sup>th</sup>, and September 30<sup>th</sup> pay periods. Without charging these expenditures against the street and roads budget appropriation, the beach utility would have over-expended its salary and wage budget appropriation. In the past, there were a number of years in which the beach utility was not self-sustaining. However, during 2008, the City's beach utility generated a \$100,000 in excess revenues over appropriations. Additionally, the City's beach utility contributed \$75,000 towards the current fund budget. Based on the current financial condition of the City's beach utility, it should budget and charge costs associated with the beach utility appropriately.

Based on conversations with the City Manager, the City is currently analyzing the actual costs associated with running the beach utility. Included in that analysis is making a determination whether or not the City should be allocating a portion of its administrative expenses and the cost of providing special police officers during the summer.

We suggest that the City review its 2009 budget to ensure that the beach utility operating budget includes all costs associated with operating the City's beaches, with particular emphasis paid to actual costs of those salaries paid to life guards, individuals selling beach badges and the employees charged with cleaning the beach.

### ***Strengths***

During our procedures, we identified what we believe to be certain strengths in the City's internal controls over the budget process. The following documents our observed and identified strengths and are discussed as follows.

The City's annual budget process begins each November when the Chief Financial Officer sends each department head a budget request form, accompanied by a letter describing the financial condition of the City and his goals of limiting the budget increases of each department. The Chief Financial Officer personally meets with each department requesting a budget increase of greater than four percent over the prior year in order to accurately understand the reason for the proposed increase. The Chief Financial Officer also distributes the proposed payroll budgets to each department, based on the expected payroll adjustments as approved by Council. Department heads meet with the Chief Financial Officer to resolve any discrepancies prior to their department figures being entered into the budget software. During our review of the budget process, we noted that the Council properly introduced the proposed 2008 budget in a public meeting,

sent a copy to the Division on a timely basis, announced the proposed budget to the taxpayers in a public meeting upon receiving the State's approval, and finally adopted the budget in a public meeting of Council.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the budget process as low.

# **General Fiscal Operations**

## **Revenue and Cash Receipts**

### ***Overview and Background***

The majority of the City's non-state aid revenues are derived through the collection of taxes. The Tax Department is comprised of a tax assessor, tax collector, and several tax clerks. The Tax Department is responsible for the billing and collecting of property taxes and sewer user fees.

In addition to tax receipts, the City also receives money from various outside departments. These outside departments include the clerk's office, police department, recreation department, beach utility, and the construction code department. All cash receipts received from these outside departments except for the beach utility and recreation receipts are sent to tax collector for inclusion in the daily deposit. The remaining departments send their receipts directly to the finance department for deposit.

The Tax Department is under the supervision of the Chief Financial Officer.

As part of our procedures, we developed a high level understanding of the revenue and cash receipts process. The following key sub-processes were identified as part of the revenue and cash receipts assessment:

- Tax billings
- Tax collections
- Delinquent taxes
- Refunds
- Reconciliation
- Reporting

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the appropriate sub-processes of the revenue and cash receipts process. In addition to our walkthroughs, we performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.



The following presents a summary of observations related to the revenue and cash receipts process:

### **Property and Sewer Tax Billing**

The City uses Edmunds software for their tax billing and collection processes. This system is updated each year and includes all taxpayers of the City. The software company that owns Edmunds performs daily backups of the City's records for the City and maintains the mainframe and all necessary files for the system. Each user of Edmunds has a unique User Name and Password to enter the system. All four individuals working in the Tax Collector's department have edit access to the Edmunds system. All personnel in the accounting department also have access to the tax collection module.

For property tax billings, the City receives the yearly tax rate from the county between the end of July and the beginning of September. Once the tax rate is received, it is provided to Edmunds to load into the system. Edmunds prints out bills and payment vouchers on an annual basis and mails them out to the taxpayers. Since there is an estimated payment due prior to the mailing of annual bills, the tax collections department calculates all taxpayers estimated tax due, usually a +/- 1.5 % variance of the prior year. Once the department knows the actual rate, the taxpayers 4<sup>th</sup> Quarter (November 1st) payment is adjusted. Payments are due quarterly on February 1<sup>st</sup>, May 1<sup>st</sup>, August 1<sup>st</sup>, and November 1<sup>st</sup>.

For Sewer user fee billings, the City receives the quarterly water usage reports from New Jersey American Water, the City's external water provider and monitor of usage. Once the usage reports are received, the tax collector loads the information into Edmunds, which populates the quarterly payment due by the ratepayer. All residents and commercial ratepayers pay a flat demand charge of \$57 a quarter, as well as a usage charge which is \$3.00 per 1,000 gallons of water used. The Tax Collector's department prints out quarterly bills and mails them out to the ratepayers.

### **Delinquent Taxes**

There is a 10-day grace period established by City resolution for the first three quarters for delinquent property taxes and sewer user fees. After this time has expired there is a two-tier interest calculation for delinquent property taxes: 8% on the first \$1,500 due and 18% on any amount that exceeds \$1,500. For delinquent sewer user fees, interest is applied to the outstanding amount at a rate of 18% on any amount that is due to the City. Since the City has an accelerated tax sale, all property taxes and sewer user fees not paid as of November 11 are included in the sale. There is a tax sale once a year as mandated by the State. The City is required to have the sale by December 31<sup>st</sup> for any property with an outstanding tax or sewer liability for the current year.

## **Tax Payments**

Property tax payments can be received in three different ways: 1) by mail, 2) at the tax counter, or 3) directly from the mortgage company. Sewer user fee payments can only be received by mail or at the tax counter. Payments made at the counter are processed while the taxpayer waits. A receipt is always given to the taxpayer. If the payment is made by mail, it is received by one of the tax clerks who records the information about the taxpayer including block and lot number into the Edmunds system. The Clerk then verifies that the amount of the payment received agrees to the amount due. The Clerk then enters the receipt of payment into the system along with the date paid. Each clerk maintains their receipts for the day, and at the end of the day, all receipts from all clerks are accumulated. A daily receipts report is generated from Edmunds, ensuring that the total receipts reconcile to the computer generated report, as indicated by each clerk's sign-off on their deposit slip. The deposit bag is prepared along with a deposit slip, which is given to a City police officer on a daily basis. The officer picks up the deposit bag and deposit slip and drops it in the night drop box of the bank.

## **Refunds**

Refunds are sent out as the need arises. The Tax Collector investigates any tax that is paid in excess of the amount due. She determines to whom the refund is due and issues the check once all information has been reviewed and the City Council approves the refund. For all overpayments on estimated taxes, the 4<sup>th</sup> quarters payment is adjusted.

## **Record Keeping**

Total daily tax receipt amounts are given to the Finance Department on a daily basis. The Tax Collector maintains the support for the current month's receipts in the tax collection department, and at the end of the month, is moved into the storage room. The supporting documentation includes a daily tape, which agrees to the daily receipts report from Edmunds. Daily tapes are accumulated to form a daily batch. All batch totals are given to the Finance Department on a daily basis and are posted into the general ledger system. On a monthly basis, the tax collector and the finance department agree their individual reports and reconcile to the general ledger detail. Since the City has an accelerated tax sale, large tax receivable balances from the original tax payers are unusual. The tax sale is held prior to December 31st, and in order for a property with delinquent taxes to be purchased, the purchaser must pay off the outstanding taxes due. The finance department receives the bank statements for the Tax Department and performs the reconciliation on a monthly basis.

## **Cash Receipts**

Most of the miscellaneous cash receipts, excluding recreation and beach badge receipts, are collected by the outside departments, and are deposited with the Tax Collector office's daily deposit. The Tax Collector's office receives money from outside departments such as the clerk's office, construction code, and police for registration fees, marriage licenses, dog and cat licenses, building permits, road openings, court fees, police fines, health department fees, police charges, etc. on a daily basis, and records the deposit with the tax collection department for recording into Edmunds.

Receipts from the above mentioned departments are forwarded to the Tax Collector's office on a daily basis. Upon receiving a receipt from one of the above mentioned departments, the cashier logs into Edmunds and posts the receipts. The cashier uses a machine to validate the receipt with the Tax Collector's Department stamp including the date received, amount received, and the person recording the receipt. Receipts are automatically entered upon validation and posted into the computer system. At the end of each day, a daily cash receipts report is run, and all individual clerk batches are reconciled, which include the miscellaneous deposits from the above departments.

At the end of the day, a tape is prepared by each of the cashiers which include all miscellaneous cash receipts processed during the day, including actual cash payments or checks. Each clerk also prepares a bank deposit slip, which agrees to their tape run, as well as their batch total. On a daily basis, this batch summary report, from all of the clerks' batches, is given to the finance department for recording into the general ledger.

The deposit slips, along with all cash, checks, and money orders, are sealed in a bank bag. A City police officer picks up the deposit from the office on a daily basis and delivers the deposit to the bank via the night drop box.

The finance department retains the daily deposit summary, and compares it to the monthly bank statement when received to ensure that all deposits were made into the bank account.

Bank reconciliations are prepared on a monthly basis by the finance department. Any discrepancies are discussed with the responsible party and resolved.

## **Other Receipts (Recreation and Beach Badges)**

Recreation and beach badge receipts are collected by an outside department, however, the monies are not given to the tax collection office for recording into Edmunds. These receipts are instead given directly to the finance department for recording in the general ledger on a periodic basis.

All recreation receipts excluding beach badges are received at the recreation department, where each customer should be provided with a receipt for all payments received.

There are three sites that collect payments for beach badges, with a cashier located at each site. Each day the cashiers are given an allotment of sequentially pre-numbered beach badges for the day. Only daily badges are sold at these sites. All daily badges are sold for \$5.00. At the end of the day, the number of badges sold is compared to the amount of monies received, and audited by two additional employees. All monies are reconciled to the amount of badges sold prior to the deposit being made.

The actual deposits for the recreation and beach badge receipts are made by the recreation department supervisor on a daily basis. He then prepares a deposit memo detailing the total collections on a periodic basis for the finance department. The recreation department bank statement is received directly by the finance department, which is reconciled on a monthly basis.

The following key controls were identified during our review of the revenue and cash receipts process:

- Each user of Edmunds has a unique User Name and Password to enter the system.
- Edmunds prints out bills and payment vouchers on an annual basis and mails them out to the taxpayers.
- The tax clerks verify that the amount of payment received agrees to the amount due.
- A daily receipts report is generated from Edmunds, ensuring that the total receipts reconcile to the computer generated report, as indicated by each clerk's sign-off on their deposit slip.
- At the end of each day, a daily cash receipts report is generated from Edmunds, and all individual clerk batches are reconciled, which include the miscellaneous deposits from outside departments.
- A City police officer picks up the deposit bag and deposit slip and drops it in the night drop box of the bank on a daily basis.
- All refunds must be approved by the City Council prior to processing.
- On a monthly basis, the tax collector and the finance department agree their individual reports and reconcile to the general ledger detail.
- The tax and recreation department's bank statements are received directly by the finance department, and are reconciled on a monthly basis.

## ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the revenue and cash receipts process.

### *N.J.S.A. 40A:5-15*

Pursuant to New Jersey's Local Fiscal Affairs Law, *N.J.S.A. 40A:5-15*, all monies collected by taxation, received from any source by or on behalf of any local unit or any board or department thereof shall, within 48 hours after the receipt thereof, either be paid to the officer charged with the custody of the general funds of the local unit, who shall deposit all such funds within 48 hours after the receipt thereof to the credit of the local unit in its designated legal depository. During our testing, we noted instances in which cash receipts collected by the City Clerk, Police Department and the Recreation Department were not deposited within 48 hours of receipt.

We suggest that each department within the City strengthen controls surrounding the deposit of all moneys collected within 48 hours of receipt in accordance with New Jersey's Local Fiscal Affairs Law, *N.J.S.A. 40A:5-15*.

### *Recreation Department*

Our examination of the Recreation Department's cash receipts process revealed the following:

- The Department does not maintain a cash receipt ledger that documents every cash receipt received during the year.
- The Department's duplicate cash receipt book does not appear to be all inclusive, where as, it appears that duplicate receipts (customer copies) were not given out for a significant time period during the year.
- The Department follows a different process than all of the other outside departments that collect cash receipts. Typically, each department remits their daily cash receipts to the Tax Collector's Office, however, the Recreation Department remits its daily cash receipts directly to the City's Chief Accountant.

We suggest that the Recreation Department strengthen controls surrounding the receipt of all monies by maintaining a complete cash receipts ledger, issuing duplicate receipts for all cash collected, and following the same process as all of the other City's departments follow by remitting daily cash receipts to the City's Tax Collector's Office.

### ***Delinquent Taxes and Sewer Charges***

Our review of the Tax Collector's Office, which also collects sewer utility user charges, revealed that the application control within the City's tax and sewer financial software that controls how delinquent tax and sewer interest charges are calculated can be overridden. The number of days a tax or sewer bill is delinquent can be changed through manual override of the system. City personnel believe that this is an issue with the software provider and that the City is unable to correct this control deficiency. Additionally, the Tax Collector believes there is a mitigating control in place whereby if the number of days delinquent is changed in the system, the incorrect day will be printed on the daily proofs. The Tax Collector reviews the daily proofs and would detect any override that may have occurred.

We suggest that the City make inquiries of the City's tax and sewer financial software provider to investigate whether an upgrade can be obtained to ensure that the application control related to the calculation of delinquent tax and sewer interest charges can be strengthened.

### ***Strengths***

During our procedures, we identified what we believe to be certain strengths in the City's internal controls over the revenue and cash receipts processes and are discussed in the paragraph that follows.

The majority of the City's non-state aid revenues are collected through property tax and sewer user fee receipts. The City utilizes the Edmunds software package to calculate and bill their property taxes and sewer user fees based on certain input provided by the City. The City provides Edmunds the annual tax rate, as determined by the County, for input into the tax system. The City also provides Edmunds with quarterly water usage reports that are provided by New Jersey American Water. Based on these two sources of data, the Edmunds system automatically calculates the property taxes and sewer user fees owed for each applicable resident of the City and bills them accordingly. The software also automatically calculates all interest payments due on delinquent taxes and sewer user fees based on the interest rates approved by the City Council. The City has adequate access controls established over the tax system, thus limiting its use to employees in the tax department. During our testing of the tax and sewer processes, we did not note any exceptions whereby the tax or sewer fee due was not properly billed, the tax or sewer payment received was not properly posted in the subsidiary ledger, or the deposit was not made timely. All refunds tested were properly calculated and were approved by Council prior to distribution. Based on our testing, all transactions were properly reconciled to the general ledger and to the daily deposit on a daily basis and all monthly bank statements were reconciled on a timely basis.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the revenue and cash receipt processes as medium.

# **General Fiscal Operations**

## **General Ledger Maintenance**

### ***Overview and Background***

The City performs certain procedures on a monthly basis in order to ensure that the information presented in the general ledger is accurate. The Chief Financial Officer is ultimately responsible for the accuracy of the general ledger and reviews and approves the reconciliations performed by the various departments. At the end of the year, the monthly reconciliations are prepared in addition to certain year-end closing procedures. These year end procedures are also reviewed and approved by the Chief Financial Officer as well as the posting of any year-end closing journal entries. After the year has been closed out, the Chief Financial Officer prepares certain schedules and generates specific reports to be used in the preparation of the Unaudited Annual Financial Statement (“AFS”), which is completed by the City’s independent auditor. The unaudited annual financial statement is then sent to the Division for review in connection with the review of the City’s budget.

As part of our procedures, we developed a high level understanding of the general ledger maintenance process. We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed certain procedures that we deemed appropriate in order to test the process relating to the general ledger maintenance process.

The following presents a summary of observations related to the general ledger maintenance process:

### ***Monthly Close Process***

Each month, all bank statements are received unopened in the finance department. The Chief Accountant is responsible for the reconciliation of all of the bank statements. The Chief Accountant prints the necessary trial balances from the accounting system for the respective funds for the purpose of reconciling that fund’s cash account. The Chief Accountant then compares the bank reconciliation to the trial balance. If any errors are found, the Chief Accountant will investigate and resolve the discrepancy. Once the reconciliations are prepared, all bank reconciliations are given to the Chief Financial Officer for his review. The Chief Financial Officer also prints the budget appropriation, appropriation reserves and revenue reports and reconciles them to the general ledger to ensure they are in agreement. On a monthly basis, the Tax Collector reviews her receipts and reconciles them to the general ledger. Once the Tax Collector has reconciled her monthly receipts, she sends a notice to the Chief Financial Officer for his review.



### *Year End Close Process*

All procedures listed above for the normal monthly close process are also completed at year end. Additionally, the following is performed. Near the end of the year, the finance department sends memos to all the custodians of petty cash funds requesting them to close funds and return any remaining cash to the City. Upon receipt of cash and receipts, the finance department posts the entries to charge out the expenses and close the petty cash in the general ledger. The finance department also prints out a listing, by department, of current year and prior year open purchase orders and contracts payable. This list is then sent to each department to review. Each department is responsible to inform the finance department of which items are no longer necessary and if there are any items that need to be recorded before year end. When finance receives the updates, they post the required entries to the subsidiary records as well as the general ledger. All funds are reviewed to determine the interest earned during the year. Entries are made to transfer interest from all funds, except escrow, unemployment, or other funds where the interest is pledged, to the current fund. After the transfers have been posted, all inter-funds are reconciled and finalized. In addition to the normal entries required for the Tax Collector's receipts, the Tax Collector sends over the final year end tax proof. Appropriation reserves are closed to fund balance and the current year budget is closed to appropriation reserves. All accounts are reviewed for accuracy and reasonableness and are either closed to operations or reconciled to subsidiary records.

### *Preparation of the Annual Financial Statement (Un-audited)*

After the year end has been properly closed out, the Chief Financial Officer assists the independent auditor in the preparation of the Annual Financial Statement. Certain individuals in the finance department are responsible for preparing certain schedules. Once each schedule has been completed, it is reviewed by the Chief Financial Officer. Once the independent auditor has prepared the Annual Financial Statement, he sends it to the Chief Financial Officer for review. Once the Chief Financial Officer approves the document, the independent auditor signs it and the City submits the Annual Financial Statement to the Division.

The following key controls were identified during our review of the general ledger maintenance process:

- The Chief Financial Officer reviews the monthly reconciliations used in the monthly and year-end close processes.
- The Chief Financial Officer reviews all bank reconciliations.
- All trial balances are reviewed by the Chief Financial Officer to determine that inter-fund balances are in agreement.
- On a monthly basis, the Tax Collector reviews her receipts and reconciles them to the general ledger, which is then reviewed by the Chief Financial Officer.
- All open purchase orders and contracts are reviewed by their respective department to determine if any should be cancelled.

- The Tax Collector prepares a final tax proof which is reviewed by the Chief Financial Officer.
- All accounts are reviewed for accuracy and are either closed to operations or reconciled to subsidiary records.
- Once the independent auditor has prepared the Annual Financial Statement, he sends it to the Chief Financial Officer for review. Once the Chief Financial Officer approves the document, the independent auditor signs it and the City submits the Annual Financial Statement to the Division.

### ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the general ledger maintenance process.

#### ***General Ledger Maintenance***

Our review of the City's general ledger, un-audited annual financial statement, and the audit adjusting journal entries provided by the independent auditor related to the 2007 fiscal year revealed that the independent auditor proposes numerous journal entries to correct the account balances reflected in the City's general ledger.

We suggest that the City strengthen internal controls over the general ledger and financial reporting process to ensure that financial activity recorded in the general ledger is accurate and can be relied upon. Additionally, underlying subsidiary ledgers should be reconciled to the general ledger on a monthly basis.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the general ledger maintenance process as medium.

# **General Fiscal Operations**

## **Banking and Investment Policies**

### ***Overview and Background***

The City approved a Cash Management Plan pursuant to the provisions of N.J.S.A. 40A:5-14 in order to set forth the basis for the deposits and investment of certain public funds of the City, pending the use of such funds for the intended purposes. The intent of the plan is to provide that the decisions made with regard to the deposits and permitted investments will be done to ensure the safety, liquidity, and maximum investment return within such limits.

As part of our procedures, we developed a high level understanding of the banking and investment process. We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed certain procedures that we deemed appropriate in order to test the process relating to the banking and investment process.

The following presents a summary of observations related to the banking and investment process:

The Chief Financial Officer is the designated official authorized to deposit or invest the funds referred to in the Plan. The Plan also identifies certain approved institutions in which all public funds covered under the Plan are to be deposited. The designated official is allowed to invest the public funds in the following statutorily permitted investments:

- 1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- 2) Government money market or mutual funds;
- 3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- 4) Bonds or other obligations of the Local Unit or bonds or other obligations of school districts of which the Local Unit is a part or within which the school district is located;
- 5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Local Units;
- 6) Local government investment pools;
- 7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or

- 8) Agreements for the repurchase of fully collateralized securities if:
- a. The underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;
  - b. The custody of collateral is transferred to a third party;
  - c. The maturity of the agreement is not more than 30 days;
  - d. The underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c236 (C.17:9-41); and
  - e. A master repurchase agreement providing for the custody and security of collateral is executed.

On the first day of each month, the Chief Financial Officer is required to maintain a list containing the name of the institution in which the public funds are deposited, the amount of securities or deposits purchased or sold during the immediately preceding month, the class or type of securities purchased or deposits made, the book value of such deposits or permitted investments, the earned income on such deposits or permitted investments, the fees incurred to undertake such deposits or permitted investments, the market value of such deposits or permitted investments at the end of the immediately preceding month, and all other information which may be deemed reasonable from time to time by the governing body of the City.

The following key controls were identified during our review of the banking and investment process:

- The City Council approved a Cash Management plan that establishes parameters around the types of permissible investments and approved banking institutions.
- The Chief Financial Officer maintains a listing of all deposits and permissible investments.

### ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the banking and investment process.

#### ***Bank Reconciliations***

During our procedures, we noted that the City maintained 45 bank accounts. We also noted that the City prepares bank reconciliations for each bank account on a monthly basis, and the reconciliation is prepared on a timely basis. However, we did not note any evidence that it was reviewed by the City's Chief Financial Officer. Through discussions with the City's Chief Financial Officer, we were informed that the bank reconciliations are reviewed.

We suggest that the City's Chief Financial Officer formally document the review of the bank reconciliations prepared each month by the Chief Accountant by signing and dating each reconciliation prepared.

### *Cash Management Plan*

The City is required to develop and adopt a cash management plan on an annual basis in accordance with New Jersey's Local Fiscal Affairs Law, *N.J.S.A. 40A:5-14*. The City has developed a cash management plan which was adopted by the City Council at its January 9, 2008 meeting. The plan sets forth the basis of how the City's idle deposits are invested and details the investments that have been authorized by the City Council. However, we noted that the City holds investments in certain marketable securities that were not included as authorized investments in the plan. These marketable securities include: Qwest Communications, Exelon, Comcast, AT&T, Verizon, General Electric, New Corporation, General Motors, as well as others. These marketable securities were donated by a private citizen to the City a number of years ago and were to be used for the children's welfare trust fund. Typically, these types of investments are not permissible under statute.

We suggest that the City amend its cash management plan to include all investments held by the City. Additionally, the City should consider liquidating its investments when it is financially responsible to do so and consider investing in an investment that is permitted by New Jersey Statutes.

### *Banking Services*

During discussions with various City officials, we noted that the City has not issued a request for proposal for banking services in several years. It can be beneficial to periodically issue a request for proposal for banking services to ensure that banking services are being provided on a cost effective basis and that the City is receiving a competitive interest rate.

We suggest that the City consider issuing a request for proposal for banking services.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the banking and investment process as low.

# **General Fiscal Operations**

## **Capital Ordinances**

### ***Overview and Background***

The capital ordinance process commences as the City begins to develop its budget during December of each fiscal year. When the City evaluates which capital projects need to be completed during the current year and over the course of the next several years, the City includes the projects in the annual capital budget. The capital budget and capital improvement program are developed and adopted simultaneously with the annual budget. If after the adoption of the capital budget the City determines that a new project will have to be started and/or completed during the current year, a capital budget amendment is introduced and adopted by the City Council.

As part of our procedures, we developed a high level understanding of the capital ordinance process. We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the capital ordinance process and performed other procedures deemed appropriate in order to test the process relating to the capital ordinance process.

The following presents a summary of observations related to the capital ordinance process:

The City appropriates funds for capital projects through the adoption of a bond ordinance. A supplemental debt statement is prepared by the City's Chief Financial Officer and is filed in the Office of the City's Municipal Clerk as of the date of the introduction of the bond ordinance. The supplemental debt statement is then filed with the Director of the Division prior to the adoption of the bond ordinance. The bond ordinance is read by title at the next City Council meeting only upon introduction. Only a majority of the members of the governing body are required for the adoption of the introduction of a bond ordinance. The bond ordinance is then published in full in a newspaper circulating within the City or Monmouth County, together with a Notice of Pending Ordinance appearing prior to the text of the bond ordinance. The bond ordinance can be considered for final passage at least ten days after the date of introduction and at least seven days after publication. At least seven days prior to the public hearing and the City Council's further consideration of the ordinance, the bond ordinance is posted in a public place in the City's municipal complex where such notices are customarily posted and the bond ordinance is made available to members of the general public. The City Council holds a public hearing on the bond ordinance, as required. After the public hearing, the bond ordinance (at the same meeting or at a future meeting date), is finally adopted by an affirmative vote of at least two-thirds of the full membership of the governing body.

The bond ordinance is then published (in the same newspaper used for the initial publication) after final adoption, along with the “twenty-day” statement that appears after the text of the bond ordinance. The bond ordinance takes effect twenty days after the publication of the adopted ordinance. After the twenty day period expires, the City’s Chief Financial Officer has the authority to establish an appropriation and an improvement authorization in the City’s accounting records.

In order for the Chief Financial Officer to issue or refund any outstanding debt, he must obtain the City Council’s approval. The City, thus far, has only issued general obligation debt with no specific financial debt covenants, other than the required annual appropriation to pay outstanding debt principal and interest. If the Chief Financial Officer decides that it would be more beneficial to sell bond anticipation notes, he can immediately begin seeking bids because the approval from the City Council was obtained with the pre-approval of the bond ordinance. The Chief Financial Officer considers several factors when considering whether to sell bonds or notes. Those factors primarily include current interest rates and budget constraints.

The following key controls were identified during our review of the capital ordinance process:

- Capital project amount is authorized in the Capital Budget.
- Supplemental debt statement is properly approved by the Chief Financial Officer.
- Ordinance is approved by the City Council.
- Ordinance is advertised in a newspaper publication.
- Public hearing on the ordinance is held.
- Final ordinance is approved by the City Council.

### ***Internal Control and Compliance Findings***

No findings were noted.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the capital ordinance process as low.

# **General Fiscal Operations**

## **Tax Abatements**

### ***Overview and Background***

The City has structured several tax abatements with various developers throughout the City in an attempt to generate additional revenue that would not be achievable under the traditional tax structure, and to provide a financial benefit for certain entities that are contributing to the development of the City as well as the well-being of its citizens. Currently, the City has ongoing tax abatements for the renovation of a parking garage, apartment complexes for senior citizens and low income individuals, commercial and residential urban renewal entities, and a waterfront redevelopment project.

As part of our procedures, we developed a high level understanding of the tax abatement process. The following key sub-processes were identified as part of the tax abatement assessment:

- Tax abatement billings
- Determining the qualification for a certificate of occupancy
- Construction in progress
- Calculating of annual service charge and administrative fee
- Tax abatement collections
- Monitoring the terms of the tax abatements (financial agreement)
- Determining when the property tax abatements expire and should be included in the traditional tax assessment function

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the process and performed other internal control and compliance procedures deemed appropriate in order to test the process over the tax abatements process.

The following presents a summary of observations related to the tax abatement process.

The tax abatement process begins when an entity desires to apply to the City Council for permission to enter into a tax abatement agreement. An agreement is drafted, which is ultimately approved by the developer, the City's redevelopment attorney, and the City Council. Upon approval, the tax assessor files the completed agreement for her records. The Tax Assessor for the City annually determines the status of each unit as of October 1<sup>st</sup> of the pretax year as to its substantial completion and the appropriate Sales Price or offering price, on which the annual service fee is calculated. The properties are billed in accordance with their status as of October 1<sup>st</sup> of the pretax year and in accordance with the terms stipulated in their respective tax abatement agreement. This information is sent to the Tax Collector to be entered into the Edmunds tax software and other supplemental records. The Tax Collector prepares the tax abatement bill, including the administrative



fee, to be billed to the abated properties in accordance with their respective tax abatement agreements.

Both the annual service fee and the administrative fee are increased each year by the greater of 2% or by the percentage that the total tax levy of the municipality for that year has increased over the tax levy of the municipality for the previous year. The Tax Collector reviews the listing of properties with tax abatements at the end of each year in order to determine which properties should come off of the list and be included in the Tax Duplicate as taxable property in the following year. When the block and lot number of a property is modified by the Tax Assessor, she sends written notification to the Tax Collector so that the change can be processed in the Tax System. The payment for a tax abatement property is handled in the same fashion as a traditional property tax payment, as noted in the Revenue and Cash Receipts section of this report.

The following key controls were identified during our review of the tax abatement process:

- An agreement is drafted, which is ultimately approved by the developer, the City's redevelopment attorney, and the City Council.
- The Tax Collector prepares the tax abatement bills based on the information contained in the Edmunds system and supplemental records.
- The Tax Collector reviews the listing of properties with tax abatements at the end of each year in order to determine which properties should be removed from the list and be included in the Tax Duplicate as taxable property in the following year.
- When the block and lot number of a property is modified by the Assessor, she sends written notification to the Tax Collector so that the change can be made to the Tax System.

### ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the tax abatement process.

#### ***Comprehensive list of properties with tax abatements***

During our review of the City's tax abatement process, we were unable to obtain a complete listing of all properties under abatement. This contributed to the inconsistencies regarding the proper classification of certain properties.

We suggest that a comprehensive list of all properties containing tax abatements be compiled and updated on at least a quarterly basis, in order to help alleviate the inconsistencies regarding the proper classification of certain properties.

### *Timely assessment of project status*

In accordance with N.J.S.A. 40A:21, the City is required to submit a report to the Division prior to October 1 of each year that states the total amount of real property taxes exempted and the total amount abated within the municipality in the current tax year. In addition, in accordance with the Payment in Lieu of Taxes (“PILOT”) agreements for commercial and residential condominium units, the Tax Assessor for the City shall annually determine the status of each unit as of October 1<sup>st</sup> of the pretax year as to its substantial completion and the appropriate sales price or offering price, whichever is applicable. This information is necessary in computing the annual service charge, as stipulated in the PILOT financial agreement. During our review of the tax abatement process, this list was never produced.

We suggest that the City produce a comprehensive list of all condominium units, including their construction status, vacancy status, and the date of the issuance of their certificate of occupancy, by October 1<sup>st</sup> of each year, and submit it to the Division as required.

### *Reconciliation of abated properties to billing system*

During our review of the City’s tax abatement process, we noted that several properties were not billed in accordance with the approved PILOT agreement. This oversight occurred due to the combination of a discrepancy regarding the taxable status of the property, a lack of information needed to compute the annual service fee, and the untimely notification of the necessary parties that a PILOT agreement was finalized.

We suggest that the City improve their tax abatement process and ensure that the appropriate parties receive copies of approved tax abatements once voted on by the City Council. We further suggest that the comprehensive list of abated properties be reconciled to the tax billings on at least an annual basis.

### *Increase in the annual service fee and administrative fee*

During our review of the City’s tax abatement process, we noted that the annual service fee and administrative fee was not increased by the greater of 2% or the percentage that the total tax levy of the City for that year increased over the tax levy of the City for the previous year, as stipulated in the PILOT agreements.

We suggest the City improve their tax abatement process and implement a procedure whereby the tax collector computes the annual service fee and administrative fee for all abated properties which is given to the Chief Financial Officer for review and approval, prior to being submitted for billing.

### *Monitoring of abated properties*

During our review of the City's tax abatement process, we noted that the City does not maintain a schedule of all abated properties and the dates at which those properties are to come off of abatement status and be assessed. Per discussion with City personnel, the current tax software does not have this capability.

We suggest the City develop a process to track the status of abated properties in order to ensure their timely removal from abated status once the period covered under the tax abatement expires.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the tax abatement process as high.

# **General Fiscal Operations**

## **Trust Funds**

### ***Overview and Background***

In the budget of any local unit, dedicated revenues anticipated during the fiscal year from any dog tax, dog license, revenues collected pursuant to N.J.S. 18A:39-1.2, solid fuel license, sinking fund for term bonds, bequest, escheat, federal grant, motor vehicle fine dedicated to road repairs, relocation costs deposited into a revolving relocation assistance fund established pursuant to section 2 of P.L. 1987, c.98 (C.20:4-4.1a), fee revenues collected in connection with recreation programs operated pursuant to section 2 of P.L. 1999, c.292 (C.40:48-2.56), receipts from franchise assessments levied pursuant to section 4 of P.L. 1995, c.173 (C.40A:12A-53) to be retained by the municipality, refund payments from a joint insurance fund deposited into a joint insurance revolving fund established pursuant to section 12 of P.L. 1996, c.113 (C.40A:10-36.2) and, subject to the prior written consent of the Director of the Division, other items of like character when the revenue is not subject to reasonably accurate estimate in advance, may be included in the budget by annexing to the budget a dedication by Rider, as approved by the City Council.

As part of our procedures, we developed a high level understanding of the trust fund process. We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed certain procedures that we deemed appropriate in order to test the process relating to the trust funds.

The following presents a summary of observations related to the trust fund process:

The Chief Financial Officer of the City obtains permission to apply for a dedication by Rider when anticipating raising money for a particular purpose that will be managed through the establishment of a trust fund. A specific account is established in the general ledger in the trust fund to account for the cash receipts. Once the dedication by rider is approved by the Division, the City is authorized to spend the accumulated cash receipts for the approved purpose. Trust fund accounts are reconciled to the bank statements on a monthly basis and are reviewed by the Chief Financial Officer.

The following key controls were identified during our review of the trust fund process:

- City Council approves the Chief Financial Officer to apply for a dedication by rider.
- Dedications by rider are approved by the Division.
- Trust funds are reconciled to the bank statements on a monthly basis which are reviewed by the Chief Financial Officer.

## ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the trust fund process.

### ***Dedication by Rider***

Pursuant to N.J.S.A. 40A:4-39, dedicated revenues anticipated during the year are subject to prior written consent of the State of New Jersey, Department of Community Affairs, Division of Local Government Services in the form of an official “Rider” dedication. We identified several trust fund reserves that were not approved by the State through an official budget rider dedication. These trust fund reserves included: Reserve for Tot Lot, Reserve for Liquor Licenses, Reserve for Shade Tree, and Reserve for City Scape.

We suggest that the City adopt a resolution to obtain an official rider dedication for the applicable trust fund reserves.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the trust funds process as low.

# **General Fiscal Operations**

## **Grant Accounting**

### ***Overview and Background***

The City's department managers initiate all grant applications for their respective department or area of responsibility. If matching funds are required as a condition of receiving the grant, the Chief Financial Officer will determine if monies are available for this purpose before requesting the Municipal Clerk to draft a resolution. Once a resolution is drafted to permit the grant administrator to submit a grant application, the resolution is included in the agenda of the next meeting of the City Council. If the City Council feels that the City would benefit from receiving the grant, they adopt a resolution to give the grant administrator permission to submit an application on behalf of the City. The grant administrator's office then completes the application and submits it to the grantor agency.

As part of our procedures, we developed a high level understanding of the grant accounting process. We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the grant accounting process and performed other procedures we deemed appropriate in order to test the process over the City's grant accounting function.

The following presents a summary of observations related to the grant accounting process:

Upon acceptance of the grant, the City's Chief Financial Officer is notified of the grant award. The timing of the grant period will determine the manner in which the City appropriates the funds. If the annual budget, (N.J.S.A. 40A:4), has not yet been introduced, the Chief Financial Officer will include the grant in the annual budget. If the annual budget has been introduced, but not yet adopted, the Chief Financial Officer will request the City Council to introduce a budget amendment, (N.J.S.A. 40A:4-9). Since the City has to wait for the State to approve its budget to see the actual amount they will receive in the grant, they budget for the same amount they received in the prior year and adjust the budget once the exact award amount is known. If the grant is accepted after the annual budget has been adopted, the Chief Financial Officer will either request that the City Council adopt a resolution requesting that the State of New Jersey allow the City to insert a special item of revenue and appropriation (N.J.S.A. 40A:4-87) into the annual budget, allowing the City to appropriate the funds immediately or include the grant in the next years annual budget.

Once the grant has been appropriated, the Chief Financial Officer fully charges the revenue and appropriation budgets in the Current Fund and establishes a grant receivable and an appropriated reserve in the Grant Fund. If the grant has not been appropriated and the funds are received, the Chief Financial Officer records the funds as an unappropriated reserve until the grant is included in the City's budget.

Any expenditure of grant funds is subject to the City's normal purchasing policies and is processed and recorded as any other purchase order. Each department manager reviews the grant expenditure before it is sent to the accounting office, to verify that the funds are being spent in accordance with the specific grant regulations.

Any requests for draw downs or reimbursements from the grantor agency are completed by the department manager that is designated as the grant administrator. All requests require that checks from the grantor agencies be sent directly to the City's finance department where they are recorded in the cash receipt records, deposited into the City's bank accounts, and posted to the appropriate general ledger accounts.

There are certain grant programs that require grant administrators to determine eligibility of participants. There is some subjectivity involved in this determination. The programs include the Community Development Block Grant and the Urban Enterprise Zone grants. Although not a grant program, the City has several regional contribution agreements with other municipalities within the State that also have eligibility requirements.

The following key controls were identified during our review of the grant accounting process:

- The City Council adopts resolutions to give the grant administrator permission to submit an application on behalf of the City.
- Each department manager reviews the grant expenditure before it is sent to the accounting office, to verify that the funds are being spent in accordance with the specific grant regulations.
- Any requests for draw downs or reimbursements from the grantor agency are completed by the department manager that is designated as the grant administrator.
- Grant administrators determine whether participants are eligible to participate in the grant program.

### ***Internal Control and Compliance Findings***

No findings were noted.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the grant accounting process as medium.



# Information Technology Operations

## Overview and Background

The City does not have a formal Information Technology (IT) Department to support its administrative operations. The City utilizes a third party vendor to provide IT support. The City utilizes Edmunds software for its general ledger, tax revenue, and sewer revenue processes and Primepoint for its payroll process.

As part of our procedures, we developed a high level understanding of the information technology process. The following key sub-processes were identified as part of the IT function:

- Passwords
- Logical Access
- Disaster Recovery Plan
- Software systems

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We performed a walk-through of the appropriate sub-processes of the IT function.

The City does not have the capabilities to make program changes to either the Edmunds or the Primepoint software systems, as the City does not have access to the source code for either. Logical access to each system is granted by the Chief Financial Officer and is controlled by the Accounts Payable Supervisor and the Tax Collector. For the payroll software, only the Payroll Supervisor is granted access to the system. Once access to the Edmunds system is granted, either the Accounts Payable Supervisor or the Tax Collector, depending on which department is affected, will set up a new employee in the respective system. Each new employee is granted full access to each module in either the general ledger or the tax and sewer systems. If an employee is terminated, their access to the system is removed immediately. Individual employees can not modify their access passwords. Passwords can only be modified by the Accounts Payable Supervisor or the Tax Collector.

System back-ups of the Edmunds system are done automatically each night. The following morning, the back-up tapes are collected and stored in a fire proof filing cabinet. Tapes are maintained for approximately one week before the tapes are re-used. The City does not perform any tests of the back-up tapes to ensure that the data can be recovered, however, the City recently experienced a system failure and the data was successfully recovered utilizing a back-up tape. Payroll is backed up by the Payroll Supervisor each night to an external hard drive that is maintained in the Payroll office. Additionally, the third party payroll provider performs a daily back up of the City's data to its server. There is no formally documented disaster recovery plan.

## ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the information technology process and operations.

### ***Logical Access***

Our review of the City's general computer controls and access rights revealed that all members of the Finance department (Chief Financial Officer, Chief Accountant, Accounts Payable Supervisor, and the Purchasing Supervisor) have edit access rights to all of the modules in the accounting system, as well as, the ability to add vendors to the vendor master file. Establishing an effective entity-wide internal control environment begins with appropriately establishing access rights, which should be aligned with the responsibilities assigned to employees within each department.

We suggest that the City review the current access privileges and periodically challenge those privileges for all users to keep current with responsibilities and employment status. Apparent conflicts should be investigated and resolved on a timely basis.

### ***Disaster Recovery Plan***

The City does not have a formal written disaster recovery plan, although, the City does have an informal plan. Currently, the City performs system back ups on a daily basis whereby the system is backed up to an external tape. The following morning, an individual from the City's Finance Department places the tape in a fire proof filing cabinet within the Finance Department's offices. Tapes are maintained for one week before recycling the tape to back up current financial information. Additionally, the back-up tapes are not tested on a periodic basis to ensure the information is being adequately captured on the tape and that the tape can be restored.

We suggest that the City consider storing the system back up tapes at an off site location, such as one of the City offices located at another site to ensure adequate safe guards from losing critical information. The City should also consider developing a formal disaster recovery plan which includes guidance on the process for the communication of an emergency, notification of a backup site, employee responsibilities, restoration process, procedures for periodic testing, guidance on backup equipment requirements, critical system software and hardware documentation, and information on vendor agreements.

## ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the information technology process as medium.

# **Risk Management**

## ***Overview and Background***

The risk management process involves both workers' compensation and general liability claims and is under the direct supervision of the Chief Financial Officer. The Purchasing Supervisor is involved in assisting the Chief Financial Officer in monitoring the risk management process. The City's workers' compensation is a self-insured policy with a limit of \$1,000,000 per occurrence. The City of Asbury Park utilizes Star Insurance to handle claims that exceed this amount. In accordance with the City's Administrative Code, claims that are less than \$25,000 are reviewed by the City Manager, Chief Financial Officer, and one member of Council, in an attempt to settle without utilizing the service of InServco, the City's claims processor.

As part of our procedures, we developed a high level understanding of the risk management process. We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the risk management process and performed other procedures we deemed appropriate in order to test the process over the City's risk management function.

The following presents a summary of observations related to the risk management process:

### ***Workers' Compensation***

The process initiates with the employee's communication to the City of Asbury Park that an injury has occurred during the course of their employment responsibilities. The employee must fill out and sign an injury report. This report must be approved and signed by the department head before the employee receives medical treatment. If there is an emergency, the department head may sign the report after treatment. At this point, the City of Asbury Park sets up an appointment with the City physician at the Meridian medical facility. The physician determines the injury sustained, and submits a signed statement of the injury to the City of Asbury Park. This report submitted to InServco, the claims processor, by the City of Asbury Park. No funds are paid without the physician's signature of the diagnosis. InServco assigns a claim number for each employee injured. InServco serves as a consultant for workers' compensation and strives to protect the City of Asbury Park from fraudulent claims. InServco investigates claims to ensure that they are legitimate. If a claim is deemed to be fraudulent, the employee will have to reimburse the City for the full amount expended by the City of Asbury Park for the claim. Payments of workers compensation are noted on the check register by employee name. This check register is approved by the Council upon their review of the bills list. Further, the workers' compensation checks disbursed to the medical facilities are approved and signed by the Chief Financial Officer. The Payroll Supervisor reviews the worker's compensation payments for any income tax implications. After treatment, the City of

Asbury Park receives a doctor's release indicating the employee may return to work. At that point, the workers' compensation payments will cease.

### *General Liabilities*

General liability claims result from slip and fall accidents and property damage. The process begins when a claimant submits a five page application and an accident report. Further, any medical reports must accompany the application for a potential claim. The Purchasing Supervisor will obtain all the information, and present it to the Council for a decision. Any claim that is less than \$5,000 will be handled internally, with all other claims going directly to the City's attorney and avoiding the application process. The ultimate decision to settle a claim under \$5,000 will be made by the Mayor, Council, and Chief Financial Officer. If a settlement is to be made, a requisition will be created, and signed by the City Manager or the Assistant City Manager. The payment will go through the normal purchase order process. This process includes an approved requisition by an authorized individual, signed purchase order by the Chief Financial Officer, and the signature of the Chief Financial Officer to release the funds. For property damage claims that do not go to litigation, the City of Asbury Park will obtain three quotes for any damaged property. Any claim that is above \$5,000 may go directly to the lawyer, and is not subject to the application process. The plaintiff's lawyer will contact the City of Asbury Park. The City will then contact their liability insurance carrier, ACE. ACE will mitigate any potential significant litigation losses to the City. However, the City is subject to a \$50,000 deductible per claim. To ensure that aggregated annual payments per claim do not exceed this \$50,000 deductible, the Purchasing Supervisor will review the monthly budget detail to ensure that payments are appropriate. ACE will hire its own lawyers to defend the case, and the litigation process will begin. InServco will also assist the City of Asbury Park in the litigation process by investigating the claims. If the claim is dismissed, a dismissal letter is signed by both attorneys and is maintained on file. If the ultimate outcome results in a loss to the City, payment will be established by the Court. Payments are processed through the City's normal purchase order process.

The following key controls were identified during our review of the risk management process:

- The injury report must be approved and signed by the department head before the employee receives medical treatment.
- No funds will be paid without the physician's signature verifying the diagnosis.
- The Payroll Supervisor contacts InServco on a monthly basis to ensure the proper reporting of workers' compensation payments in the payroll.
- The check register is approved by the Council upon their review of the bills list.
- Workers' compensation checks disbursed to the medical facilities are approved and signed by the Chief Financial Officer.
- If a settlement is to be made, a requisition will be created, and signed by the City Manager or the Assistant City Manager, indicating approval.
- For property damage claims that do not go to litigation, the City of Asbury Park will obtain three quotes for any damaged property prior to settling the claim.

- To ensure that aggregated annual payments per claim do not exceed this \$50,000 deductible, the Purchasing Supervisor will review the monthly budget detail to ensure that payments are appropriate.

### ***Internal Control and Compliance Findings***

No findings were noted.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the risk management process as low.

# **Inventory and Fixed Assets**

## ***Overview and Background***

Inventory and Fixed Assets of the City consist of land, buildings, building improvements, furniture, fixtures, vehicles, and other items. All inventory and fixed assets are owned by the City and not by a specific individual, department, or other operating unit. All City employees are personally responsible for protecting the City property entrusted to them.

The Finance Office, specifically the part-time Purchasing Supervisor, oversees the purchasing and inventory of fixed assets.

As part of our procedures, we developed a high-level understanding of the inventory and fixed assets process. The following key sub-processes were identified as part of the inventory and fixed assets process assessment:

- Receiving process
- Review of inventory
- Types of inventory

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walkthrough of the appropriate sub processes of the inventory and fixed asset process. In addition to our walkthrough, we physically verified a sample of the assets recorded in the subsidiary ledger.

The following presents a summary of observations related to the inventory and fixed assets process:

Approximately ten years ago, the City hired an Appraisal Company to perform an inventory of all fixed assets with a cost in excess of \$5,000. However, to save money, the assets were not tagged. Each year subsequent to the initial valuation, the City submits a listing of fixed asset additions and deletions to the Appraisal Company, which are used to update the subsidiary ledger. The purchasing agent reviews the purchases that occurred during the year, as well as the City Council minutes, to ensure all fixed asset additions are included in the subsidiary ledger. Additionally, the purchasing agent contacts each department head to request a listing of all asset disposals that occurred during the year. Once all of the annual changes have been provided to the Appraisal Company by the purchasing agent, a report is generated with the full listing of fixed assets as of the City's year end. In 2009, the City anticipates contracting with an Appraisal Company to perform a full inventory of its fixed assets.

The following key controls were identified during our review of the inventory and fixed assets process:

- The Purchasing Supervisor reviews the City's purchasing records and City Council minutes for fixed asset additions to be added to the City's subsidiary ledger.
- The Purchasing Supervisor contacts each department to obtain a list of assets disposed of during the year.
- The City maintains a detailed fixed asset subsidiary ledger that is updated annually.

### ***Internal Control and Compliance Findings***

The following represents the internal control and compliance findings noted during our procedures over the inventory and fixed assets process.

#### ***Annual Inventory***

During our review of the City's fixed asset records and examination of actual fixed assets, we noted that the City has not assigned or placed an inventory tag on each significant fixed asset. The City elected not to have its fixed assets tagged with a control number because of the associated cost.

We suggest that if the City elects not to tag its fixed assets in the future, a periodic verification should be performed to ensure that the City's fixed assets are properly safeguarded. This should include taking a sample of the fixed assets included in the subsidiary records of the City and physically verifying the actual existence of the asset. The City should perform this task at least on an annual basis and this verification be documented in writing.

#### ***Maintenance of Fixed Asset Records***

During our procedures performed over the City's fixed asset records, we selected a sample of assets to verify that the assets existed and that they were safeguarded on the premises of the City. We were able to locate each asset within our sample. However, we noted in some instances that the information provided in the City's fixed asset records did not include the accurate year in which the fixed asset was purchased and the current model information. Through discussions with various City personnel, the City typically hires a fixed asset valuation company to perform a physical verification of its assets every ten years. Since calendar year 2009 is the tenth year, the latest physical verification is outdated.

We suggest that the City update its fixed asset records to accurately reflect information regarding the year the fixed asset was purchased and the model type.

### ***Conclusion on the Effectiveness of Internal Control***

Based upon the procedures performed, the findings identified, and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and non-compliance with New Jersey statutes, and other laws and regulations, over the inventory and fixed asset process as medium.



## Other Matters

### *Policies and Procedures Manual*

During our review of the City's general operations, we noted that the City does not have an overall formal comprehensive policy and procedures manual or a manual specific to each department. Although certain departments in the City maintain procedure manuals, personnel and purchasing (last updated in 2000 and 2005, respectively), we suggest a more up-to-date and comprehensive manual be prepared to include all significant processes, controls and departments and is inclusive of all operations and procedures and updated on an annual basis.

We suggest that the City develop a policy and a procedure manual that includes all areas of accounting (payroll, revenue/cash receipts, accounts payable/cash disbursements, general ledger maintenance, grant accounting, etc.), human resources, purchasing, information technology, risk management and fixed asset inventory; clarify each employee's role and responsibilities within each area; and includes clear documentation of the City's internal controls. A lack of policies and procedures or implementation could result in inconsistencies, significant deficiencies or material weaknesses in internal control, or unauthorized or inappropriate transactions. Additionally, properly documented policies and procedures allow for a smooth transition in the event of employee terminations, retirements or resignations.



# APPENDIX A

---

## Overall City Response

# **Corrective Action Plan**

The City's responses will follow the "Process" categories as established by Wiss & Company. For easier tracking, the major categories will be identified with Roman Numerals and follow the traditional outline format.

## **I. Purchasing**

### **A. Purchase Orders**

As per the audit suggestions, the City has notified all departments that confirming purchase orders will not be acceptable going forward. An internal form is being created for emergency situations. It will require the department head to certify the request and explain the nature of the emergency.

### **B. Travel**

The City has a strict policy that adheres to the MOU with the State of New Jersey's Department of Community Affairs. While we recognize that this audit finding is accurate, the city continues to emphasize the importance of this agreement with all city employees.

### **C. Procurement, Suspension and Debarment**

The appropriate departments are using the State Listing for the vendors involved. Each department head has also been given a copy of the debarment website for future reference.

### **D. Vendor Master File**

The City has made inquiries to Edmunds, our computer program company, to receive an update for our system so that the duplicate vendors that have not been used for some time can be deleted.

Tax identification numbers for applicable vendors are being obtained through various forms (i.e. W-2) and professional service contracts.

### **E. Local Public Contract Law- Quotations**

The City has reviewed selected vouchers involved and is analyzing these purchases. All department heads have been notified that they must adhere to the purchasing policy. This issue was addressed by the city manager and the finance director at two staff meetings in March.

#### **F. Local Public Contract Law - Bid**

The department that used the vendors mentioned has received notification that the State Contract/ Bidding procedure must be adhered to. In researching this finding, the City determined that there were two instances. One of the violations consisted of some emergency services (which is addressed in I. A.). In an effort to save money, the department head used a local vendor (their price was lower than the state contract amount); this does not justify the violation and the department head has been so advised.

#### **G. Local Public Contract Law – Emergency**

An internal form is being designed for department certification and compliance for these situations (see I. A.).

#### **H. Local Public Contract Law – Asbury Works**

This office falls under the Department of Commerce. It was established to assist Asbury Park residents in finding jobs and training. The office director and the Department head met with the purchasing agent and reviewed the criteria for sub-contracting training services. During this review, it was determined that all instructors are currently registered with the State of New Jersey and a copy of their Business Registration certificate is now on file.

#### **I. Business Registration Certificates**

The City is vigorously obtaining Business Registration Certificates to all applicable vendors going forward (see I. H.).

#### **J. Signature Stamp**

The finding in this matter has been addressed. Going forward, all checks will have “at least one live signature” as recommended by the auditors.

#### **K. Disbursements to Recreation Officials**

The recreation supervisor has designed an application for the seasonal employees which addresses all relevant information needed by his department as well as Finance. The new application will be used for coaches, instructors and league coordinators as well as volunteers.

## **II. Payroll and Human Resources**

### **A. Personnel Files**

The payroll supervisor has re-informed all departments involved with the hiring of employees of the appropriate documentation required by the City. When the documents are received they are then filed in the corresponding personnel folders. A revised procedure will be in place to tighten the internal control of the initial processing of said forms and requests by June 15, 2009..

### **B. Hourly Employees**

A salary ordinance was introduced at the April 1, 2009 Council meeting to address this situation and is scheduled for adoption on April 22, 2009.

### **C. P.L. 2007, Chapter 92**

The payroll supervisor has removed the Planning Board Attorney's PERS contributions mentioned in the findings, as of March 2009. The contributions reversed were retroactive thru January 2009.

### **D. Performance Evaluations**

As noted in the audit, performance evaluations are currently done on a department by department basis. The City Manager is establishing a city-wide evaluation system that will encompass the existing systems and bring unity to the process. This will be completed by the end of 2009 and implemented for 2010.

### **E. Accounting for Outside Employment of Police Officers and Firefighters**

The City's current practices are effective in collecting monies owed for "outside employment". Having said that, the audit comment is a fair one; it reflects monies owed from prior years (in some cases charges that go back over six years). The city is in the process of evaluating the legitimacy of these charges and the most effective process of collecting them.

### **F. Documentation of Annual Compensation**

A form is being designed to encompass the salary and title amendments for each employee as they occur. The final form will be completed and in use by June 1, 2009.

### **G. Use of a Third Party Payroll Provider**

The City's payroll provider has been contacted in relation to the outstanding check listing situation. They have been informed as to the information that needs to be available to the City and they assure the City that this is being researched on their end. Until a process satisfactory to the City is established, the vendor is being required to furnish a quarterly report which addresses this matter.

### **H. Hiring Process**

Same explanation as listed in "Personnel File" stated above.

### **I. Segregation of Duties**

As noted in the auditor's report, there is no question that this issue is exacerbated by the fact that the Finance Department is understaffed. The City currently has an open position in the Finance Department (as a result of the Finance Director's resignation) and is in the process of redesigning the duties to address the internal controls concerns raised by the auditors.

### **J. Taxable Fringe Benefits**

A listing of vehicles in use by City staff has been obtained. In an effort to reduce expenditures, all vehicles that are taken home are also under review. Therefore, there will be a combination of new vehicle policy and informing city employees of their obligation to adhere to the tax code.

## **III. General Fiscal Operations**

### **A. Budget**

As noted by the auditor, the beach utility has operated at a loss for decades. It is only during the past two years that revenue from the beach has come close to paying for beach operations. The 2009 municipal budget will be an opportunity to report the charges and revenue to accurately reflect this operation.

## **B. Policies and Procedures Manual**

The Finance Department is reviewing and updating the purchasing manual in place. A procedural manual is being discussed and would encompass additional aspects of the Finance department. In relation to the other City departments, the creation of such a manual respectful to those departments would be beneficial as well.

## **C. Revenue and Cash Receipts**

### **1. N.J.S.A. 40A:5- 15**

The departments referenced have been notified of these findings. They were also informed that they are required to submit any and all deposits within the 48-hour period to the Tax Collector's office for proper processing.

### **2. Recreation Department**

A multiple sheet cash receipt book is now in use by the Recreation Department and the deposits are handed in to the Tax Collector's office.

## **D. Delinquent Taxes and Sewer Charges**

The City's software provider, Edmunds has been contacted to update the system if the software is available to address the control issues. Since the Tax Collector reviews this information daily, the adjusting of the security levels may solve this situation.

## **E. General Ledger**

The Chief Accountant makes the general ledger adjustments in relation to the final Annual Financial Statement balances. The Acting CFO and Chief Accountant will review the balances between the general ledger and other subsidiary records on a quarterly basis.

## **F. Banking and Investment**

### **1. Bank Reconciliations**

Effective April 1, 2009, these documents will be reviewed on a monthly basis by the Acting CFO and initialed accordingly.

## 2. Cash Management Plan

The auditor has identified an area in our finance department that has mystified finance directors for over two decades. At some time in the City's past a benefactor donated stocks and bonds to the city to be used exclusively for the benefit of our children. As the auditor noted, these stocks and bonds are supposed to be used to support the Children's Welfare Fund. This fund has been obsolete for as long as it has been a mystery.

The City is now working with its auditor to establish a way to legally transfer the "questionable" assets in the Child Welfare Trust into a permissible fund.. When this is accomplished, the city will have adhered to the auditor's recommendation.

### **G. Capital Ordinances**

No findings

### **H. Tax Abatements**

This may be the most valuable audit comment in this report. The City of Asbury Park has a variety of Payment In Lieu Of Tax (PILOTS) agreements. Some are standard agreements (Housing Authority, Senior Citizen Housing, etc.) and some are more complex (redevelopment agreements for residential condominium complexes on the waterfront). During the course of the audit, a meeting was held with all of the stakeholders including: tax collector, the tax assessor, the city manager, the finance director and the city redevelopment attorney.

The City has reviewed the Tax Abatement section of the audit and agrees that its current process for implementation of its long term tax abatement agreements is inefficient and would benefit from the recommendations set forth in the audit. Specifically, the City has begun a process to integrate the various professionals and staff responsible for developing the agreements and the professionals and staff responsible for administering the agreements. Until this integration is completed, the City will not consider any additional financial agreements. Further, the corrective actions set forth below will be put in place prior to October 1, 2009, which is the key date for valuation of constructed units and reporting benchmarks to the State.

- The City has begun a process to identify all financial agreements that have been put in place. Copies of all executed agreements will be distributed in both paper and electronic versions so that final versions are readily available.
- The City will work to develop a tracking system for units covered by financial agreements. This system will keep track of information such as block and lot, unit number, sales price, initial pilot amounts and administrative fees, annual adjustment amounts, the term of the agreement and the year of expiration. The



system will be updated for each unit that closes and will be redistributed among the City's staff on a quarterly basis.

Finally, the City negotiated the annual fees within the agreements to help underwrite the cost of administering the agreements. As a critical mass of units has been established, the City can use this revenue to develop a system for the proper billing. This step should reduce the opportunity for inconsistent treatment or manual data errors that have occurred in the past.

#### **I. Trust Funds**

Upon review of this audit finding, the City examined all of the referenced trust fund reserves. The City determined that three of the four funds have not had activity in over five years. Each of the funds are being reviewed for cancellation. If they are not eligible for cancellation, they will be sent to the governing body for resolution approval in May of 2009.

#### **J. Grant Accounting**

No finding

### **IV. Information Technology Operations**

#### **A. Logical Access**

The level of the system access controls are chosen in relation to the type of work and security requirements of the Finance staff. These controls will be periodically reviewed.

#### **B. Disaster Recovery Plan**

The Finance network computer system back up tape is currently being housed daily in a fireproof safe. The city recognizes that the suggestion is to store the tapes off-site. The finance director is in the process of exploring the logistics of a new procedure that would take the tape off site each evening and return it each morning.

### **V. Risk Management**

No Findings

## **VI. Inventory Controls**

### **A. Annual Inventory**

An annual asset verification process is being formulated and will be in place for 2010.

### **B. Maintenance of Fixed Asset Records**

The City has received an estimate for a fixed asset accounting by an independent firm. The City has allotted for this expense in the 2009 budget.