

**STATE OF NEW JERSEY
DEPARTMENT OF COMMUNITY AFFAIRS
DIVISION OF LOCAL GOVERNMENT SERVICES**

TOWN OF HARRISON

**INTERNAL CONTROL AND STATUTORY/REGULATORY
COMPLIANCE REVIEWS**

April 1, 2009

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April 1, 2009

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

This report presents the results of our performance audit (“audit”) of the Town of Harrison (“Town”). 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) identify potential internal control deficiencies and provide recommendations for correcting those deficiencies, (2) identify findings of noncompliance with statutory and regulatory compliance, and (3) identify and provide efficiencies or procedures that could lead to cost savings and possible revenue enhancements for the Town.

Audit Scope

In order to achieve the first objective enumerated above, we prepared detailed system descriptions documenting controls as outlined in the Request for Qualifications (“RFQ”) of the Town’s purchasing/expenditure and the payroll/human resource functions for the year 2008. With the resulting information, we utilized various sampling techniques to further analysis the data, review supporting documentation, perform inquiries, and identify any potential outliers or anomalies. In addition, the Town’s processes included in the scope of our audit related to the assessment of internal controls, revenues, cash receipts, purchasing, cash disbursements, payroll, human resources, fixed assets, risk management, information technology, and general operations.

To meet the second objective we expanded our scope outlined for the first objective to include attributes associated with statutory and regulatory issues provided in the RFQ to identify any potential noncompliance.

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

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, cost savings, and related outliers were noted during our audit. The observations and related recommendations were presented to the Town and the State of New Jersey, Department of Community Affairs, Division of Local Government Services.

Town of Harrison Response

The Town of Harrison's response to this performance audit is included in the following section entitled Town Responses at the end of this report.

McEnerney, Brady, Co. L.L.C.

McEnerney, Brady & Co., LLC

ENGAGEMENT SUMMARY

STATE OF NEW JERSEY
DEPARTMENT OF COMMUNITY AFFAIRS
DIVISION OF LOCAL GOVERNMENT SERVICES
TOWN OF HARRISON
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ENGAGEMENT SUMMARY

The following summary highlights our findings within the three (3) categories described in our executive summary. The facts in support of the following are included in the detailed section of this report. Some comments are stated in more than one category, as the inherent nature of the problem is far reaching.

Cost Savings and Possible Revenue Enhancements

- Fee ordinances of the Town of Harrison should be reviewed for possible amendment in order to increase fees to better reflect the costs associated with their respective activities.
- The Town does not have a shared cost of health benefit premiums with employees.
- The Town should adhere to Local Public Contract Law in all cases where bids are required.
- We suggest the Town should seek proposals for professional services by advertising in a media other than the Town's website.
- All PILOT arrangements concerning the redevelopment area should be in place and budgeted to cover debt service.

- The Town maintains a Reserve for Tax Appeals which has changed little over the past few years.
- MRNA components should be analyzed and possibly identified as recurring anticipated revenues.

Statutory and Regulatory Findings

- The 2006 and 2007 Annual Reports of Audit were filed late. The 2007 Annual Debt Statement was filed late and was incorrect.
- The Town should amend its professional services contracts when these contracts exceed the original contract amount. The governing body should review all amendments and be given the opportunity to vote on any changes.
- The Town's cash management plan should be revised and updated.
- The Town does not maintain an inventory of Fixed Assets.
- The Town does not maintain a general ledger.
- The Town does not maintain a true encumbrance accounting system.
- The Town's net debt exceeds the statutory maximum which was approved by the Local Finance Board.
- Numerous interfunds were not liquidated at year end.

- Many capital improvement authorizations had little or no activity for the year.
- Trust Funds reserves do not have approved dedication by riders.
- There is a \$500,000 inter-local service agreement with the Board of Education. There are no costs associated with this revenue and it is not off set by an outside CAP appropriation.
- Corrective Action Plans have not been implemented.

Internal Controls

- There was an instance of a wire transfer without the required signature of the CFO/Treasurer.
- The Town's executive director of the Redevelopment Agency is signing the claimant's certification on vouchers to third parties.
- Certain voucher packages contain no evidence of final approval of the CFO/Treasurer.
- The Town does not have any current procedural manuals.
- The Town does not maintain a general ledger.
- The Town does not maintain an organization chart.
- We noted a lack of segregation of duties within the finance department due to the lack of sufficient personnel.

- The surety bond coverage of the CFO/Treasurer should be reviewed and increased to suggested levels.
- The Town does not have a true encumbrance accounting system.

Information Technology

- A disaster recovery plan does not exist.
- The off site data backup routine requires improvement.
- Implementation of a VoIP phone system would provide a major cost savings.

Purchasing and Expenditures

- Purchase orders are not being generated to include the full amount of contracts. The amount of the purchase order is based on the amount of the required disbursement which are confirming orders.
- The CFO/Treasurer only signs off on the requisitions presented by department personnel. There is no subsequent approval performed at this level on purchase orders, vouchers or ultimately the check disbursement process with the exception of Finance and non departmental charges.
- The aggregation of disbursements to certain vendors is not closely monitored to insure that contract maximums are not exceeded.
- Review of contracts revealed instances where the insurance coverage documentation of vendors was not included in 2007. However, in 2008, tangible evidence of coverage was required prior to contract award.
- All wire transfers should be approved.

- There were instances where departments authorized purchases without final approval of the CFO/Treasurer.
- There are several instances of non compliance with the Local Public Contracts Law.
- We recommend the Town retain a purchasing agent.

Payroll and Human resources

- Manual checks are used for infrequent payroll related purposes. The payroll department has the payroll vendor print approximately 15 blank checks at a time. There was no separate control maintained of the manual checks issued.
- Both overtime pay for full time employees and straight time pay for part time employees require completed and authorized overtime and straight time sheets. Although not prevalent, there were occasions where time sheets were accepted by the payroll department without authorization.
- Five Town employees were paid greater salaries than those found on their corresponding salary ordinances.
- The net payroll checking account was not reconciled.

STATUTORY AND REGULATORY FINDINGS

Internal and External Report Reviews:

In conjunction with our overall review of the Town's system of internal control, we requested the following documents:

- 2008 and 2007 Annual Financial Statements (AFS)
- Audit Report for the Years ended December 31, 2007 and 2006
- Corrective Action Plans
- 2007 Annual Debt Statement
- 2008 Municipal Budget
- Organizational Chart
- Administrative Code
- Internal procedural manuals or policies, including but not limited to: Personal, Purchasing, and Risk Management

The following observations do not address any general fiscal operations as they are included in its respective section:

2008 and 2007 Annual Financial Statement (AFS)

The Annual Financial Statement for the years ended December 31, 2008 and 2007 were prepared by the Town's independent auditing firm and were dated March 31, 2009 and March 3, 2008, respectively. Both of these reports were dated subsequent to the statutory filing date of February 10th of the ensuing year.

2007 Annual Debt Statement

The Annual debt Statement was also prepared by the auditors and dated February 19, 2008 which is subsequent to the statutory filing date of January 31, 2008. The Town's net debt percentage was 5.17%, which exceeded the debt limitation of 3.5%, which has been approved by the Local Finance Board.

The Debt Statement as filed for 2007 is incorrect. \$3,115,000 of funds available in a Reserve for Debt Service was not included as a deduction (see Capital Project Section of this Report). Including this deduction would have lowered the net debt percentage to 4.9% from the reported amount of 5.17%.

Audit Report for the year ended December 31, 2007 and 2006

The year ended December 31, 2007 annual audit was issued with a qualified opinion as the Town prepares its financial statements in accordance with a regulatory basis of accounting which differs from accounting principals generally accepted in the United States of America. This qualification is consistent with all other annual audits of local governmental units in New Jersey.

The December 31, 2006 annual report of audit was issued subsequent to the statutory filing date of June 30, 2007. The 2006 Independent Auditors' Report was dated November 7, 2007. The 2007 annual audit was also issued subsequent to the statutory filing date and accepted by the governing body on December 2, 2008.

The 2007 annual audit included eight (8) comments and recommendations addressing issues within the Municipal Court and lack of record keeping. Three (3) of the comments are repeated from 2006 and it is assumed to have been repeated for many years. The auditor indicated that none of the comments "...are not of sufficient materiality whereby they would affect our ability to express an opinion on the financial statements taken as a whole". Corrective Action Plans were prepared and approved by the governing body on March 18, 2008 for the 2006 audit and on December 2, 2008 for the 2007 audit. Both of these plans are basically identical in nature and futile as nothing has been initiated or accomplished to make corrections through the date of our fieldwork.

The three (3) comments that are repeated are as follows:

- No general ledger maintained
- No fixed asset accounting maintained
- No grant management performed.

The management letter did not include a comment on the Town's failure to maintain a true encumbrance accounting system. Besides being a State mandate,

it's an integral part of the control environment within the budgetary accounting system. This is addressed in the Purchasing and Expenditure section of this report.

Greater emphases should have been placed upon the absences of a general ledger. The General ledger is not only mandated by the State, it is the foundation of the Town's books and records of original entry. It is the most vital part of an organizations accounting system.

It is our observation that the Town's failure to maintain a general ledger, coupled with the lack of a true encumbrance accounting system creates a material weakness in internal control.

The Town maintains a reserve for pending tax appeals that amounted to \$357,000 at December 31, 2008. A review of the activity since December 31, 2005 revealed that the account had a net change of approximately \$90,000 over three (3) years. The subsequent time period since the establishment of the reserve is more than ample to determine that said reserve (or liability) is over stated.

Municipal Budget

The Town's 2009 Municipal Budget was not introduced as of the date of our report. However, we reviewed the 2008 Adopted Budget in conjunction with the 2008 AFS and made the following observations:

- Detail of trust fund deposits and reserves listed in the AFS are not all supported by approved dedication by riders. In addition several items appear to be grants or revenues that are more appropriately recorded as revenue in the Current Fund.
- The Town has been anticipating and receiving \$500,000 annually from the Board of Education for the past few years. The Harrison Board of Education functions as a Type 1 school whereby the Board of Education

members are appointed by the Town's governing body. This revenue has been titled as "Operating Expenses – Current Year". The parties entered into an inter-local service agreement to provide these costs. However, the Town could not provide us any detail of these costs to support this revenue and the charge to the Board of Education. In addition, the Town has not reflected any costs associated with this inter-local as a outside the CAPs appropriation.

- The Town has only incurred \$547,563 in school related debt service in 2008 which was completely raised in the Town's budget as an addition to local district school tax. Therefore, the \$500,000 of revenue is considered a general revenue.
- The AFS reflects large interfund receivables at year end.
- The Town has a combined Water and Sewer Utility that generates approximately \$2.8 million in service charges. There is no evidence that a recent cost of service study has been performed. A cost of services study is essential in not only determining adequate and fair billings between classes of users, but also to insure that either the water or sewer divisions are not subsidizing each other.
- The Town's practice of obtaining professional service contracts appears to be completely limited to notifications posted on the Town's website with a very short response time (many less then 12 days) with a contract awarded within a day or two of proposal receipt. This practice eliminates the ability to obtain a larger response and clearly has the appearance of awarding contracts to individuals with knowledge of the posting, which completely negates the spirit of competition.

- The Town has not incurred any deferred charges for over expenditures of appropriations for the years 2006 through 2008. Implementation of a true encumbrances accounting system will better assess any over expenditures.

General Fiscal Operations

Organizational Chart

The only true organization chart supplied to us was by the Public Works Department and it was Marked “Proposed – 1/17/2008”. For the other departments we were given lists of names and job titles.

Observation

This lack of a Town-wide organization chart has a major operational impact on the municipality in the following areas:

- Roles and responsibilities are not defined within the overall organization.
- There is no hierarchical structure of authority and decision making.
- There are no communication channels to establish reporting procedures and accountability.
- This is no strategy for making municipality-wide work practices.
- The Town Clerk is also the Town Attorney. While not prohibited, this may not be a “best practice”. Conflicts could arise and additional costs may be incurred for outside counsel.

Administrative Code:

A review of the *Code of the Town of Harrison, New Jersey* (“Code”) appears to be complete and properly maintained. A complete codification was performed in August 2008

Internal Procedural Manuals or Policies:

The Town does not have any procedural manuals. The Town did produce a written purchasing policy. Although the document was not extensive it did contain basic fundamental control procedures and elements.

Miscellaneous Fees

A review of the Town's fee ordinances revealed that they were not updated for many years. These ordinances should be reviewed on periodic bases and adjusted accordingly to insure associated cost recovery.

Grant Management:

The Town's grants management function operates in a decentralized fashion. There is no individual grant manager but rather all administration is performed at the department/division level that utilizes the grant.

There were approximately \$1.6 million in grant receivables at December 31, 2008 of which approximately 75% is in excess of one year old. In addition there is approximately \$1.1 million of appropriated grant reserves of which 88% is in excess of one year old with no activity.

All efforts should be made to collect these grants or a determination made as to the collectability and proper disposition made. The annual audit reports have contained this comment for the past few years.

The CFO/Treasurer maintains a single entry manual system of recording grant disbursements. Individual grant files are maintained, which include transaction schedules. Although this provides some level of control, this method does not substitute for a comprehensive grant accounting system.

Cash Management Plan

The Town's cash management plan needs to be revised. Every local governmental unit must have a cash management plan as mandated by N.J.S.A. 40A:5-14. The Town presently passes a resolution at the reorganization meeting naming just the official depositories. This resolution was presented as the Town's cash management plan. In fact one financial institution utilized by the Town is not named as an official depository.

The cash management plan should include a statement that all financial institutions designated as official depositories be insured and in compliance with the Governmental Unit Deposit Protection Act (GUDPA). The plan should also indicate that the Town should be in receipt of each financial institutions GUDPA statement semi-annually. In addition, the Town should consider modifying, updating and insuring that their designated official depositories are in compliance.

The plan should address the following:

- General Authority
- Permitted Investments
- General Investment Practices
- Special Conditions on Certain Investments
- Cash Management Policies
- Use of Investment Advisors
- Investment and Risk

During the 2008, the investments of the Town were limited to the MBIA Cash Management Fund and money market funds. These instruments appear to be in accordance with those authorized by State statutes.

Miscellaneous Revenues Not Anticipated (MRNA)

MRNA amounted to approximately \$200,000, \$822,000, and \$260,000 for the years 2006, 2007, and 2008, respectively. There appears to be revenues that can be easily identified and anticipated as reoccurring. During 2007 the Town received a one time \$503,000 from medical insurance reimbursements and recorded as MRNA.

Capital Projects

In addition to normal capital projects such as equipment purchases, street improvements, etc., the Town has embarked on a very aggressive redevelopment plan.

The Town adopted two (2) capital ordinances during 2008 that totaled \$51,000,000 for the additional funding for the construction of a parking and infrastructure redevelopment. These projects, coupled with two previous ordinances of the like amount of \$51,000,000 which were adopted in 2006 and 2007, constitutes the funding mechanism of the Town's \$102,000,000 redevelopment project referred to as the Harrison MetroCentre project.

The Harrison Waterfront Redevelopment Area (the 'Redevelopment Area') encompasses approximately 250 acres in the southern part of the Town along the Passaic River. The Harrison Redevelopment Agency (the "Agency") has been designated as the redevelopment entity by the Town to undertake the redevelopment projects within the Redevelopment Area and the Agency has designated various redevelopers to implement the October 2003 Waterfront Redevelopment Plan (the 'Plan'), which Plan contemplates approximately 6,000 new housing units and 2,000,000 square feet of office/retail space.

As part of a separate transaction with another developer, the Agency acquired an additional 35 acres adjacent to the land with funds from one of the designated

redevelopers. The initial redevelopment project on the adjacent site will consist of 700 residential units and 250,000 square feet of office/retail space.

During 2006, the Town issued the first phase of \$39.4 million in bonds to the Hudson County Improvement Authority (the ‘Authority’) and granted by the Town to the Agency, pursuant to an Interlocal Services Agreement by and among the Town, the Agency, the Authority and the County of Hudson to fund certain redevelopment costs including the acquisition of land, remediate the land, and to demolish structures, upon which is anticipated, among other projects, a private financed multi-purpose 25,000 seat soccer stadium and amphitheater which will house the New York Red Bulls professional soccer franchise, fund the Bond Reserve Fund , and pay the costs of issuance.

Pursuant to the terms and conditions of the Town’s Bond, the Town will be required to make debt service payments to the Authority, which shall be sufficient to pay the Accreted Value at Maturity on the Bonds when scheduled.

The payments of these bonds, including bonds to be issued which are necessary to complete the project will be paid from payment in lieu of tax (“PILOT”) agreements that are projected at approximately \$6 million per year. Under New Jersey’s Long Term Tax Exemption Law, 95% of all payments in lieu of taxes will be paid to the Town; the remaining 5% will be paid to the County.

The bonds issued were Capital Appreciation Bonds at an accreted value of approximately \$3,105,000 per year commencing December 15, 2010 through 2038.

It is very critical to the fiscal well being of the Town that the PILOT payments are in place and revenues generated in a timely fashion in order to make the required debt service payments.

We did not review the annual audits of the Redevelopment Agency since the Agency is outside the scope of our engagement. However, \$3,115,000 was deposited by the trustee from proceeds of the above referenced bond sale in order to establish a Debt Service Reserve Fund, without it being recorded in the financial statements of the Town. These funds should have been recorded as funds held by a third party and restricted for the payment of debt service.

Trust Funds:

A review of the trust accounts recorded in the 2008 Annual Financial Statements, and the 2007 Audit Report revealed that a few trust accounts were established that do not appear on the Division of Local Government Services, Bureau of Financial Regulation and Assistance's Budget Rider Report for 2009. The City should review all their trust funds to insure compliance with N.S.J.A. 40A:4-38.

Risk Management

Administration of all insurance is performed within the Finance Department. There is only one employee who administers all insurance matters between the Town, employees, brokers and underwriters. The Town Clerk serves as the risk officer.

The Town contracts with the Garden State Municipal Joint Insurance Fund (JIF). The Town, through a Request for Proposal process (RFP), renewed its membership in the JIF for a period of three (3) years. The last contract was renewed for a period beginning January 1, 2009 for the purpose of establishing the following types of coverage:

- Workers Compensation and Employers Liability
- General Liability including law enforcement and public officials liability
- Motor Vehicle Liability
- Property Damage (buildings, contents, equipment and motor vehicles)

Within the Garden State Municipal JIF, the Travelers Insurance Co. provides excess property, auto physical damage and equipment breakdown coverage up to a \$250,000,000 limit in excess of the JIF retention levels. The JIF retention levels for the above coverage are:

- General Liability - \$250,000
- Motor Vehicle Liability - \$250,000
- Workers Compensation - \$500,000
- Property Damage - \$25,000

The State National Insurance Company provides excess general and employer's liability up to \$15,000,000 limit per occurrence and statutory workers compensation coverage in excess of the JIF retention level listed above. The Illinois Union Insurance Company provides excess public officials liability and employment practices liability up to \$10,000,000 limit in excess of the JIF retention level of \$250,000.

The Travelers Insurance Company provides Crime insurance up to \$1,000,000 limit, subject to a \$10,000 deductible to members of the Garden State Municipal JIF.

The Town provides group health insurance benefits to its employees and qualified retirees. The employee group health benefit plan includes the following:

- Blue Cross, Blue Shield with Rider J, 365 day hospital coverage and Major Medical Insurance for the employee and their dependents. Dependent children shall be covered until age 23.
- Prescription plan program is provided by Blue Cross of New Jersey. The plan's prescription co-pay is \$1 for generic and \$5 for brand. The \$5 co-pay is used towards deductible on Major Medical.

- Dental coverage of up to \$2,000 maximum in claims for employees and their dependents.

Pursuant to the collective bargaining agreement there is no employee cost sharing on group health insurance premiums.

The Town currently provides lifetime medical benefits to employees and spouses, including their dependents, who retire under the following conditions:

- Retired after 25 years or more of service credit in a State or locally administered retirement system and a period of 4 to 25 years with the Town of Harrison at the time of retirement,
or
- Retired and reached age 65 years or older with 25 years or more of service credit in a State or locally administered retirement system and a period of 4 to 25 years with the Town of Harrison,
or
- Retired and reached age 62 years or older with at least 15 years of service with the Town,
or
- Retired on a disability pension.

These requirements are outlined in Town of Harrison Ordinance #1051.

- Ordinance numbers 1118, 1089 and 1092 amend previous ordinances such that the surviving spouse and surviving eligible dependents of a deceased active member of Harrison Police, Fire, and Civil Service employees who are receiving medical benefits from the Town shall be entitled to continuation of the medical benefits that the deceased member enjoyed at the time of death. These same benefits extend to

employment agreements issued by the Town of Harrison for management employees.

Upon the death of the retiree, the surviving spouse and dependent children under the age of 23 years shall be entitled to remain enrolled in the Town's group health benefit plan.

The Town accounts for the cost of annual medical benefits for employees and retirees on a pay-as-you-go basis. Expenditures for the year ended December 31, 2007 amounted to \$ 6,400,581. The Town also contracts for other insurance coverage through policies with independent insurance carriers which are as follows:

- Group Accident Policy – Monumental Life Insurance Co.
- Recreation Accident Policy – Peoples Benefit Life Insurance Co.

The Town will be required to follow The Government Accounting Standards Board (GASB) statement number 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions." GASB 45 will require the Town to disclose the actuarially determined liability for all Other Post-Employment Benefits (OPEB). OPEB are non-pension benefits that a government has contractually or otherwise agreed to provide employees once they have retired.

Recommendations

- The Town should review the surety coverage applicable to those employees in the finance department. Coverage appears in inadequate.
- The Town should review its policy of not requiring employee participation in the costs of health care coverage.

- Other Post-Employment Benefits are escalating at a very significant rate. The Town should consider addressing these benefits in order to reduce the burden on future budgets.
- The Town should consider retaining the services of an independent risk manager in order to evaluate all risk exposures and the level of coverage currently in affect.

Information Technology

Overview and Background

The Harrison IT Department consists of two employees who are responsible for implementation, maintenance and support of the day-to-day information processes of the Town. The DP group supports all departments of the Town relating to hardware, software, network infrastructure and phone systems.

As part of our procedures, we obtained a high level of understanding of IT function. The following are key areas that were investigated in addition to lesser processes.

- Security
- Hardware
- Software (operating and application systems)
- Disaster Recovery Plan
- Data Center

The IT director was furnished with an IT center review questionnaire and a site walk through was performed with the director and the head technician.

Harrison network consists of four servers located in the data center and approximately 150 end user computers connected by a private fiber network. It is a Microsoft based facility running Active Directory Server 2003 and SQL Server;

there are applications running for accounting (Munindex), water billing, police and other less important packages. Dell and Cisco provide the main hardware. Licensing is up to date and adequate control is maintained over all IT assets.

The IT center is large for a municipality this size. The rack mounted servers, main distribution frame (MDF) and UPS and housed in the municipal building on the second floor. The center is neat, properly ventilated and meets normal requirements for data centers, although there is no fire suppression system. Most end users are precluded from saving data to their local hard drives and must save to the network drives. All systems are backed up daily in the data center. Tapes are stored off site in a locked safe in the Water Department; this is done every two weeks.

Access to the internet and e-mail are provided by a T1 connection and distributed via the fiber back bone. There is adequate firewalling with emphasis placed on the police MDT's. This is also the only place where encryption is used. There is content filtering for e-mail and access to certain web sites is limited. The Town web site is maintained by an outside company, but is resident on Town servers. All CAT 6 wiring was done in-house by DPW and was independently tested and certified. All switches are power over IP; this technology is not presently being used, but will be integrated in the near future. This system is capable of using IP phones and this is another application that will be instituted within a year or so.

There is a certain amount of custom programming being performed, but this is limited to small MS Access data bases and not to the major software applications.

All training is done in-house with the exception of the two IT people.

Access rights are strictly enforced and maintained. Password are used, but not changed on a formal basis.

There is no formal disaster recovery plan.

A biometric time keeping system has been installed. Presently it is not integrated or used by management.

There is no procedures manual and no long range plan is existence.

Recommendations

There is a definite need for better off site back ups with a formal disaster recovery plan; this could easily be instituted over the fiber network.

A procedures manual should be established to formalize existing rules and routines.

A great savings to the municipality will be when the VoIP (voice over internet protocol) phone system is installed. While the IT department has performed their own phone line audit and saved some money, a full VoIP system would provide a huge savings.

A formal long term plan should be drawn up and monitored; this would greatly help in designing the future of IT and budgeting.

Better use should be made of the biometric time keeping system.

Recreation Department

Revenue from vending and gaming machines are split between the owner of the machines and the Town.

All cash receipts should be deposited by the Town and any disbursements should be made through the normal procurement process.

Purchasing and Expenditures

A true encumbrance accounting system is not maintained; this is not only a requirement of the Local Finance Board, it is an integral part of the control environment within the budgetary accounting system. The purchase orders used are basically confirming orders. This lack of a true encumbrance system undermines the budget process, and could lead to over expenditures and the charging of expenses to the wrong budget years.

We tested 230 cash disbursements and the related supporting documentation that were selected from the check register.

Observations

- Purchase requisitions were initialed by the CFO/Treasurer to indicate their review and approval process had taken place. There are no other reviews or approvals taking place.
- Purchase requisitions were not found with vouchers.
- We found instances where requisitions were dated after the date of the purchase order.
- We found that the dollar amounts on all purchase orders and vouchers matched exactly the dollar amount on their corresponding requisition.
- We found an instance of one wire transfer that was not supported by the signature of the CFO/Treasurer. All wire transfers should be approved by signature of the CFO/Treasurer.
- We found instances where departments authorized purchases without final approval of the CFO/Treasurer.
- We found instances that the executive director of the Redevelopment Agency was signing the claimant's certification on vouchers where payments were made to third parties.

Professional Services, Competitive Contracting and Extraordinary Unspecifiable Service Contracts

For the year 2008, there were twelve (12) professional services contracts, six (6) competitive bids, and two (2) extraordinary unspecifiable service contracts issued by the Town. The Town Clerk made available to us the bid packages, which included all documents submitted by the vendor, a copy of the RFP, a copy of the advertisement, a copy of the contract and a copy of the resolution awarding the contract to the winning bidder. A 100% scope was used and all packages were reviewed.

Observations

- There were four (4) instances where 2008 payments exceeded contracted amounts.
- There were six (6) instances where proof of required insurance was not present.
- Court interpreter services were not subject to the fair and open or non-fair and open process and these services were not awarded by resolution.
- Additional procedures revealed the contract for ambulance billing services was not been re-advertised or renew since 2002.
- Additional procedures revealed five (5) instances where vendors were paid in excess of the bid threshold without going through the appropriate process.

Vendor Data Base

A listing of vendors with P.O. Boxes as of December 31, 2008 was obtained and an analysis performed to ascertain the existence and validity of each vendor. There was a total of six hundred three (603) vendors with a P.O. Box on record,

some of which are no longer in use. The following was discovered through the review and analysis of the listing:

Observation

- A total of twelve (12) businesses/organizations could not be confirmed as being associated with the corresponding P.O. Box.
- A total of eleven (11) individuals with P.O. Boxes could not be confirmed as being associated with the corresponding P.O. Box. In addition, it was verified that none of these individuals were employees of the Town of Harrison.
- Vendors that are no longer utilized are not removed from the system.

Analysis of Purchase Orders where amounts paid exceeded the original purchase order amount by 20%.

During the detailed disbursement testing, a step was designed to review for expenditures that exceeded the original purchase by over 20%; these amounts must also be disclosed in the Annual budget per NJAC 5:30-11.1.

Observation

- There was one (1) instance where a change order and resolution were properly executed for an adjustment of over 20%.

Payroll and Human Resources

Overall Payroll Testing

Based on data extracted by Action Data Services 2008 earnings report, there were three hundred fifteen (315) employees of the Town receiving salaries during 2008. A 100% scope was used to review the payroll/personnel data base.

All personnel files were requested and supporting documentation was agreed to the payroll/personnel data base with emphasis placed on missing hire and birth dates, status, address, and other basic information.

Position control was agreed to the payroll and budget.

Timesheets were reviewed to support hours on which compensation was paid.

Observations

- One hundred sixty four (164) employees have a start date of December 7, 1999; the start date of the data base.
- Two (2) employees had only PO boxes for their addresses.
- Eight (8) employees has missing or inappropriate birth dates.
- There were instances where timesheets did not contain an original authorizing signature; original authorizing signatures should be on all timesheets, especially over time sheets.

Employees receiving a greater than normal number of payroll checks

Based on data extracted from the 2007 and 2008 year-end payroll registers and the bi-weekly check registers prepared by Action Data Services, we noted two hundred eleven (211) employees and one hundred seventy seven (177) employees received over twenty-six (26) pays for the year 2007 and 2008, respectively. The normal amount of checks each calendar year was to be twenty six (26).

Observation

The reason for the additional checks were for police outside services, uniform allowances, various certifications, educational allowances etc., which were within existing contracts. It appears that employees are not receiving additional compensation that is not authorized.

Examination of Employees whose base salary increased greater than \$7,500 in a year

Based on data extracted from the 2007 and 2008 year end payroll registers prepared by Action Data Services we noted seven (7) employees received a salary increase greater than \$7,500.

Observation

Explanations for salary increases over \$7,500 were valid; they relate to police and fire departmental contractual agreements.

Labor Employee Contracts & Salary Ordinances

During our review we verified that salaries were properly authorized and paid in accordance with contract or ordinance. The contracts for Police, Fire, and Civil Service Employees expired on December 31, 2006. The new contracts have not been settled at the date of this report. The only salary increases have been the contractual increases of \$1,000 per year up to the maximum salary approved in the ordinances. The Harrison Civil Services Employees Association contract states that the increment program shall provide an adjustment to the employees base salary of \$1,000 unless a smaller adjustment will bring the employee to the employee's maximum. The adjustment shall be made on every July 1st. No employee shall be paid a salary greater than their maximum.

As part of our overall payroll testing, salaries paid were reviewed to determine they were within salary ordinance parameters

Observation

- Our testing and review revealed five employees that were paid in excess of the maximum salary per adopted Town Ordinances.

Terminated Employees

A sample of terminated employees was selected and detailed testing was performed to determine proper final pay calculation and cut-off.

Observation

- Terminated employees appear to have their final compensation correctly determined and were removed from the payroll data base.

Manual Payroll Checks

Manual payroll checks can be required when there is an error in the calculation of payroll or a check is lost by the employee. The payroll clerk obtains a batch of fifteen (15) or (20) blank payroll checks at a time from the payroll service company. When an error or omission is noted a manual payroll check is issued from the batch; and the payroll service is notified. They send a “memorandum” check by to the Town and re-issue the payroll register.

Observations

- A log of manual checks is not maintained.
- Original signatures should be used for signatures on these checks.
- A policy is not in place for the use and safeguarding of the facsimile stamp.

Payroll Payout

A payroll payout was performed. The Town has 286 employees and all employees were included in the payout. A memo was sent by the CFO/Treasurer informing all employee that they had to appear to pick up their payroll check and

have proof of identification in the form of picture driver's license or passport. All employees receive payroll checks; there is no direct deposit.

The payout was planned over a two day period. Uniformed police and fire personnel's payroll checks were distributed on Thursday January 22, 2009, while:

- School crossing guards
- Non-uniformed police and fire personnel
- Public Works, water and sewer
- Municipal Court, Senior center and library
- Health and Recreation
- Town Hall employees

received their checks on Friday January 23, 2009. A small number of employees picked up their checks the following week.

At Town Hall, a Town representative distributed the checks in the presence of our representative who checked the employee's identification and had them sign a departmental roster.

The statistics for this step are as follows:

Total employees	286
Number selected	286
Number that signed for check	277
Number of alternate procedures	9
Exceptions	None

Alternate procedures were performed for nine employees; including, six council members, the mayor, a police officer on sick leave and a crossing guard.

Observation

All employees receiving compensation were valid employees.

INTERNAL CONTROLS

OVERALL INTERNAL CONTROLS

(as it relates to the attached matrix and narrative)

Management of the Town of Harrison has the responsibility to design and implement a system of internal control to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial accounting and reporting
- Effectiveness and efficiency of operations
- Compliance with applicable State and Federal laws and regulations

Internal Control consists of five interrelated parts:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Control Environment

The control environment is established on the basis of the attitude of Town management toward internal control. It is the basis for all other elements of the system of internal control. It is the foundation for all other parts of internal control, and provides discipline and structure.

The collective effort of various factors affects the control environment, including the following:

- Integrity and ethical values
- Commitment to competence
- Town Council participation
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

The substance of internal controls is more important than the form because of the risk that controls may not be effectively implemented or maintained.

Risk Assessment

Risk assessment is the Town's identification and determination of risks relevant to the achievement of their objectives and is the basis for determining how risks are managed. Risks can arise or change as a result of many factors, including:

- Changes in operating environment
- New personnel
- New or updated IT systems
- Rapid growth
- New technology
- New grant programs, building projects, or municipal improvement tasks
- Organizational change
- Accounting pronouncements (State, GASB, etc.)
- Federal and State regulations

Control Activities

Control activities are the policies and procedures that assist in ensuring that management principles are carried out. Control activities are usually divided into four categories:

- Performance reviews
- Information processing
- Physical controls
- Segregation of duties

The application of controls is affected to some degree by the size of the governmental entity. Harrison being a smaller municipality has less sophisticated controls.

Information and Communication

Information and communication relate to the identification, summary, and exchange of information in a form with a time frame that enable Town employees to carry out their duties. Information systems include procedures and documents that do the following:

- Identify and record all valid transactions
- Describe, on a timely basis, transactions in sufficient detail to permit proper classification for financial reporting
- Measure the value of transactions in a manner that permits their correct recording in the financial statements
- Permit the recording of transactions in the proper year

- Present properly the transactions and related disclosures in the financial statements

Monitoring

Monitoring is a process that reviews the quality of internal control performance over a period of time. Ongoing monitoring activities include regular management and supervisory activities and other actions taken during the normal performance of management's responsibilities.

Town management should clearly assign responsibility and delegate authority with enough care to ensure that:

- Persons who perform control procedures are held accountable for their performance by those who monitor these activities, and
- Persons who monitor the performance of control procedures are held accountable by the Town Council.

Common Types of Control Procedures

Numerous control procedures and monitoring activities are performed by individuals in governmental entities to accomplish particular objectives. All these controls, however, can be classified within one of the basic categories of controls described below.

Access Controls

Certain controls prevent access to assets by unauthorized persons. Often these controls are physical in nature. For example, an organization might store check stocks or receipts in a vault or a locked drawer, and use alarm systems to restrict access by unauthorized individuals. If controls to prevent unauthorized access are not effective, assets may be lost or stolen.

Reconciliation and Comparison of Assets with Records

Reconciling and comparing assets with accounting records establish a system of independent verification, either through preparing an independent control document used to reconcile accounting records and assets or by directly comparing accounting records with related assets. An example of this would be the preparation of bank reconciliations.

Analytical Reviews

The purpose of analytical reviews is to evaluate summarized information by comparing it with expected results. Municipal management perform these reviews to determine whether the Town is performing as planned. For example, a

common analytical review procedure is the comparison of budgeted to actual performance for anticipated revenues and appropriations.

Authorization and Approval

Authorization and approval procedures prevent invalid transactions from taking place. Thus, this type of control typically involves authorization or approval of transactions at specific dollar amounts.

Reviews of Output

Reviews of output data should be performed by Town personnel who have the knowledge and experience to identify errors. These reviews check the validity and accuracy of output by comparing it in detail with expected results. For example, a purchasing manager may compare recorded amounts or quantities purchased with separate records of purchase orders.

Transactional Reviews

Transactional reviews check the validity and accuracy of transaction processing by comparing it in detail with expected results. Reviews often use exception reports, which list items that failed to be processed because they did not meet specified criteria.

General Computer Controls (while not covered by the attached matrix and narrative, are an important part of Internal Control)

Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within the data processing area.

- **Computer operations.** The computer operations staff is responsible for the day- to-day processing activities of the entity's system. It ensures that jobs are scheduled and processed as planned, data are properly stored on the system or tapes, and reports are distributed in a timely and accurate fashion.
- **Systems acquisition, development, and maintenance.** The systems acquisition, development, and maintenance staff is responsible for planning, acquiring or developing, testing, and implementing new application systems and changes to existing application systems.
- **Information security.** The information security function is responsible for administering and maintaining a city's information security program, including both physical and logical security. The primary goal of such a program is to insure that access to program data, online transactions, and other computing resources is restricted to authorized users.
- **Information systems support.** Information systems support includes such functions as system software maintenance, database administration,

communications and network management, end-user computing, and other groups with technical and administrative support responsibilities.

In the final analysis, maintaining the internal control environment and related control procedures is an integral part of the Town of Harrison management's responsibilities. In the context of governmental accounting and reporting, the control environment has a direct impact on an entity's ability to collect and present accurate financial information.

The following matrix delineates the controls that should be in place in for all municipalities. It has been tailored to fit the control environment in the Town of Harrison. The matrix states where risk may possibly be and the severity of that risk. Also stated, is timing or immediate impact of those risks.

"Potential risk" does not mean that errors or defalcations exist. "Risk" in this context means only the potential that an error can occur in the initial assessment of the internal controls.

TOWN OF HARRISON – INTERNAL CONTROL MATRIX

Section	Area	Timing		Potential Risk		
		Long Term	Short Term	High	Med.	Low
Revenue/ Cash Receipts	Segregation of Duties		X		X	
	Standard Operating Procedures		X		X	
	Cash Receipting Process - General		X		X	
	Taxes		X	X		
	Grant Receipts		X			X
	Outside Offices		X	X		
	Investing		X			X
	Reconciliation of Cash Accounts		X	X		
Purchasing/ Accounts Payable	Segregation of Duties		X		X	
	Standard Operating Procedures		X		X	
	PO Requisition Process		X	X		
	Completeness of Purchase Order Packets		X	X		
	Centralized Purchasing Department		X	X	X	
	PO's (100% or normal)		X	X		
	PO's Blanket/Partial Payment		X	X		
	Wire Transfers		X	X		
	Decentralized Disbursement					
	Approval		X	X		
	Quotation Process		X	X		
	EUS/Competitive Contracting		X	X		
	Vendor List Maintenance		X			X
	Professional Services		X	X		
	Safeguarding of Check Stock		X			X
	Approval Process for Processed Checks		X	X		

Section	Area	Timing		Potential Risk		
		Long Term	Short Term	High	Med.	Low
Human Resources/Payroll	Segregation of Duties		X		X	
	Standard Operating Procedures		X	X		
	Approval of Standard Payroll Forms		X		X	
	System Completeness and Accuracy (Hire Dates, Birth Dates, SS#'s, Termination Dates)		X		X	
	Salary Ordinance					
	Sign off on Check Distribution		X		X	
	Segregation of Types of Pay Types of Computer Reports		X		X	
	Existence of Personnel (Pay out)		X			X
	Supporting Documentation for Payments to Terminated Employees		X		X	
	Securing Payroll Information (Physical Security)		X		X	
	Safeguarding Check Stock (Manual Checks)		X	X		
	Management Reviews of Overtime, Longevity, etc.		X	X		
	Historical Payroll Information		X			X
	Union Contracts	X	X			X
General Operations/Accounting	Reconciliation of Net Payroll Accounts		X	X		
	Reconciliation of Payroll Deductions Accounts		X	X		
	Segregation of Duties		X	X		
	Written Procedures					
	Reconciliation of Bank Accounts		X	X		
	Grants Management		X		X	
	Approval of Budget Transfers		X	X		
	Manual Journal Entries Posted to General Ledger		X	X		
	Monitoring Open Purchase Orders		X		X	
	Controls Over Data Entry	X		X		

REVENUE AND CASH COLLECTION

Revenue and Cash Collections

System Summary

The Tax Collectors Office acts as the central revenue office for the Town of Harrison. The Tax Collector/Revenue Collector for the Town oversees general day to day collection of revenue (Tax, Water, Parking permits, etc.) and is responsible for compiling daily, monthly and yearly reports. There are three other clerks in the office:

Clerk #1, the Assessor's Secretary, besides her duties as the assessor's secretary, she receives and processes revenue receipts for tax, water, parking, etc.)

Clerk #2 who receives and processes revenue receipts

Clerk #3 who receives and processes revenue receipts and also prepares the daily proof of cash receipts.

The duties of the three clerks rotate daily as far as:

- a) who collects taxes and water and,
- b) who processes the mail receipts.

There are always two clerks collecting taxes and water, and one clerk who handles mail receipts. Tax and water payments are accepted either by mail or in the Tax Collector's office. Water payments are also accepted in the Water Dept., but only by check. The tax/water receipts are either scanned into the Muidex tax system or entered manually using the block-lot number/account number. The clerks have their own tax-cash register/drawer and water-cash register/drawer that they maintain and are individually responsible for proving out at the end of day each day. Each drawer has a \$50 change fund. Various other outside offices that collect cash bring these receipts to the Tax Collector for deposit. They are then entered into the computerized receipts system as general revenue, along with a description of the revenue, and are reconciled to the revenue receipt slips that was attached by the individual departments. Deposit slips are prepared by each individual cashier, proved to the daily computer printouts and transported to the bank with a police escort. A bank deposit slip is then prepared after cash and checks have been reconciled by each individual. The bank deposit slips, checks

and cash then go to a clerk. The three clerks rotate the duties of having to go with the police to make the daily deposit.

A Summary Daily Report for the day is prepared by one of the clerks. The clerk reconciles the summary totals for the day to the daily register/drawers revenue printout.

The Tax Collector proves the Levy report (trial balance) minus 2009 prepaid taxes to the current taxes on the monthly summary which gives the daily collection amount.

Various outside offices collect revenue. For offices physically (Health and Recreation Departments) located away from Town Hall, non pre-numbered receipts are given for revenue collected. A deposit slip is drawn at the end of the day with the cash, checks and receipts attached are brought to the Tax Collector's office for deposit. Monthly reconciliations are performed to ensure the departments are in agreement with revenue deposited. For offices physically located with Town Hall (Clerk's Office), a receipt is given for revenue collected and the cash or check is immediately brought to the Tax Collector; a spreadsheet is maintained and reconciled monthly.

Conclusion

The system as documented is functioning as prescribed. Due to the size of the Town, segregation of duties is not always possible.

PURCHASING AND EXPENDITURES

Purchasing and Expenditure Cycle

Overview and Background

We performed a walk-through of the Town's purchasing process to ascertain the policies and procedures followed and determine its strengths and weakness. The Town prepares two documents in the purchasing process. The Purchase Order is prepared for all requisition for goods and services other than professional fees, telephone, utilities, rents, publications and membership and employee reimbursement. For these items only the Voucher is prepared. The Finance department handles all the processing of requisitions. There are two (2) full time employees involved in this process. The CFO/Treasurer primarily signs off on all requisitions after received and reviewed. The clerk or Accounts Payable Clerk processes all approved requisitions to purchase orders and ultimately through the process explained herein until final payment.

Our walk-through was designed to review the strengths and weakness of the processing of expenditures from the receipt of the requisition to the ultimate expenditure to the vendor.

Requisitions

Purchasing process begins with a purchase requisition prepared at the department level.

Purchase Requisition Forms must have:

- The department head's signature
- Departmental Chairperson (or person designated in writing) signature approving the requisition
- The proper appropriation (G/L) account number to be charged
- Vendor number, along with vendor name and address
- A full description of goods/services being requested along with quantity and units, typed or neatly handwritten in pen

- If the purchase is under a State Contract, the assigned contract number should be listed (requisition and voucher)
- Must be currently dated

Completed requisitions are then submitted to the Treasurer's Office for review. Only properly prepared and approved requisitions will be accepted. The requisition is approved by the CFO/Treasurer. Purchase Orders/Vouchers are then generated in the Treasurer's Office upon acceptance of a purchase requisition.

Purchase Order/Voucher goes out to vendor for vendor review and signature. Vendor keeps their copy of Purchase Order, signs Voucher and sends back to the initial department. Eventually after goods and services are rendered, department receives invoice and attaches it to the voucher, then sends to the CFO/Treasurer's Office.

It is the responsibility of the individual departments to obtain quotations and submit documentation (quotation sheets) along with the requisitions.

Flow of Transactions

Checks are then prepared in the Finance office before the monthly council meetings. Note that all blank checks are locked in a safe in the server room. Bill lists are prepared, then reviewed and approved at the monthly council meetings.

Purchase Orders

As noted above, a true encumbrance system is not maintained.

Reconciliations

Are performed on a monthly basis.

Bidding

In addition to purchase requisitions, it is stated in the Town Policy (dated December 16, 2003) that:

- a) Total order in the amounts of \$500-\$999.99 must include detail of three (3) telephone quotes, in writing and must accompany the requisition.
- b) Total order in the amounts of \$1,000-\$16,999.99 must include typed quotes from three (3) vendors and copies must accompany the requisition.
- c) Total order in amount of \$17,000 and above must either have State Contract # or a contract (Competitive Bid, Co-op, etc.) between the Town of Harrison and the Vendor.

These amounts were updated via memo by the Town Clerk and Treasurer, and distributed March 11, 2008, to reflect the updated LPCL thresholds. (i.e. over \$3,150 for competitive quotes, between \$17,500 and \$21,000 for pay-to-play compliance, over \$21,000 for competitive bidding, state contract purchases, etc.)

Conclusion

The system as documented is not functioning as prescribed. The encumbrance system is not functioning. Due to the size of the Town, segregation of duties is not always possible.

PAYROLL AND HUMAN RESOURCES

Payroll and Personnel

Overview and Background

The Payroll Cycle is performed by one full-time employee and the assistance of the CFO /Treasurer and accounts payable clerk. There is no personnel or human resources department. An outside payroll service is employed to process the actual payroll.

There are 286 employees. There are also additional seasonal employees.

As part of our work, we gained a high level understanding of both the payroll and personnel cycles. The following were key areas reviewed during our work:

- Payroll Preparation
- Check stock
- Attendance
- Payroll Deductions
- Personnel Files
- Payroll Pay-out

We performed a system walk through and interviewed key personnel functioning within the cycle; from this we created a system narrative determining controls and weaknesses.

A clerk in the Town Clerks office maintains an automated time and attendance system. Each day all employees must sign in and this data is entered into the system. This system is not the source of input for the payroll function and is little used except for year end issues.

Each bi-weekly payroll period, the payroll clerk prepares a preprinted payroll input log with any necessary changes there may be. These changes include: over time hours, part time hours and changes to the employees' records. Manually prepared time sheets with department head approval provide required changes to hours. This log is faxed to the payroll service on Monday for the payroll issued the following Friday. On Tuesday of the payroll week, the payroll service provides the town with a payroll test report to insure

all changes requested on the previous Monday were properly made. The CFO/Treasurer and payroll clerk review in detail this report for accuracy.

There is no payroll distribution report that automatically interfaces to the budget system. The CFO/Treasurer prepares a spreadsheet to allocate payroll expense to the appropriate budget line items. Data from this analysis is then manually entered into the Munidex system. An allocation is also determined to fund the payroll agency account from the current fund, water/sewer fund and the redevelopment agency. The /Treasurer informs the accounts payable clerk to prepare the appropriate checks for deposit into the payroll agency account. These checks cover net payroll, garnishments, union dues, etc. The payroll service prepares the checks that are funded in the net payroll account.

The payroll agency account is reconciled monthly by the Treasurer in the Finance Department. The net payroll account is not currently reconciled.

Conclusion

The system as documented is functioning as prescribed. Due to the size of the Town, segregation of duties is not always possible.

**TOWN OF HARRSION
RESPONSES**



HARRISON, NEW JERSEY

OFFICE OF THE MAYOR

RAYMOND J. McDONOUGH
MAYOR

April 30, 2009

Susan Jacobucci, Director
Division of Local Government Services
N.J. Department of Community Affairs
Trenton, New Jersey

**Re: Performance Audit - Town of Harrison
McEnerney, Brady & Company LLC**

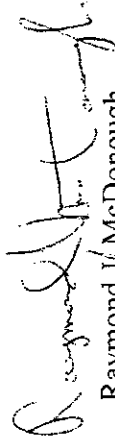
Dear Director Jacobucci:

Kindly accept the following comments to the above referenced audit report. We have endeavored to keep our comments brief and to only address those areas which we believe warranted clarification.

I look forward to working with your staff to develop a Corrective Action Plan to address those areas that can be improved and welcome an opportunity to meet with you to discuss, in depth, any and all aspects of this report.

Thank you for your continued interest in the Town of Harrison.

Sincerely,


Raymond J. McDonough
Mayor

TOWN OF HARRISON'S RESPONSE TO 2009 DCA DRAFT AUDIT REPORT

Cost Savings and Possible Revenue Enhancements

- **Page 4, 1st Bullet (“Fee ordinances ...”)** - All fee ordinances are reviewed annually and the action is reported as part of the Application for “Special Municipal Aid”. Additionally the Town Clerk's Office is in the process of reviewing the fee ordinances and data from other towns is being collected for comparison. Also, an analysis of the amount of time to process is being performed. Also, a written policy for the Clerk's Office will be put in place to re-examine fees every year.
- **Page 4, 2nd Bullet (“The Town does not have a shared cost ...”)** - This is a matter which must be addressed through collective bargaining. The Town is currently in mandatory binding arbitration for the Police and Fire contracts, and is in negotiation with the Civil Service Union for the non-uniformed employees. All 3 contracts expired 12-31-06. The Town's labor attorney has sought a 1.5% contribution in all 3 contracts. We are awaiting the arbitration award.
- **Page 4, 3rd Bullet (“The Town should adhere to Local ...”)** - The town does adhere to the Local Public Contracts Law whenever it can be identified. Occasionally, it is late in the year when the need is identified and therefore not practical. The Town will seek to hire a Qualified Purchasing Agent to handle all aspects of the purchasing process to ensure that the LPCL is followed. Also, computer-based safeguards will be implemented.
- **Page 4, 4th Bullet (“We suggest the Town should seek proposals ...”)** - The New Jersey Local Unit Pay-to-Play Law, *NJSA 19:44A-20.4*, et seq., provides that the “fair and open process” requires advertisement in “newspapers or on the Internet website maintained by the public entity in sufficient time to give notice in advance of the contract.” The DCA has stated that “10 calendar days” is “sufficient time.” Thus, the Town is in compliance.
- **Page 4, 5th Bullet (“All PILOT arrangements ...”)** - During approval of the municipal debt by the Local Finance Board, sources of payment of the debt service must be identified. If PILOTs are the funding source for repayment, those PILOTs are in place and approved by the LFB.
- **Page 5, 6th Bullet (“The Town maintains a Reserve for Tax Appeals...”)** - The Town has taken a conservative approach and appropriates \$50,000 annually. Should we apply to the LFB for a Tax Appeal Refunding Bond, this reserve will support our request.
- **Page 5, 7th Bullet (“MRNA ...”)** - The Treasurer reviews the MRNA from previous years for possible recurring revenue. If they appear to be recurring and realistic, we anticipate the revenue in the following budget.

Statutory and Regulatory Findings

- **Page 5, 1st Bullet (“The 2006 and 2007 Annual Reports of Audit …”)** – We believe that the Annual Debt Settlement is not incorrect because the Town does not have control of the \$3,115,000 which is being held under a bond covenant at the Hudson County Improvement Authority. Under Authority Bond Law an amount that equals the highest annual principal payment must be reserved in the event that insufficient funds are received for payment of the debt service. As per the opinion of the Town’s bond counsel, McManimon & Scotland, these funds can not be considered as cash on hand to decrease the debt service.

See also comments attached by bond counsel, McManimon & Scotland.

- **Page 5, 2nd Bullet (“The Town should amend its professional services …”)**
Page 26, 1st Bullet (“There were four (4) instances where 2008 payments …”) – The audit report identified what it alleges is four (4) instances where professional services contracts amounts were exceeded. The vendor names provided were Borrie, McDonald & Watson, Action Data Services, Inc., McManimon & Scotland LLC, and Pashman Stein.

As to Borrie, McDonald & Watson, the Town engaged them to perform professional land surveying services to update and revise 27 tax sheets on the Town’s Tax Map from 2004-2007. The cost for these services was \$9,030.00. As this amount was below both the Pay-to-Play and Local Public Contracts Law threshold of \$17,500 and \$21,000, no fair and open bidding or other action of the Mayor and Council was required. Thereafter, when it became necessary to engage a land surveyor for other services, Pay-to-Play procedures were followed and a contract for \$30,000.00 was awarded to Borrie, McDonald & Watson. Payments in 2008 were under the \$30,000.00 amount.

As to Action Data Services, Inc., the 2008 contract amount of \$29,100.00 was not exceeded.

As to McManimon & Scotland LLC, they are bond counsel engaged by both the Town and the Hudson County Improvement Authority (“HCIA”). The Town’s contract for 2008 was not to exceed \$110,000.00. One of the Town’s Vendor List payments during 2008 was for \$151,508.27 from the Capital Account (Stadium Bond). This payment was a reimbursement to the HCIA under a pre-existing Interlocal Agreement between the HCIA, the Town and the Harrison Redevelopment Agency. The bill from McManimon & Scotland was to the HCIA, but payment was made directly to McManimon & Scotland at the direction of the HCIA. Thus, this payment of \$151,508.27 was not under the Town’s 2008 contract with McManimon & Scotland. If this payment is deducted from the Town’s payments to McManimon & Scotland for 2008, the amount is well under the \$110,000.00 authorized amount.

As to Pashman Stein, this was an unusual circumstance. The Mayor and Council awarded a professional contract for legal services to complete an investigation of potential conflicts of interest regarding certain council members and issue a report. The contract, which was approved by resolution of the Mayor and Council, provided that should the maximum amount certified by the Town Treasurer be exceeded before the completion of the matter, the Agreement may be amended based on the availability of additional funds as certified by the Town Treasurer. The vendor did not provide a total bill, which exceeded the certified amount, until after the work was completed. A voucher was signed by the proper parties, funds were certified as available, and the Mayor and Council passed a resolution to pay the voucher. The Town will put in place appropriate safeguards to ensure that this situation does not arise again.

- **Page 5, 3rd Bullet (“The Town’s Cash Management ...”)** - The Town’s Cash Management Plan will be reviewed and updated each year, and a resolution will be presented to the Mayor and Council for adoption.
- **Page 5, 4th Bullet (“The Town does not maintain ...”)** - The Town will seek proposals for completion of a Fixed Asset Inventory.
- **Page 5, 5th Bullet (“The Town does not maintain ...”)** - The Town has contacted the Finance Software Company for a General Ledger package and will implement same in 2009.
- **Page 5, 6th Bullet (“The Town does not maintain ...”)** - The Finance Department consists of the Treasurer/Chief Financial Officer and two clerks, one is primarily responsible for payroll and one primarily responsible for purchasing/accounts payable. Implementation of the “best practices” suggested in this report will certainly require additional personnel. The Town acknowledges its obligation to implement a true encumbrance accounting system. The current system may not be perfect, but it is working as evidenced by the fact there were no incidences of over-expenditures. We will continue to work with the DCA to maximize efficiencies and minimize costs.
- **Page 5, 8th Bullet (“Numerous interfunds ...”)** – Interfunds existing at year end will be liquidated in each subsequent year.
- **Page 6, 9th Bullet (“Many capital improvements ...”)** - The Town reviewed the improvement authorizations during 2008, cancelled approximately \$200,000, and will continue to review each year.
- **Page 6, 10th Bullet (“Trust Funds reserves ...”)** - The Town will review the various trust funds to identify which of these funds do not have an approved dedication by rider. Appropriate action will be taken.

- **Page 6, 11th Bullet (“There is a \$ 500,000 inter-local agreement ...”)** - Documentation of services rendered by the Town and cost savings can be obtained from the Board of Education. The agreement to purchase services from the Town (mostly DPW) allowed the Board to not renew various outside vendor contracts and effectuated a cost savings above the \$500,000 amount.
- **Page 6, 12th Bullet (“Corrective Action Plan ...”)** - The Corrective Action Plan will address the prior and 2008 audit recommendation and will be implemented.

Internal Controls

- **Page 6, 1st Bullet (“There is an instance of a wire transfer ...”)** – In addition to the approval of the Treasurer/CFO, all wire transfers will be approved by a member of the Finance Committee prior to disbursement.
- **Page 6, 2nd Bullet (“Disbursements can be authorized ...”)** - Disbursements are authorized by the Treasurer.
- **Page 6, 4th Bullet (“The Town does not maintain ...”)** - See Page 5, 5th Bullet.
- **Page 7, 7th Bullet (“The surety bond of the CFO/Treasurer ...”)** - The Town will look into this issue and take appropriate action.
- **Page 7, 8th Bullet (“The Town does not have a true ...”)** - See Page 5, 6th Bullet.

Purchasing and Expenditures

- **Page 7, 2nd Bullet (“The CFO/Treasurer only signs ...”)** - See Page 6, 2nd Bullet.
- **Page 7, 3rd Bullet (“The aggregation of disbursements ...”)** - The vendor could be supplying various types of services and the aggregation does not necessarily violate the Local Public Contract Laws.
- **Page 7, 4th Bullet (“Review of contracts revealed ...”)** - There is no requirement for professional insurance coverage in the LPCL. However, in 2008 the Town, in its Pay-to-Play bids, required a certification that a minimum of \$1,000,000 was held, and the contracts obligated the vendors to supply insurance certificates. In 2009, the Town’s Pay-to-Play bids require that certificates be filed in the Town Clerk’s office.
- **Page 7, 5th Bullet (“All wire transfers ...”)** - See Page 6, 1st Bullet.

- **Page 8, 7th & 8th Bullets (“There are several instances of non compliance ...”) (“We recommend the Town retain ...”)** - The Town will seek to hire a Qualified Purchasing Agent to handle all aspects of the purchasing process to ensure that the LPCL is followed. Also, computer-based safeguards will be implemented.

Payroll and Human Resources

- **Page 8, 3rd Bullet (“Five Town employees were paid ...”)** - This situation will be resolved in 2009.
- **Page 8, 4th Bullet (“The net payroll checking account ...”)** - All the checking accounts are reconciled by the Treasurer. This is another time/personnel situation.

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MEMORANDUM

TO: Beth Higgins, Chief Financial Officer

FROM: Thomas J. Hastie, Esq.

DATE: April 30, 2009

RE: Availability of Debt Service Reserve Fund Deposits

This memorandum will confirm my conversation with Andy at Samuel Klein. He had asked whether the monies held by The Hudson County Improvement Authority (the "Authority") in its debt service reserve fund for the Authority's Series A bonds, which are secured by the Town's obligation to pay its soccer stadium bonds, could be treated as a sinking fund for purposes of calculating the Town's net debt. I responded that I did not believe so. Under 40A:2-44, a municipality may take a reduction from Gross Debt for "funds on hand or sinking funds applicable only to the payment thereof and not otherwise deductible". Obviously, the funds held by the Authority Bond Trustee for the benefit of the bondholders can not be considered funds on hand by the Town. Further, the moneys in the Debt Service Reserve Fund are held for the benefit of the bondholders if, in the course of the bonds, revenues are inadequate to pay debt service. As the revenues for the Authority Bonds are primarily the revenues received by the Authority as Bondholder of the Town's bonds, the DSRF is there to protect the Authority bondholders if the Town does not pay on its bonds. Therefore, it is not possible to treat these monies as a sinking fund established for the repayment of the Town bonds.

Please let me know if you have any additional questions. Thanks.